# Freight cost breakdown: analysing transport costs transparently and controlling them in procurement

The freight cost breakdown is the systematic itemisation of the transport and logistics costs of a procurement transaction into their individual components. It makes visible which shares are attributable to base freight, surcharges, fuel surcharges, handling, insurance and documentation. For buyers, it is a central analytical instrument for identifying cost drivers, making offers comparable and putting negotiations with carriers and suppliers on a fact-based footing.

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### Key facts at a glance

01 A freight cost breakdown decomposes the total freight into individual items such as base freight, fuel surcharge, tolls, handling and surcharges.

02 In practice, transport costs frequently consist of 20–40 % surcharges and ancillary services, which are hardly verifiable without a breakdown.

03 The breakdown creates comparability between quotations from different carriers and Incoterms interpretations.

04 It is the basis for KPIs such as freight cost ratio, cost-per-shipment and deviation rates.

05 In the sourcing process, it serves offer transparency, for example in the context of requests for quotation and reverse auctions.

06 Regular breakdowns prevent savings leakage, i.e. the gradual erosion of negotiated savings.

## Definition: freight cost breakdown

The freight cost breakdown describes the structured decomposition of the total costs for the transport of goods into individual cost-effective items. The aim is to make the composition of a freight invoice or a freight quotation fully traceable.

### Distinction from freight cost analysis

The breakdown provides the data basis, the freight cost analysis interprets it. While the breakdown answers the question of which items make up a price, the analysis examines correlations across time, regions, carriers and product groups. In practice, both build on the same data model, which links transport orders, shipment data and invoice line items in a structured manner.

### Typical cost components

A complete breakdown typically maps the following elements:

- Base freight (base rate per weight, volume, pallet, loading metre or container)
- Distance and zone factors including tolls
- Fuel and BAF/BAF-like surcharges
- Handling, loading, terminal fees
- Insurance and value charges
- Documentation, customs and clearance services
- Waiting times, additional stops, returns and special trips

## Methods and approach in the freight cost breakdown

A robust breakdown follows a structured approach: collect, normalise, itemise and check data against reference figures. Only if the data basis is consistent can freight costs be used as a control variable in procurement.

### Data basis and data model

The basis is a uniform data model that brings together shipment data (weight, volume, route, Incoterms), tariff items and invoice lines. Linking with the order and goods receipt check is important so that freight costs can be allocated to an order line or material number. Without clean allocation, the breakdown remains a snapshot and is not suitable for trend analyses within supply chain analytics.

### Breakdown in the sourcing process

Even during the request for quotation, a uniform quotation schema should be required, which presents freight items according to an identical pattern. This makes quotations comparable, even if suppliers apply different Incoterms such as EXW or Incoterms CFR. In reverse auctions and framework agreement negotiations, the standardised breakdown helps to assign price movements to the right cost components instead of only looking at the total price.

### Integration into supplier evaluation and controlling

The results of the breakdown often flow into the supplier evaluation, for example as a criterion of on-time delivery and cost stability in the transport area. When building preferred supplier relationships, transparency about freight cost structures is also an argument for or against higher contract coverage.

Delivery schedule and forecast processes benefit because volume-side planning uncertainty can be directly translated into freight cost risks.

## Important KPIs around the freight cost breakdown

KPIs make the breakdown controllable. They put freight costs in relation to procurement volume, number of shipments or service level and reveal trends at an early stage.

### Freight cost ratio and cost-per-shipment

The freight cost ratio puts transport costs in relation to spend on goods or net revenue. Depending on the industry, it typically lies in the low single-digit percentage range, and considerably higher in e-commerce-like business models. Cost-per-shipment looks at the costs per consignment and is suitable for making consolidation effects or minimum volume surcharges visible.

### Surcharge ratio and deviation rate

The surcharge ratio describes the share of surcharges in total costs and is an early indicator of price drift. The deviation rate compares invoiced with contractually agreed items; here the circle closes with the quantity deviation workflow, which also applies to freight quantities or weight differences. High deviation rates often indicate invoicing control deficiencies or unclear tariff structures.

### Service KPIs complement cost KPIs

Costs can only be assessed together with on-time delivery and damage rates. A favourable tariff with a high damage rate or poor on-time delivery can be more expensive than a supposedly more expensive carrier. Therefore, delivery quality KPIs – similar to the goods receipt check – belong in every holistic assessment of freight costs.

## Risks and controls in the freight cost breakdown

Without institutional control, the breakdown remains a document. Risks arise from intransparent surcharges, indexation, currency effects and unclear responsibilities between procurement, logistics and finance.

### Intransparent surcharges and index clauses

Fuel and infrastructure surcharges are frequently index-based and change regularly. If index formulas and adjustment mechanisms are missing from the contract, a grey area arises that is hardly verifiable. Controls are: contractually fixed index formulas, monthly target-actual comparisons and a routine whereby every new type of surcharge is reviewed and approved before it takes effect.

### Incoterms and national specifics

The Incoterms interpretation determines which cost-bearing party bears which item. A breakdown under EXW looks different from one under Incoterms CFR or DDP. International transactions also

involve customs clearance, Intrastat reporting and conflict-mineral origin documentation issues for sensitive materials. Here, the breakdown should be aligned with the trade and customs process; legal details must be examined on a case-by-case basis.

### Currency risk and budget compliance

For freight in foreign currency, costs shift due to exchange rate fluctuations, independently of the tariff service. Currency risk in procurement should therefore be visible in the breakdown as a separate cost component, for example through separately stated currency rate shares or hedging shares. This keeps budget compliance assessable, independent of market movements.

## Current developments and digital implementation

Freight costs are increasingly controlled on a data-driven basis. Digital platforms, standardised data formats and AI-supported analyses are changing the way buyers represent and negotiate freight costs.

### Automation and freight audit

Freight audit systems automatically check freight invoices against tariff structures and flag deviations. The breakdown serves as the reference structure here. In practice, this considerably reduces manual checks and makes savings leakage visible when contractually agreed terms are not actually complied with.

### Data sharing and category intelligence

Carriers and suppliers increasingly provide granular cost data. Buyers combine this with market data into category intelligence and recognise trend movements in fuel, labour or capacity costs earlier. A category board can process such information per category and feed it into sourcing decisions.

### Sustainability as an additional breakdown block

CO emissions per consignment are frequently managed as a separate cost and reporting category. Breakdowns increasingly contain separate items for emission values and their pricing, for example through pricing or internal allocation. This makes it possible to steer cost and sustainability optimisation together.

## Typical metrics

| Metric | Typical value |
|---|---|
| **Freight cost ratio** | typically 1–5 % of spend on goods<br>*Industry-dependent; significantly higher for e-commerce-like models* |
| **Surcharge ratio** | typically 20–40 % of total costs<br>*Early indicator of price drift; the aim is a stable or falling value* |

| | |
|---|---|
| **Freight invoice deviation rate** | > 98 % match targeted<br>*Share of correctly invoiced items after freight audit* |
| **Cost-per-Shipment** | individually per mode of transport<br>*Shows consolidation effects and minimum volume surcharges* |

## Practical example

A medium-sized mechanical engineering company with a European supplier network introduced a freight cost breakdown for all supplier transfers. Previously, transport costs had been allocated flat-rate across order lines; surcharges went unnoticed. The breakdown showed that a considerable share of the costs consisted of special trips, waiting times and small, expensive consolidated deliveries. On this basis, delivery schedule consolidations, new minimum quantities per tour and a clearer Incoterms allocation were agreed.

- Uniform quotation schema with mandatory freight cost itemisation for every request for quotation
- Monthly target-actual comparison of invoiced versus contractual freight items
- Consolidation of partial quantities via delivery schedule and consensus forecast to reduce partial deliveries
- Supplementing the supplier evaluation with freight cost stability and on-time delivery

## Conclusion

The freight cost breakdown is not an end in itself, but the prerequisite for cost transparency in the transport area. It makes visible where freight costs actually arise and provides the data basis for negotiation, KPI-based controlling and process improvement. Companies that maintain the breakdown systematically detect price drift earlier and lose less savings to savings leakage. Anchoring in order, goods receipt and invoice verification processes is important. Anyone who does not itemise freight costs cannot control them either.

## Frequently asked questions

### ? What belongs in a freight cost breakdown?

Base freight, distance and zone factors, fuel surcharges, tolls, handling, insurance, documentation and customs services, as well as special items such as waiting times or returns. What matters is a uniform structure across all carriers and quotations. Only then do terms become comparable and deviations measurable.

### ? Why is a freight cost breakdown important in procurement?

Without a breakdown, it is unclear whether a favourable total price results from low base freight or from risky, variable surcharges. The breakdown ensures comparability during the request for quotation, supports negotiations and makes savings leakage visible. It also provides the data basis

for KPIs such as the freight cost ratio and the surcharge ratio.

### ? How often should a freight cost breakdown be updated?

In practice, a monthly or quarterly cycle has become established, depending on volume and price volatility. For index-based surcharges such as fuel surcharges, monthly review is common. For long-term framework agreements, a semi-annual or annual in-depth review is often sufficient, supplemented by continuous freight audit.

### ? What is the difference between a freight cost breakdown and a should-cost analysis?

The breakdown structures actual or quoted freight costs into individual items. The should-cost analysis calculates which costs can rationally be expected, for example based on routes, capacities and market prices. The two instruments complement each other: the breakdown shows what is being paid, the should-cost analysis shows what should be paid.

### ? How does the freight cost breakdown relate to Incoterms?

The Incoterms determine which costs are borne by the seller and which by the buyer. A breakdown under EXW includes all transport costs on the buyer's side, whereas under DDP it includes hardly any. For comparable analyses, it is important to always interpret the breakdown in relation to the agreed delivery term and to normalise quotations to the same Incoterms basis.

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