



Freight Rate Benchmarking – a great tool for both shippers and carriers



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As a shipper, wouldn't you like to be able to compare your freight rates with those paid by your competitors? Carriers certainly would benefit from being able to determine if you are charging too much or too little on certain lanes. Freight Rate Benchmarking is a tool that can meet the requirements of both groups. The service is available from several leading transportation consulting companies.

Benchmarking Opportunities

Benchmarking allows a shipper to compare their freight rates for domestic or international traffic with those of shippers in the same or similar industries in order to identify opportunities for cost reduction. It can be used for all types of shipments and all modes of transport. It can also be used to benchmark accessorial charges or to project changes in a business such as relocating or expanding into new markets. Rate Benchmarking can be helpful in comparing private truck fleet costs against the costs of using a for-hire carrier. Similarly for carriers, it allows the company to maximize yields on whatever block of freight it targets for improvement.

Understanding the process

"The starting point is an identification of the specific lanes, transport modes and service requirements that each shipper or carrier would like to benchmark," states John Harold, president of Business Logistics, a company that specializes in this area that is based in San Ramon, California. "We ask the client about volume on each lane and the overall volume in a given region/mode combination. The answer helps us to match the client's volume with others we encounter in our data mining process."

The next step in the process is developing a data query that matches the criteria provided by the client. The rates returned are then audited in a data validation step to assure that quality rate benchmarks are being provided.

Identifying potential savings

"We extract rates that are actually paid by shippers and then analyze the data based on what the client is looking for," comments Harold. Typically, the client will want to know the lowest rate paid by shippers in a given lane. The client will also often want to know the probability of securing comparable rates. To determine this, "we perform a special analysis, taking into account the shipper's specific purchasing power."

When shippers provide their rates to us, we can then establish "target" rates for use in contract negotiations and identify potential savings on a lane-by-lane basis. To Harold, "this is a powerful way for shippers to keep a lid on freight rates."

Carriers, on the other hand, want to know what their competitors are charging and how sensitive the market is to pricing changes. While carriers can obtain this type of information on a piecemeal basis from certain customers or through their sales team, this approach provides more comprehensive and accurate data upon which to base pricing decisions.

The vast majority of shippers and carriers use the service to improve their company's profits. Successful results are achieved with companies of all sizes. For one very large shipper, freight rate benchmarking allowed them to save over \$50 million in their freight costs.

If you would like to comment on your company's experience with freight rate benchmarking or learn more about the service, please contact me at dan@dantranscon.com.

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