



Understanding Your Freight Expense

Freight is a top-five expense for most companies.

At budget time, do not forecast freight based on the prior year's dollar expenditure with an increase factor. This forecasting methodology will fail more often than not.

As a sole barometer, given the variables to the right, cost per pound is not a good measurement of freight. Cost per pound is a helpful indicator when viewed with other freight indicators.

Review freight on a year-over-year basis as a percentage of sales or purchases giving consideration to the list of freight variables shown to the right.

When planning your freight budget or reviewing its progress, ask yourself the following questions:

Freight Variables

- Shipment weight
- Modal shift
- Shipping locations
- Vendor locations
- Customer locations
- Freight classification
- Inventory management strategy
- LTL general rate increases and lane adjustments
- Carrier accessorial charges
- Fuel

- a.) Will you be opening or closing any facilities?
- b.) Will you experience the sale or acquisition of assets impacting freight?
- c.) Will you be employing any new sales/marketing strategies that might impact freight?
- d.) Have you experienced new or different competitive threats requiring reactionary freight strategies?
- e.) Do you foresee any changes in outbound distribution requirements? (*new or different customer requirements or locations are one instance*)
- f.) Will you have any new products and/or point(s) of origin?
- g.) Will you experience any variations on existing products and/or point(s) of origin/destination?
- h.) Will you have new or increased use of trade show participation?
- i.) Will you have any expansion or development of importing/exporting activity?
- j.) Will you experience new or different packaging requirements for specific products?
- k.) Are there any new laws or regulations in your industry that will impact your freight?

Measure your progress throughout the year.

For additional assistance in forecasting or analyzing your freight expense, please contact your TBB account manager at 800-937-8224.