

# 9 Ways to Reduce the Costs of Shipping & Warehouse Operations



# About the Author



**Rick Williams, President and Chief Executive Officer of Creative Logistics Solutions (CLS)**, has more than 40 years of experience in shipping and supply chain operations. He held positions of responsibility at UPS and RPS (now integrated into FedEx Ground), TanData Corporation (now ConnectShip – a UPS Company), and founded CLS in 1995. At CLS, Rick has had the pleasure of working with many of the top 50 shippers in the US, including: Avnet Electronics, Deckers Outdoor, Dollar Shave Club, Lands' End, Luxottica (parent company of brands such as Oakley and RayBan), Guitar Center/Musician's Friend, Sony, and Volvo of North America, to name a few.

Rick and the Creative Logistics Solutions team created, install, and support InfoShip/Vx, a high volume multi-carrier shipping software package. With that in mind, typically, Rick's first task with any potential client, is to find the ROI necessary to justify the purchase of InfoShip/Vx. Without giving away all of his money saving secrets, we asked him what areas every shipping operations can look at to help them save time and money in these highly competitive times.

Apart from getting the best possible rates from your carriers and tracking your packages for late delivery refunds (for those who like to be aggressive), here are nine cost saving insights he's gained over the past 40+ years working with clients of all sizes and across multiple industries. The best part about these savings is that these are all bottom line dollars (a.k.a. your profit dollars). To generate \$5 in sales you may have to spend \$3-\$4 on salespeople, marketing, advertising, etc. While there may be some upfront hardware and software costs with implementing a new shipping software solution, the cost savings and overall system improvements, including identifying and correcting existing process issues, should generate a savings not only the first year, but every year for many years to come.



# 1

## Combine Your Packing and Shipping Stations

Over 70% of high volume shippers still use separate packing and shipping stations in their warehouses. Much of this is due to warehouse Operations staff thinking that a free shipping system provided by a carrier has no cost. The reality is that they couldn't be more wrong.

Free carrier systems, and older legacy shipping systems, have impacted many warehouses by forcing them into using a two-step packing and shipping process.

First, orders are packed by a worker at a packing station where a packing list and license plate labels are attached to the boxes. The boxes are then sent to a shipping station. Second, when the boxes reach the shipping station, another worker enters a field value or scans a barcode for the order into the shipping software to ship the boxes and print the shipping labels.

This two-step, two-person, process means that worker #1 packs the box and places a license plate label or attaches a barcoded order number to the box - just so that it can be sent to worker #2 who will generate and print a shipping label to be placed on the box. This configuration makes little sense in terms of efficiency. Worker #2 is redundant.

This redundancy problem also tends to arise in cases where a warehouse's Enterprise Resource Planning Solution (ERP) or Warehouse Management System (WMS) doesn't interface directly in real-time with the shipping system.

When you use a multi-carrier shipping system that's integrated with your current ERP or WMS, you can get the shipping label on the box right at the packing station. Your shipping solution will run in the background and work seamlessly so workers don't have to spend time changing between applications or screens. If you ask anyone working with this type of integrated system, they'll think it happens entirely within a single solution (the ERP or WMS).

With a multi-carrier shipping system, you should expect that rate shopping, business rules, logos on labels, and custom label configurations are defined in the software, and each should be specific to your own master operating plan for shipping.

The biggest benefits of combining your packing and shipping stations are ease of use and a significant reduction in labor and labor costs. As your company grows, you simply add additional pack/ship stations, which requires less space and fewer staff to accomplish the exact same tasks than when using separate packing stations and shipping stations.



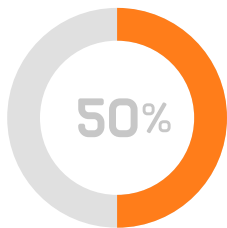
There are very few purchases that return a typical 5x ROI, or more, within the next 5 years. A properly implemented shipping system should.





## 2

# Take Advantage of Rate Shopping



Less than 50% of the shipping market takes advantage of rate shopping. The vast majority of companies use a selected primary carrier, such as UPS or FedEx, and send most of their packages through that single carrier.

This is often done in the mistaken belief that “The more I ship with an individual carrier, the higher my discount will be.” In many cases, lightweight or low zone packages can actually have a negative effect on your overall discount. By shifting or shopping these packages with other carriers or services, you can improve your primary discounts and increase overall savings. The savings from these rate shopped packages can save you more money than many multi-tier pricing breaks.

By utilizing only a single carrier, or single carrier shipping systems, your organization can also lose out on logistics agility by limiting your options to delivery areas, restrict service choices, and extend delivery commitment times. All of which can negatively impact meeting the overall needs of your customers.

Multi-carrier shipping software makes it easy to work with multiple carriers and to compare rates and service levels on an individual shipment basis. You can incorporate USPS and smaller regional carriers alongside FedEx and UPS without adding equipment for each carrier.

If you don't rate shop, you may be losing a tremendous amount of money. For instance, packages below 6 to 8 pounds, and packages that are being dimensionally rated by your current carrier, may be cheaper to ship via USPS using the Commercial Plus Rate. This is because USPS does not use dimensional rating. Most large companies qualify for this rate, particularly if they are an e-commerce shipper. The businesses benefiting the most from rate shopping are those that deal with a variety of package sizes and weights.



# 3

## Increase Your Standardized Packaging Options

Most of the market is not doing well on increasing their packaging options. Companies may think they're doing great but it's really hit or miss. With over 50 percent of the boxes I've audited, the shipper is using a box bigger than necessary. Box size utilization is rarely checked or analyzed, and is vital to cost effective shipping.

Just picking a box and filling it with as much or as little product as you wanted was fine years ago when major carriers only used weight-based rating. With the switch to dimensional rating over the past few years, however, using the wrong size box has become very expensive.

For example, consider a 12" x 12" x 12" box. A one square foot box is 1,728 cubic inches which dimensionally weighs out to a 13-pound package. Most people don't know what their boxes dimensionally or DIM weight out to. If you fill a 13-pound DIM rated box with only 7 pounds of products, you're potentially paying approximately \$5 more to ship that box than you need to.

Boxes that are too large for the products shipped in them often lead to increases in both packing material costs, as well as possible product damages. You need more protective material to keep the product safe during shipment. If you use the same amount of packaging that you would with a smaller size box, then your shipments could shift and move too much during transit. Shippers may need to work with their box vendors to provide a larger selection of box sizes than was necessary with weight based shipping alone.

Another little-known fact is that for packages and poly-bags being shipped via USPS, the Postal Service provides free boxes and envelopes, saving you an additional \$.25 to \$.75 cents per package.

## **How to Determine the Right Box Standards**

Look at your average order size and get a selection of boxes to match. Include 3 to 5 box sizes larger and 3 to 5 box sizes smaller than your average order size to handle outlier packages. Having a larger box selection adds little cost compared to consistently using a few box sizes that force your shipping staff to ship orders with too much empty space.

Containerization and dimensional weight calculators on many WMS systems also provide insight on the standards that work best for your needs.





## 4 Ship To - Address Verification

Address corrections can be expensive. In 2018, UPS raised their address correction charge by \$2.50 resulting in a per package charge of \$13.40, with a maximum of \$91.00 per shipment for domestic and up to \$91.00 per shipment for international. Many warehouses ship packages without validating addresses and end up with 20 to 30 or more bad addresses per week. Those 20 incorrect addresses per week results in an additional and unnecessary expense of over \$20,000 per year. We've seen an example where one of our clients had over \$250,000 in address error fees. They were told by their previous vendor that address validation should be done at the shipping station, but they simply didn't want to slow down production at the time of shipping to validate addresses. As a result, they accepted the high address correction charges as a cost of doing business. We corrected this quickly.

Address validation software is offered by many companies and should be implemented at the point of order, not the point of shipping. How would the person shipping the order know the correct address? It is essential that the person placing the order be questioned or challenged if the data is incorrect or incomplete, especially if the order is being placed on a website.

Keep a close eye on your carrier invoices, and you will be able to identify how big a problem address corrections may be, and take the needed steps to correct it.



# 5

## Improve Staff Training and Management

Another important area to focus on is staff training and warehouse management. Ensuring that all workers know their jobs, are trained on new rules and requirements regularly, and follow box utilization rules makes a big difference.

Companies can also use Warehouse Management Systems to effectively support and optimize their warehouse, including such functions as cartonization of orders to pick and pack. A good WMS is a necessity for larger operations. If you don't have this type of system in place, you are probably spending more time and money responding and correcting warehouse-related problems than you would on a good WMS software package. As with most automation processes, have the ROI run to see what savings any process changes or investments in a WMS will provide you.

### Management

The management team within any warehouse is an essential aspect of improving efficiency. Often those in upper management are not closely involved with the

warehouse staff or don't spend much time on the floor. It's difficult to run an efficient operation without constant training and follow-up.

Too often, if only by default, employees end up running the warehouse. The warehouses with the most efficient operations have management staff engaging with the employees and training them on a regular basis, setting goals, and providing useful feedback. As carrier rules, such as dimensional rating, and your business practices change, employees must be retrained on these new rules and practices. "We've always done it that way" and "No one told me" are two of the costliest statements I hear in my warehouse visits.

## **Reduce Warehouse Turnover**

The average warehouse worker in the US is making approximately \$32,000 per year. Every time one of those people leave, it takes 25% of their wages to hire, train and replace them.

Are you paying your people appropriately? When you're not paying enough to keep good people, you end up costing the company money over the long-term due to turnover.

In most companies, unexpected absenteeism is expected to be below 2% per year. If you have 20 warehouse employees (20 employees x 260 days/year x .02 percentage unexpected absenteeism = 104 employee days), it's hard to run a warehouse if 104 times a year your essential staff is unexpectedly out. This is just another reason that hiring good people and paying them well, along with upper management's encouragement and support for your warehouse team, can have a big payoff.



# 6

## Organize Your Warehouse Efficiently

Many warehouses end up with too much staff because of the design and organization of the building. When was the last time you audited your warehouse travel paths? Consider bringing in an industrial engineer to realign and update the layout of your warehouse. They will take a couple of weeks and typically develop a plan that can save you ten times what their fee will be. The most important skill is their ability to understand workflows. Consider grocery store layouts. Virtually all grocery stores have the same design, which encourages you to roam around the store to increase impulse purchases.

In a warehouse environment, 70% of your orders typically come from 30% of your SKUs. You get a huge advantage on pick times when high-moving items are kept in a relatively restricted area. This not only improves pick times but further reduces labor costs.

Pallet racking and conveyor systems bring many improvements to your warehouse costs and efficiency as well. It's easier to store your products and maximize your vertical space usage. The racks are sturdy, strong, and improve safety. If your products are not suitable for pallet racks, wire containers may be another alternative that offers many of the same advantages. Well-designed conveyor systems are worth their weight in gold. They reduce labor time by quickly moving product through the warehouse.





## 7 Automate and Integrate

Your shipping system needs to integrate with your ERP, WMS, and/or other host system(s). Over 50% of the warehouse systems out there still use file transfers, which were introduced prior to the 1990s, to communicate with other systems. This technology is slow, far less effective than live communications between systems, and has a high transaction and transfer failure rate.

In contrast, an integrated solution communicates in real-time with the host system. The information is flowing back and forth, sending package/order updates as needed. If a service is updated on the host system, for example, a client needs a package updated to Next Day, the update from the host system to the shipping system is seamless and the workers don't even know that it's an upgraded/updated shipment.



# 8

## **If you are not a shipping expert, hire one, or use your vendors to help you better understand what's going on in the Shipping and Logistics Marketplace.**

Higher volume shippers are typically spending over \$5 million dollars a year in transportation and logistics costs. Even if you are only spending half that much, a 5% savings in these areas can add \$100,000 per year, and in some cases, much more in bottom line cost savings – every year. Our typical warehouse reviews save our clients between \$250,000 and \$1,000,000 in savings over 5 years.

Our clients view Creative Logistics Solutions (CLS) as their third-party logistics IT group that works FOR them. Some of the questions we get include asking about better ways to ship domestically, which smaller/regional carriers to work with, what carriers' consolidation services will work for them (UPS Trade Direct, FedEx IPD, etc.), would zone skipping be effective, etc.

Anyone you hire should keep you up to date on changes in the industry, so you can continually update your operations.



# 9

## Measure and Improve

You can't improve shipping efficiency if you don't measure operations. The key performance indicators to measure are specific to the way you ship. There are anywhere from 15 to 20 ways to ship a package, ranging from the older and previously mentioned separate packing and shipping stations, pre-manifesting, pre-labeling, pack and hold, print and apply, and many others.

Once you have selected the right methodology for your shipping operations, you can then set-up and track the metrics associated with that option. Your go-to shipping expert should guide you in your methodology selection.



# Conclusion

Opportunities for savings abound in the warehouse when you know what to look for.

Make sure that you're getting a shipping solution to solve your shipping problems and not just a shipping system.

Creative Logistics Solutions doesn't charge a penny to go anywhere in the US to review your operations for anyone shipping 2,500 packages or more a day. If we can't find enough ROI through improving shipping efficiency to make you want to work with us, it costs you nothing. When you consider the money that you could be losing from inefficient shipping practices and other logistics-centered problems, it could be well worth your time for a 2-hour visit.

Do you want to learn more ways to decrease shipping and warehouse operation costs for your organization? Reach out to CLS to discuss more methods to transform your logistics and supply chain processes with multi-carrier shipping software. Together, let's make shipping your organization's strategic advantage.

CLS is happy to provide over 100 client references attesting to our success at improving warehouse/logistics operations.