

# Shipping Spend Management: Time to Take Control

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Recently UPS Freight, the nation's fourth largest less-than-truckload (LTL) carrier, announced a general rate increase averaging 5.9 percent covering non-contractual shipments in the United States, Canada and Mexico. The rate adjustment took effect on July 16, 2012, and applies to minimum charge, LTL rates and accessorial charges. UPS Freight's portfolio of services includes UPS WorldShip and Quantum View Manage technology, allowing both small package and LTL freight customers the capability to create bills of lading, schedule freight pickups, receive rate quotes and easily track shipments. Since 2006 Baltimore County Public Schools (BCPS) has saved our taxpayers over \$1 million negotiating our own transportation contracts.

By establishing our own shipping contracts with several freight brokers instead of just accepting the proposed rate from the publisher we were able to leverage our large purchases of textbooks to optimize the broker's services and reduce costs. Our proven freight management approach has produced tens of thousands of dollars in freight savings for our school system. By obtaining rates from different providers, we found quite a wide range in the pricing offered. We found that often, a less than truckload (LTL) cargo shipper would realize savings by utilizing an online marketplace or other intermediary, instead of contracting through the publisher directly. Brokers can shop the marketplace and obtain lower rates that are typically 50% to 80% discounts from the publisher's rates. We know that even though a publisher would tell us that its costs are 7% to 15% for shipping, in all likelihood shipping is actually between 2.5% – 3%. When you couple that with the fact that a publisher's cost to produce a textbook is around 10-15%, you can quickly see that there are big profits in the textbook industry costing school systems and their taxpayers millions of dollars.

In the spring of 2006 we purchased a new math series valued at approximately \$8.2 million with an initial shipping charge of 10% which added another \$1.2 million to our order. We were able to negotiate the publisher down to 6% which lowered the shipping costs from the \$1.2 million to \$492K, for a savings of \$708K. In 2008 we bought a new elementary math series for \$289K with a quoted shipping cost of 10% which added \$28,913 to the total cost of the purchase. We were able to negotiate with the publisher a locked in discount rate of 5% which lowered the shipping costs to \$14,456 a savings of \$14, 456. From the spring of 2006 to 2009 we saw similar success for most of our purchases by negotiating five year contracts with locked in textbook prices and discounted shipping rates but we could not get below that 5% to 8% level.

Beginning in the spring of 2009 using our proven freight transportation management approach and our knowledge of the shipping industry best practices, we began to optimize the value of our freight expenditures in our large textbook purchases to obtain significant cost savings. Realizing that our state education agency did not have the legislative power to drive us to a single adoption anytime in the near future, we began negotiating with our textbook publishers in an attempt to lower our purchasing costs for a new adoption of textbook materials which could be in the

millions of dollars, depending on the size of the adoption. What we discovered was that because California, Florida and Texas have statewide adoption processes, they dictate a few key components to all of the other school systems across the nation in their contracting for the purchase of textbooks. They dictate the adoption cycle for the publishers, including when texts should be updated/revised. They set the floor for textbook pricing including supplemental material and on-line tools. Other school systems or districts are therefore forced to adopt the same adoption cycle to ensure the latest version of a particular text at the best available price. Because the big three have incorporated “Most Favored Nation” clauses into their contracts there are literally no negotiations between the publisher and the other school systems regarding discounted pricing, because if the publisher were to discount the price to smaller school systems, they would have to provide the same discount to California, Florida, and Texas, thereby costing the publisher potentially millions of dollars.

Once we realized the price of the textbook and the corresponding ancillary materials were nonnegotiable we began to look for opportunities where we could impact our overall cost and create savings. What we noticed in the cost proposals from the publishers was that shipping was a percentage estimate of the total cost of the proposal. As we analyzed it, we saw that these costs were running 7% to 15%. At first we sought to control these costs by actually entering into contract negotiations with the publishers whereby these shipping costs which were not controlled by the single adoption process could be discounted. We found through our centralized purchasing negotiations that we could bring the necessary business focus into the process and drive prices down and service up. What we discovered through our negotiations was that we could influence the cost of shipping which should have been between 3-4% for the larger publishers and began to achieve a locked in shipping rate of 6% to 8% for up to five years. If you consider that the publisher is enjoying a much lower rate than what their actual discounted costs are, you will quickly find that you are attacking a profitable revenue stream for the publisher. For example, if they are giving you 10% for shipping their actual cost is probably 3%. This means that the 7% differential goes straight to their bottom line as a profit center. The reason we were never able to reach a lower discounted level in the shipping rate according to the publishers was the various intangibles such as the cost of fuel, so they were reluctant to go lower than the 5% to 6%. Smaller publishers are not able to even come close to this level primarily because the volume of their sales prevented them from negotiating favorable rates from the shipping companies they would have to use to carry their materials. Still by entering into negotiations with the large and small publishers we were able to leverage the size of our purchase to obtain locked-in pricing for up to five years without a price increase in the cost of the books as well as lock-in a discounted shipping rate of between 6-8%.

In June of 2009 we purchased a new science textbook valued at \$1.6 million for the FY 2010 school year. The publisher quoted us a shipping rate of 8% adding an additional \$130K to the value of the order. This time we tried a new strategy that we hoped would lead to significant cost savings for shipping. Over the same time period we had established working relationships with several freight brokers and by working directly through them and outsourcing our textbook receiving and distribution, and therefore bypassing the textbook publisher’s altogether, we hopefully could reduce our shipping costs below the 6% level. We also had another advantage that we felt would help us further streamline our shipping costs, centralize receiving. With centralized receiving and distribution we had seen our receiving and distribution services usually

equate to around a 5.5% shipping rate, ideal for large purchases from a single publisher. We hoped that the use of a central warehouse would enable us to dictate an even lower shipping rate for the delivery to a single location by exercising strict control over both our receiving activities and the redistribution process to our schools. Further, cost reductions were achieved when we worked directly with the publishers to palletize by school location, and to stretch shrink-wrap our textbook packages for a mixed-freight shipping environment. We were ecstatic by the results that we were finally able to achieve through this process. For example, the science textbook we received quotes from our contracted brokers of 2% this lowered our shipping costs for that \$1.6 million order to \$32K a savings of approximately \$98K. The table below details what we've saved over the last four years using this same process;

| Date     | Textbook Subject | Contract Cost      | Pub Ship Quote | Ship Cost        | Broker Quote | Broker Cost      | Savings          |
|----------|------------------|--------------------|----------------|------------------|--------------|------------------|------------------|
| Jun 2009 | Science          | \$1,621,646        | 8%             | \$129,731        | 3%           | \$32,432         | \$97,298         |
| Jul 2010 | Geography        | \$423,360          | 10%            | \$42,336         | 2.75%        | \$11,642         | \$30,693         |
| Jul 2010 | Spanish I-III    | \$321,359          | 10%            | \$32,135         | 2.75%        | \$8,837          | \$23,298         |
| Jul 2010 | Art              | \$166,964          | 5%             | \$8,348          | 2.75%        | \$4,591          | \$3,756          |
| Jul 2010 | English          | \$96,000           | 9%             | \$8,640          | 4%           | \$3,840          | \$4,800          |
| Jul 2010 | English          | \$47,450           | 5%             | \$2,372          | 4%           | \$1,898          | \$474            |
| Jul 2010 | English          | \$82,695           | 5%             | \$4,134          | 4%           | \$3,307          | \$826            |
| Sep 2010 | Earth Science    | \$174,731          | 6%             | \$10,483         | 4%           | \$6,989          | \$3,494          |
| Oct 2010 | Geometry         | \$598,800          | 6%             | \$35,928         | 3%           | \$17,964         | \$17,964         |
| Nov 2010 | Math Gd 1-5      | \$110,874          | 7%             | \$7,761          | 4%           | \$4,434          | \$3,326          |
| Apr 2012 | Math Gd 1-5      | \$48,013           | 5%             | \$2,400          | 2.3%         | \$1,104          | \$1,296          |
| Apr 2012 | Elm English      | \$141,990          | 10%            | \$14,199         | 2.5%         | \$3,549          | \$10,649         |
| Apr 2012 | Math             | \$122,760          | 10%            | \$12,276         | 4%           | \$4,910          | \$7,365          |
| Jul 2013 | K-5 English      | \$2,536,407        | 7%             | \$177,548        | 0.84%        | \$21,350         | \$156,198        |
| Jul 2013 | K-5 English      | \$410,110          | 4%             | \$16,404         | 1.62%        | \$6,642          | \$9,762          |
|          | <b>Total</b>     | <b>\$6,903,159</b> |                | <b>\$504,695</b> |              | <b>\$133,489</b> | <b>\$371,206</b> |

This is truly a unique way of doing business with the textbook publishers. Since we can't impact the cost of the textbook we went after the one cost we could influence. What we've begun to experience is that the publishers are now coming in at 2% to 4% on their shipping proposals to our curriculum departments in the hope that they can still get some of the shipping revenue. We now use that lower cost point from the publisher to negotiate even better rates with our freight brokers. This type of contracting can easily be replicated through an RFP process or through a consortium process allowing other school systems that do not have the same buying power to take advantage of what we've been able to achieve. Over the last several years this innovative way of reducing costs has demonstrated that through effective and efficient use of our resources and cost analysis, we are returning those savings to the classroom to educate the children rather than using those resources to ship their books to the classroom. Additionally, we have freed-up additional \$1.2 million over the last seven years in funding that can be utilized to purchase more textbooks and materials or to re-direct those resources to the purchase of other textbook materials on a waiting list or new technology.

