

Exploit Benchmarking Services to Help Calibrate Logistics Costs and Performance

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This research helps logistics professionals understand where to get and how to use logistics-specific benchmark data, the benefits and drawbacks of supply chain benchmarking providers, and how to identify the best provider for their benchmarking requirements.

Key Findings

- Logistics professionals frequently seek two very different types of benchmarking data. One is used to compare their transportation rates against the market, and the other is used to compare their supply chain performance against the performance of other companies using logistics-specific key performance indicators (KPIs) or metrics.
- Specialized services firms offer different types of logistics benchmarking. The details about their database size, what they cover, geographic regions they support, industries they serve and the prices they charge can differ dramatically.
- In transportation, there are two different methods for collecting data — through the use of a consortium of voluntary participants, and exploiting cloud-based technologies to farm data from operational transportation management system (TMS) applications.

Recommendations

- While companies want to benchmark specific logistics metrics, the ultimate goal should be to improve the end-to-end performance of the supply chain, rather than just logistics. Keep in mind that higher stages of supply chain maturity require companies to look at interdependencies and make intelligent trade-offs across different metrics that often span departmental boundaries.
- Recognize that you may have multiple supply chains with different requirements. Be sure to benchmark against supply chains with matching characteristics versus just settling on company names as comparatives. Capturing the right level of granularity, completeness and accuracy in the data can be a large inhibitor to a successful benchmark. Have your IT organization work closely with the benchmarking services firm to understand the right level of data to extract and submit to achieve meaningful results.

- Use benchmark information judiciously, and make sure you understand the context of the comparative data and how this might or might not relate to your business.

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Analysis

"My management and I are very interested in comparing our logistics performance against our competitors." "The CFO thinks we're paying too much for transportation, but I think we've negotiated well. What are the going rates in the market?" Do these phrases sound all too familiar?

Logistics executives often face the challenge of defending current performance and costs. The solution, however, is not as easy as just signing up for a service, sending in your data and pulling reports. We find it more important to approach the benchmarking problem with a well-defined design — understand what are you measuring and why and what you will do with the data once you get it.

As stated earlier, logistics benchmarking bifurcates on two dimensions: transportation rate benchmarking and logistics performance benchmarking over logistics-specific KPIs. Not all benchmarking services firms supply data for both or offer the same coverage.

While this research highlights a set of firms that offer specific logistics benchmarking services as an identifiable offering, there are other types of firms that embed some type of benchmarking as part of a larger service offering or custom consulting engagement.

Transportation Rate Benchmarking

"Am I paying too much for freight?" Good question, but the answer may not be that easy to determine. Benchmarking services can offer comparisons of freight costs by lane, service and mode, but not all services are the same.

For many industries, transportation costs continue to be one of the greatest of all logistics costs. A transportation rate benchmark can help provide an understanding of what rates you should pay for your transportation and provide facts to help decisions when procuring transportation services. It can also help you determine whether you should put lanes up for bid or stay with your current providers.

While superficially it might appear that benchmarking transportation rates is simple, in fact, there are challenges to getting data that you can use to truly compare because the factors involved in transportation vary by more than cost alone. So, it's important to be able to ensure data will provide a like-to-like comparison. For example, even just within truckload in North America, there can be differing levels of service and quality, temperature requirements (e.g., reefer), special equipment requirements (e.g., flatbed, bulk) and, of course, specific region-to-region coverage. Finding a database with enough data to match up to all of your own lane demographics and additional requirements could be challenging. That challenge gets that much more difficult when you add other modes and start considering regions across the globe. Picking the right benchmarking service will be important to achieving the outcome desired.

Logistics leaders will generally agree that the procurement of transportation services is not and should not be solely based on cost. Most companies, especially those with higher volumes or service-level requirements, work strategically with carriers to find compatible lanes for their asset bases whereby they can get assured capacity at desirable rates. Carriers have to agree to haul some more challenging or less desirable freight for their customers in order to gain volume in highly desired lanes. Most logistics managers are also aware of so called "paper rates" as well, where a carrier has bid an aggressively low price, but then rarely comes through with load acceptance. So

it's a process. Still, executives like to have some assurance that the transportation costs are in line to one degree or another with the market. For that, transportation rate benchmarking can play a valuable role.

The transportation rate benchmarks can be made on historical data, where the rates are benchmarked against rates historically paid at the same routes for the same mode. This is a well-established and traditional way of benchmarking. Another option is to benchmark against the current market conditions (i.e., what levels the market rates for the client's most important routes and modes should be right now). The main advantage with this method is that it will offer a more up-to-date picture of potential savings when modeling future transportation spend.

See Figure 1 for information about the different services firms that offer transportation rate benchmarking. Additional information about each company is provided in this research in the About the Providers section.

Figure 1. Transportation Rate Benchmarking Firms

Service Provider	Dataset Distribution				Freight Spend Benchmarked	Primary Modes Supported	Cost per Benchmark
	NA	EMEA	APAC	LA			
CLX Logistics	●	●	○‡	○‡	\$7 billion in spend	FTL/Truckload (Dry van, Bulk, Hazmat), LTL, Rail/Intermodal, Parcel, Ocean, Air	\$6,500 to \$30,000

‡ - Ocean mostly, some air and parcel

Source: Gartner (November 2013)

Logistics Performance Benchmarking

"What are logistics costs as a percentage of sales at other companies like ours?" "What is the mean and best-in-class score for the shipped on-time and in-full (OTIF) measure for other consumer packaged goods (CPG) companies?" "What is the typical warehouse order cycle time at other industrial manufacturing companies?" These are common questions logistics executives want to know to compare their own performance against that of other companies. The goal should be to understand the priority of improvement initiatives or to know where they have a competitive advantage.

There are a multitude of metrics in logistics that one can measure and compare in a benchmark, so it's important to think about what you want to do with the data once you get it back. If you benchmark a particular metric or set of metrics, what will the results tell you? Thinking about desired business outcomes and what metrics indicate success or problems in achieving those outcomes is a good place to start (i.e., "What does good look like?"). That way, you are measuring yourself on the things that make your business perform better.

About the Providers

CLX Logistics — Formerly known by its subsidiary brands ChemLogix and VistaLogix Global, it has provided freight rate benchmarking and a full set of logistics services in North America since 1997. In addition, CLX Logistics acquired European-based LHC Consulting in 2012. LHC, now known as CLX Logistics Europe, has been involved in benchmarking European and ocean freight since 1998. Clients contribute their data as part of a rate comparison project with which CLX Logistics can compare transport rates at the lane level. CLX Logistics also offers a number of related transportation services such as global SaaS TMS, carrier bid and procurement services, freight bill audit and payment, and brokerage and network analysis (www.CLXLogistics.com).

How to Select the Provider

Each vendor has different capabilities regarding its metrics definitions, validation and cleansing processes, the number of support staff to provide assistance, and level of supply chain and logistics-specific expertise. Before embarking on a quantitative benchmarking study, you must understand what you are getting into, the costs involved, the effort required on your part to collect and input the data, and what you will get as deliverables.

When looking into a benchmarking service, consider the following elements.

Expertise

Check the expertise of each potential benchmark provider in two categories. The first category is training and readiness. The provider should train your team and prepare you for the benchmark, particularly regarding data definitions, accuracy and scope. The second category is logistics knowledge. The provider needs more than a basic level of logistics knowledge to validate the data, identify data outliers, fix the data, and help identify a comparable peer group and dataset for reporting purposes. What is also important to question is the ratio of support people to the number of benchmarks they conduct each year. This will give you a sense of how much bandwidth they have for validation, and to ensure quality of the data.

Scoping and Peer Group Definition

Get a clear indication of the provider's level of guidance and its requirements in terms of scope and peer group definition. Does the provider guide you on whether you should collect and enter data at the total company/division level versus for a specific logistics organization, or whether it will be for your North American versus Asia/Pacific? Does it distinguish between make-to-stock and make-to-order supply chains? When choosing companies to include in your peer group, how will you be able to ensure that each of them entered data for the same scope you did?

Deliverables

What deliverables do you need for your program, and how usable are the ones offered by the benchmark service provider? To make this decision, ask for samples of reports or online options and understand the flexibility in slicing and dicing the data and selecting the peer group for comparison. When looking at deliverables, also look into depth and breadth of data for your selected peer groups, industry splits, age of data, reliability of the data and the method for avoiding potential risks of various approaches.

Data Quality

Data validation is one of the most critical elements; you should ask the provider what levels of validation it provides. All the providers offer some basic automated checks and balances, but this is

not enough to ensure high-quality, comparable data. Good benchmark data requires additional levels of validation and harmonization, typically by people with deep logistics expertise who are manually and proactively reviewing the data for anomalies.

Other Services

While some providers focus solely on benchmarking, others use benchmarking as a part of a larger program, which can range from ad hoc benchmark studies and peer networking to full consulting services. Consider the total package. The consulting firms may offer benchmarking as a no-charge value-add to build a relationship that leads to larger projects.

Other Relationships

Ask the provider if some of their data is gathered based on relationships with other providers. While this may broaden the dataset, it may also compromise the validity and accuracy when merging datasets with potentially different data definitions.

Renewal Rate

If the business model of the provider is to encourage clients to subscribe and enter data annually, ask about its renewal rate.

Total Cost of Benchmarking

While lower-cost options are appealing, remember that the total cost of a benchmark is about more than money. Understand exactly what each provider offers in data quality, scope and peer group options. This will help you figure out which provider will suite your specific benchmarking need. Sometimes going for the lower-cost option, recognizing the potential quality or scope issues, but using the data merely for a directional view of your peers, is sufficient. If you understand the strengths and weaknesses of each provider, you can determine what data is most relevant to your decision-making process.

How to Get the Most Out of Your Benchmark

Before embarking on a benchmarking project with any provider, consider four factors to keep your benchmark process on track:

Plan the Benchmark as a Project

It takes time. Understanding the data definitions and collecting and checking the data prior to entry are very time consuming, particularly if done as a one-off exercise. Companies that perform a benchmark study annually, and have automated their data collection, find the process easier.

Try to outline the steps that will deliver successful results from the time, effort and cost invested, knowing that the steps will be different for KPI benchmarks versus transportation rates. Consider a plan such as:

1. Determine how the benchmarks will be used (i.e., to set strategy, performance targets, understand gaps).
2. Define the scope of the benchmarking effort and ensure there is executive sponsorship.
3. Engage a firm that has trusted, reliable benchmarks as well as expertise to help you understand the results and take the next steps for improvement.
4. Appoint a benchmarking coordinator to help collect company data and ensure consistency across appropriate functions, geographies and business units.
5. Schedule a series of internal meetings to discuss progress.
6. Ensure scope alignment, accuracy and completeness of data prior to submitting.
7. Schedule formal meetings to have the benchmark provider go through the benchmarking results.

Look for Like-to-Like Comparisons

To avoid a mixed basket of comparative data, make sure the people who are collecting the data — often different than those who selected the provider — understand the provider's data definitions thoroughly. It's worth the time.

For freight benchmarking, collecting current transactional, load-level detail is key. The ability to include as many characteristics of the load as possible is vital to preparing accurate benchmarks (e.g., equipment type, single vs. team, contract vs. spot rate, etc.). Validating the data and removing or adjusting bad data increases the accuracy of the results.

Verify Scope

For some services, companies will enter partial data for select functions, rather than a full set of end-to-end metrics. This is problematic because metrics have interdependencies that affect how you view the comparative data. For example, companies make trade-offs between cost and service. Forecast error and supplier performance can have a direct impact on inventory levels. Unless a true end-to-end supply chain benchmark is done for the full scope of the benchmark, these interdependencies will be unclear and correlations cannot be made from the data.

Benchmarking transportation rates is about determining which freight characteristics truly drive cost (i.e., characteristics such as distance, geography, seasonality, equipment and service). Analyzing rate and cost data without delineating it along these factors can lead to a one-size-fits-all approach, which will be misleading. Sophistication in the data validation and mathematical representation of rates is key to successful outcomes.

Define Frequency

Decide how frequently you need to benchmark. To diligently and accurately collect the data for a benchmark is time consuming. Companies do report that it becomes easier after the first time,

particularly once they have developed a repeatable process. We found benchmarking metrics most useful to support a major transformation or at key milestones.

Conclusion

Logistics executives and decisions can be influenced by peer group metric benchmark data and market rates for transportation. Given the significance of the information, it is important to understand the differences in scope and quality of data available. Make a benchmarking partner selection with your eyes wide open, and consider using a combination of data from different providers.

Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"Apply the Supply Chain Maturity Model to Drive Logistics Excellence"

"The Hierarchy of Supply Chain Metrics: Diagnosing Your Supply Chain Health"

"Metrics and Measurement Maturity: It's All About Improvement"

"Select the Right Metrics to Manage Top Performance from 3PL Distribution"

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