# Using SCI to evaluate the efficacy of transportation spend

FreightWaves SONAR Supply Chain Intelligence (SCI) platform is designed to evaluate the effectiveness of a company's freight spend by:

1. Benchmarking its current or target rates to the market and/or peer group.
2. Showing where the most leverage exists – revealing lanes where carriers have fewer options and have more reason to price for utilization rather than margin.
3. Showing where the largest risks exist for route guide failure and increased spot market exposure – lanes where a shipper is priced below the market and carriers have multiple options and reasons to price for higher margins.
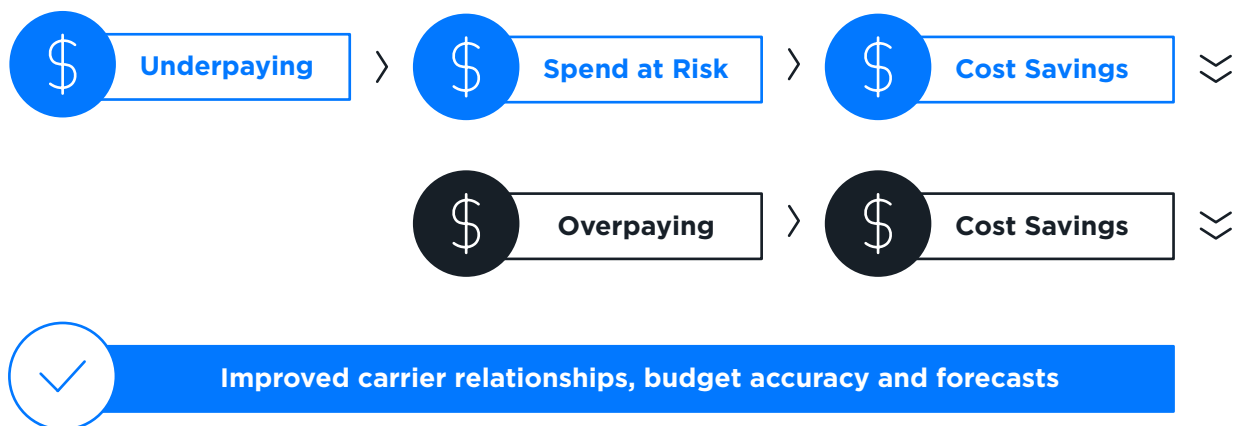


Simple benchmarking is not sufficient to find the most effective price in a lane. It is not always bad to be priced above the market or good to be priced below the market. Lanes that are priced below the market tend to have lower compliance rates. Even though these lanes are "saving money" on the bid sheet, they may not be saving money on the income statement because of two main reasons – the loss of time and manpower spent in trying to move the freight and paying more per load on the spot market. SONAR SCI helps subscribers target the optimal price point that minimizes exposure to the costs of service failure and prevents subscribers from spending too much when it is unnecessary.
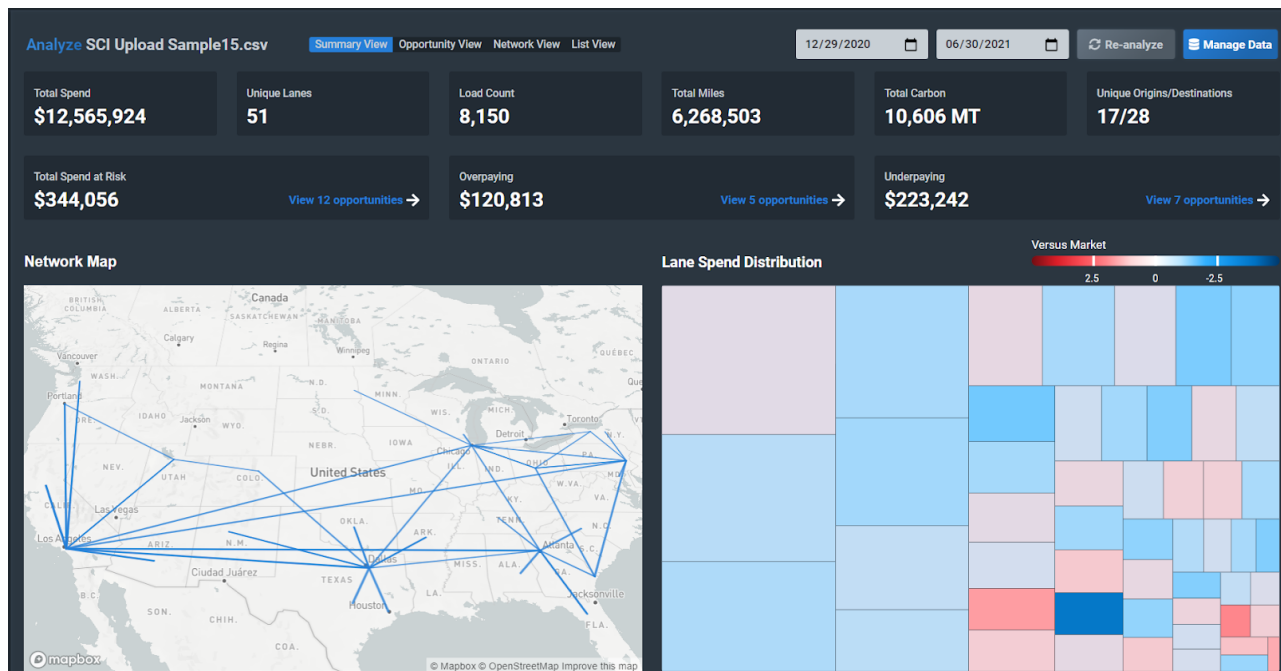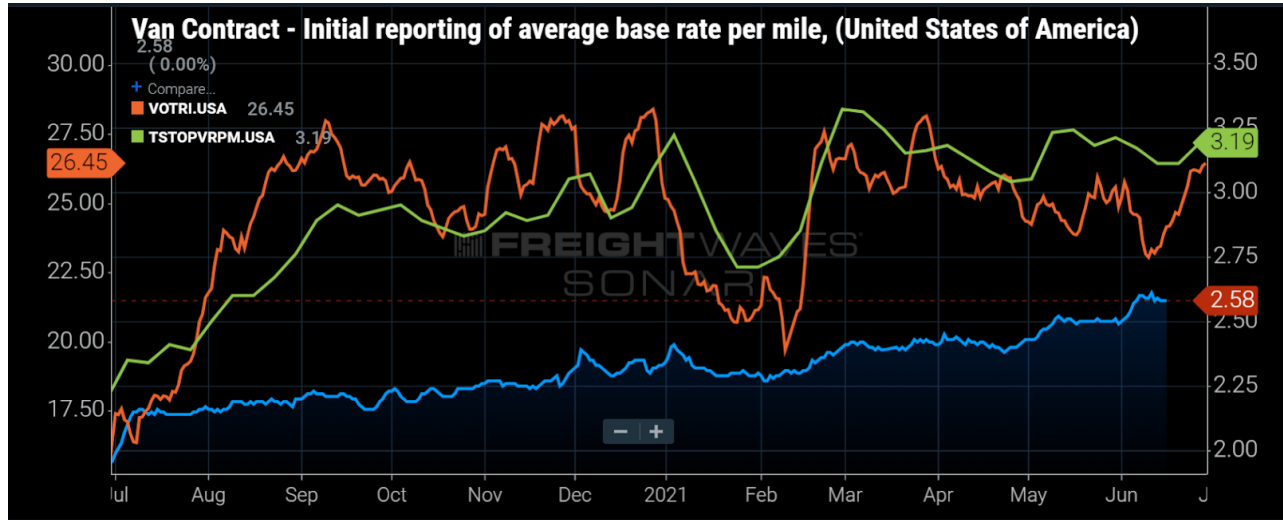
# Summary View

SCI's summary view gives an overview of a subscriber's transportation spend and highlights where the user has the highest risk for failure and easiest cost-saving opportunities. High level visualization tools show the subscriber's lane footprint and a tree map of lanes in which the subscriber is spending the most money. The size of the box is scaled to the spend while shades of red and blue indicate how much the subscriber is overpaying or underpaying compared to the average market rate. In this example, the shipper is priced below market in most of its large lanes, but there are several small lanes where the shipper is overpaying.

# Overpaying

In the example above, the user has over $12M annual spend in truckload costs. Of that amount, $120K – or ~1% – of the total spend variance is in lanes where the shipper is not just overspending in relation to the market, but overpaying in lanes that have conditions favorable for negotiating rates lower or locating additional providers at a lower cost. The total annual cost savings opportunity here is $120K.

# Underpaying

The above example also shows roughly $223K of total spend variance is in lanes where the shipper is well below the market average and conditions lean towards carriers having a high level of optionality. These lanes are the most at-risk for falling into the spot market and or service failure.

Van Contract - Initial reporting of average base rate per mile, (United States of America)

2.58
( 0.00% )
+ Compare...
VOTRI.USA    26.45
TSTOPVRPM.USA    3.19

26.45

2.58

3.19

*Spot (green) vs contract rates (blue) paired with national rejection rates (orange).*

Compliance and service failure costs are more difficult to quantify, but when capacity is tight, there is the potential for a large variance between budgeted and actual spend. These lanes tend to have lower than average compliance rates; paying below market puts shippers at a high risk of having to find alternate carriers that will command a rate closer to or above the market rate. The $223K (~2%) is the low end estimate for being over budget by this amount in these lanes.

There is "low-hanging fruit" (easiest attainable targets) in both the overpaying and underpaying scenarios. There is a range of "in-between" lanes that are also addressable with cost-saving opportunities.

## Targeted Approach

Historically, shippers have negotiated from a pure cost savings approach by targeting the lowest price in a lane. This leads to one-sided negotiations and is unhealthy from a relationship- building standpoint. By targeting both high- and low-cost lanes shippers and carriers can both win and build stronger partnerships that keeps costs more manageable.

# Apply it in your business

**What?**
Benchmark and analyze your network and spend

**How?**
Identify where the best opportunities and the largest risks exist

**Why?**
Drive ongoing indirect and direct cost savings, minimize service failures and build strong partnerships