



THE 5 CARDINAL SINS OF FREIGHT POLICIES (AND HOW TO AVOID THEM)

Many companies inadvertently hinder their own profitability by committing these five “cardinal sins” of freight policy management — common but critical mistakes that generate hidden losses. Learn how KDL Logistics’ Applied Intelligence can help you optimize your freight policies — and your profitability.

Sin 1: Absence of a Charge Back Policy

One of the most common freight policy transgressions is the lack of a policy to charge back freight costs. Without a mechanism to recover these costs from customers, organizations face a direct hit to the bottom line. To remedy this, companies should establish a clear and well-communicated policy for charging back freight costs, ensuring that customers bear their fair share of the shipping expenses. Steadfast adherence to the policy will ensure that expectations are met.

In the real-life example below, this mistake eroded profitability by \$125,000:

	Carrier Invoice Amount	Freight Charged to Customer	Freight Impact
Customer 1	\$65,342.30	\$ 0.00	(\$65,342.30)
Customer 2	\$59,998.11	\$ 0.00	(\$59,998.11)

Sin 2: Outdated Freight Policies and Metrics

When freight policies remain static and metrics to measure go unchanged for extended periods, they often become incongruent with evolving market conditions, leading to inefficiencies and increased costs. Regular reviews and updates of freight policies will ensure alignment with business objectives and current economic conditions. Metrics should be used to ensure adherence and maximize the benefits.

In this example, the free shipping threshold was set too low and applied inconsistently. The result? \$365,000 of lost profitability.

	Cust Freight Threshold	Carrier Invoice Amount	Freight Charged to Customer	Freight Impact
Customer 1	\$5,000.00	\$218,726.73	\$8,378.32	(\$210,348.41)
Customer 2	\$5,000.00	\$197,033.04	\$42,122.77	(\$154,910.27)

Sin 3: Neglecting Freight Costs in Customer Profitability Analysis (CPA)

Neglecting to incorporate freight costs and recovery in your CPA can distort your view of profitability. For a more accurate picture, companies need a standardized method of capture on every order, typically created through an integrated ERP system. This facet of Applied Intelligence enables CFOs to aggregate data by customer and grasp true customer profitability, as well as areas for improvement.

Sin 4: Overzealous Sales Overrides

Sales incentives driven by revenue, rather than profit, can lead to another common fault in freight policy. When sales reps are incentivized solely by top-line growth, they will often prioritize winning orders without regard for expense. To promote a healthier bottom line, a remedy would be to shield sales from direct involvement in freight decisions and align their incentives with profitability, not revenue.

This example shows how a sales team's policy adjustment earned new business — at significant cost to profitability.

	Shipments	Avg Order Amount	Cust Freight Threshold	Carrier Invoice Amount	Freight Charged to Customer	Freight Impact
Customer 1	1319	\$34,218.28	\$50.00	\$193,366.11	\$76,872.35	(\$116,493.76)
Customer 2	107	\$74,479.42	\$1,000.00	\$111,112.12	\$ -	(\$111,112.12)

Sin 5: Customer Evasion of Freight Charges

Customers employ a variety of strategies to avoid freight charges such as ordering just over the minimum threshold. To counteract these tactics, companies should evaluate free freight levels regularly. Often, small upward shifts will drive an increase in order volume, as customers attempt to continue reaching those free freight thresholds. Companies must analyze their specific market and customer behavior to determine the optimal strategy.

Leveraging Applied Intelligence

Avoid these common shipping mistakes and watch your business thrive. To fully realize the financial impact of addressing these “sins,” companies can leverage KDL Logistics’ Applied Intelligence for a comprehensive view of how improving freight policies can affect profitability.

LET'S WORK TOGETHER

Reach out to us at info@kdlog.com or visit kdlog.com for more information.



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