



THE CORRELATION BETWEEN SERVICE AND SAVINGS IN THE SUPPLY CHAIN



Many retailers and manufacturers focus on transportation spend when looking for strategies to cut costs in the supply chain. Companies attempting to take advantage of transportation discounts by switching carriers or shipping less frequently and stockpiling products actually end up increasing inventory holdings.

Inventory is money. Depending on the type of products and business, carrying costs can be as low as 10% and as high as 75%, with the industry average being 25%. For a \$5 billion company with a 40% carry cost, that could equal \$2 billion – \$1 billion more than the average.

Extra inventory costs more than offset any potential transportation savings. Plus, companies using a discounted carrier approach may be neglecting the needs of their end users. Is sacrificing service reliability worth the potential customer satisfaction decline and the loss of future sales?

“The demands of our customers dictate our supply chain strategy and structure,” said the Director of Transportation for a national consumer products company. “We know when our carriers and suppliers aren’t aligned with our customer expectations and business objectives because all kinds of expensive things start happening.”

These expenses go far beyond inventory carrying costs and may include missing a customer’s delivery window and receiving hundreds of dollars’ worth of fines for each failure, or shutting down a production line because essential materials fail to show up. Or spending thousands of dollars on expedited air transportation to make up for delays on the ground. Or miscalculating staffing requirements and paying for more employees than necessary.

TO INCREASE SAVINGS, BUSINESS LEADERS MUST CONCENTRATE ON THE TOTAL COST OF THE SUPPLY CHAIN, RATHER THAN JUST TRANSPORTATION PRICES

A reputable transportation and logistics provider is a versatile resource for managing supply chain costs. The right company acts more like a business partner than a carrier and takes transportation, operations, and inventory costs into consideration to help a network operate more efficiently.

“When we first started optimizing our supply chain, we looked at obvious strategies, like reducing our transportation costs and using multiple suppliers,” recalled the Director of Carrier Management at a large discount retailer. “Then we invited our best provider to the table and the conversation changed.”

That carrier was Hub Group. Hub Group is a transportation management company that provides multi-modal solutions throughout North America, including intermodal, truck brokerage, crossdock, LTL, regional trucking, international drayage, dedicated, temperature controlled and logistics services. As a publicly traded company with



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nearly \$3.6 billion in revenue, Hub Group delivers innovative, customer-focused solutions and industry leading service to help customers lower costs, improve visibility and gain more control over their supply chains.

A customer-centric transportation provider collaborates with shippers to help reduce costs and will often create tailored solutions to meet their unique needs. Hub Group has found a correlation between shipper satisfaction and improved performance. This satisfaction stems from outstanding service.

“We take our commitment to our customers very seriously. Hub Group customers understand that we are much more than just a transportation company; we are a supply chain solutions provider,” said Phillip Yeager, Executive Vice President, Account Management and Intermodal Operations at Hub Group. “We consistently go the extra mile to bring our customers ideas and options to help them save money and improve efficiency. Our goal is to be a trusted transportation provider and advisor.”

THE IMPORTANCE OF SERVICE IN SUPPLY CHAIN MANAGEMENT

Reduces Operating Costs

Retailers depend on consistent shipping to avoid holding costly inventories in stores any longer than necessary.

Decreases Production Costs

Manufacturers require responsive, reliable service to avoid material shortages that would shut down production.

Increases Profits

A superior transportation provider can help control and reduce supply chain costs. For instance, if U.S. consumers eat 1 billion bags of chips, decreasing related supply chain costs just one cent per bag would result in \$5 million dollars saved industry-wide over a five year period.

RIGHT MODE, RIGHT SPEED, RIGHT PRICE: DELIVERING VALUE

Shippers focus on two goals for every freight movement: get the product to its destination at the right time, and keep the cost as low as possible. Sometimes, those goals come into conflict. The more transportation options available, the better the balance between transit time and cost.

Hub Group can always match a shipment with the mode that best meets the shipper's objective. Called the “One Hub” approach, every customer has a dedicated team of professionals at the ready, with expertise in everything from pricing and load planning to logistics and service analysis, for any mode of transportation. This team has access to Hub Group's entire range of multi-modal and logistics services, 24-hours a day, seven days a week.

“Our Hub Group Account Manager was the person who initiated a more consultative approach to our relationship,” the Manager of Transportation Operations at a durable goods company says. “Her team looked at our entire network as well as what was best for our lanes.” Erin Wojciechowski, Senior Account Manager for Durable Goods,



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elaborates, “We understand the balance between speed and cost, so we considered their customer demands and organizational structure and converted their less time-sensitive freight to intermodal for a reliable, more economical option. To prepare for tough capacity constraints or difficult weather, we also developed a backup over-the-road solution, if needed.”

WITH ACCESS TO MULTIPLE MODES, HUB GROUP HAS THE FLEXIBILITY TO MEET THE SERVICE EXPECTATIONS AND FINANCIAL GOALS OF THEIR CUSTOMERS

The One Hub approach provides particular value when a customer allows Hub Group to “own” a lane and do whatever is necessary to meet a service commitment. Consider what happened for instance when a major manufacturer suffered a production delay, cutting the time available for customer delivery. “Eighty percent of the time we’re using intermodal for its reliability and cost efficiency,” says Tom Buffington, Assistant Vice President, Account Management at Hub Group. “But when an emergency like this happens, it’s valuable to own the lane. Our team had multiple rates in place and was able to jump between intermodal and team truck seamlessly to keep the freight on schedule.” Often, Buffington’s team makes that decision before the customer even knows a problem exists. “It’s more economical to spend \$500 this morning than to spend \$20,000 on an air charter this afternoon,” said Buffington.

“Companies in every industry appreciate the value intermodal transportation offers, but one Hub Group customer wouldn’t convert until we could offer reimbursement if we’re late,” recalls Wojciechowski. Hub Group Express, one of Hub Group’s newer services, expands Hub Group’s ability to provide a money-back guaranteed service at competitive intermodal pricing. If an intermodal shipment doesn’t arrive on time (barring force majeure and shipper delay incidents), Hub Group offers reimbursement of the transport costs for late delivery. Customers using Hub Group Express are reporting per load savings ranging from \$75 to \$200 as compared to the cost of traditional OTR. One customer, a global power management solutions company, saves \$285 per load when compared to team OTR. In addition, customers get committed capacity and same-day drayage execution in key corridors. One manufacturer of lighting fixtures uses Hub Group Express weekly for several critical lanes from the East Coast to California. “We’ve operated it 100 percent on time,” said Wojciechowski.

KEEPING PRODUCTION LINES MOVING: PROACTIVE PROBLEM SOLVING

The cost of slow performance varies a great deal from situation to situation, but a late delivery is always bad news. Currently, many large retailers charge late fines between 1-3% of the value of the goods, with one retailer increasing their fine to 5%.



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SOME RETAILERS REPORT THAT SPEEDING UP THE TIME IT TAKES TO MOVE PRODUCT THROUGH THE SUPPLY CHAIN BY JUST ONE DAY CAN PRODUCE \$12 MILLION IN INVENTORY SAVINGS

Several customers have recognized Hub Group for its commitment to service excellence. Walmart Transportation named Hub Group its 2016 Intermodal Carrier of the Year for its customer service and commitment to creating innovative solutions, an award Hub Group also received from The Home Depot for eight years. Hub Group has earned this award based on service excellence across five categories, including on-time pick up and on-time delivery. Hub Group was also named the 2016 Carrier of the Year for the second consecutive time by Kimberly-Clark, a multinational personal care corporation. Carrier selection for this honor was based on achieving high marks in service, pricing, capacity, and ease of doing business, among others. In addition to intermodal service excellence, Hub Group's logistics division, Unyson, recently earned TrinityRail's 2017 Premier Supplier Award.

"Naturally, on-time pickup and delivery are crucial values for our company and our customers," said a Plant Manager of an appliance manufacturer serviced by Hub Group. "My Hub team understands that our components must arrive on time to our manufacturing plants because a late delivery could halt production." Hub Group Dedicated was the perfect fit for this operation's complex needs. "Hub assigned dedicated drivers to our business so even with very little lead time on load tenders, our freight keeps moving."

To meet the customer's high service levels, Hub Group outfitted its drivers with high quality equipment, checked containers and the chassis pool, and put processes in place to make sure it all runs smoothly. The team made sure that everyone involved, from corporate management to the drivers, understood the shipper's special needs and was prepared to meet the requirements.

Part of Hub Group's value proposition is its ability to not only solve costly supply chain problems when they arise, but to anticipate potential obstacles, clearing them away before they interrupt production delays.

AIDING STAFF SCHEDULING: COMMUNICATION AND CONSISTENCY

Shippers need loads to do more than meet deadlines. They need them to arrive consistently. In many cases, freight that arrives early may cause as many problems as freight that arrives late. Arrive early and the receiver carries the cost of inventory space; arrive late and a business might lose sales.

Hub Group repositions products among their distribution centers for customers that don't have large freight yards or warehouses. "There's no room for loads that show up before our associates are ready to unload them," said the DC Operations Manager of Hub Group's customer. "Hub lets us know exactly when our freight is going to arrive so we can process it appropriately and keep things flowing through our facilities very quickly."



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For some companies, staffing accuracy is so important that they set extremely tight schedules for delivery. The Sourcing Analyst from one big box retailer said, “We used to give our carriers a four-day window for deliveries to our DCs and stores, but needed greater consistency and tightened that window to one day. Our Hub team collaborated with us on strategies for meeting this new requirement.”

Hub Group’s expert advice is built on 46 years of multi-modal experience and a commitment to innovation and exceptional service levels. “This gives us and our customers a competitive edge,” said Yeager. “It all starts with our talented people, who are empowered to develop innovative customer solutions.”

PRACTICAL INNOVATION: STRATEGIES FOR THE FUTURE

Investing in people and technology to maintain high levels of service has also prepared Hub Group’s customers for a leaner shipping journey. The company recently launched a portal, Hub Group Connect, to provide customers with more detailed tracking and visibility, robust reporting and easy access from any desktop or mobile device. Any time, day or night, customers have end-to-end network visibility for better freight management and inventory planning, along with real-time alerts via text message, mobile app or email as shipments reach critical milestones.

The name reflects its distinct advantage – connection. Customers will also have access to Hub Group’s vast resources, including white papers, industry news, national weather alerts, and expert support. Hub Group Connect is a single source for information, giving customers complete visibility and control of their freight movements. “We continually invest in systems like Hub Group Connect to help our customers manage their networks more efficiently,” said Yeager.

CONCLUSION: RELATIONSHIPS FOR THE LONG HAUL

Shippers that can rely on their transportation provider to consistently deliver on time and to step up with solutions to potential problems can eliminate costly excess inventory.

When considering the total cost of operation, transportation makes up only one part of the equation. Outstanding service might cost a little more on paper, but when a true partnership is forged with an expert multi-modal solutions provider, the value provided goes straight to a company’s bottom line.



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