4 Types of Logistics Costs You Should Keep Track Of

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Logistics are the heart of your organization's business process. While the typical supply chain used to be small and simple, our global economy has forced to evolve and build out sprawling networks of supply chains that live independent of geographic boundaries.

Expanded supply chains can help reduce the cost of procuring raw materials and, ultimately, lessen the overall manufacturing cost.

However, they have disadvantages too.

The more complex the supply chain, the more potential inventory issues you may run into (inaccurate forecasting, over or understocking, late delivery, inefficient warehouse practices etc.).

In this article, we'll discuss four areas of logistical costs that many businesses have a blind-spot for — with actionable tips on how measuring on forecasting.

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1. Inventory Management Cost

Inventory is a common contributor to supply chain logistics costs.

Managing the number of units you have in production vs demand has a direct impact on your bottom line. Stock too many units, and you're eating into cash flow that could be used elsewhere. Stock too little, and you're losing out on business.

Bottlenecks in your supply chain management (SCM) can exist simply as a result of not being able to effectively track large amounts of data in real time – with so many moving parts, that can exist over multiple countries, it can be near impossible to get a birds-eye view of your entire inventory.

Blind sports in your inventory management can lead to:

- Poor forecasting
- Shipping delays & misdirection errors
- Escalating production costs
- Wasted or obsolete inventory
- Low rate of inventory turnover

- Volatile and variable overhead costs
- Data-entry errors (for tracking)
- Lost customers

The costs incurred by these issues can start to add up quickly – and to make matters worse, **many of these issues aren't easy to identify based on historical data alone**.

If you're a medium to large-sized business and manually tracking inventory through spreadsheets (like Excel) **the problems can be magnified** – the sheer volume of data needing to be tracked can be time-consuming and lead to errors in reporting.

And if you're not using accurate data (let's be honest – human error is a thing) then how are you going to accurately track sales trends, cost of goods sold, best selling items and many other critical metrics?

Scalability, accuracy and total visibility are key here – especially if your business is growing rapidly.

So how do you resolve inventory issues?

Research shows that healthcare companies are making great strides in using predictive models to better manage their supply chains, with simulations offering new insights into classifications and strategies that support decision-making.

2. Warehousing Cost

Properly measuring performance data is key to managing your warehousing costs – you can start by asking yourself the following questions:

1. How often are you measuring (tracking) performance?
2. What is your picking accuracy?
3. What is your shrinkage rate for inventory?
4. Is the percentage of customers retained increasing year-over-year?

Simply put, what gets tracked gets managed.

And when you combine a lack of warehouse measurements with poor demand planning, it can lead to having excess inventory (value) tied up in your supply chains.

This can be a result of poor forecasting, unexpected seasonal shifts in demand, product recalls, and more. Whatever the cause — your company needs a way to manage and track these fluctuations as they come about.

And even if inventory forecasting is on point — your warehouse operations might be bleeding your business dry (too many warehouse staff, not enough machinery, inefficient placement of inventory, liability issues, etc.).

3. Transportation Mode Shifting Cost

Transportation costs related to mode-shifting and fulfillment are another key area of logistic costs – with an increasing strain on businesses from online shopping (and the expectation to have these products delivered in a timely fashion).

Every global supply chain needs to deal with mode-shifting in some form, but it's becoming more difficult for businesses to keep these processes visible across transportation and distribution touchpoints.

When inventory isn't managed well (as detailed above) an undue burden is placed on the transportation leg of the supply chain. For example, if a product isn't available when a customer orders it **you might need to expedite shipping** (from ground to air) in order to guarantee that the product arrives on schedule.

And as the supply chains grow (with ever-increasing fuel costs) the types of indirect costs associated with these inefficiencies becomes more taxing on your bottom line.

4. Distribution Costs

Distribution costs include moving inventory through your distribution channels – a common source of inefficiency.

Vendor efficiency, vehicle utilization, scheduling, and throughput times can all be massive contributors to your logistics costs. Naturally, this area of supply chain optimization is ripe for tracking across vendor touchpoints due to high variability in costs.

In fact, more variability means that it's more difficult for your business to track and manage data, in order to make informed decisions. And when you can't track data, your customer service suffers too. Irate clients may want to know the status of their orders, and you won't be in a position to provide that.

Unpacking the Many Types of Logistics Costs With Simulation

In truth, these logistics costs are just the tip of the iceberg. But regardless of what costs you assess, you'll need some method of putting your insights into action.

Predictive modeling and supply chain simulation offer a different approach by using historical data and algorithms to create models – this can give you **insight into key business drivers** and opportunities to reduce total costs and make your finished products more attractive.

Inventory management simulations like these allow you to take a granular approach to inventory planning and gain visibility into potential demand, resource utilization, and how the supply chain will perform across ever-changing conditions.

Even marginal improvements can result in big savings for larger supply chains over the long term.

Research published in Supply Chain Dive found that the number of companies using predictive analytics raised 76% from 2017 to 2019.

Early forecasting of the variability in your supply chain is the way the logistics world is moving towards – with early adopters gaining a clear advantage over their competition. Establishing good cost accounting practices in this area will give you an edge over those that struggle to adapt.