Cost Assessment/Reduction At Leading Fashion Accessory Importer:
Freight Cost Opportunity Diagnostic And Savings Capture

The Challenge: FashionCo, a PE-owned market-leading importer of fashion accessories for the North American retail market, was growing at ~20% rate. The company imported 95% of its products from China and Hong Kong, and the remainder from India. Due to tight delivery timelines from demanding customers and steep penalties for missed customer shipments, FashionCo exclusively used air transport for all of its imported products. However, with rising air freight costs, FashionCo's rapid growth was accompanied by a significant increase in inbound freight cost — 60% higher as a percentage of sales costs versus the previous year. Concerned with this cost trend, the PE firm asked Gotham to pinpoint and help capture inbound freight cost reduction opportunities.

The Partnership:
Analysis: Gotham conducted a 4-week diagnostic to pin down the key drivers of inbound freight cost, with our focus on tighter management of air shipments and selective migration to container shipments:

***Air Shipments*:** Because FashionCo had limited cost tracking and reporting capabilities, we first had to develop a robust fact base of inbound freight cost and historical shipments that was based on top-down (from company financials) and bottom-up (from freight invoices) data analysis and supplemented by interviews. This fact base included:

- Freight cost breakdown and trends by key drivers (e.g., air freight costs, clearance charges, port to warehouse costs, rush shipments)
- Freight cost views by port of origin, manufacturer, forwarder, and product category
- Cost associated with shipping components to Asia.

Further Analysis Confirms That Two Categories Of Levers Should Deliver Significant Freight Cost Savings And Other Cost Benefits, Some Of Which Should Be Capturable Immediately

	Magnitude Of Associated Savings			
Key Levers For Improvement	**$MM**	**Total Inbound Freight Cost Reduction %**	**Timing Of Capturability**	
Tighter air freight cost management	**$1.7-2.6**	**18-27%**		
• Accurate weights/invoice auditing	$0.5-0.8	5-8%	●	
• More favorable rates/formal RFP process	$1.0-1.4	11-15%	◕	
• Reduced rush shipments of products	$0.1-0.2	1-2%	◔	*Requires process enhancements and greater discipline; will also be facilitated by enhanced supply chain management/coordination*
• Reduced rush shipments of cards/labels	$0.1-0.2	1-2%	◔	
Selective migration to container shipment	**$1.4-2.1***	**14-22%**		
• Ballet-controlled stock shipments	$0.2-0.3	2-3%	●	
• Walmart shipments	$0.5-0.7	5-7%	●	
• Other leverageable long-lead time shipments	$0.7-1.1	7-12%	◔	*Bulk of opportunity requires enhanced supply chain management capabilities/coordination*
Total	**$3.1-4.7**	**32-49%**		

+
Other Operational Cost Savings

● = Immediate
○ = Longer-Term

Our fact base consistently indicated chargeable weights on freight invoices were higher than those on manufacturers' packing lists. Freight cost analysis and benchmarking of current cost with other freight forwarders' rates revealed further cost reduction opportunities from negotiation of better air freight rates. And, analysis of FashionCo's component supply chain identified a significant number of expensive rush shipments due to poor supply chain performance.

***Container Shipments*:** Migration of selected products to container shipment was an additional opportunity for inbound freight cost reduction. Gotham analyzed demand stability by product and mapped the order-to-receipt process to identify key events and timing in current operations. We also explored options for non-air shipments from a time, carrier/mode, cost, and risk perspective. Our analyses found that selected products from FashionCo-controlled stock — those exhibiting stable demand patterns and ordered by multiple customers — and a major customer's replenishment products were ideal candidates for migration to container shipment in the near-term.

Strategy: Working with the executive team, Gotham developed a plan to quickly capture and sustain cost savings (total estimated opportunity of $3.1-4.7MM):

- Tighter management of air shipments ($1.7-2.6MM potential opportunity):
  - Develop a robust mechanism to track and audit invoices to avoid overcharges by freight forwarder
  - Launch an RFP process to find a new freight forwarder offering better rates and service
- Selective migration to container shipments ($1.4-2.1MM potential savings opportunity):
  - Make purchasing decisions earlier and take advantage of customer long lead time expectations to migrate selected shipments to containers
  - Establish cross-functional supply chain processes with clear visibility to timing and set dates/calendar, greater discipline, and higher levels of coordination.

Additionally, we recommended that a supply chain executive be hired to provide single-point management of costs.

Execution: As regards to tighter management of air shipments, we developed a solid 2-year freight cost fact base based on freight invoices and the manufacturer packing lists. The freight cost fact base indicated an average of 13% chargeable weight discrepancy, arming FashionCo to go after potential overcharges of ~$1.4MM.

Simultaneously, we conducted a formal RFP process to select a new freight forwarder, with the RFP effort that entailed pre-qualifying vendors, soliciting proposals, evaluating bids, short-listing, selecting final vendors, and developing a transition plan. We also created reporting and tools for ongoing freight cost monitoring/control moving forward and trained the FashionCo finance team on their use. Finally, we constructed supply chain processes and established vendors to begin facilitating a pilot-test for the migration of air shipments to container shipments.

The Outcome: Based on the historical billing inconsistencies, FashionCo initiated legal action against the freight forwarder to recover over charges. Successful completion of the RFP process led to selection of a top-tier logistics company as the future freight forwarder, translating to cost savings of ~$2MM at better service levels. FashionCo also hired a VP of supply chain to continue development of robust processes and to migrate an increasing amount of freight to sea. A year after Gotham left, FashionCo had dramatically lowered its inbound freight costs, migrated a significant portion of shipments to containers, and was in the process of migrating additional items.

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