

IMPROVING TRANSPORT EFFICIENCY ALLOWING YOUR CUSTOMER TO WORK

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There is a generally accepted expectation in commercial procurement that the more one orders from a supplier the lower the unit price should be. And for good reason. This principle has underpinned the historical development of trade arrangements and modern commerce.

Consider the potential impact your customers have on your transport operation. Life would be so much easier if they:

- Ordered in full loads
- Allowed you flexibility in book in time or a fixed booking in slot convenient to yourself
- Tipped and turned around vehicles quickly
- Accepted product in a consistent load unit format
- Ordered within agreed leadtimes

Can these opportunities be realised? In many cases they can. The drive from all businesses to push down costs and reduce waste is as true for your customers as it is for your business. The key question is: how do you incentivise your customer to perform in a manner most helpful to you? Whilst agreements containing these incentives are not used regularly in the UK, there are an increasing number of major manufacturers in other countries, who are adopting such an approach.

The contract and product prices are structured around an agreement which provides for a “vanilla” delivery service, everything else is charged additionally at an activity rate. Commonly the basic delivery will be delivered:

- In full vehicle loads
- On standard full pallets
- To a single drop point
- To a supplier specified booking in time
- To reasonable leadtimes
- And will be offloaded swiftly

Any additional requirements the customer may have above and beyond this “vanilla service” are submitted in addition to the product price on the invoice. This shows the customers the effect of their service requirements.

Can such an agreement structure work here? The simple truth is that it already does. When providing prices to a customer, these factors are already being taken into account. The elements that should be considered are average load size, tipping times, delivery location and times. They are not formally itemised to the customer currently, but are instead consolidated into your sales price.

Splitting them out allows the customer to choose if this is something required or a desire they can simply do without. This enables the customer to make the choice, and provides their purchasing team with an influencing tool over the delivery locations.

Remodelling the sales contract to include this methodology requires a robust understanding of the cost base and the key activity drivers for the transport, warehouse or production activities. Detailed modelling of the operation needs to be conducted to ensure the business is expecting the correct level of return for each additional operation performed.

It is commonplace in sales contracts for discounts to be offered for increased volume, however these need to be tied to a sensible metric as once a delivery vehicle is completely full, there should be a disincentive to order the next pallet. Discounts should be tied to customer performance that assists your objectives.

Offering a “vanilla” service and a price structure for added value activities is attractive to the customer and your business. Customers are offered the opportunity to take the base service and the cost savings, otherwise your business gets paid for each further value added service provided. It provides an open framework that facilitates partnerships and ultimately will reduce complexity, whilst allowing a tailored service to be provided to each customer.

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