



Freight Sourcing Best Practices

September 2015

Executive Summary

Freight strategy deployment across business units requires data management, opportunity analysis, process discipline and communication.

- **Freight Sourcing** – Managing freight spend is complex due to coordination of multiple business units, a fragmented supply base and agreements with plant operations and suppliers.
- **Market Developments** – If done correctly, the current market situation allows for significant savings through a structured freight RFQ.
- **RFQ Preparation** – Thorough data collection and team engagement are crucial.
- **Data Visibility** – Auditing usage provides visibility into performance against contracts and is critical to ensure the best value is extracted from the RFQ process.
- **Target Development**– Individual targets by lane and supplier should be developed based on current rates, lane requirements and quotes
- **Industry Benchmarks** – Cost & Capital's benchmark of freight rates and contract terms allows for quick target setting and gap analysis.
- **RFQ Evaluation & Optimizer**– Freight quote management is complex due to regional pricing, multiple cost items and contract term variation—the Cost & Capital freight quote optimizer quickly assesses supplier quotes and can allocate business to maximize savings.









Industry Overview

The freight forwarding market is a highly competitive market place.

Freight Forwarding

- Freight Forwarding and Logistic Services are services of any kind relating to the carriage (performed by single mode or multimodal transport means), consolidation, storage, handling, packing or distribution of goods
- Freight forwarding is a \$150+ BUSD industry (2014)
- Highly fractured industry with several key global players
- Over the last couple of years, the industry's revenues fluctuated heavily causing forwarders eager for business to offer aggressive pricing

Top Companies

Provider	FF Gross Revenue (US\$ Millions)	Ocean Freight TEUs	Air Freight Metric Tons	Cost & Capital Experience
	31,432	2,807,000	2,215,000	✓
KUEHNE+NAGEL	22,587	3,578,000	1,134,000	✓
 SCHENKER	19,732	1,891,000	1,092,000	✓
	7,738	8,668,000	396,100	
 PANALPINA <small>on 6 continents</small>	7,293	1,495,400	825,100	✓
 NIPPON EXPRESS	17,317	776,576	668,522	✓
	8,517	730,750	513,000	✓
Expeditors®	6,080	916,168	764,376	✓
 Supply Chain Solutions	5,492	450,000	775,000	✓
 SDV <small>Logistics. Imagination.</small>	7,263	790,000	522,000	

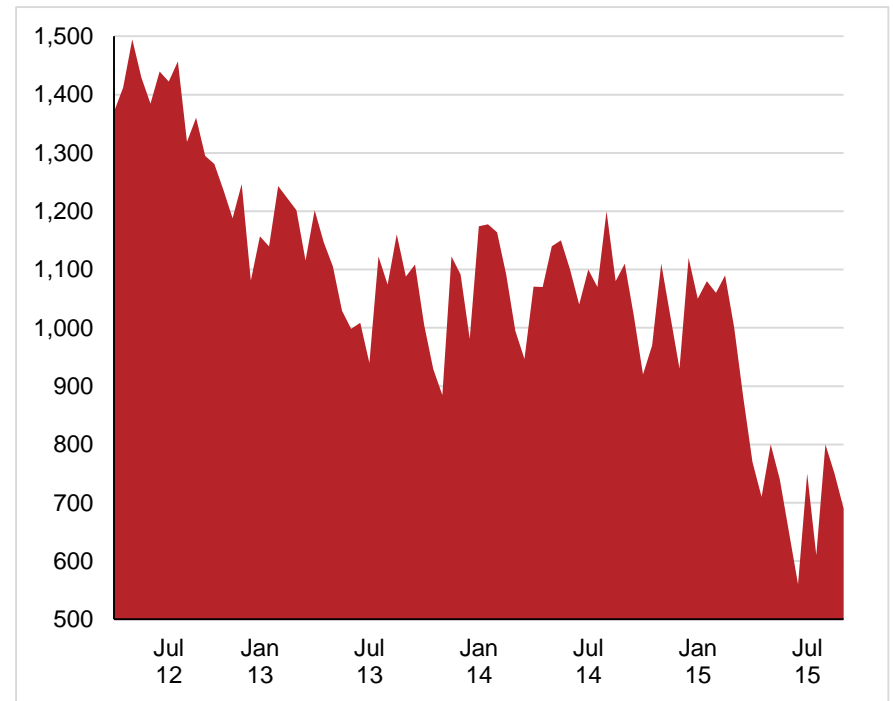
Price Volatility

SCFI has been highly volatile over the past years

Price Volatility

- SCFI is the abbreviation of Shanghai Containerized Freight Index that reflects the fluctuation of spot freight rates of the export container transport market in Shanghai
- Contracting and price index practices vary by company
- Depending on the review timing and index methodology, rates could have decreased significantly
- If rates are not tied to an index, pricing has changed greatly over the past few months and should be reviewed

Shanghai Containerized Freight Index



Freight Sourcing Common Pitfalls

Sourcing pitfalls can undermine the entire sourcing initiative.

Category	Pitfall	Solution
Pre-RFQ	No buy-in from managing team	Form steering committee involving employees from affected departments and provide regular updates
Data	Incorrect structure and analysis	Clear templates and optimization process
	Missing lanes	Thorough data validation process
	Incorrect O-D pairs	Clear templates and data validation, use of internal resources
	Missing cost items	Clear templates and optimization process
	Discrepancy of current rates and cost items	Thorough understanding of cost structures
Implementation	No buy-in from executing team	Have business unit leads drive implementation and hold regular status meetings

Data Collection

Clean and consistent data is the foundation for any freight initiative.

Data Collection

- **Spend Collection** – Detailed collection of spend from all businesses and suppliers
- **Consolidation** – Aggregation and consolidation of spend into appropriate categories
- **Rate Contract Analysis/Benchmarking** – Benchmarking of rates against market data and terms
- **Origin-Destination Pair Identification** – Identification of major Origin-Destination pairs to focus RFQ
- **Identification of Cost Components by Lane** – Not all cost components (e.g. origin to port, drayage) occur on every route; helps for target development

Template

City Pairs	Origin Documentation Charges	Door to Port (OD to OP) Container Haulage Charges	Door to Port (OD to OP) Container Fix Fees (per container)	Origin Customs Fee - per sh
Beijing, China - Chardon, USA				
Neunkirchen, Germany - Anoka, USA				
Neunkirchen, Germany - Anoka, USA				
Ningbo, China - Black Mountain, USA				
Ningbo, China - Delavan, USA				
Ningbo, China - Delavan, USA				
Petaling Jaya, Malaysia - Callao, Peru				
Bremmerhaven, Germany - Moorpark, USA				
Bremmerhaven, Germany - Moorpark, USA				
Pukete, New Zealand - Corona, USA				
Qingdao, China - Delavan, USA				
Qingdao, China - Reno, USA				
Rijswijk, Netherlands - Buenos Aires, Argentina				
Schroff, Germany - Warwick, USA				
Shanghai, China - Corona, USA				
Shanghai, China - Corona, USA				
Shanghai, China - Edmonton, Canada				
Shanghai CFS, China - Houston CFS, USA				
Shenyang, China - Black Mountain, USA				
Shenyang, China - Black Mountain, USA				
Shenzhen, China - Delavan, USA				
Shenzhen, China - Delavan, USA				
Sichuan, China - Pasadena, USA				
Subang, Malaysia - Anniston, USA				
Subang, Malaysia - Norcross, USA				
Subang, Malaysia - Carabobo, Venezuela				
Subang, Malaysia - Surquillo, Peru				
Suzhou, China - Anoka, USA				
Suzhou, China - Anoka, USA				
Suzhou, China - Delavan, USA				
Suzhou, China - Hanover Park, USA				
Suzhou, China - Hanover Park, USA				
Suzhou, China - Grand Island, USA				
Suzhou, China - Kansas City, USA				
Suzhou, China - Reynosa, Mexico				
Suzhou, China - Reynosa, Mexico				
Tai Chung, Taiwan - Delavan, USA				
Tai Chung, Taiwan - Delavan, USA				

EXAMPLE

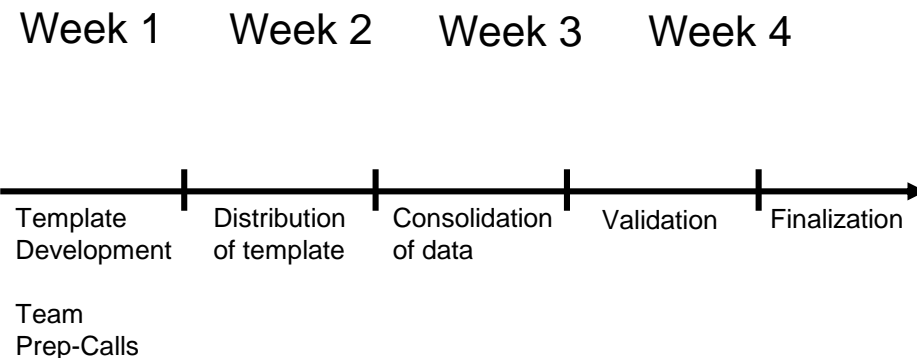
Data Collection

Utilization of multiple sources for data collection is necessary.

Data Categories

- **Lanes** – All origin and destinations are needed (cities, countries, and ports)
- **Transit times** – Current transit times for shipments and expectations for future shipper
- **Number of shipments** – Current and future number of shipments
- **Type of shipments** – Type of container shipments (FCL, LCL, Air)
- **Historic weight** – Total historic weight, weight per shipments, and cubic weight by shipment and land
- **Charges** – Current charges by lane and shipment (e.g. documentation, customs, door-to-port, port-to-port, port-to-door)

Data Collection Timeline



RFQ Structure

A structured RFQ process is crucial for success.

RFQ

- **RFQ Template Development** – Detailed but clear and structured RFQ template helps suppliers provide accurate quotes
- **Online RFQ Tools** – Not typically recommended due to complexity of quotes
- **Target Development** – Individual targets by lane and supplier should be developed based on current rates and quotes
- **Supplier Feedback** – Extensive feedback to suppliers on quotations and explanations of cost calculations is essential for achieving competitive rates

RFQ Template

Lane	Target Price Per Container	Current Quote Per Container	Origin Documentation Charges	Door to Port (OD to OP) Container Haulage Charges	Door to Port (OD to OP) Container Fix Fees (p container)
10.1	\$	\$	\$	\$	\$
10.1	\$	\$	\$	\$	\$
10.101	\$	\$	\$	\$	\$
10.102	\$	\$	\$	\$	\$
10.102	\$	\$	\$	\$	\$
10.102	\$	\$	\$	\$	\$
10.103	\$	\$	\$	\$	\$
10.104	\$	\$	\$	\$	\$
10.104	\$	\$	\$	\$	\$
10.105	\$	\$	\$	\$	\$
10.106	\$	\$	\$	\$	\$
10.106	\$	\$	\$	\$	\$
10.106	\$	\$	\$	\$	\$
10.107	\$	\$	\$	\$	\$
10.107	\$	\$	\$	\$	\$
10.107	\$	\$	\$	\$	\$
10.108	\$	\$	\$	\$	\$
10.108	\$	\$	\$	\$	\$
10.109	\$	\$	\$	\$	\$
10.11	\$	\$	\$	\$	\$
10.11	\$	\$	\$	\$	\$
10.11	\$	\$	\$	\$	\$
10.111	\$	\$	\$	\$	\$
10.111	\$	\$	\$	\$	\$
10.112	\$	\$	\$	\$	\$
10.113	\$	\$	\$	\$	\$
10.114	\$	\$	\$	\$	\$

RFQ Evaluation

Pricing, Customer Service, Transit Times, Terms, Warranty and Financial Strength must be compared and weighted.

Post-RFQ Phase

- **Savings Calculation** – Accurate savings calculation based on consolidated spend data
- **Supplier Capabilities Assessment** – Evaluate supplier capabilities and risk
- **Scenario Development** – Scenarios should be developed based on ideal combination of geographic service, price and shipper capabilities
- **Negotiations** – Final negotiations with selected suppliers to finalize details
- **Contract** – Signing of contracts
- **Savings Tracking** – Development of Lane-ID methodology ensures tracking of savings

RFQ Evaluation

Criteria	Weight	Supplier 1	Supplier 2	Supplier 3
1 Pricing (Variance to minimum)	50%	88%	76%	67%
2 Customer Service (Geographic Coverage, Experience, etc.)	15%	99%	99%	99%
3 Key Expectations	10%	96%	96%	92%
4 Transit Time	10%	90%	94%	91%
5 Terms (Firm Pricing, Payment Terms, etc.)	10%	100%	100%	90%
6 Financial Risk	5%	100%	90%	100%
Score	100%	92.3%	86.6%	80.5%
Ranking		1	2	3

Freight Optimizer

Cost & Capital's freight quote optimizer quickly assesses supplier quotes and can allocate business to maximize savings

Freight Savings Optimizer

Cost & Capital developed a methodology to optimize freight sourcing options:

- Maintain database of all incoming quotes
- Calculate current and future rates for quoted lanes
- Determine best segmentation for optimal RFQ results
- Determine focus lanes and regions to improve savings and optimize RFQ outcome

Freight Savings Optimizer

Rate Savings by Mode							
		AIR		FCL		LCL	
Historical Spend		\$13,609,868		\$13,530,894		\$7,463,004	
		Primary	Secondary	Primary	Secondary	Primary	Secondary
Americas	Supplier	Supplier 1	Supplier 2	Supplier 4	Supplier 2	Supplier 4	Supplier 2
	Savings	\$1,597,746	\$266,977	\$267,601	\$45,003	\$874,120	\$66,620
	Total Savings	\$1,864,723		\$312,603		\$940,740	
Asia	Supplier	Supplier 1	Supplier 3	Supplier 1	Supplier 4	Supplier 4	Supplier 2
	Savings	\$836,618	\$133,931	\$619,500	\$140,021	\$18,334	-\$13,932
	Total Savings	\$970,549		\$759,521		\$4,402	
EMEA	Supplier	Supplier 1	Supplier 2	Supplier 1	Supplier 2	Supplier 1	Supplier 4
	Savings	\$942,048	\$219,928	\$240,999	\$74,278	\$199,035	\$22,339
	Total Savings	\$1,157,976		\$315,277		\$221,374	
Pacific	Supplier	Supplier 1	Supplier 3	Supplier 4	Supplier 2	Supplier 1	Supplier 4
	Savings	\$499,901	\$134,560	\$309,645	\$77,782	\$585,442	\$44,065
	Total Savings	\$634,490		\$387,426		\$629,507	
Total Savings Air		\$4,627,738		\$1,765,640		\$1,796,023	
Savings %		36%		13%		24%	
Total Rate Savings							
\$8,189,401							
24%							

Contract Benchmarking

Cost & Capital uses our freight contract database to benchmark contract clauses and cost items.

EXAMPLE

Item	Score	Current State	Best Practice	Improvement Opportunity
Rate Cards		Rate Card not up do date	Updated Rate Cards	Implement update process
Notice for price increases		30 days	60 days	Extend by 30 days
Fixed pricing		6 months	12 months	Extend by 6 months
Contract length		2 years	2 years	-
Pricing review		3 times over length of contract	1 time over length of contract	Fix pricing review schedule
General Rate Increase (GRI)		Yes, after first year	No	Eliminate GRI
Fuel schedule		Standardized, 30 day adjustment	Standardized, 30 days adjustment	-
Payment terms		Net 30, duties/taxes due upon receipt	Net 60 freight, net 15 duties/taxes	Extend payment terms
Total				

Ranking for the cost item

Current range of performance

Current best practice result

Quantified scope of opportunity

KPIs

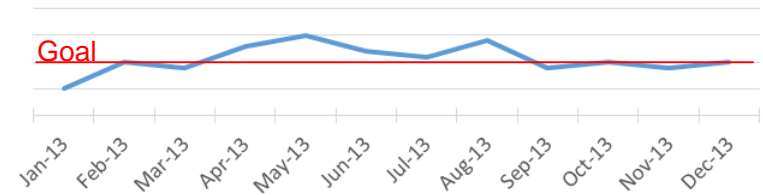
KPI are important to hold suppliers accountable.

Sample KPIs

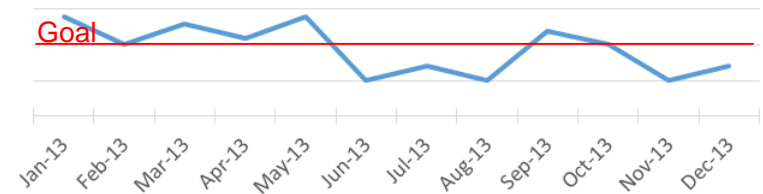
- Lane-IDs for tracking are the foundation for all KPIs
- Savings
- Lead times
- On-time shipments
- Total transit time
- Percent of error-free invoices
- Accessorials as percent of total freight
- Spend per lane

KPI Tracking

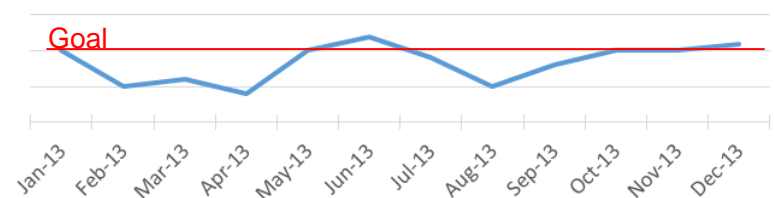
On-Time Shipments



Invoice Accuracy



Accessorials as percent of total freight



Due Diligence

Supplier Financial Stress Analysis

The selection process should include thorough due diligence and a supplier financial stress analysis.

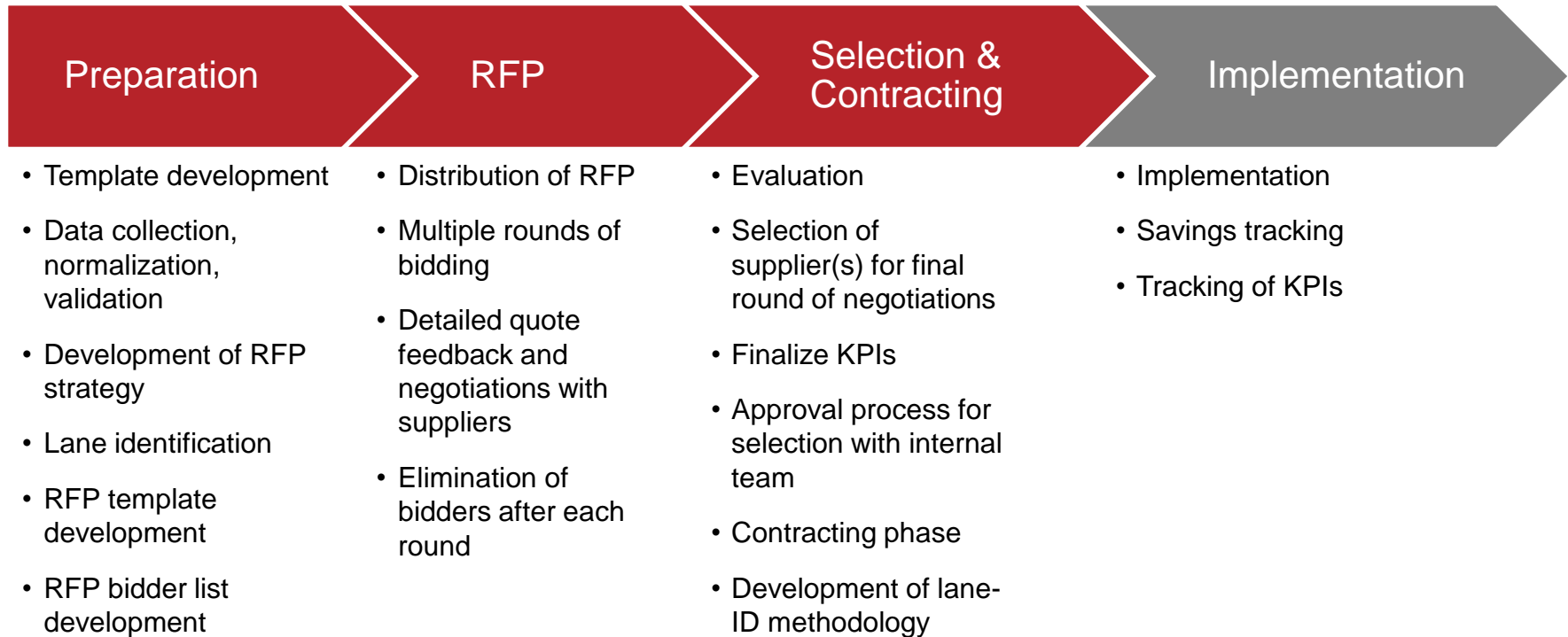
Financial Stress Analysis

	Z-Score	Cost & Capital Efficiency Score	D&B SSI	D&B SER	Overall Risk
Freight Forwarder 1	0.32	2.73	4	1	Moderate
Freight Forwarder 2	1.30	2.65	2	2	Low
Freight Forwarder 3	2.54	5.81	0	1	Remote
Freight Forwarder 4	2.36	6.71	3	5	Remote
Freight Forwarder 4	1.92	7.34	2	6	Remote

- Z-Score: Traditional financial risk model that utilizes Altman's Z-Score, which incorporates market value, working capital, retained earnings. (Range: 0-1 Critical, 1-2 Risky, >2 Safe)
- Cost & Capital Efficiency Score: Liquidity model based on projected cash burn rate compared to available sources of cash for operations. (Range: <1 Critical, 1-3 Moderate, >3 Safe)
- D&B SSI (Supplier Stability Indicator): The SSI score (0 – 10) represents the probability that a supplier will experience significant financial stress over the next 90 days
- D&B SER (Supplier Evaluation Risk): The SER rating (0 – 9) predicts the likelihood that a supplier will seek legal relief from creditors or cease operations without paying creditors in full over the next 12 months

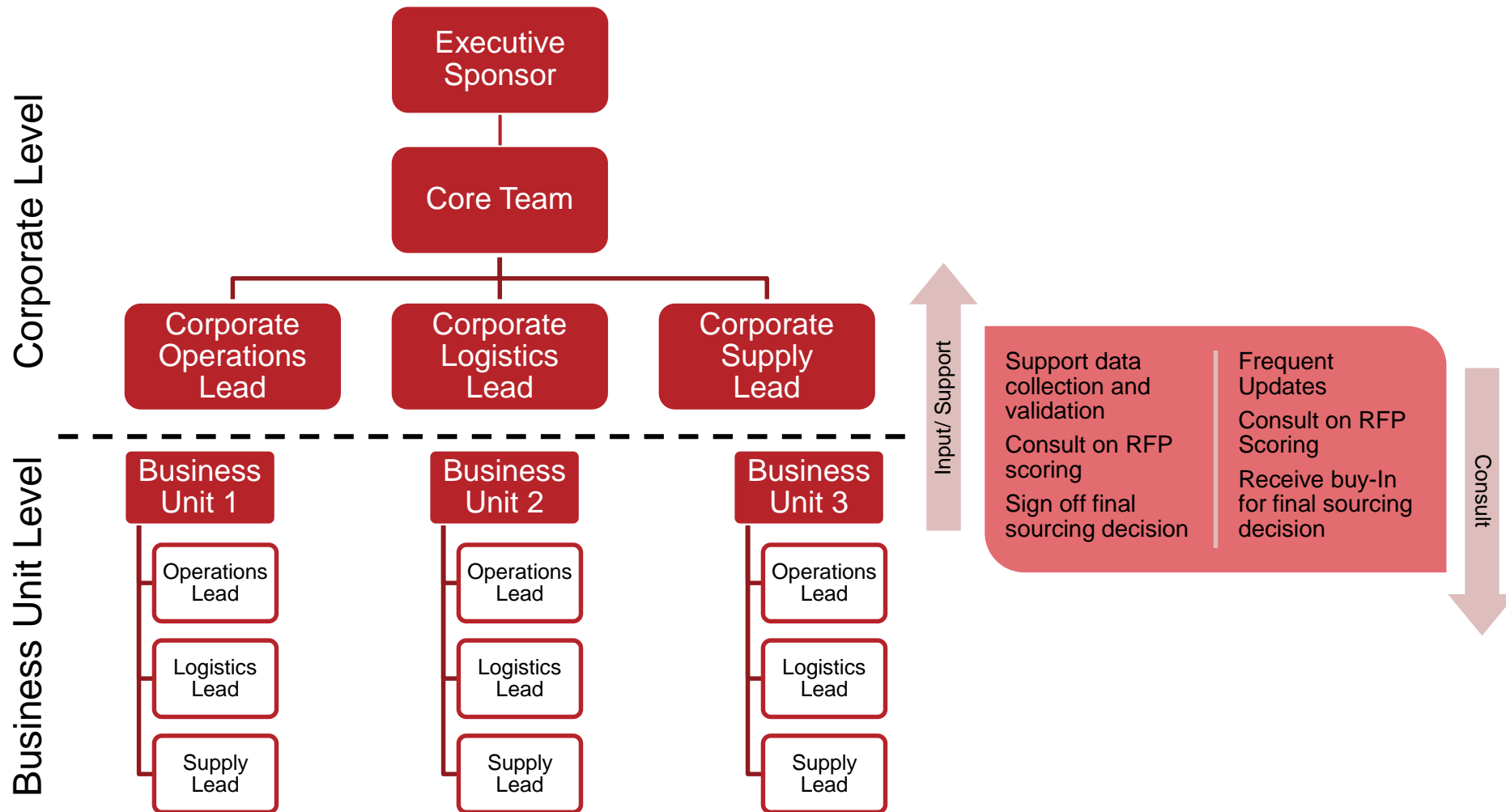
Project Plan

A typical freight sourcing project lasts about 3-4 months.



Project Organization

Clear roles and buy-in from all teams is essential for a successful project.



Cost & Capital Freight Experience

Cost & Capital has extensive freight experience

Cost & Capital Experience

- Cost & Capital has extensive face-to-face negotiation experience with the largest freight forwarders in the industry
- On several engagements, Cost & Capital has developed target methodologies and achieved significant savings
- Cost & Capital never applies a one size fits all solution but tailors the approach to each client's needs

Face to Face Negotiations



Cost Reduction

Ocean & Air Freight – Industrial Manufacturing

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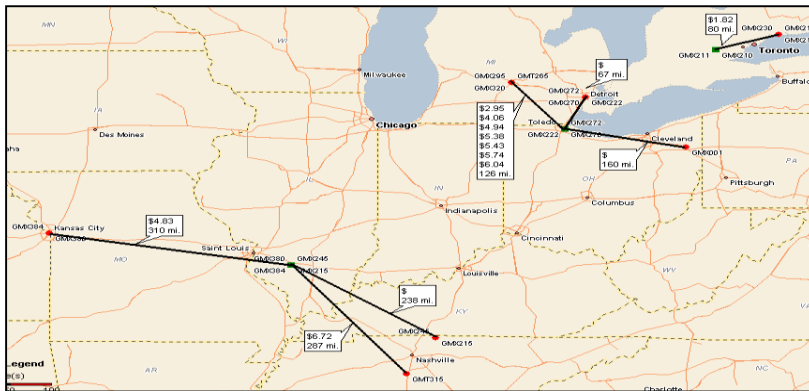
Engagement Overview

- After several acquisitions, the client's ocean & air spend was fragmented and visibility was limited
- The team worked to identify core elements, identified major routes and developed RFP template
- Targets were set based on best-in-class prices, current rates, and quotes to set expectations
- After several RFP rounds and negotiations, the team achieved 25% in savings and reduced the supply base to one primary and one secondary supplier by mode of transportation

Selected Reference Case

Cost Reduction

Truckload Cost Benchmarking – Automotive Components



Engagement Overview

- Inconsistent truckload costs were identified through benchmarking and quote analysis
- The team worked to identify core elements of the truck freight and identified multiple contracts with varying degrees of cost efficiency
- Targets were set based on best-in-class prices to set expectations
- Visibility into the spend resulted in 14% savings on truck freight prices

Cost & Capital

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