How Can Cross-Border Shippers Balance Cost and Service? Automate and Collaborate

Striking the right balance between cost and service is an enduring supply chain challenge. But this balancing act has become trickier over recent years as the volume of cross-border movements has increased.

How do today's supply chain practitioners keep costs down and service levels up in the global marketplace?

A recent Analyst Insight from research firm Aberdeen Group[i] provides some pointers for freight transportation managers. There are many moving parts to consider, but the analysis underscores two key areas: collaboration and automation.

In June of this year Aberdeen asked 181 companies about the extent of their global footprints. The questions were part of Aberdeen's Chief Supply Chain Officer (CSCO) research study. Eighty-five percent of the companies cited cross-border transportation activities – an indication of the international reach of their operations.

The convergence of these activities at national borders introduces much complexity to supply chains. And the need to effectively manage this complexity raises the profile of transportation in international operations.

When asked about the key pressures and points of optimization associated with transportation, the respondents cited cost concerns first. Seventy percent were worried about fuel cost volatility and/or surcharges. The top service pressures ranked by respondents were customers demanding faster/more frequent deliveries (33%), supply chain sourcing complexity due to globalization (33%), and carrier service and related challenges (31%).

According to Aberdeen, Best-in-Class players – classed as the top 20% – cope with these pressures in ways that give them a competitive edge.

Over 75% of the responding companies in the study indicated that collaboration on both internal and external fronts is integral to optimizing supply chain strategy.

Leading companies are more likely to optimize inbound and outbound modes and carriers through collaboration with these players, the analysis shows. They use collaborative relationships to monitor true costs, practice multi-round bidding, and extract savings from the bundling of low-cost lanes.

In addition to sharing data collaboratively, the Best-in-Class actors also use automation to keep costs under control and maintain high service levels.

For example, some 70% of these top performers in the analysis "use electronic routing guides and EDI transactions in everyday carrier selection," says Aberdeen. In every phase of transportation, from planning to consolidation and delivery, "the Best-in-Class are both more automated and more proficient."

Important ways in which this superiority makes a difference include the automation of carrier selection during transportation procurement and payment. This enables the leaders to adhere to their routing guides as well as standard transportation lanes. Automated freight auditing is another example. Leaders use automation in this area to validate actual costs, streamline trade compliance procedures, and capture data that helps them to avoid delays.

The study highlights areas where the Best-in-Class players enjoy a distinct advantage over All Others. Optimizing multi-leg and multi-mode transportation is one example; companies that lack this capability are at a competitive disadvantage in the global arena, maintains Aberdeen.

One of the most significant areas for savings opportunities identified in the study is having a centralized spend platform to exchange data across regions and organizations. "Some companies uncovered as much as 36% in cost savings directly applicable to cross-region optimization initiatives," observes Aberdeen.

For those companies that want to improve the efficiency of cross-border transportation, Aberdeen suggests a phased course of action.

- Address globalization and cost strategically beginning with the automation of "either contract procurement or freight audit and payment collaboratively with partners."
- Complete the spend management loop. More specifically, automate electronic payments and planning/execution activities.
- Realign around opportunities. Analyze historical information on consolidated spending, and use these insights to optimize your operations through mode shifts and strategic consolidations.
- Gain complete end-to-end spend visibility. This task encompasses inbound and outbound freight spend by shipment, mode, and lane.
- Centralize planning and execution with unified spend management. In essence, knit transportation planning and execution together to achieve integration.

The management of cross-border transportation offers many opportunities for achieving a better balance between cost and service. Best-in-Class companies are capturing advantages that in many cases deliver a 30% or higher reduction in freight costs, says Aberdeen.

Moreover, there are indications that the top performers continue to gain ground. In the study, these players notched an overall 3.4% reduction in baseline transportation costs compared to last year. The Laggards suffered an 8% increase in these costs.

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[i] CSCO Priorities Under Globalization: Cross-Border Transportation Strategies. Aberdeen Group, August 2013