

Buying Freight Transport

Buying freight transport services may initially seem like a relatively straightforward decision. However, the subject is vast and there are many considerations that you should ideally think about, not least the different types of Freight Transport available (there is another Knowledge byte entitled 'Types of Freight Transport' – please refer to this for further info). Other considerations are discussed below.

If your role in business involves selling transport services then it is likely that the market and its customers will set the price. If however you are actually looking to buy transport services then you will find that the variety of transport methods and routes are vast and you need to consider the most appropriate method / route for you and the best value price, which is not necessarily the lowest price.

Your requirement for transport services may be “one off” or short term which, while still requiring detailed analysis, will be a different approach to that if you were looking at a longer-term strategy for buying transport. For example an analysis of transport by sea might highlight the fact that particular ports are close to maximum capacity, so a careful watch must be kept on capacity and port development, both areas to be considered in planning for the longer term.

Your transport requirement, while unlikely to be unique, is dependent upon your business need at a particular time. The intention of this article therefore is not to give you the solution of what transport to buy, but to try to steer you through a maze of considerations in order to help you make the correct decision

Characteristics of what it is you want to do with transport
Before you embark on your supplier selection you must consider what your requirement is and as in the case for any procurement prepare a specification and risk assessment. Your requirement could be relatively straight forward, for example, your need may be to get one pallet from A to B within the UK. If that were so it may therefore be simply a case of picking up the phone book selecting

some transport companies, stating your requirements to obtain quotes and then making a selection in a matter of minutes. However, if your requirement is for international transport, or if you have a need for regular shipment of goods into or from your business then this is a far more complex process and you need to cover the risks involved.

If, for example you're going to use more than one mode of transport to ship goods half way across the world there are implications in the management of this. Do you have the technical expertise to deal with such an operation; there may be language issues to tackle. There are rules and legislation to consider, i.e., rules about how long drivers can drive for at a time, local issues such as the fact that lorries aren't allowed to drive through some foreign cities or countries during the night or on specific days. Whose responsibility is it to load goods from one mode of freight to another? Which Incoterms will you use?

There is much therefore you need to consider. Initially you need to look at what it is you are trying to achieve, i.e.

- What is it you need to move?
- Where is it going?
- When does it need to get there?

Then you need to consider in greater detail:

- Commodity/goods
- Perishability
- Packaging
- Security
- Export or Intra UK
- Size /weight of goods
- Speed

If you consider the above when considering a form of transport, then you will be some way to achieving that all important specification and ultimately a cost for the service.

Other considerations to look out for include;

- Road Taxes / Tolls
- Subsidies
- Conditions/facilities at destination
- Corruption
- Regulations – national/EU
- Local taxes
- Labour relations
- Incoterms
- Insurance
- Storage on route - handling/conditions
- Transshipment enroute – intermodal
- Prequalification of agents/sources of transport
- Risk evaluation

Each of the above points is important but one which can, on occasions, be overlooked is subsidies. EU subsidies can often make sea freight much cheaper, if for example, you're importing goods from Turkey it will take approximately 5 days by road and 10 days by sea. So if it was suitable to do so, building an extra 5 days of lead-time into the delivery date, to make use of subsidised sea transport will lead to a lower transport cost.

It must be remembered that buying transport services should follow established purchasing principles, in addition to building your requirements specification, you must carry out market research/analysis as you would for the supply of any other goods or services and of course

carry out a full risk assessment. Your market analysis will lead you to look at the various modes of transport and your risk assessment will, amongst other things, give consideration to past problems, and consider the consequences if for example the port became congested and it took time to get to the feeder carriers. Market and risk analyses will guide a buyer to making the correct decisions for either long or short-term contracts.

Often, knowing where a product is, is as important to a company buying goods as the criticality of a product. Some companies, therefore, use the fact that goods are in transit to help with warehousing, but the need to know where those goods are at any point in time is critical. If this is so in your case it therefore might be appropriate to have tracking systems in place with your transport provider and perhaps integrated into your own internal systems. The cost of integrating tracking systems into your internal systems may be considerable not only in monetary terms but in the use of resources for planning, developing and implementing but it might also provide considerable advantages so should not be dismissed without some investigation.

Another area to consider particularly if you have regular shipments coming in or out of a business is back loading/milk rounding with suppliers, internal distributors or even competitors. This will make use of the spare capacity on the return trip after a shipment has been delivered and so make optimum use of that transport resource.

All is not lost if you don't have the expertise in-house to handle the above or if you decide that your business strategy does not include running a transport operation and competing with companies such as Fedex. There are options open to you, if you are buying goods in, for instance, you could put the responsibility on your supplier to ship the goods directly to you. The supplier will of course charge for this but you should ensure that this charge is reasonable, not unduly inflated and not included in the cost of goods, which would increase customs duty payable. Alternatively you could outsource your transport requirement to a Freight Forwarding Agent who would manage the entire process involved in the transportation of goods from your business to your customer or another location. The agent will of course charge for his services and the selection of such an agent should follow established purchasing practices, but choosing to follow this route may very well be more appropriate enabling you to work in partnership with your agent to avoid unnecessary delays, costs and difficulties in the shipment of your goods.

Moving goods

It is easy to think mainly in terms of road transport when considering modes of transport in distribution operations, particularly since this is the predominant freight transport mode in both the UK and Europe. Statistics from the Department of the Environment, Transport and the Regions (DETR) show that in 1998 (the most recent figures currently available) 81 per cent of all freight traffic moved within the UK was carried by road. In Europe, according to the International Transport Union (IRU), the figure is only marginally lower, being described as 'almost 80 per cent'.

However, it is important to recognise that there are other transport modes such as rail, inland waterway, coastal and deep-sea shipping and air transport, or a combination of any of these in the form of intermodal transport. Dependant upon your requirement, any of these modes may offer levels of service, operational efficiency or cost advantage that equate to or even surpass those of road transport and therefore it would be inappropriate to dismiss these without carrying out a modal selection process.

Assessing and selecting modes of transport

Which particular mode or combinations of modes to choose in any given circumstance will depend on a number of factors, as follows, which must be taken into account when selecting the mode of transport for moving goods into and out of the organisation.

- Cost
- Suitability
- Availability
- Flexibility
- Speed
- Reliability
- Legal restrictions
- Weight restrictions
- Packaging and documentation requirements
- Business requirement (i.e. service levels)

All of these aspects, and not necessarily in the order just shown, need to be examined in making a decision on the mode or combination of modes to be used for distributing any particular consignment.

Buying Freight Transport

It is also important to regularly evaluate the current mode of transport and monitor feedback in order to ensure that it is still appropriate, given any changing circumstances.

It is essential that transport is seen in terms of an integrated system. Identification of the optimum system can be achieved by:

- Investigating and evaluating the impact of transport on the total logistics system – in particular, its impact on existing systems, costs and customer service.
- Identifying the potential impact of using particular modes of services – especially taking into account potential cost or service trade-offs between the cost of the mode and other logistics costs, particularly inventory carrying costs.

When regularly reviewing the chosen transport mode, the main points that require consideration are as follows:

- The increasing importance of intermodal transport/integrated transport systems
- Increased pressure, on environmental grounds, to move from road to alternative transport modes
- The effect the Channel Tunnel has on European distribution and warehouse location.
- The importance of looking at transport and warehouse location as a whole with the objective of minimising Total Distribution Costs (TDC).

It is important to obtain correct information from potential suppliers before selecting a transport mode or supplier.

*Written by Helen Alder,
Professional Practice
Team CIPS*

THE
CHARTERED INSTITUTE OF
PURCHASING & SUPPLY®

