REDUCING GLOBAL LOGISTICS COST WITH BENCHMARKING AND SHIPPING CONTAINER PRICING TRANSPARENCY

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Bryan Ball, Vice President and Group Director,
Supply Chain and Global Supply Management Practices

Report Highlights

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Best-in-Class companies have 95% of their orders from international suppliers complete and on time.

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Best-in-Class companies shown increase that is 5.5% less, than All Others in their total landed costs.

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Best-in-Class are 57% more likely to have access to trade related content such as tariffs and HTS codes than All Others.

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It has been reported that shippers have seen savings of 20%–50% of the container costs through the Xeneta benchmarking process depending on their size.

In this report, we examine Best-in-Class companies' performance on their global logistics costs and how benchmarking and pricing transparency for shipping containers can improve their global cost structure.

Today, well over 90% of all non-bulk cargo is shipped in containers worldwide with the shipment volume being measured in the hundreds of millions of containers.

The multi-modal container company, as we know it today, just turned 60 years old on April 26, 2016, when shipping innovator and entrepreneur Malcom McClean shipped 58, 35-foot trailer vans, later called containers, from the Port Newark-Elizabeth Marine Terminal, New Jersey, to the Port of Houston, Texas. Today, well over 90% of all non-bulk cargo (see sidebar) is shipped in containers worldwide with the shipment volume being measured in the hundreds of millions of containers. This leads to the realization that container prices are a logistics cost that companies should be managing closely for potential opportunity. Even for large shippers, who already negotiate directly with container companies, rather than through brokers or forwards, the question is how do they know where they stand on the contract rates they are paying? *Therein lies the challenge*.

As large as the shipping container market is, historically there has only been "after the fact" static data to benchmark pricing against. There has never been transparency in the marketplace allowing participants to compare their quoted price to the existing market price in order to benchmark where they stood. That lack of transparency is about to change.

We first consider the capabilities that Best-in-Class companies have in place to minimize their global logistics spend and trade costs compared to their competition, and then review how a new benchmarking solution is significantly changing the container pricing landscape with dramatic results.

What's Keeping Supply Chain Leaders Up at Night?

All Supply Chain Leaders are concerned about escalating supply costs while dealing with customer demands and increasing complexity. The cost pressure is most apparent in the Retail space where companies must combat the eCommerce wave. However, regardless of the industry, cost is always number one or two on the list, as shown in Figure 1 which compares how Best-in-Class companies prioritize the pressures they face compared to All Others (see sidebar for Best-in-Class definition.) Although faced with the same conditions, the Best-in-Class are much more concerned about the increasing complexity of security regulations (48%) and rising supply chain management costs (40%). Part of the concern over security regulations is that they also result in increased costs to address the rising security regulations. The Best-in-Class also cite growing global operations and escalating service demands from customers as additional pressures.

Best-in-Class Definition:

- Best-in-Class – Top 20%

- Industry Average – Middle 50%

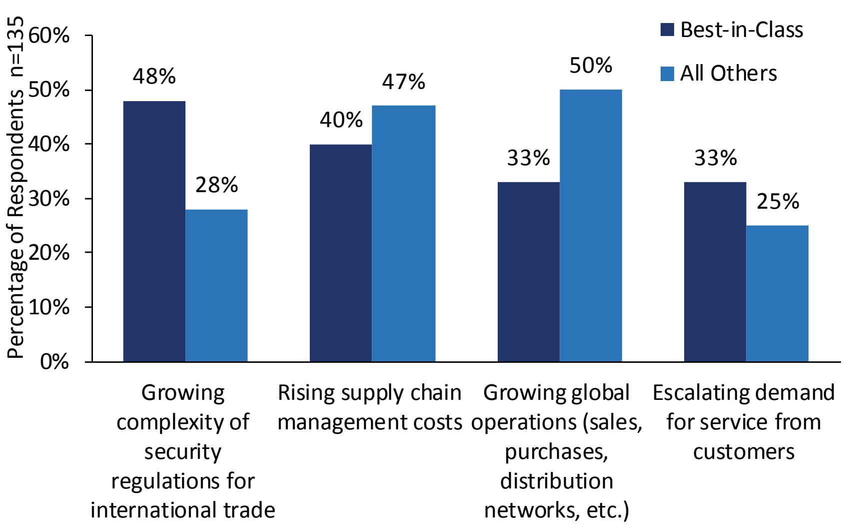
- Laggards – Bottom 30%

- All Others – Bottom 80% (sum of Industry Average and Laggards)

Non-bulk cargo refers to cargo that is packaged in some form vs. Bulk, which refers to unpackaged cargo, typically a commodity that is transported loose in large quantities in a liquid or granular form such as oil, grain, coal or gravel, and is often poured from a spout into a ship's container hold.

Figure 1: Business Pressures Facing Supply Chains

Source: Aberdeen Group, December 2013



Source: Aberdeen Group, May 2016

All Others cite the complexity of global operations as their number one pressure, with cost being second, which indicates they are finding it difficult to manage and cope with the complexity of global operations. They focus internally on managing operations, while the Best-in-Class identify external forces that must be dealt with and not left to chance.

Best-in-Class Demonstrate Superior Performance

With the introduction of the Best-in-Class, Table 1 shows the performance metrics used to define the them compared to All Others.

Table 1: Best-in-Class Maturity Matrix

Performance Metrics	Best-in-Class Top 20%	All Others Bottom 80%
Percentage of perfect orders (complete and on time) received from international suppliers	95%	77%
Percentage perfect orders (complete and on time) delivered to international customers	96%	75%
Percent change in average trade compliance costs relative to declared shipment value on imports/exports (labor, fees, duty, tariffs)	-1.4%	9.2%
Total landed costs per unit of import/export handled	.6%	6.2%

Source: Aberdeen Group, May 2016

From Table 1 the Best-in-Class show much stronger capabilities in supplier management of inbound transportation, as evidenced by the their 24% inbound “perfect order” performance for international suppliers. Their performance on international deliveries is 28% higher than All Others indicating that their operations are under strong control and their house is in order vs. their competition.

The Best-in-Class demonstrate a 10.6% advantage in trade compliance costs which is a strong indicator of effective global trade management. On the cost side their increase in total landed cost is 5.6% less than the competition, further supporting control of the global operations. The Best-in-Class were far less concerned with global operations complexity, whereas All Others ranked it at the top of their list.

Global Trade Management (GTM) Capabilities

We now turn to the specific capabilities of the Best-in-Class from a global trade and transportation cost perspective. Figure 2 provides the core GTM capabilities that the Best-in-Class companies have in place compared to All Others. These supporting capabilities are key to the international seamless flow of goods. For every core capability the Best-in-Class have a clear advantage which is why their compliance and cost metrics are so much better. Of the Best-in-Class, 77% have access to trade-related content such as tariffs and HTS codes, which is 57% more likely than All Others. This makes them faster and less likely to misclassify their product.

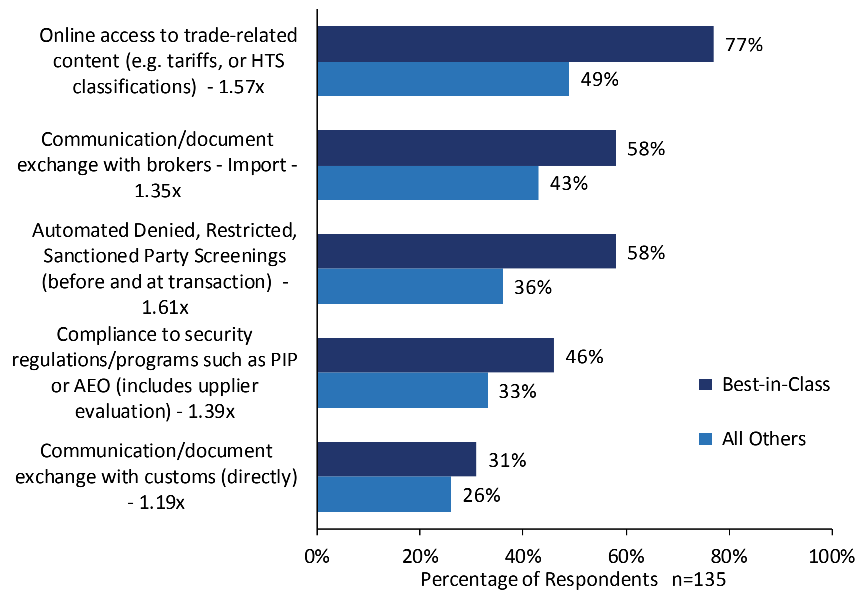
The Best-in-Class are 61% more likely to have automated screenings against restricted, denied and sanctioned lists, which is another supporting reason for the higher compliance and on-time percentage performance. They are also 39% more likely to have compliance to security regulations and policies, which was one of their top pressures. Even though they are ahead of their competition by over 50%, only 46% are likely to have this capability in place, which adds to their concern over increased security regulations.

➔ Read the full report, "Leveraging Global Trade Management (GTM) for Frictionless eCommerce"

➔ Related Research " Best Practice: Close the Loop on Multi-National Transportation Procure-To-Pay"

Communication and document exchanges with brokers and customs organizations is an advantage for the Best-in-Class and a heavy contributor toward on-time delivery.

Figure 2: Global Trade



Source: Aberdeen Group, May 2016

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Container Cost Management and Transparency: History of "Why" and Where the Industry is Headed

Given the nature of an international pricing market, the challenge for shippers is gaining visibility to how quotes compare to the rates received by other companies.

We now turn our attention to container pricing where all companies can use some assistance. The multi-modal container industry has grown significantly since that first shipment from the port of Newark, NJ to Houston, TX. There were many prior forms of containerization with varying degrees of success, but the principle of driving greater efficiency in time and costs were always at the heart of the growth.

As standardization in container handling and marking improved, lead times were dramatically cut due to the convenience of intermodal shipments facilitating the flow of products. Delays from ship to transport have been minimized once the unloading and sorting has occurred. There were also dramatic shifts in ports to handle these containers, away from piers that required 20 men to offload goods, to deep water ports with cargo cranes to support container ships This started the evolution in managing shipping containers, which rely upon documentation, handling and processing of containers from the "country of origin" through multiple ports and modes of carriage to their final destination point as a commodity unit.

Container Pricing Process - Historical Perspective

As the industry has evolved, for many companies the cost of the shipping container is often handled by their broker and/or quoted as part of the total price of the shipment, if they have not directly contracted with a container company. Given the nature of an international pricing market, the challenge for international shippers is gaining the visibility to understand how their quotes compare to rates received by other companies. Getting a price quote is not the issue, understanding the best rates for a given lane is the question.

We asked this question of Bjorn Vang Jensen, the Vice President of Global Logistics for Electrolux, who explained that without complete transparency to pricing on an open market exchange, the only way to get a real assessment has been to benchmark against other companies who provide information on their contract rates as part of a benchmarking "club" (as he identified them) exercise. Historically, this was done against static historical data available only a few times each year. Being actively engaged in managing their container pricing, he found that his company usually graded out to be "at or near the top" against all companies involved in the benchmarking "club" that participated in the process.

Although Electrolux's top line has been relatively unchanged for the last 10 years, their global shipping containers have increased over twenty fold from approximately 8,000+ containers per year to close to 180,000 containers per year, which Mr. Vang Jensen attributed to the real impact of globalization.

Mr. Vang Jensen was also quite optimistic in sharing the recent entry into the market by *Xeneta*, a solution provider that has created an online real-time benchmarking exchange solution.

Electrolux

Electrolux is a $19-$20 Billion company that manufactures and supplies home appliances to major retailers worldwide. Their flow of products come from low cost countries, to their factories for manufacturing, and then to the major retailers worldwide. Although their top line has been relatively unchanged for the last 10 years, their global shipping containers have increased over twenty fold from approximately 8,000+ containers per year to close to 180,000, which Mr. Vang Jensen attributed to the real impact of globalization.

In order to remain competitive as a global company, their supply base for components and raw materials have shifted to countries with lower costs, and their major customers have expanded into new markets, further increasing their international shipping volume. Their annual ocean freight spend is currently down about 25%-30% year-over-year with the recent collapse of container pricing rates in the last nine months, resulting from an over capacity condition that has dropped rates as much as 25%. Container costs alone represent approximately 10% of their total Electrolux logistics costs, but they could easily be higher if it were not for the constant vigilance and benchmarking efforts of Mr. Vang Jensen and his team.

The Future

Even though Electrolux is in one of the top positions due to their past benchmarking practices, Mr. Vang Jensen was quick to point out the inherent weakness underlying the use of static data. He was also quite optimistic in sharing the recent entry in to the market by ***Xeneta***, a solution provider that has created an online real-time benchmarking exchange solution allowing companies to input their rates and compare them against current contracts in relation to the high, low and average contract pricing. It also allows companies to model on a “what-if” basis to understand their potential savings from leveraging pricing opportunities. The solution presents long and short term contracts across over 60,000 different port-to-port combinations.

Xeneta helps shippers by showing them the actual pricing they can use when negotiating their rates.

The value of having real-time pricing information allows companies to compare rates when conditions change. Electrolux has about 30% of their container requirements come from demand that is incremental to their annual contracts as a result of new products, supplier changes, new customers, and other circumstances that might drive changes in their container demand. Being able to benchmark these incremental changes as they occur enables a strong competitive pricing profile. Mr. Vang Jensen pointed out that an exchange solution like Xeneta presents unrecognized savings opportunities even for companies like Electrolux who are on top of their rates.

Mr. Vang Jensen made it clear that “The value of benchmarking with Xeneta does two things that are extremely valuable as part of the benchmarking process. First, it identifies any situation where they might be leaving money on the table, and secondly, it acts as confirmation of the strength of their position compared to the current market. Xeneta’s presentation of the data and drill down capability make the solution easy to use for shippers at all volume levels because it provides a dynamic snapshot of the market at any point in time.” Xeneta helps shippers by showing them actual pricing, which they have never had before, so they can use when negotiating their rates.

Expectations with Xeneta

Xeneta, who tracks data on over 60,000 routes, has indicated that they have had large shippers identify savings as much as 50% against their current contract pricing when they first engaged with their benchmarking solution, and smaller shippers saw as much as 20% savings. Having data to support lower pricing availability creates a strong “going-in-position when negotiating contracts.

Xeneta completely changes the benchmarking process with its current online view of contract pricing (long term and short term), and the drill down capability to understand high, low, and average pricing.

Contract negotiations have historically followed a cycle that began with the publication of rate data in the October/November timeframe that gave companies a starting point to negotiate pricing directly with carrier providers, albeit from static data in cycle as follows:

- Negotiations begin in November with a tender offer
- Real discussions start 1st of Jan and round 1 bids finalize on or around Feb 1st
- Round 2 begins at that point and things begin to solidify
- Large Retailers in the U.S. really begin at this point
- Net result is that contracts go into effect from May 1st to April 30th of the following year
- November/December tends to be the peak time of shipments so it is not a good move to negotiate rates at the peak volume
- To some degree, because information has traditionally been fairly static, the timing of negotiations and the base pricing has come from historical data, which has some lag time
- The value of Xeneta, according to Mr. Vang Jensen is to introduce the dynamic pricing *visibility* of the data as well as the transparency
- 10 years ago what little rate information came from 2 trade magazines with data that may have been 3-6 months old

"Xeneta completely changes the benchmarking process with its current online view of contract pricing (long term and short term), and the drill down capability to understand high, low, and average pricing."

The Benefit of Using the Xeneta Solution for All Companies

When asked if there was a minimum amount of container spend that companies might need before they would see a real advantage, the response from Mr. Vang Jensen was that "Anyone with container usage anywhere in the range of 75,000 and up per year *should* be negotiating their container pricing directly. But companies of any size, even small shippers at the 2,000-3,000 containers per year volume level, can take advantage of the benchmarking information provided to use in their negotiations with their brokers or partners."

There are also tiers for container usage that heavily influence contract rates and availability (not a current concern in the over-capacity market). Electrolux has a healthy volume at 180,000 teus (twenty foot equivalent units) annually, but there are other shippers, such as automotive and consumer electronics companies, that are typically in the range of 300,000 – 500,000 per year. Some of the largest retailers may reach 500,000 to over 1 million containers per year. Knowledge of existing contract rates is invaluable at the negotiating table, whether dealing directly with container suppliers or dealing with brokers and forwarders.

Summary and Key Takeaways

Best-in-Class companies have a definite advantage in their global trade management capabilities, but the ability to successfully and consistently negotiate favorable-to-market contract pricing with container companies results from the ability to benchmark their pricing against the market.

Xeneta is a new approach to the benchmarking process and provides an on-line, real-time exchange view of existing contract pricing and how it compares to the market. It indicates the average, high and low rates, by contract type, for a given lane, in order to provide feedback and highlight where opportunities for improvement exist. All companies, need to know where they stand on their container pricing lest they give up the hard earned savings they may have gained through their global sourcing and trade management capabilities. Whether a company has the volume to negotiate directly with container providers or work through their brokers and forwarders, knowledge of existing market prices will certainly help companies drive their container costs down.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
Leveraging Global Trade Management for Frictionless eCommerce; March 2016	*Domestic vs. International Supply Chain Performance & Investment Disparity*; November 2014
Omni-Channel Global Trade-The ROI of Foreign Trade Zones and Free Trade Agreements; September 2015	*Advancing Global Trade: Foreign Trade Zone Solutions*; April 2014

Author: Bryan Ball, Vice President and Group Director, Supply Chain and Global Supply Management Practices (bryan.ball@aberdeen.com)

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