

Is your Global Logistics Service Provider really to blame?

Uncovering the real problems that cause delivery failures in your global supply chain

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Companies choose their Global Logistics Service Providers (LSP's) to gain an advantage in cost savings and on time delivery performance. Ultimately, the LSP is expected to provide a consistent conduit to manage the delivery process of everything from raw materials, components, to finished goods.

The customer then incorporates this process into their own business model to insure products are brought to market on time. In essence, LSPs become an extension of the company they are contracted by as they are the visible party delivering the company's products.

It is this same visibility that makes the LSP an easy target to be blamed when a delivery transaction goes awry. After all, if a delivery is late, damaged, improperly billed, or stuck in customs it's easy to understand why the blame appears to sit squarely on the LSP's shoulders.

However if companies would take closer inspection into the root cause of many of these service failures they would uncover the fact that many of these problems are not necessarily caused by the LSP, but by the combined or conflicting information given to the LSP from the buy, seller, or maybe even both parties.

To better understand this, let's dissect some of the top service failures that occur after the LSP has been involved in a transaction:

Slower than anticipated delivery cycle:

Most companies negotiate freight rates with their LSP's, but how these rates are structured and disseminated impact the LSP's performance. If a company has negotiated multiple "service levels" the question one should ask is; how is the service level communicated at the moment of shipment? It is common practice to set one service level as the "default" level simply because that is the level that is required the majority of the time. But how does a company communicate to the LSP the one time out of twenty that the service level required is not the default?

Many issues can arise during the life cycle of an order that can change the delivery requirements. If a company has not developed a clear and concise means of alerting the LSP to these periodic changes in service levels, chances are the LSP will continue using the default service level. Companies need to insure there is a systematic and consistent means of communicating the exception, otherwise there is a good chance the exception will be missed.

Some common reoccurring practices can be found that constantly test this practice. It is not uncommon that at the end of the month or quarter, companies are struggling to push out as many orders as possible. Doing so at the eleventh hour may require the LSP to use a priority pick up service or dedicated carrier to make such a late pick up. This means additional pick up costs will be incurred and the LSP will

bill this to the appropriate, but unsuspecting party.

The same holds true when someone makes a last minute decision to change the service level. LSP's are hired to move product, and they will - and ask questions later. However, what if the person making the request for a faster service was not authorized to do so? It's a tricky situation to stop the forward momentum of an urgent shipment just so the LSP can substantiate that the request is valid.

Another common error is when a party does not control the transportation, but makes some assumptions that the LSP nominated by someone else will pay attention to shipping instructions given by this party. As an example, if a shipper is late, they may instruct the LSP to use a faster delivery service to still make the buyer's delivery schedule. However, the LSP may very well have other set delivery instructions from the company paying the bills, namely the buyer, and may not listen to the shipper. Conversely, the LSP may indeed listen to the shipper, but when the buyer balks at paying their higher than anticipated freight bill, the seller will almost never realize they caused this problem. Unfortunately this now becomes a big problem for the LSP in terms of extended accounts receivables and an unhappy customer (the buyer).

Delayed payment for goods:

Buyers and sellers have a multitude of payment options and instruments available to manage the payment process. Some are as simple as open account while other options such as irrevocable letters of credit, can be quite complex. If an international trade

finance instrument is used chances are the documents required by the buyer to clear customs may have to flow through the banks prior to being available to affect customs clearance. Any problems with document performance during the payment process could adversely impact the availability of these documents for customs purposes. Even if the LSP has been tasked with the management of these documents based on the finance instrument chosen, they may not have any control over how the banks view and interpret these documents. Any document problems may cause a delivery delay to the buyer and a payment delay to the seller.

Improperly billed freight and ancillary charges, Misunderstanding INCOTERMS:

Historically, this is probably one of the single largest problems LSPs have with their customers, and in most cases it's not the fault of the LSP but the fault of the buyer and/or seller not understanding or agreeing on the transaction's INCOTERM and the definition of such term.

The biggest culprit is the use, or rather misuse of the term "FOB". Unfortunately, many companies misuse "FOB" by using it regardless of the intended mode of transport to be used even though the current ICC definition relegates this term strictly to ocean transport.

Also, the named "FOB point used is typically also inappropriate, such as "FOB origin", or "FOB factory", or FOB USA. In most cases, the term the seller was probably looking for was "Ex Works" which seller's feel reduces their risk by requiring them to only make the

consignment ready for export at the end of their shipping dock.

Many an LSP has arranged international transport for a consignment where the seller's documents show an INCOTERM as just "FOB", or "FOB Factory", and will instinctively assume the seller meant that the INCOTERM was actually Ex Works. So the LSP goes about his business and advances all freight and origin charges "collect" to their overseas office or agent for collection of these monies from the buyer.

Unfortunately sometime in the future, the LSP's overseas office sends a debit back for the FOB charges. Now the LSP is left to bill these charges back to the seller. The seller inevitably refuses to reimburse the LSP for these "FOB" charges stating that the buyer was responsible based on their understanding of the terms in underlying sales/purchase agreement. Obviously the mistake has been caused by carelessness on the part of the buyer, seller, or both parties for not understanding and agreeing to what the INCOTERMS really were and who would pay for what. In the end, the LSP many times cannot collect these funds from either party, but ends up writing the loss off.

The International Chamber of Commerce has compiled a list of thirteen universally accepted INCOTERMS and their definitions. Unfortunately, many companies either don't take the time to understand these terms or do not see the value in adopting the ICC terms and definitions. Customarily, LSPs, carriers, Customs, Banks, and Insurance companies will always define an INCOTERM based upon the ICC publication currently in place. So it's

easy to understand why misusing INCOTERMS will almost always end in disaster.

One other critical problem has to do with understanding INCOTERMS and Marine (Cargo) Insurance. Unless the specific INCOTERM has the letter "I" in it, the INCOTERM does not indicate that either party is responsible. When an INCOTERM is used that does not have the letter "I" in it, the need to determine and assign insurance related risks and costs should be covered as a separate item in the buyer/seller underlying agreement. Many times one of both parties try to force the lack of insurance problem back on the LSP, pressuring the LSP to deal with a claim problem that was not of their doing.

[Delays with import Customs Clearance and improperly billed duty and other Customs related charges and fees:](#)

It's unfortunate but true that most buyers and sellers are not electronically connected, and use completely different operating systems and process to run their businesses. When a buyer makes an initial overture to purchase a product from the seller, the buyer normally indicates the product description and perhaps even a part number on their purchase order. In fact, the buyer most likely has already calculated landed cost and has determined the current import duty rate and associated taxes, if any, based upon their knowledge of the item they are purchasing and its description. The buyer's purchase order also allows the seller to insure they are quoting and shipping the right product.

However, once the purchase order has been accepted, many things can change

in terms of what is eventually shown on the export documents that are also eventually used for conducting the actual import clearance.

To start, if the buyer only provides a description and or part number, but did not provide the seller with a corresponding harmonized code, chances are, the buyer or their LSP may assign a different harmonized code to the product when the export customs process is initiated. Under some circumstances, there is little to no correlation to what harmonized code is used in the export Customs process and the subsequent import customs process, but could have an impact on licensable commodities, and those moved by ocean freight, where commodity tariffs are used.

In other cases, the seller's operating systems may not even provide a word description on their commercial invoice, but only a part number. If the seller leaves the filing of the export customs process to the LSP, the LSP may struggle with determining the proper harmonized code. In other cases, the seller may actually be reselling an item that they are sourcing from a third party. The description and even the part number the third party may have used on their documents could be much different than what the seller has listed in their own catalogue.

Packaging, packing, and actual and chargeable weight:

Everyone is aware that most freight charges are calculated based either on the actual or "chargeable" weight of a particular consignment. The calculation to determine volume or chargeable weight is dependant on the mode of transport and/or a previously negotiated

calculation. But there are many companies who either don't take the time to understand how their packaging and packing impact such costs.

It is common practice for LSPs and carriers to re-weigh and measure every consignment that comes under their control. Not only does this help validate that they have the proper and complete consignment since the pieces and weights agree with the documents, but it also protects them from the underlying carrier billing unexpected freight costs based on the chargeable weight.

This issue becomes even more evident when the seller has to provide the buyer with project packed weights and dimensions as part of the purchase agreement, or the seller has already calculated and billed the buyer for freight charges. Should the charges the LSP bills be different than those originally calculated one party or another will have paid to little or too much.

In many cases, differing freight charges actually occur because the seller did a poor job of packing their consignment. If a seller bands four boxes to the middle of a large skid, and declares on their documents that the consignment is in fact a "skid", the LSP will calculate the chargeable weight by measuring not the boxes, but the overall outside dimensions of the skid as well.

The inappropriate packing and skidding of consignments also poses another risk to the buyer, seller and LSP. Since the LSP must rely on the documents that accompany a consignment to determine that they indeed have a complete consignment, if there is no detailed

packing list, the LSP can only assume that the consignment they received is complete and represents everything listed in the commercial invoice.

If a seller packs 150 cartons onto 10 skids, and stacks and bands them in such a way that it is impossible for the LSP to accurately see and count all of the cartons, they must assume that if they have received 10 skids and all the overwrap seems to be in order, then all 150 cartons must be in evidence. But suppose the local pick up company had a little mishap, and ended up having to re-wrap a few skids, and during this mishap a few cartons were left behind, how would the LSP know? This particular scenario happens more times that one would expect.

Labeling a consignment is another example where poor procedures can lead to disaster. Each and every carton being shipped should be clearly marked with the buyer's, and seller's name and address. If there is a third party ship to address, this should also be indicated. Some means of identifying a carton to a particular order or invoice would also help should a skid of cartons come undone. If you have ever wandered into an LSP or carrier's "bone yard" where unidentifiable consignments go to die, you will note that almost all of them have no defining marks or addresses labels.

The purpose of this article is to make companies realize that their actions play an important role in how well their LSPs perform. Good communications is a given. Ongoing performance reviews, corrective action requests, and root cause analysis will all help improve the customer/LSP relationship. To work

properly, this must be a collaborative relationship where both sides strive for continuous review and improvement. This is the only way to uncover and fix problems and to keep them from reoccurring. Otherwise, you will suffer the same fate over and over again. The definition of insanity is to never change anything, but expect the outcome to change.