

# The Power of Benchmarking

## *How to level the freight pricing field for better negotiations*

Today's marketplace demands that companies manage costs to stay competitive and achieve the profit levels expected by shareholders and owners. Freight represents a large portion of operating costs and are complex to manage given the various modes of transportation, convoluted pricing models, multiple providers, and difficulty comparing one provider to another.

The first step in any freight cost exercise should be to establish benchmarks by mode and lane. The benchmarking process enables you to clearly understand your true costs and therefore what your targets should be during discussions with carriers or third parties. In short, a benchmark is your measure of success during the RFP or any other freight negotiating process. After all you can't manage what you can't measure.

### The Challenge

The challenge in establishing benchmarks is that most freight data is not in a format that makes comparison and compilation easy. Often, the necessary freight data resides on individual freight invoices and must be manually compiled or key punched a time consuming and laborious process. If you don't have access to electronic records, it may be beneficial to engage a third party to help you analyze and establish your benchmarks.

**Per-shipment costs can vary dramatically and are difficult to spot without a benchmark**

Many companies shop their freight on the spot market by obtaining multiple quotes for a shipment. This may take advantage of fluctuating capacity or a carrier's immediate availability in the marketplace, but it leads to extreme cost variations, making it difficult to manage freight costs.

**“The days of adversarial purchasing and procurement are gone.”**

### Finding True Cost

Ultimately, to gauge true freight costs you need to understand on a lane by lane basis what your costs are on 3 separate points. First, strip out fuel surcharges and accessorial cost to provide a true baseline view of your freight cost. Not to be overlooked, a separate benchmark needs to be conducted against government fuel standards and industry accessorial standards (see illustration below)

Once you've established cost benchmarks on a lane by lane basis you also need to determine lane frequency and freight characteristics. Lane frequency enables you and your carriers to understand not only the frequency of moves, but more importantly how your freight will impact their operating networks.

Lane		Omaha, NE 68144 to Dallas, TX 76065					
Shipment History							
Order Number	Weight in LBS.	Carrier SCAC	Total Costs	Fuel Surcharge	Accessorial	Line Haul Costs	Linehaul Cost per Lbs.
793486	950	RDWY	\$ 241.37	\$ 45.93		\$ 195.44	\$ 0.21
786651	543	YFSY	\$ 202.21	\$ 28.96	\$ 60.00	\$ 113.25	\$ 0.21
760098	2,500	AACT	\$ 740.17	\$ 140.84		\$ 599.33	\$ 0.24
799902	1,346	RDWY	\$ 426.82	\$ 81.22		\$ 345.60	\$ 0.26
	5,339		\$1,610.57	\$ 296.95	\$ 60.00	\$ 1,253.62	\$ 0.23

\*Lane Delta identifies the wide variances (high and low) versus the 52.07% average for all lanes

LANE	TOTAL SHIPMENTS	TOTAL WEIGHT	AVERAGE WEIGHT	FREIGHT TOTAL	AVERAGE FREIGHT \$	LANE DELTA
AL - AL	42	35,088	835	\$ 5,049.80	\$ 120.23	47.26%
WI - WI	30	36,064	1,202	\$ 2,246.34	\$ 74.88	72.14%
AL - MS	17	18,425	1,084	\$ 1,755.00	\$ 103.24	68.96%
MI - IN	17	6,622	390	\$ 1,656.51	\$ 97.44	33.84%
PA - PA	16	8,384	524	\$ 1,455.53	\$ 90.97	56.74%
MI - OH	14	6,075	434	\$ 1,350.23	\$ 96.45	22.60%
MI - MI	11	10,572	961	\$ 1,139.18	\$ 103.56	36.07%
WI - IL	13	11,560	889	\$ 1,110.78	\$ 85.44	55.54%
WI - ID	1	7,500	7,500	\$ 983.49	\$ 983.49	72.69%
WI - IN	4	18,148	4,537	\$ 949.05	\$ 237.26	54.89%
<b>Grand Total</b>	<b>165</b>	<b>158,438</b>	<b>960</b>	<b>\$ 17,695.91</b>	<b>\$ 107.25</b>	<b>52.07%</b>

Similarly, your freight characteristics allow carriers to understand the cube, density and weight profile of your freight allowing them to more accurately price it:

### Key Statistics

Average Shipment Size (lbs.): **908**

Average Paid Per Bill: **\$114**

Average Class (As Provided): **50.0**

Overall CWT: **\$12.52**

## Collaboration is Key

You are now equipped with the benchmarks you need to truly understand freight costs and characteristics, and begin the negotiation process. Assemble your lane and freight characteristics into an RFP for not only your incumbent carriers but be sure to include new carriers in the pricing exercise. Often the incumbent will not bid aggressively for your business as they view it as bidding against themselves.

The days of adversarial purchasing and procurement are gone. Blind quoting or bidding without the necessary freight characteristics will either achieve short term predatory pricing (which will be quickly changed once the carrier understands the true characteristics of your freight) or drive uncompetitive pricing that does not compare favorably with your current pricing.

Best results are achieved by partnering with your freight providers and third party providers.

Carriers have made significant investments in their internal business systems & created sophisticated costing modules to understand profitability on a lane by lane and customer by customer basis. Without arming yourself with this level of detail the carriers know more about your business than you do, which immediately places you at a disadvantage. Giving carriers the data they need to accurately price your freight will ensure that the pricing you receive is in place for the long term.

Always compare the results of your RFP to your benchmarks to understand what the true impact of your new rates are and then ensure that you track your rates on an ongoing basis. This will help to make sure the carriers are billing you correctly.



*Here are eight easy action steps to benchmarking your freight data and achieving meaningful results*

1. Determine if you are going to complete the analysis in house or engage a outside firm the help
2. Pull a minimum of 3 months and up to 12 months of freight data
3. Compile lane and freight characteristics
4. Establish benchmarks
5. Write RFP
6. Determine carriers who will receive the RFP
7. Collect and analyze RFP responses against benchmark data
8. Award contracts to carriers

## About HA Advantage

HA Advantage is a leading freight-management and financial-reporting company. Leveraging a new in-source logistics model and proven business processes, HA Advantage combines web-based technologies and a proprietary tariff to create substantial bottom-line improvements for small- to medium-size manufacturers and wholesalers.



5175 Johnson Drive  
Pleasanton, CA 94588  
877.290.3787  
haadvantage.com

Your Logistics.  
Optimized.