

## Benchmarking Transportation Rates and Services

By  
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A common sentiment shared by most transportation managers is that each claims to have the lowest carrier rates. Most shippers achieve *some* level of base discount and other concessions during carrier contract negotiations. However, they do not know how those discounts compare with other shippers. The reality is that three out of four shippers could improve their transportation discounts by 10% or more.

Imagine the advantage a shipper would gain if it learned that current carrier incentives were in the lower quartile of eligible discounts. What if the shipper also knew the *maximum* base incentive and *specific* accessorial discounts for which he was eligible?

For many years, logistics managers have applied functional and process benchmarking to quantitative areas such as warehousing, inventory control, order processing and customer service. Since transportation accounts for approximately 50% of all logistics expenditures, logistics managers are increasingly directing benchmarking efforts to transportation rates.

Through rate benchmarking, you gain an understanding of best-in-class carrier rate programs, increasing the likelihood of negotiating significant improvements to your carrier agreements.

### Basics of Benchmarking

Benchmarking is a core component of business improvement programs. The concept is simple: Monitor your company's internal measurements and compare the data with other leading organizations. Gaps between a company's actual performance and industry leaders become opportunities, and are utilized to develop improvement plans.

Benchmarking not only includes measuring and improving performance, but also evaluating progress and trends over time to achieve target objectives. Effective use of benchmarking enables shippers to enjoy an advantage over competitors now and into the future.

There are two types of benchmarking: internal and external.

*Internal Benchmarking:* Like the name connotes, internal benchmarking does not require cooperation from partner companies, but rather is achieved

exclusively within the organization conducting the study.

Data sources include precedents (current and historical carrier agreements/proposals), internal databases (shipment history and management reports) and employee experience from previous jobs.

*External Benchmarking:* The most traditional method of external benchmarking is to identify competitors and best-in-class companies with which you want to benchmark. The value for benchmarking partners, of course, is the same benchmarking information your organization seeks.

### Five Step Benchmarking Process

While there are many benchmarking models, all include the following five steps.

#### Step One: Planning

Strategic benchmarking should focus on what causes the organization the most trouble or has the greatest value impact on the customer. Define the area of study and state your objectives.

Then, develop your project team, data collection methodologies and other critical success factors. For benchmarking of functional areas of the operation, the particular process to be benchmarked should be documented and flowcharted.

Finally, decide what and against whom you will need to benchmark. Thus, you'll also identify potential benchmark partners.

#### Step Two: Data Collection

Data is at the core of effective benchmarking. In order to measure performance, robust internal and external data collection is required.

*Internal Data:* Develop a database of your company's historical shipments to better understand the impact of rates and charges. The database can later be used to model the impact of benchmarks applied to your actual distribution. Collect proposals and final contracts from all incumbent carriers. Finally, gather carrier invoices, management reports and service audits.

*External Data:* Create a survey for benchmark partners that solicits rate, service usage and contract information. Use strategies such as ranges and 'yes or no' questions to circumvent direct disclosure of rate information.

External resources for benchmarking also include industry associations, networking groups, research studies and white papers, consultants, universities, government data, industry periodicals, libraries and online databases.

### **Step Three: Analysis**

You can't improve what you can't measure. Chart your organization's results against internal and external benchmarks. Like any other measurement, rate programs can be compared and mapped within upper, lower and middle quadrants.

Consider shortcomings as both opportunities for improvement as well as watermarks for which to continuously aim. Measurements in which you lead the benchmark group validate your position as best-in-class.

Benchmark specific aspects of contract pricing including rates, service usage and contract terms.

*Benchmark Transportation Rates.* For a thorough evaluation, benchmark discounts by service level, zone and weight. Industry benchmarks should include your competition, especially if volumes and expenditures are similar.

Moreover, benchmark accessorial and oversize charges, fuel surcharges, guaranteed service refunds, bonus weight, rebates, earned discounts and other carrier incentive programs.

*Benchmark Transportation Service Usage and Performance:* Benchmark weight, delivery density, parcel dimensions, commercial/residential mix, air/ground percentages as well as inbound/outbound and third-party percentages. Benchmark companies that single source as well as those that multi-source. Benchmark on-time deliveries, damaged/lost shipments and other performance measurements.

*Benchmark Transportation Contract Terms:* Areas to benchmark include revenue bands, rolling averages, minimum shipment charges, contract length and payment terms.

### **Step Four: Recommendations/Implementation**

Once you've identified realistic opportunities for improvement, implement the action plans with the greatest impact.

Your analysis may have identified a gap between its contract term (1 year) and those of its benchmarks (average 2.5 years). Other gaps might include specific base incentives and accessorial concessions.

Armed with benchmarking information, you are now prepared to request similar discounts and terms from its carrier. It is the ability to *target* a carrier's rate response that makes benchmarking so invaluable.

### **Step Five: Monitoring**

Monitoring entails the ongoing evaluation of the benchmarking processes undertaken and the results of the improvements against objectives. Document success criteria plus overall efficiency and effectiveness.

In the case of transportation rates, quantify the savings realized as well as the savings potential if a gap still exists with best-in-class programs.

### **Success Factors**

Benchmarking can be a lengthy process. Involve senior management early on to ensure you have resources and the ongoing commitment required to execute strategic benchmarking programs. Be careful not to spend too much time on one part of the process at the expense of other key parts.

Moreover, do not expect to find benchmarking partners comparable in all respects to your organization. Utilize benchmarking results wisely by implementing the improvement programs that make the most sense to your company.

Shippers within all pricing quadrants benefit from solid transportation rate benchmarks. Shippers in the lower quadrants should significantly improve their carrier pricing, while shippers with best-in-class pricing programs can focus on other areas of their operation, knowing they have secured the best transportation rates available.

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