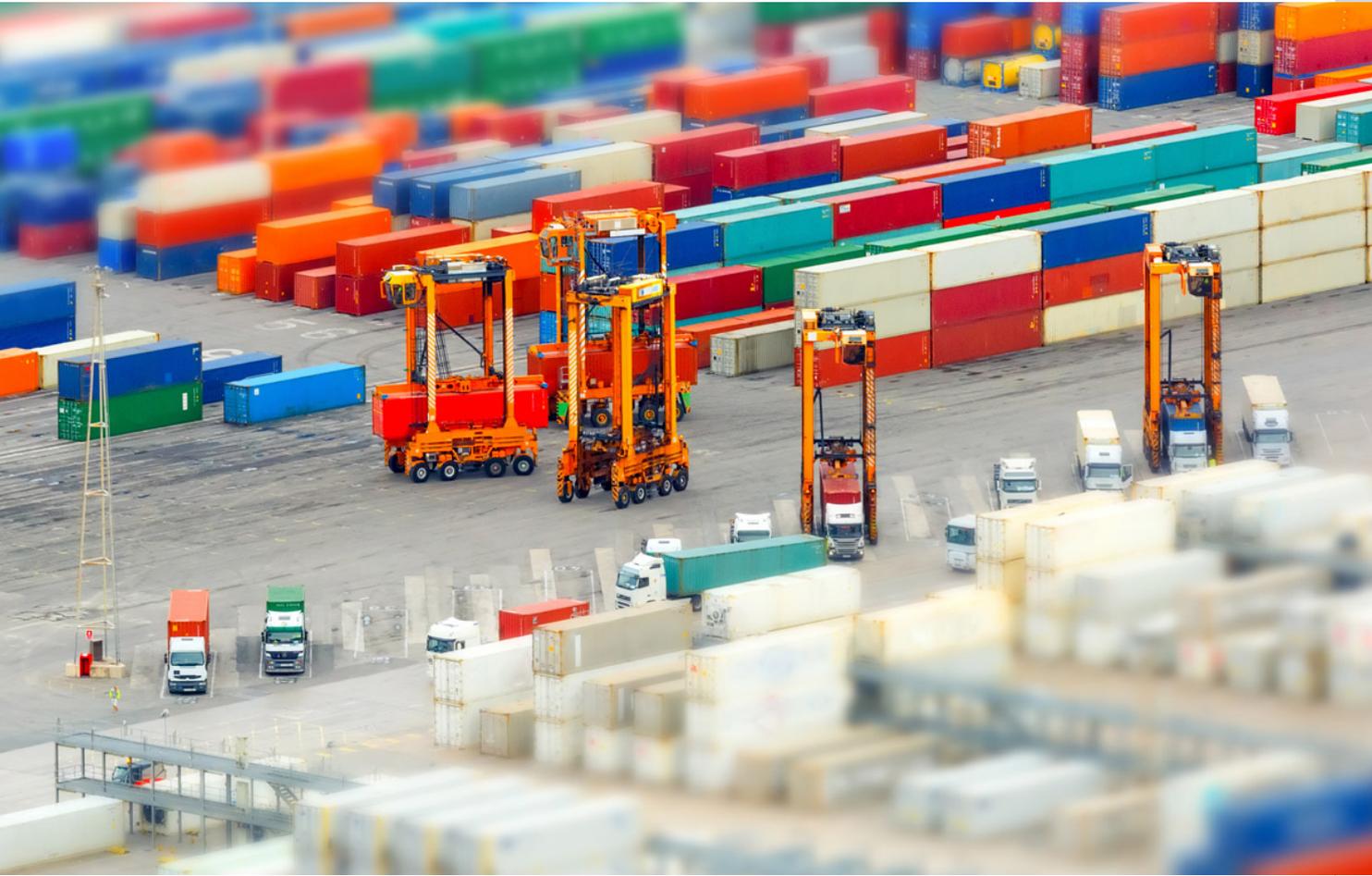


FREIGHT BENCHMARKING: ELEVATING SUPPLY CHAIN STANDARDS

› Basundhara Choudhury

We are in a swiftly changing global environment, with businesses crawling out of the wreck that the pandemic has unleashed upon the world. The uncertainty that loomed large, throughout the year, has driven companies into prioritising agility of supply chains like never before. Amid such a grueling business climate and instability in freight rates, Freight Benchmarking has emerged as a welcome solution for enabling businesses to manage costs, explore trade lane options and much more. In this feature, we explore the scope of Freight Benchmarking in India, underline developments made in the country and understand how it can benefit India's fragmented, volatile logistics and supply chain sector.



An agile supply chain is the necessity of our times, dictated by the uncertainty of the pandemic and the high business losses thereafter in its immediate aftermath.

No matter how big or small a shipper is, freight benchmarking has emerged as an imperative part of supply chain planning.

Irrespective of whether one is a big or a small shipper, benchmarking rates is one practice that will help save money and additionally, help in gaining valuable insights, understand competitive threats and identify new business opportunities.

According to the consulting company, Bain & Company, the objective of benchmarking is to find examples of superior performance and to understand the processes and practices driving that performance.

Companies then reflect upon and improve their performance by incorporating these best practices into their own operations.

WHAT IS FREIGHT BENCHMARKING?

Freight benchmarking is the comparison of the ocean freight costs one pays against the actual real-time contracted market rates.

This process is done through the review of your own freight rate history and the carriers

used, in relation to the current market rates for the specific trade lanes and port pairs.

The Freight market is a dynamic market. In terms of external forces, currently with the shipping and freight market being so fragile and fragmented, customers need to be updated with the changes in the market, understand why things are changing and navigate these changes successfully.

In terms of internal forces, freight companies and shippers need to understand and manage the freight spend-how it is being allocated, to which partners and whether those partners provide the requisite value to the company and the freight spend allocation.

BENEFITS OF FREIGHT BENCHMARKING:

Freight Benchmarking has a plethora of benefits to offer:

Complete analysis - Freight benchmarking allows a complete analysis of spot vs. long-term contracted rates by measuring freight averages over time.

If properly analysed, a freight benchmarking study will provide valuable insight into the competitiveness of your company's actual freight rates.

Identifying Opportunities

The presence of a Freight Benchmark will help shippers identify additional opportunities such as potential partners, new services and/or products as well as expansion into new geographies.

Enhancements - *It also allows negotiation of significant enhancements to carrier rate agreements while also helping in identifying the rates needed to maintain customers and be relevant in the market.*

Understanding the customer base - *Benchmarking will greatly help in understanding, visualising, controlling and standardising accessorial charges and other surcharges across one's customer base.*

Varied applications - *Such benchmarking can be applied across freight business units, local and regional markets, multimodal transport systems, trade lanes to identify and avoid potential root cause issues and allow evaluations of the contracts, service providers and practices, and promote more cost savings.*

Identifying Trade Lanes - *Shippers may also gain a competitive advantage by not only achieving the most favourable freight rates but also identifying trade lanes in which they could further lower costs and reduce time in transit.*

FREIGHT BENCHMARKING SCENARIO IN INDIA: THE ADVENT OF LORRI BENCHMARK

Leading start-up LogisticsNow had recently rolled out the first contracted truck rate benchmark on its platform "LoRRI".

LoRRI Benchmark provides the cost at which one can connect a district or a city, using which truck-type, which transporter can move the cargo, among others. It provides data for 20,000 routes, over 80 truck-types, and over 650 transporters.

Lack of reliable and readily accessible information for contracted freight rates in road transport; absence of national reach, and need for a single neutral platform that provides freight rates and logistics service providers or transporters pan-India necessitated the birth of a freight benchmark in India, says **Raj Saxena, Founder and CEO of LogisticsNow.**

LoRRI Benchmark is deemed to bring transparency and cost efficiency to the logistics industry.

"Built as a national freight benchmark, it aims to synchronise the industry by providing an integrative freight intelligence layer", shares Mr Saxena.

"Industry can drive cost efficiencies of up to 10% by leveraging such a national benchmark. Through its Data driven Business development channel, it seeks to acquire new customers and enable efficiencies through return loads / backhauls. Over time, will enable efficiency including matching demand and supply at scale for 20,000+ lanes across the country and grow the overall logistics market", Mr Saxena states.

The LoRRI benchmark will also prove to be instrumental in building brand recall and brand reputation, he adds.

BENEFITS TO TRANSPORTERS:

The presence of a Freight benchmark can certainly help towards cost regulation and bringing down the unpredictable freight costs that dominate the market.

R R Padmanabhan, Director, Exim Academy says, "Before quoting, the Transporter has to think twice; it is the sentiment that drives the market. If the demand is high, naturally, the prices go up. Freight benchmarking will help rationalise the market to some extent."

By planning and implementing a benchmarking process, shippers will receive valuable data that



"By planning & executing a benchmarking process, transporters can receive valuable data that can be examined and operated in several ways. Such as controlling performance of the shippers in the market, and using it as a competitive advantage, which will enable them to identify and assess new business opportunities."

GAURAV JAITHLIYA

Co-founder and Chief of Strategy and Investments Shadowfax Technologies



can be analysed and utilised in a number of ways such as to determine how well

shippers are performing in the market, can use it as a competitive advantage, can identify and evaluate new business opportunities. No matter the size of the shipper, benchmarking will level the playing field by allowing big and small shippers to compete on the same level.

Gaurav Jaithliya, Co-founder and Chief of Strategy and Investments, Shadowfax Technologies offers his insights on how Freight Benchmarking will emerge as the necessary measure for cost-savings in the present business climate.

"The business environment is rapidly changing, and an agile supply chain is a prerequisite in order to ensure timely deliveries. Measuring the performance of different logistics parameters across the horizontal and vertical segment is imperative to identify and bridge gaps and maintain service levels", he says.

"A freight benchmark will give way to better efficiency in operations leading to cost savings. It has a multitude of benefits for the transporters. It will allow the service providers to have a comprehensive assessment of spot vs. long-term contracted rates by assessing freight averages over time. Benchmarking will also assist in understanding, visualising, controlling, and

standardizing accessorial charges and other surcharges across the customer base”, Mr Jaithliya shares.

THE CHALLENGES THAT WILL ARISE FROM SETTING A FREIGHT BENCHMARK

Despite the plethora of benefits, Freight benchmarking is not the sine qua non for bringing together a fragmented market. For a country as vast as India and given the fragmented, volatile nature of the market, setting a Freight benchmark may not be enough. Mr Padmanabhan echoes these concerns.

“The market dynamics is volatile in a semi organised market in India. Sometimes, the benchmark may be awfully inadequate to reflect the market”, he shares.

In addition to volatility, managing cost savings can also be a tedious affair considering the present scenario with unpredictability and stark supply-demand dynamism running the show. Mr Gaurav Jaithliya underlines these concerns.

“Operating cost savings in today’s fast-moving supply chain industry has become quite a challenge in light of unexpected events, variable



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rates, and ever-changing supply-demand dynamic range”, he says.

“However, irrespective of shipping size, benchmarking rates is one practice that not only saves money but also helps gain valuable insights. Transporters run their business on thin margins and

additional competition might put pressure on their margin profile. Also, as the transporter industry is very fragmented and filled with small fleet owners, the benchmark may expedite the consolidation in the industry and can give rise to large fleet owners. In the future, industries controlled by a few large fleet owners can work together to game the benchmark”, he sums up.

FREIGHT BENCHMARKING AND UNIFORMITY: WILL IT GET ALL THE PLAYERS TO THE TABLE?

Given that India’s logistics and supply chain industry is fragmented and semi-organised, can the presence of Freight Benchmarking alleviate the chaos of the market and instead serve as a nexus that connects the pieces together?

“Most certainly, yes”, affirms Mr Padmanabhan.

“It would help supply chain planning better. Freight benchmarking coupled with freight intelligence would go a long way in cutting down Logistics costs.”

Indeed, as a platform that will develop sector-specific indices to estimate the logistics costs, the presence of a Freight Benchmark may go a long way in checking exorbitant freight rates.

Mr Jaithliya underscores how freight benchmarking can lead to the creation of a level playing field in the sector even though the process will take time to bring all the players to the table.

“Freight benchmarking involves assessing the total of time that a product takes to reach its ultimate customer, accelerating the flow of material within the supply chain, checking the storage, shipping operations, and the cost-effectiveness of logistics operations. From loading/ offloading, warehousing, transportation to packaging, all factors are crucial in logistics and need to be evaluated against the standard practices to remove any financial loopholes or human error. Especially, in times of economic hardship, it becomes challenging for logistics companies to maintain their performance and costs”, he shares.

“The ever-growing fuel prices have also turned up the freight rates- which are influencing their business tremendously. Though freight benchmarking will definitely take time to bring together all the players to the table, through this initiative, a level playing field can be created in the sector.”

Mr Saxena talks about it in the context of the LoRRI benchmark.



“We view LoRRI benchmark as a directional input which helps remove ambiguity and chaos in the market, for the market to be unshackled and grow, while supporting all stakeholders.”

RAJ SAXENA
Founder & CEO
LogisticsNow



“Benchmarks exist in many of the developed markets and have been a part of the journey as logistics markets mature. Rather than nexus, we view LoRRI benchmark as a directional input which helps remove ambiguity and chaos in the market, for the market to be unshackled and grow, while supporting all stakeholder”, he says.

In the absence of a single voice of truth in the industry, demand and supply both are constrained and their matching is inefficient at scale. This will change over time as terms, conditions, truck types and other factors are becoming standardized for organised players and the industry is poised for growth in the coming years.

TO END WITH

Freight Benchmarking can enable shippers to gain a better understanding and insight into the markets they are serving, through key analyses on an ongoing basis.

Furthermore, by benchmarking, shippers will be able to gather data to determine if they are receiving the best rates as well as utilising the right carriers and ports. Also, they will likely gain a better understanding of contract terms.

Despite the challenges for a Fragmented market like India, freight benchmarking can be the answer to shippers who may also gain a competitive advantage by not only achieving the most favourable freight rates but also identifying trade lanes in which they could further lower costs and reduce time in transit. 