

# AVOIDABLE COSTS

in pallet control

**& THE POWER OF COMPENSATION**



# AVOIDABLE COSTS

Pallets don't have to cost you an arm and a leg. When you know what to look for and are aware of the many ways pallets can catch you out, you can avoid the extra costs. Mismanaged pallet accounts can lead to many unnecessary costs, and in the worst-case scenarios, arguments lead to damaged commercial relationships, legal actions, costly proceedings, and bankruptcy. These don't have to be your possibilities. Understanding your options and what affects your ongoing pallet hire expenses can help your business avoid damaging financial results. The average wooden CHEP or Loscam hire pallet has a compensation value of just under \$37 and some hire equipment can reach several thousands of dollars for each unit that you cannot account for. When pallets are lost the costs add up extremely quickly. Even if you know where the pallet is it can still be deemed as lost, so reducing your risk of these lost pallets is vital to ensuring extra costs are not added to your account. Pallet loss can be prevented by accurately tracking every pallet that enters and exits your supply chain, conducting regular stock takes, periodic audits, and establishing adequate pallet control processes. There are many different policies and terms and conditions with every pallet account that your business trades with and you should be aware of these rules when transferring pallets. Below we will go through some of the common blind spots costing companies money.

**DELAY DAYS**

**SUSPENDED PALLETS**

**CONSOLIDATING ACCOUNTS**

**COMPENSATION**

**SPLITTING ACCOUNTS**

**UNPROCESSED TRANSFERS AND LOST PALLETS**

**MARKETPLACE LIABILITY**

# DELAY DAYS

reducing invoice costs and increasing revenue



Trading partners can have different effective delays applied according to their negotiated terms; this impacts the number of days you are charged for pallets after they have been delivered. This is referred to as 'Delay Days', or an 'Effective Date Offset (EDO)'.

Delay days outside of your agreed terms can result in charges to your account that are unjustified. If an EDO is applied to your transfers off but not the corresponding transfer on this can quickly add up to a large credit owed by the pallet hire company, which not understood will go unclaimed. It is important to check invoiced transactions and ensure all are as per your terms and conditions to avoid incorrect dates being charged and to ensure credits owed to you do not go unclaimed. Dedicated pallet controllers who know what to look will identify and rectify this. They should ensure the delays applied are fair and equitable and do not penalise any single part of your supply chain, as, in the example above the winner is not always you and can be the hire company.

Below it is shown how lost revenue can be avoided through detailed pallet control and reconciling your CHEP and Loscam invoices to ensure all required terms are applied to each transfer.

## Hypothetical Delay Day Client ABC Widget Co

ABC Widget Co sought out professional pallet control to improve their processes and reduce costs. After an audit it was discovered that a customer was applying delay days for transfers off their account, rather than only being applied to the transfers on. This meant ABC Widget Co were paying an extra 17 hire days on pallets that had been transferred to the next account. The charges for these incorrectly applied delay day costs over **\$9,000** in their first year and needed to be claimed from their suppliers. The delay days were fixed to apply only to transfers on to their account, avoiding incorrect effective dates for future transfers, saving ABC Widget Co. over **\$9,000** annually

## Hypothetical Delay Day Client ABC Distribution Centre

ABC Distribution Centre had a delay day term of 30 days for all inbound pallets arriving at their DC, this was not applied to transfers and went unnoticed or corrected by their pallet controllers. This resulted in ABC Distribution Centre being owed **\$56,000** by multiple trading partners, this would then need to be requested from the receivers of the loads to be recovered.

Incorrectly Processed  
Delay Days Cost ABC  
Distribution Centre

**\$56,000**

# SUSPENDED PALLETS

and their impact on your pallet account



All hire pallet transfer dockets need to be notified to the supplier to be processed on an invoice with hire charges being passed to the next link in your supply chain. If you diligently notify transfers off your account but a major trading partner is not processing their pallet transfers with CHEP or Loscam when they deliver pallets to your site, your account can go into a negative balance. Negative balances are adjusted by CHEP and Loscam to bring the account back up to a zero balance. After all you cannot hire negative pallets. This discrepancy in your pallet accounting occurs when more pallets are processed off your account than on but it does not prevent unclaimed pallets being transferred onto your account at a later date. The effect is that **two pallets are transferred on for each pallet transferred off**. Not only does this **increase your hire cost but it exposes you to compensation costs for pallets you have never held** but that were just added to your account to resolve a problem with the timing of transfers.



## Compensation Value



Wooden Pallet  
**\$36.50 / pallet**

Plastic Pallet  
**\$120.00 / pallet**

This can be overlooked even when accepting a claim from the sender for the originally unprocessed transfers, leaving you to pay for the original delivery and for the pallets transferred on by CHEP or Loscam to restore your account to a neutral balance. This often leads to the obligation of paying back the supplier to stop the ongoing charges. There is a real **risk of paying for pallets twice** if you are not aware of what causes suspension or how to deal with it. Loscam suspended pallets can also be caused when the sender processes the transfers with the supplier and the effective date is later than the effective date of the corresponding transfer off. Even though it is clear from the movement date that the pallets have moved through the supply chain from the dates advised on the transfer, Loscam will increase your on-hire balance to bring the hire balance and their own adjusted hire balance, which is based on effective date, back up to zero. This is particularly relevant to carriers with weekly bulk transfers onto their accounts but processes off as delivered or de-hired. **It is important to track both the on-hire balance and any large transfer** that needs to be processed in a timely manner to keep your account above zero. Following up with trading partners to ensure they are processing at the time of the transfer to avoid any negative balance hire charges.

# SUSPENDED PALLETS

and their impact on your pallet account



Suspended pallets can cost you an extensive amount of money in a small amount of time. A suspension balance of 4,000 equates to an annual hire charge of over **\$254,000** and an estimated compensation value of **\$146,000**. With these numbers on the line it is so important to check your invoices for any suspended pallets, a CHEP invoice will show this as a suspended pallets line and a Loscam invoice will have an "account charge" on the last page of their invoice.

An audit beginning with investigating current processes to locate any gaps in operations or ineffective systems causing suspended pallets can lead to reduced ongoing costs moving forward. There are also ways to reduce your costs for past suspended pallet issues that were not resolved, this can be achieved through compensating lost pallets and decreasing invoice charges by consolidating accounts where possible.

compensation  
value of  
**\$146,000**

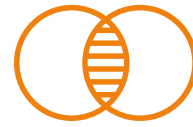
**4,000**  
suspended  
pallets

annual hire charge  
of  
**\$254,000**



# CONSOLIDATING ACCOUNTS

provides cost reductions and can increase efficiency



Consolidating accounts refers to merging multiple equipment hire accounts together to create one account for each supplier. Assuming the hire accounts have different daily hire rates, this has been shown to **save companies up to 10% of their annual supplier invoice costs.**

These savings can then be used towards the compensation to suppliers for any lost pallets continuing to be charged, further reducing your ongoing invoices and driving annual costs down.

This strategy can work extremely well for companies who embrace software to manage a single account over multiple sites, allowing them to accurately track cost and loss throughout their supply chain on a single pallet hire account with each pallet supplier.

Consolidating can seem daunting, but it can be a very simple and effective way to reduce unnecessary supplier charges and to avoid the suspensions identified in cost 2. We will run you through a hypothetical scenario to further explain the consolidation option.

Below shows the cost impacts of consolidating two CHEP accounts.

## AFTER COMPENSATION

annual cost of \$79,700

30 days cost \$6,600

daily cost of \$221

## BEFORE COMPENSATION

annual cost of \$91,000

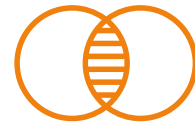
30 days cost \$7,600

daily cost of \$253

nearly  
**\$12,000**  
 in annual savings

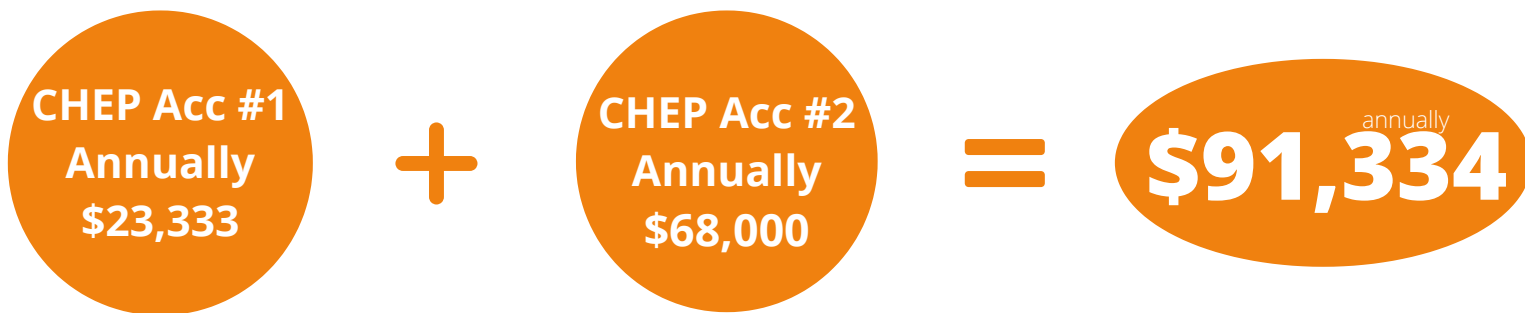
# CONSOLIDATING ACCOUNTS

provides cost reductions and can increase efficiency



## Hypothetical Consolidating Accounts Client ABC Foods

ABC Foods is currently running two CHEP accounts and one Loscam account, the Loscam account has a large closing balance due to lost pallets, and the two CHEP accounts are purely to differentiate between two sectors of the business. Following an audit, it was found that the two CHEP accounts were unnecessary and was making it harder to accurately tracking the pallets, the cost savings were calculated, and it was decided to consolidate the two CHEP accounts. One CHEP account rate is greater than the other so this is the account to be closed and merged into their lower hire rate account to further save ongoing invoice costs. The savings from consolidating is then used to compensate for as many Loscam lost pallets as possible to reduce both supplier invoices, doubling up their cost reductions. This strategy reduces ongoing spending for the company without any additional outlay of cost.



**after consolidating CHEP accounts:**



Hire Rate	Closing Balance	Cost Per Day	30 Days	Annually
0.15732	1408	\$221.50	\$6,645	\$79,740

**SAVES \$11,592 ANUALLY**

annual savings of \$11,592 provides compensation for 317 Loscam pallets



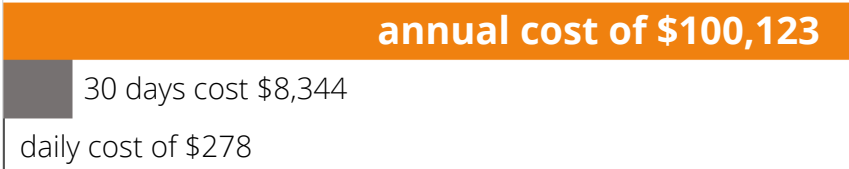
# CONSOLIDATING AND COMPENSATING ACCOUNTS



## Hypothetical Consolidating Accounts Client ABC Foods

Compensating **317** pallets on the Loscam account reduces the closing balance from 2052 to **1735** saving ABC Foods **\$18,293** a year, with no additional outlay of cost.

### AFTER COMPENSATION



### BEFORE COMPENSATION



Total consolidating and compensating project annual cost savings nearly

# \$30,000

Hire Rate \$0.16030

It is important to first understand the costs associated with pallet control, before deciding your scenarios and tactics to reduce pallet costs. Merging two accounts can ease pallet tracking and reduce your supplier costs, but it is vital that you ensure adequate tracking measures are in place and that this is the right approach for your business.

# COMPENSATING WITHOUT CONSOLIDATING



Compensating for lost pallets to CHEP or Loscam removes your responsibility for pallets deemed unrecoverable, you are essentially paying the supplier damages for losing their asset, the pallets. While this requires capital expense it will save you more money down the line by ceasing the ongoing daily charges for the same pallets. It is not required to have accounts to consolidate prior to compensating your unrecoverable pallets, without consolidation there is a large cost outlay often needed to compensate enough pallets to be of value, however; this is an investment and will significantly reduce your invoices in the future. This is shown in the example below.



## Hypothetical Compensation Account Client ABC Transport

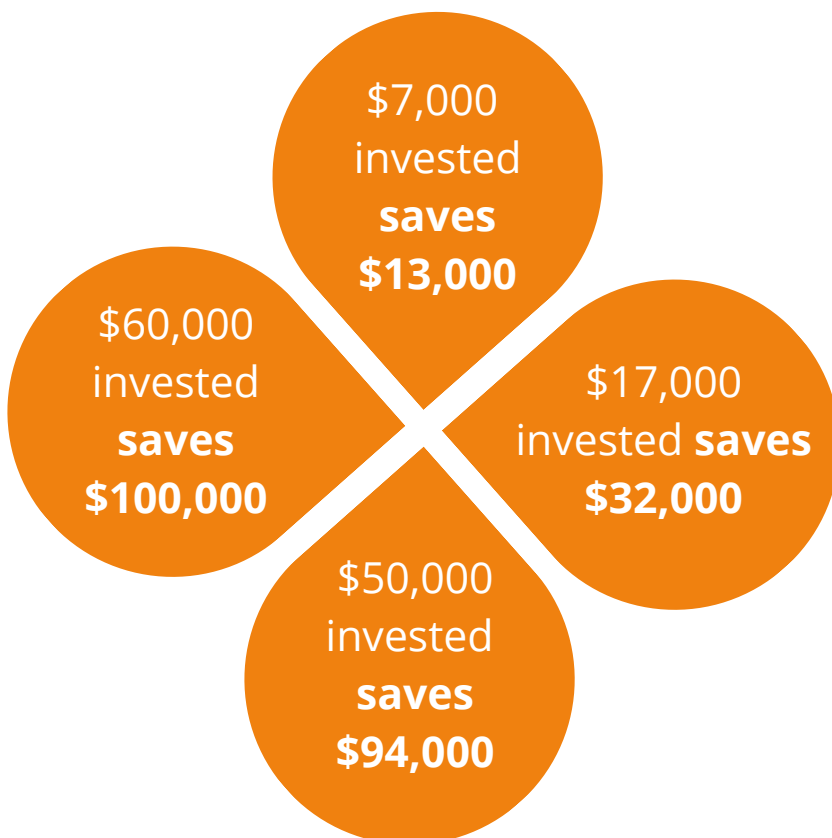
ABC Transport has a single pallet account with each of the suppliers, CHEP and Loscam and following best practice stock take processes they have found a shortfall of 1650 lost pallets. By approaching the suppliers, they can make arrangements to begin compensating the pallets to reduce ongoing hire charges.

If ABC Transport spent **\$7,000** to compensate 190 wooden pallets from their closing balance of 1,650. This would reduce their invoice costs by just over **\$13,000** in their first year with a 7 month return on their investment.

A **\$17,000** investment would compensate 465 lost pallets, their invoice costs would reduce annually by just under **\$32,000**.

**\$50,000** would compensate 1,369 wooden pallets saving ABC Transport nearly **\$94,000** annually.

To compensate for their total lost pallet balance of 1650, they would need to invest just over **\$60,000**, with an annual saving of over **\$100,000**.

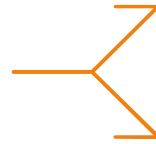


Without compensating the supplier, the daily charges for these unrecoverable pallets would continue to be charged, this means ABC Transport would be paying for pallets no longer in their possession every day until they are paid out. Investing in compensation not only significantly reduces your ongoing costs, but it also allows a more accurate account position enabling you to better track your transfers, reducing your risk for further lost pallets or suspension in the future. With improved practices the aim is to avoid compensating every again.

It is important to know your accounts position, this can be done by comparing your stock take counts to your adjusted invoice closing balances. These steps are imperative to ensuring you are not paying daily hire fees for lost pallets. It is always difficult to face the need to compensate and often the preference is to pay a smaller amount each month, however; the reality is that paying even a small amount towards your lost equipment each month is beneficial and if your cashflow can take it paying out all losses immediately gives you the best financial result and reduces unnecessary pallet hire cost.

## SPLITTING ACCOUNTS

provides more accurate reporting



There are instances where merging accounts will not be beneficial, in fact on some occasions splitting up accounts can lead to more accurate tracking and invoice cost reduction. This means you would create multiple accounts for one supplier, this can help companies who are consistently reporting a loss of pallets but are unable to identify the source of the pallet leakage.



### Hypothetical Compensation Account Client Distribution ABC

Distribution ABC ran both a national transport chain and a warehouse under one CHEP account. They were experiencing inflated pallet management costs *and* a loss of pallets. Additional pallet control resource was put to the task of resolving it but the information required for the pallet controllers to find the leakage was not available.

This was because pallets were not tracked between the business units. To increase transparency and staff accountability the warehouse and transport components were split into two separate CHEP accounts, creating this divide ensured accurate reporting to improve the accounts position.

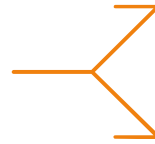


After splitting the accounts, it was quickly apparent that pallets were being lost by the transport sector of the business. This was due to;

- Pallets not being exchanged or transferred at many end receivers.
- Pallets being dropped off at other company sites without documentation and sites operated by sub-contractors.
- Transport managers not being aware of the need to provide driver training, because they did not see the hire cost increase being borne by their warehouse counterparts.

# SPLITTING ACCOUNTS

provides more accurate reporting



## Hypothetical Compensation Account Client Distribution ABC

Training resources that met the specific needs of operators within both the transport and warehouse business units were provided, allowing warehouse operators to keep it simple by removing process variations and to support drivers to track equipment in their possession. This training was the solution to the pallet loss. however; being slow to adopt the new processes the transport account continued to report excessive pallet management costs and larger volumes of lost pallets.

The good news was that it could be identified where the pallets were being lost, allowing for recovery and cost savings. Follow-up training sessions were held for drivers for the transport processes, and admin staff were trained on the run sheet debrief and data entry.

This is an important step to ensure processes are followed and the data being reported was accurate and by working together a 91% cost reduction was realised on their supplier invoices and a 70% reduction in pallet management costs was achieved.

While operating two supplier accounts for the one site is not always ideal, splitting your accounts per sectors of the business can be a massive advantage when you are trying to get to the bottom of your pallet loss or just allocate cost correctly.



# UNPROCESSED TRANSFERS

impacts both management and invoice costs



Transfers are required to be sent to CHEP and Loscam to process from one account to the next. If transfers are not sent regularly to the supplier this can affect costs through ongoing invoice charges as the pallets remain on the sending account.

If multiple unprocessed transfers pile up over time it is then up to the receiving account to accept the pallets, this can result in additional management costs in several ways.

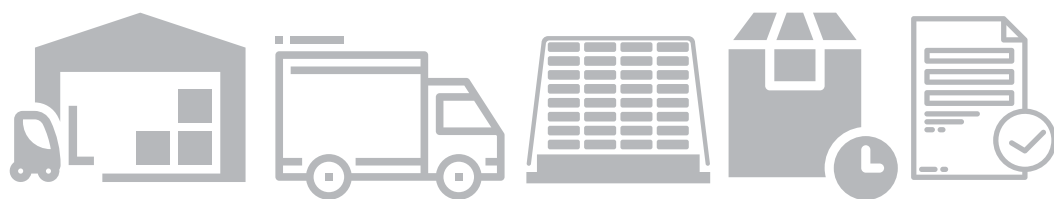
- If too much time has passed for the supplier to process the transfers the receiver needs to accept the pallets, however; industry practice is to amend the date of the transfer to the current date. This means that the sender pays the hire days between the original date of transfer up to the current date. This can be **years**, assuming the receiver even accepts the transfer.
- The receiver could also reject the transfer completely, leaving the pallets on the sender's account whilst the physical pallets are now back in the supply chain. If a receiver will not accept the pallets, they can then be deemed **unrecoverable** and without compensation will continue to be charged to the sender's account daily.

CHEP and Loscam both have time limits to process a transfer off your account, once this has passed it is up to the receiver to accept your transfer. Receivers will also have time frame terms and conditions as for when, and at what date, they will accept your transfer. To avoid extra costs for your pallets it is imperative you process your transfers with the supplier on a regular basis. **It is best practice to send your transfers to CHEP and Loscam weekly.**

**LOSCAM ALLOWS PROCESSING FOR THE CURRENT MONTH, PLUS 2 MONTHS PRIOR**

**CHEP ALLOWS PROCESSING FOR 180 DAYS**

**AFTER THIS IT IS UP TO THE RECEIVER TO ACCEPT YOUR TRANSFER**



## LOST PALLETS

impacts both management and invoice costs



In a 2018 finding by the County Court of Victoria, CHEP pallets were deemed a fungible asset, which means that pallets can be interchangeable for any matching pallets of the same quantity. This implies the sender would have to provide another lot of pallets for the load to be accepted, essentially making the business liable for double the amount.

We have not seen CHEP or Loscam apply excessive compensation charges but the pallets are their assets and losing them reduces those companies' capacity to generate income from the asset over its expected lifespan.

Pallets deemed as lost can be capped at a value equivalent to five years of hire charges at 50%, this stops the ongoing charges from skyrocketing by compensating the supplier. While this value cap does protect businesses to a certain degree, it still leaves you open to a large outlay of cost for unrecoverable pallets.

When a business claims a pallet already credited to them, or never debited to them, and thereby improves their pallet position at your expense it could be argued that they are unjustly enriched. It is far better to avoid these situations by accurately tracking all inbound and outbound pallets to ensure you are not unnecessarily losing or gaining pallets. It is important to always understand your marketplace liability and keep an eye on your accounts position and pallet balance.

To avoid these unnecessary costs, it is imperative to process transfers off your account in a timely manner.

Always ensuring the pallet closing balance on your invoices reflects your pallet quantity on-site is a simple way to keep track of your liability and reduce your risk of a loss, or gain, of pallets.

**LOST PALLETS  
ARE CAPPED  
AT 50% OF 5  
YEARS HIRE  
CHARGES**

**PALLETS  
ARE DEEMED  
A FUNGIBLE  
ASSET**

# MARKETPLACE LIABILITY

prevents negative hire balances and large claims

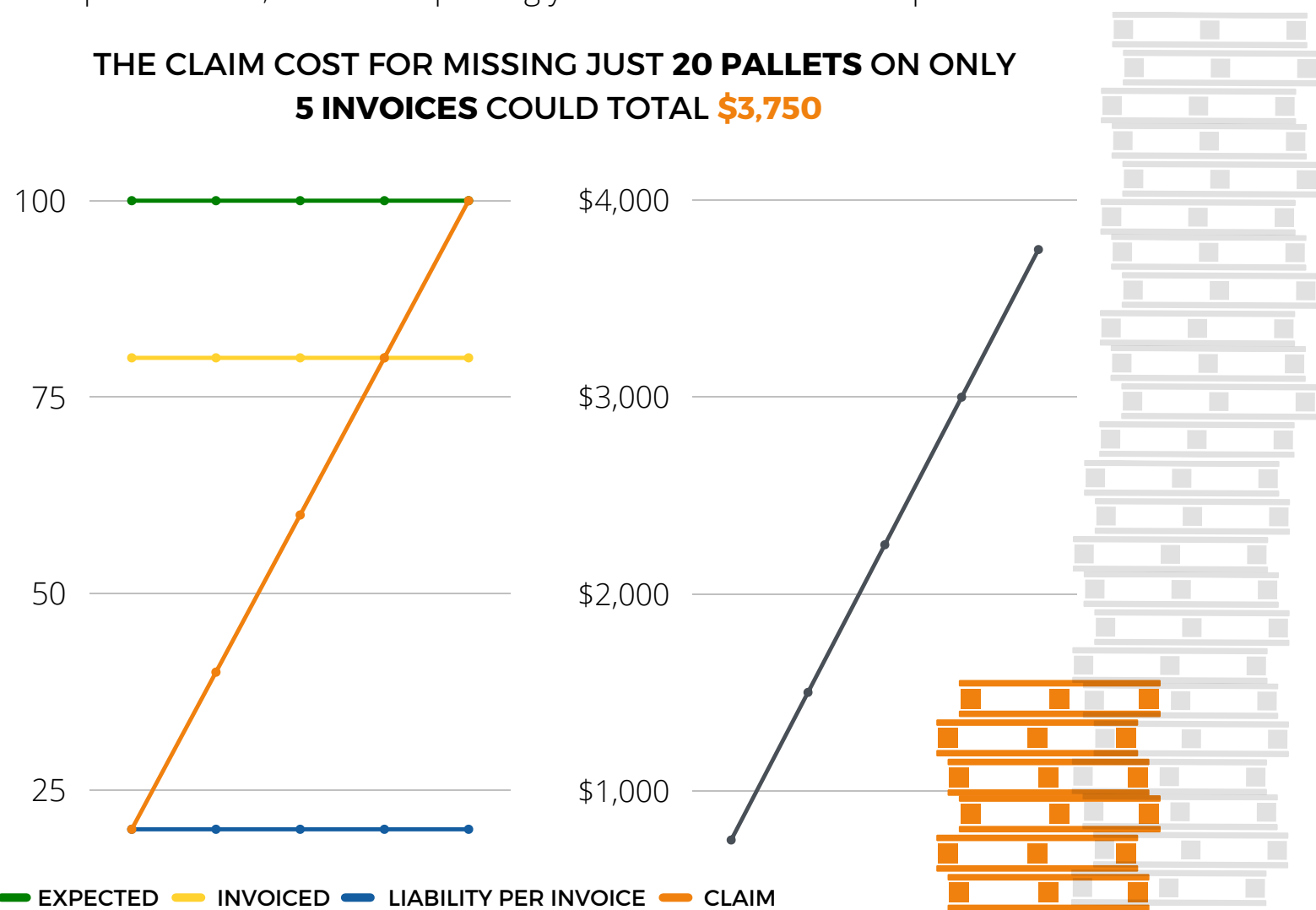


You may think a supplier or service provider failing to raise transfer is giving you a windfall, but you should consider the often-overlooked risk. Not only are you possibly liable for a negative hire balance by CHEP or Loscam, settling a claim against your organisation does not automatically mean a suspended balance will be returned to your account.

Unprocessed transfers mean marketplace liability. While failure by sender accounts to process transfers on to your account can reduce your invoice charges and seem like a win, it also opens your business up to a sharp increase in hire charges and the potential for backdated hire charges. This, of course, can be incredibly costly and the gain in pallets may have hidden accumulated losses from your own operation.

To avoid this situation, it is important to track your predicted pallets and notify trading partners if there is a high volume of pallets not transferred to your account that were expected. This controls your responsibility for pallets through your account when a sender is not following best practice - not only limiting your risk of marketplace liability and unexpected costs, but also improving your customer relationships.

**THE CLAIM COST FOR MISSING JUST 20 PALLETS ON ONLY 5 INVOICES COULD TOTAL \$3,750**





## CLOSING



Any pallet account in use by a company with complex supply chain needs to be managed by dedicated professionals with a deep industry understanding to provide hire cost reduction without increasing pallet management cost, but any account can benefit from skilled insight.

Pallet control can be complex and because of this it can be confusing. While there are a multitude of ways for businesses to unknowingly spend on avoidable expense, the good news is that understanding and tracking your pallet processes through your supply chain can save your business a lot of money. It can seem like you are spending too much on equipment hire management, however; it could be where and how you are spending it that is the problem and often small improvements in documentation control and training, coupled with a process audit can have a dramatic impact.

## REMEMBER:

- ENSURE ALL DELAY DAYS ARE APPLIED AND PROCESSED CORRECTLY
- KEEP AN EYE OUT FOR SUSPENDED PALLETS ON YOUR INVOICES
- CONSOLIDATING ACCOUNTS CAN REDUCE YOUR INVOICE COSTS
- SPLITTING ACCOUNTS CAN IMPROVE TRANSPARENCY AND REDUCE MANAGEMENT COSTS
- COMPENSATING LOST PALLETS CAN SAVE YOU THOUSANDS
- PROCESS TRANSFERS PROMPTLY