Good data optimizes the last mile of small parcel shipping
The last mile is the most complex, costly, error-prone and least predictable portion of small parcel shipping. The last mile can have a surprisingly significant impact on a company’s finances, operations and brand reputation. Gaining a deeper understanding of the last mile can help companies better manage shipping costs and quality — and even leverage these as a competitive advantage.

In the race to get your goods to your customer’s doorstep, carriers now offer more options than ever before to service the last mile: handoffs to the local postal service, regional and local contractors, Uber-like delivery solutions, and more. These often entail fees and surcharges — sometimes several for an individual package. Also, how a carrier executes the last mile might not be determined until the final hours of a shipment. Thus, zone-to-zone shipping costs are usually predictable, but end-to-end costs can vary widely and yield surprises.

Consequently, most companies can only react after the fact to last mile charges and service level failures. The historic norm has been for companies to ship all or most parcels a certain way, then realize after time that they’ve been wasting money or disappointing customers. This reactive approach can throw off departmental budgets, eat into profit margins and damage brand reputation.

Robust data about last mile cost and performance supports proactive planning and optimization for shipping. When companies can accurately assess (before a parcel is shipped out) the optimal shipping method to
control costs and enhance performance, this supports every department and aspect of their business.

Close analysis of a company’s shipping history (especially invoice details), as well as monthly and annual patterns, can reveal new opportunities to save money while meeting customer expectations. Proactively planning for the last mile also allows companies to offer their customers greater choice in how to receive packages — such as the option of accepting a slightly later delivery date (which enables shipment consolidation) in return for significantly lower costs.

Adopting a proactive approach to optimizing last mile costs requires that companies shift away from data silos, non-integrated business processes, and manual practices. For instance, many companies approve small parcel shipping invoices without first checking them, in order to avoid late fees. Or, they process invoices manually and catch errors, but may incur more late fees. Automated platforms can immediately check each invoice, flag and contest unusual or incorrect charges, and quickly pay invoices that are correct.

Some companies have revolutionized their last mile by deploying shipping intelligence systems that provide timely data to support better shipping choices. One such company is AstraZeneca, a global provider of biopharmaceuticals.

Prior to deploying U.S. Bank’s small parcel solution to manage shipping data, AstraZeneca only had general information about their shipping costs: total shipping costs by month or year, and average cost/piece. With the platform, they now can proactively examine shipping costs closely, segmented by zone, with full detail on last-mile options, costs and performance.

This insight has helped AstraZeneca work with carriers to optimize contract terms and delivery options, saving the company considerable money.
Enhancing financial visibility, accountability, planning

Every department has a budget for which someone is accountable. Yet, it’s relatively uncommon for companies to allocate last-mile costs by line of business. Companies that lack detailed last-mile data, or that don’t share it across the enterprise, deprive personnel with line-level accountability of full visibility into something that can significantly sway their budget.

At AstraZeneca, data from the U.S. Bank small parcel solution is tied into the enterprise resource planning (ERP) system. This aids financial transparency and accountability across the organization. It also allows correct invoices to be reviewed and paid promptly, minimizing late fees.

“When quarterly or monthly internal transactions need to happen for financial reports, our complete shipping costs (including for the last mile) are automatically included for each department,” said Ken Ogada, Director of Global Logistics for AstraZeneca.

At AstraZeneca, shipping cost data becomes available across the enterprise as soon as a payment occurs. This allows cost centers to update their budgets on a weekly basis, in a streamlined, automatic, reliable way. Furthermore, each cost center can check its shipping costs at any time, and adjust its shipping practices or product pricing if warranted.
“We’re not hearing a lot of complaints from our accounting department over this,” Ogada mused.

Accurate, timely shipping data also helps companies minimize service-level failures, which are common in the last mile of shipping. Many companies do not consistently contest charges for deliveries that arrived late, at the incorrect address or with damage.

That’s because it’s common for shipping invoices to either be processed manually or approved automatically. This makes catching and reporting service-level failures a tedious, time-consuming process. Then, when failures are found, it’s often an extra laborious task to file a claim with the carrier and obtain a refund. For high-volume shippers, that’s a considerable task to manage. Many companies effectively leave money on the table because it’s too much work to contest charges for problematic shipments.

“Having accurate shipping failure data triggers conversations about preventing these problems,” said Ogada. “For instance, in any zone there are usually certain lanes that are especially prone to problems. In the past, we’d automatically choose the most expensive shipping option for all time-critical or cold chain shipments. Now, we do this only for...
such shipments going to zones that have shown a higher rate of delivery problems.”

Examining shipping data also can reveal opportunities to reduce failures caused by internal errors, rather than by carriers. For instance, address errors are often caused by inaccurate internal records, insufficient data-sharing in the enterprise, or faulty order placement systems. Fixing these problems reduces charges and product returns, while enhancing customer retention.

In the wider view of financial accountability, accurate shipping cost data helps companies more appropriately price their products and services. “If you lack visibility into true transportation costs, you’ll get your product cost wrong, as well,” said Tim Geiken, a consultant with Platinum Circle Partners, who has helped many large companies optimize their shipping practices.

A key financial metric for shipping costs is the net allocated cost per package. Wade Clarin, Senior Product Manager for U.S. Bank, explained that this is a cost center’s end-to-end charges for package delivery, including surcharges for last mile options and discounts or refunds for delivery performance problems.

“If you ship high volume, this can definitely throw off your budget,” said Clarin. “If your net allocated cost per package is actually $1 more than you believe it is, then if you ship five million packages annually, that could be $5 million that you didn’t budget for.”
Optimizing carrier contracts

Robust shipping data also supports better relationships between shippers and carriers, especially in contract negotiation.

Most companies with large shipping volume have carrier contracts that include annual volume targets to support discounted rates. With accurate shipping data, these contracts can be negotiated with terms that are mutually beneficial for shippers and carriers.

However, procurement professionals often lack complete shipping cost data, or they don’t fully understand the details of carrier contracts. Thus, shipping data can become a touchpoint for useful learning and conversations inside a company, as well as with carriers.
Ogada recommends, when engaging in carrier contract negotiations, it is imperative to be prepared with accurate, complete and current data about:

- Annual shipping volume, total and by zone
- Annual shipping costs, total and by zone (including all fees and surcharges)
- Statistics and costs for service level failures

High volume carrier contracts typically include an estimated service level failure rate. Usually, this provision means that the shipper waives the right to contest charges for shipping failures up to that threshold, while the carrier agrees to discounts or penalties if failures exceed that rate. Accurate, detailed data on shipping costs and performance allows shippers and carriers to more effectively and fairly negotiate a contract’s estimated failure rate.

Shipping data can help companies strike the optimal balance:

- **Discounted rates** with volume targets from large carriers
- **Lower rates** offered by smaller regional carriers
- **Reliability and quality of service** (minimal or at least acceptable service level failures)
- **Vendor management**, especially for consolidating shipments
Companies seeking to shift their shipping processes and planning from a reactive to proactive basis can start by considering these questions:

- How accurately can we predict last mile costs for next week, or next month?

- Do we have the tools and workflows in place to properly allocate last mile expenses, and include them in budgetary planning?

- When have last mile costs caused unexpected budgeting problems in our organization?

- Do we rigorously review small parcel shipping invoices as they come in, and challenge questionable items? Are these processes manual or automated?

Additionally, Ogada observed that small parcel shipping poses a different and more complex learning curve than larger-scale freight.
“There are several additional factors to take into account; all the charges that can be incurred above the quoted shipping rate, like delivery area surcharges,” he said. “You need to understand these and have a platform where you can see clearly what each of these charges are. When you get data back and notice a charge that’s a big part of your cost, you can investigate that. But if your processes are manual or not integrated, that’s pretty labor intensive. It helps a lot to have a system to sort out this data for you.”

Ogada also recommends taking the time to understand carrier contracts thoroughly, and have a system that automatically tracks volume targets for specific contracts as well as the forecasted financial impacts of meeting (or missing) those targets.

“The value of these tools far outweighs the cost of implementing them,” he said. “The faster you get good data, the faster you can make shipping decisions that save money.”

Automated analysis of shipping costs and options also holds considerable business value. “It doesn’t help to have all that data hitting you at once, especially for people who don’t necessarily work in shipping,” he said. “You need simple ways to sort it out, so everyone in the company can understand what shipping costs are and how they affect their department, and the whole business.”

Ken Ogada, Director of Global Logistics for AstraZeneca
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