TRANSPOREON
A Trimble Company

9 steps to leverage the spot market

Contents

Introduction

It's widely known that shippers prefer contracted agreements, and it's easy to see why. Contracts are believed to bring you safety and security. Unfortunately, this is an illusion. In tight markets, rejection rates tend to rise, often leading to rogue exceptions and emergency management. On the other hand, in soft markets, your rejection rates will drop close to zero, giving you peace of mind that you have chosen the right strategy for your contracts. However, we see a lot of shippers that prefer 'easy' over 'best' and a low rejection rate is a sign that you are probably paying more than your competitors.

Another interesting fact is that many shippers tend to procure and secure contracts for virtually all lanes, whether they have volume for them or not. This is quite convenient. Whenever your sales colleagues need a price for a lane, all you have to do is go into your rate sheets. All lanes are covered. However, as we will explain later, this price is an illusion in most cases, and therefore this approach is not beneficial for either the shippers, or for the carriers.

Inflated transportation budgets and reduced profit margins have been impacting the prices of goods and raising concerns about traditional freight procurement and assignment strategies. As a result, the C-suite is now more attentive to these costs than ever before.

To effectively navigate the ever-changing freight market, it is crucial to adopt a comprehensive and streamlined approach to spot freight. By strategically including it in your transportation strategy, you can find capacity faster and at more competitive rates, while improving your relationship with carrier partners.

This eBook provides a comprehensive overview of the spot freight market and explains how to leverage it to improve your freight procurement strategy, your transport operations and, most importantly, your business's bottom line.

1

Understanding contract freight vs. spot freight

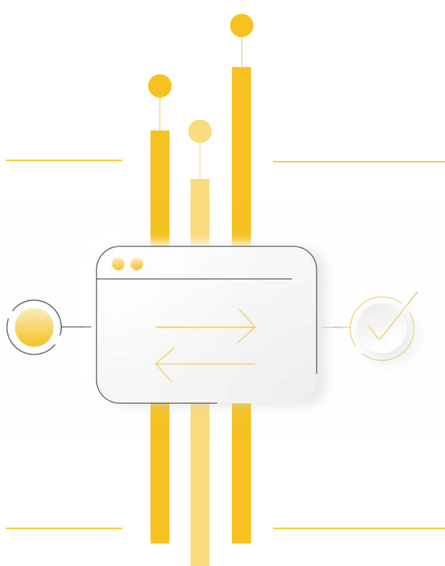
Contract freight rates, also known as primary or dedicated rates, are based on agreements between a shipper and a transportation provider, for projected volumes on a specific lane.

These rates are most often determined by annual bids and requests for proposals (RFPs), and shippers award lanes based on rates, service and capacity metrics. Contract rates historically account for approximately 85% of truckload freight and in theory provide a certain level of predictability to both shippers and carriers. Contract rates are valuable in stable freight markets, but tend to present issues when faced with unforeseen events and volatile market conditions.

Spot freight is broadly defined as any freight that is not run under contract rates. Spot freight is purely transactional, for a single order or series of orders, within a narrow window of time. **The spot market is extremely valuable in freight transportation, and is much more than an alternative option to securing capacity when contracts don't cover a certain lane, or are rejected.** It primarily helps shippers keep a pulse on the market, challenge their rates, find cheaper capacity, cooperate with carriers to optimise backhauls and minimise empty miles, increase their carrier network and have access to more capacity. Freight generally enters the spot market under several circumstances:

- Shipments with inconsistent or low volumes
- Freight on new lanes that fall outside of a bid cycle
- Expedited shipments and project freight
- Freight that has been rejected under contract rates and routing guides

Spot freight is a crucial and necessary component of transportation plans, as most shippers will manage shipments that fall outside of an RFP or contract, via spot. The common tactic of accessing the spot market solely as a last resource, for shipments that result from failing routing guides or tender rejections, can prove highly inefficient. This approach often leads to compromising a bigger part of your transportation budget than expected and creates an unwarranted stigma against the spot market itself. **Indeed, the spot market offers far more than just a fallback option. It presents an opportunity to find available capacity at competitive rates outside of your contracted network, save on procurement costs, improve relationships with carriers, and enhance overall market efficiency.** That's why segmenting lanes to strategically use the spot market, frequently assessing your assignment strategy and using new technologies to find capacity at competitive rates, are extremely relevant for high performing procurement and logistics teams.



Automate the assignment of spot and contracted loads using Transport Assignment to secure capacity at competitive rates.

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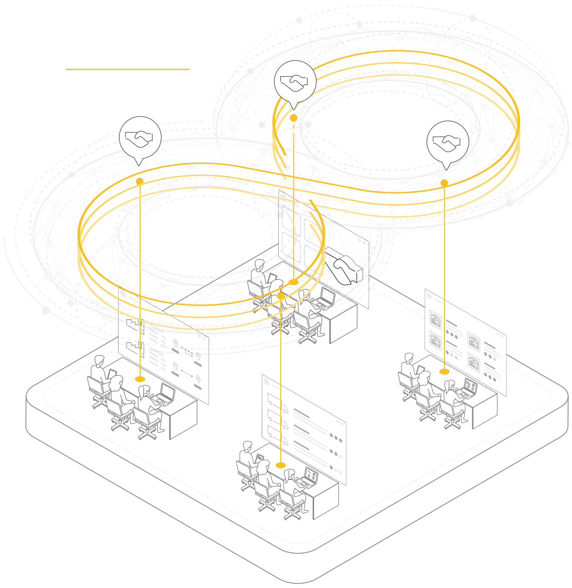
In recent years, alongside contracted agreements and spot market options, another strategy has gained prominence: mini bids or mini tenders. These alternative approaches to more traditional, long-term freight procurement provided shippers with an additional option. Mini bids or mini tenders involve a strategy that offers a middle ground between large strategic tenders and ad-hoc spot bids, with additional flexibility in the freight procurement process. While this eBook primarily focuses on spot bidding, it is important to acknowledge the existence and relevance of mini bids as part of the broader landscape of freight procurement strategies.



Connect with new sellers, launch road freight mini tenders and quickly find available capacity on Freight Marketplace.

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Key takeaways

Around 85% of truckload freight is contracted freight, established via annual bids and RFPs for projected volumes on specific lanes. While offering stability, the challenges of unforeseen events can lead to above-market rates during soft market conditions. In contrast, spot freight, encompassing non-contractual transactions, provides agility and is advantageous for surge volume orders, shipments with inconsistent patterns and rejected freight. When used strategically, spot freight is an efficient way to secure competitive rates, optimise backhauls and enhance market efficiency.

2

Understanding the state of the spot market, challenges and benefits

The freight market is historically challenging, as rates constantly fluctuate to reflect supply and demand in the truckload market.

This is particularly true for the spot market. Another critical factor, directly connected to supply and demand impacting the spot market, is shipping capacity. This is the amount of assets and personnel available to transport goods.

When demand is significantly higher than supply, it leads to supply chain disruptions and a capacity crunch. This imbalance in supply and demand could be due to a spike in shipment requests, like in the wake of the coronavirus pandemic, or a reduced capacity, as recently experienced with the driver shortage. Though we've seen an increase in capacity in 2023 and the freight market shifting 'back to normal' at a position of relative equilibrium, shipment capacity still faces some challenges:

Change in demand patterns: during the pandemic lockdowns, there was a shift in consumer spending habits away from services and towards finished goods and products. The services sector is now getting back on track, but the growth of e-commerce and the increasing demand for inland trucking and final-mile delivery of goods continue to play a major role in logistics and supply chains.

Trucking workforce: an ageing workforce combined with the trucking industry's difficulty in recruiting younger drivers, has made it difficult to meet transportation demand, leading to a driver shortage across the globe.

Equipment production: semi-conductor and steel shortages still impact the production of new tractors, trailers and chassis and hinder manufacturers' ability to meet demand, as outdated equipment is pulled off the road.

Inflation: a rate that was negotiated 12 months back, or even three months ago may no longer be considered a 'market rate' due to the 7-12% inflation rates we are currently experiencing in several markets.

High volumes of freight in the spot market increase pressure on logistics staff, as they attempt to secure pricing, manage bids, and drive time-sensitive rate negotiations with carriers on a daily basis. Effectively managing spot freight takes time and requires an in-depth knowledge of the current market, strong negotiation and multi-tasking skills. Even the best-staffed and experienced logistics teams can struggle to keep up with volatility and increased unplanned spot freight volumes.

That's why **it is crucial to closely monitor market conditions and understand the current market contracted and spot rates for your major corridors and their near-term trends.** Additionally, tracking rejection rates from contracted carriers and overall market capacity is imperative to maintain cost effective and efficient procurement and assignment strategies. There are available digital tools, such as Market Insights, which monitor the transportation market and provide in-depth, real-time market insights and indexes into lanes, corridors and their development over time. This includes contracted and spot rates, capacity levels, rejection rates, fuel price, rate forecasting and cost of ownership calculation.

Get in-depth insights into markets, lanes, rates, capacity, cost and their development over time with Market Insights.

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Despite these challenges, there are many benefits to using the spot freight market. Most notably, **the spot market delivers capacity** when routing guides fail, or when shipping low-volume lanes and project freight. It also **allows shippers to expand their networks and access a wider range of carriers** to source capacity and keep freight moving.

While recent fluctuations in the spot freight market reflected constrained capacity and economic inflation, this is not always the case. When the freight market flips to softer conditions, rates decrease and **shippers may pay less in the spot freight market than they do under contract rates.** To enjoy better spot market rates, avoid using it solely as a last option to handle exceptions. When you only put less attractive lanes with short lead times on the spot you cannot expect to get attractive rates.

The spot market, contrary to popular opinion, can also help build a mutually beneficial relationship with your carriers. The majority of carriers do not want 100% contract, but are leaning more towards a 80/20 mix of contract and spot, due to the dynamics and volatility within daily operations. Contracts are typically based on expected volumes, however, it is fairly uncommon for shippers to guarantee fixed volumes every single day. It's this volatility that makes a mix more appealing to carriers**. Talk to your major carriers and discover which lanes would be beneficial on the spot market, for both parties, as it can help them reduce empty miles and help you to find capacity at more competitive rates.**

Find capacity on the spot market at competitive prices, expand your network, reduce empty miles and challenge your contract rates with Best Carrier.

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Another benefit of the spot market is keeping a pulse on the transportation market overall. When a shipper incorporates strategic spot into their operations, they can more actively monitor the freight market, follow spot rates to challenge contract rates, and measure and access capacity. This empowers than to move and manage shipments in an agile and competitive manner.

Overall, the spot freight market plays a critical role in truckload transportation and offers substntial benefits to the shippers, who understand how to navigate it well.

Key takeaways

The freight market's dynamic nature, driven by supply, demand and shipping capacity, poses challenges, especially in the spot market. These challenges include shifts in demand patterns, an ageing trucking workforce, equipment shortages and inflation. However, the spot market also has many benefits, including handling exceptions, finding capacity at competitive rates, expanding carrier networks, building mutually beneficial relationships with partners, using backhauls and improving overall industry efficiency. Effectively managing spot freight demands real-time market insights, negotiation skills and the ability to leverage digital tools.

3

Understanding how spot rates are composed

Transportation rate analysis is an essential aspect of a seasoned freight forecaster's responsibilities.

The spot market, representing about 15% of truckload demand, is where the most unpredictable rate fluctuations occur. Therefore, anyone involved in conducting a transportation rate forecast or analysis should have a solid understanding of how spot rates are determined.

Spot freight rates fluctuate daily, based on the real-time balance of supply and demand in the truckload market. In short, when the number of available loads is higher than the number of available trucks, spot rates are higher due to high competition for capacity, and vice versa. Additional factors that impact spot freight rates include:

- **Lane:** shipment origin and destination play a critical role in pricing spot freight. If load volumes are high in the original market, expect rates to be inflated, as shippers battle for available capacity. Similarly, if a load is delivering to a remote or non-industrial region, rates will also be higher to compensate for anticipated deadhead miles for a reload. Conversely, shipping out of areas with low volumes and into major hubs could drive spot rates down, since shippers have more leverage.

- **Commodity:** high-value loads, such as electronics and machinery, generally cost more in the spot freight market than low-value bulk goods, like paper, packaging, wood and grains, due to stricter equipment requirements and service parameters. Heavy loads are also priced higher, as gross loaded weight directly impacts fuel costs.

- **Extenuating market conditions:** holiday closures, extreme weather events, and produce seasons disrupt the spot freight market and generally result in higher spot rates throughout the country. In more extreme cases, like a global pandemic, the impact of shifting market conditions can extend for months or years.

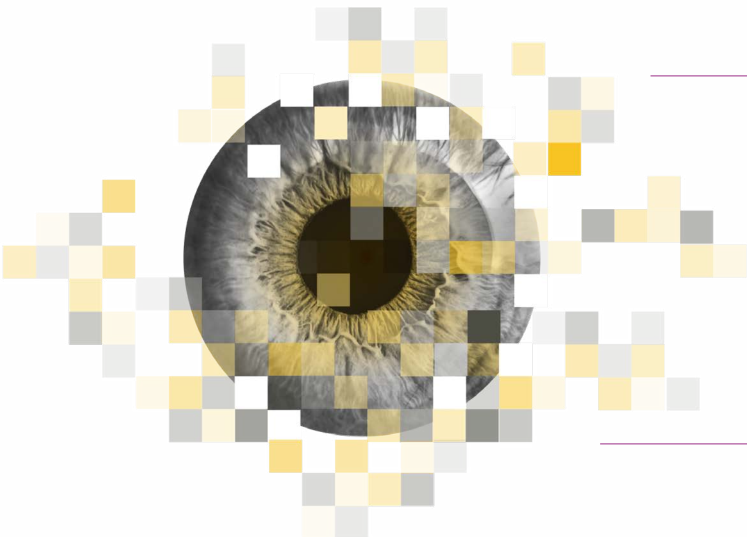
- **Timing:** this has a significant impact on spot rates and will be highly case-dependent. General timing tips to consider when sending freight to the spot market include:
  - **Lead time:** same-day loads come with premium price tags, because most carriers are already booked, and capacity is limited. Whenever possible, plan spot loads a few days in advance.
  - **Days of the week:** Monday and Friday are the highest volume days in most freight markets, especially for cross-country freight, so spot rates may be slightly inflated. The premium paid over the average spot rate for a Monday or Friday pickup could be more than the same load on a Tuesday or Wednesday. Short-haul loads that pick-up Friday and deliver on Monday generally have higher spot rates, especially for temperature-controlled reefer loads. The reason for this is carriers are paid per mile.

- **Time of day:** truck capacity and tendered load volumes expand and contract throughout the day due to shipping hours, tendered load lead times, and scheduled appointments. Appointment times can severely limit capacity and impact spot rates. Early morning and late night appointments generally cost more, since they severely impact a driver's hours of service and ability to generate revenue.

- **Dwell time:** in the trucking industry, there's a general guideline that drivers are paid detention after two hours of loading or unloading. If shippers or consignees consistently take longer than two hours, carriers handling spot freight usually charge a premium for this time. It's a straightforward approach for carriers to ensure they receive payment for detention, avoiding the hassle of collecting additional charges from shippers or freight brokerages after the delivery.

- **Tender rejection:** for shippers, a tender rejection has real operational and financial impact. They've lost lead time and are under pressure to find a partner outside of their preferred carrier group. Each rejection is a dead-end conversation; the longer the search continues, the more time the shipper's staff needs to dedicate to that effort, resulting in higher costs and reduced productivity. Even worse, rejections directly impact the shipper's bottom line. To ensure parts/materials reach manufacturers on time, or finished products get to customers, the only option a shipper often has is to increase the offer to prospective carriers. Once shippers transition to spot after a tender rejection, they are normally in a weaker position to negotiate and are led to accept more expensive rates. The higher costs also involve their own time and resources invested to find capacity. That's why this shouldn't be the only (or even mainly) use of the spot market. It will still happen, as it's part of the logistics game, but strategic spot is what will enable you to find capacity at better rates and be more competitive.

It’s difficult to predict how many of these factors will impact spot freight rates for a single load, but preparation is key. Know specific load details, requirements, and appointments in advance and compare quotes from several providers to ensure you are not overpaying unnecessarily.



Leverage market data and discover the most suitable lanes for spot market assignments with the help of Market Insights.

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Key takeaways

Spot freight rates fluctuate daily, based on the real-time balance of supply and demand in the truckload market. Factors like lane characteristics, commodity types, market conditions and timing (lead time, days of the week, time of the day and dwell time) impact spot rates significantly. While most shippers majoritarily use the spot market for tender rejections leading to higher operational and financial impact, the strategic use of the spot market allows shippers to find capacity at better rates and enhance competitiveness. Thorough preparation and comparing quotes are essential for effective rate analysis in this dynamic environment.

4

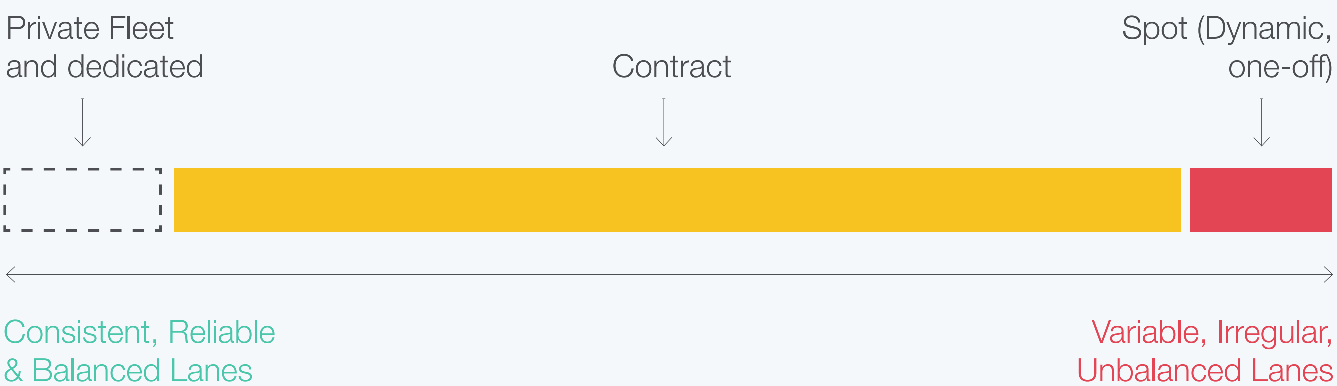
Apply a portfolio approach to freight procurement and avoid ‘ghost lanes’

Firms that outsource their transportation needs must decide the optimal mix of spot and contract.

Transportation buyers often rely heavily on contracts to mitigate potential price volatility and service uncertainty commonly associated with the spot market. However, a contract's non-binding characteristics summed up to post-pandemic market volatility can lead to misleading behaviour, which can impact relationships with carriers and ultimately cost them more.

The relationship between shippers and their carriers can take on many forms. These relationships lie on a spectrum (see Figure 1). At one extreme sits full vertical integration with a firm's private fleet, or partial integration with dedicated capacity. If available to a shipper, these options usually cover consistent, reliable demand. This represents stable business on both sides. At the other extreme is the pure transactional relationship in the dynamic spot market. This is often how variable, irregular demand is covered with dynamic pricing, determined by the current market. And in the middle, we have a wide range of contractual relationships, where the price for anticipated demand on each lane is agreed upon during the strategic procurement process.

Figure 1: Spectrum of transportation buyer-supplier relationships



(Source: Acocella A. and Caplice C. (2023), Journal of Business Logistics
https://onlinelibrary.wiley.com/doi/full/10.1111/jbl.12333)

This is why a portfolio approach to freight procurement, incorporating different kinds of contracts and a strategic focus on the spot market – including more attractive and well-timed lanes – are so relevant. This leads to finding cheaper capacity for certain lanes and improved relationships with carrier partners, as contracts are honoured and empty miles reduced.

An important aspect of a portfolio approach to freight procurement is ghost lanes. On average, 70% of FTL contracts are never used, resulting in ghost lanes – which is where a contract is in place with a carrier, but no volume materialises. This creates problems for both shippers and carriers.

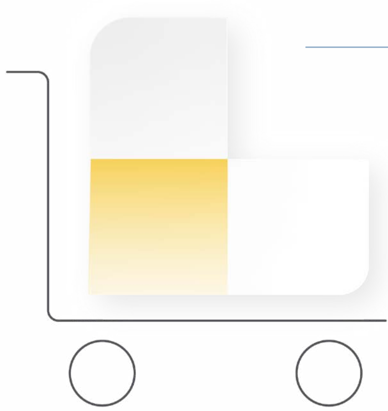
Carriers who are awarded ghost lanes expect business and the associated revenue for those lanes. Additionally, they may have built up their networks, including backhauls, around these lanes. They have also spent time and resources determining and submitting their bid prices.

For shippers, the efforts invested in the procurement event are significant: from forecasting demand on each lane, to sending out RFQs and closing negotiations. And the costs increase with each additional lane included. This means that by establishing contracts on unnecessary lanes, the shipper community is incurring upfront administrative costs in the hope that the cost, effort and time to find capacity later, for the few lanes that do materialise, would be much higher.

Research conducted by Dr. Angela Acocella, Researcher at Tilburg University and the Center for Transportation & Logistics at the Massachusetts Institute of Technology (MIT), modelled shipper and carrier behaviour to isolate the effects of ghost lanes. Major findings include:

- The strongest indicator of whether a lane will become a ghost lane is if it is new, meaning it was not included in the procurement event the previous year. In fact, 85% of ghost lanes were new that year. Also, lanes that typically have less outbound demand – and as a result have higher spot prices – are more likely to be ghost lanes. This suggests shippers are trying to lock in contract prices for lanes that they know will otherwise have high spot prices. Finally, ghost lanes tend to be more common during soft market conditions, rather than tight markets. This is because firms often create budget slack (i.e. by creating more contracted lanes) during these more economically favourable, soft market conditions, as a form of protection for potential future challenges.

- While shippers' intentions in procuring contracts on these lanes is to establish lower contract prices than the spot prices they would otherwise be exposed to, these contracts are priced higher than their lane-specific spot prices. New lane contracts are between 13% and 40% higher than spot prices, and lanes that are previously procured, but turn out to be ghost lanes, are between 7% and 11% higher than spot prices. This suggests that the uncertainty in volume demand for carriers on these lanes is being accounted for when they submit bid prices for contracts. Not only are shippers failing to see the cost savings they expect by establishing contracts on these lanes, but they're also overpaying.



Manage your RFQs and contract freight capacity within a trusted carrier pool with Freight Procurement.

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Shifting the traditional balance away from an extreme reliance on the traditional long-term, fixed-price contract, and taking more of a wait-and-see approach before setting prices, allows both shippers and carriers to better assess the demand and capacity needs as they become known. In this way, we can incorporate the spot market more strategically into the relationship portfolio. Once more information about demand becomes available, we can better determine if establishing contracts with carriers for lanes that do materialise is the best option and set a price that is more competitive and suits those lanes better.

Key takeaways

To reduce costs and optimise operations and carrier relationships, shippers should apply a portfolio approach to procurement and assignment. This approach involves incorporating different kinds of contracts, with a strategic focus on the spot market that includes more attractive and well-timed lanes. While contracts provide stability, their non-binding nature and post-pandemic market volatility can lead to inefficiencies and higher costs. Ghost lanes – contract lanes where demand rarely materialises – incur significant upfront costs for shippers and carriers. Shifting from fixed-price contracts to a more flexible, wait-and-see approach, enhances strategic use of the spot market, fostering better assessments and competitive pricing.

5

Create and maintain a healthy pool of carriers on the spot market

Despite volatility, failing to plan still equals planning to fail. It makes sense to devote a significant proportion of your procured lanes to your contracted carriers.

Nurture your contractual relationships – long-lasting relationships with carriers have never been more important and will continue to offer both parties plenty of security in uncertain times. However, don't only turn to the spot market when outbound shipment volume exceeds your dedicated carrier capacity. Use it strategically and, as explained before, make sure you don't procure ghost lanes which are unlikely to materialise, and instead, put them into your spot planning.

Shippers have diverse shipment profiles and needs. For one-off job site deliveries, sourcing carriers and securing better costs in the spot market can be more advantageous than relying solely on core carrier capacity. Inconsistent shipping profiles, with unknown destinations until the order is placed, benefit from utilising the backhaul spot market instead of fixed contract rates. **Carriers strategically incorporate backhaul freight to optimise their cost structure and truck relocation, making it beneficial for shippers to tap into spot market demand for lower prices.** Expedited carriers in the spot market can be sourced to meet urgent delivery expectations.

Ensure you regularly check spot price predictions and compare them with contracted back-up rates. We recommend maintaining flexibility allowing you to buy at spot rates if they're better. As carrier rejection rates remain high, the spot market cements itself as an essential source of required capacity. Make sure you stay informed about current market developments. Today's new normal includes managing exceptions, new lanes and business (where no contracted agreements exist) or managing exotic lanes more often than ever before – all of which demand the efficient use of the spot market. Use Market Intelligence and data-driven tools, to turn spot into more of a strategic and plannable option that can help ensure efficiency and competitive rates when things get hectic.

To create and maintain a healthy pool of carriers, make sure you offer spot transports that are attractive to your partners:

- **Offer lanes on the spot market that are appealing to your carriers,** not only lanes with low volume or remote destinations. Also consider seasonal fluctuation, remember that some carriers will prefer certain distances and geographies.

- **Be timely:** try not to request a load at 5pm in the afternoon for a pickup the next morning.

- **Add more flexibility and better matchmaking:** give your carriers the ability to find suitable return loads to avoid empty runs. Intelligent tools like ours let them find matching transports in real time.

- **Communication is key:** Ensure early involvement of your carriers when transitioning to a more dynamic assignment strategy. Present the idea of spot assignments positively, as an opportunity rather than a challenge. The world is dynamic and volatile, right? Instead of simply cutting contracted volume from carriers, give them access to consistent volume also on the spot market, enabling them to fill gaps in their planning. If you communicate with them in the right way, you will get them on board and more aligned with your strategy.

- **Analyse your carriers' performance** in terms of load acceptance, being on-time, order accuracy and transportation utilisation. Reward carriers who honour contracts and work closely with them to tap into the spot market for optimal flow and reduce empty miles by increasing utilisation and leveraging backhaul. Take the learnings and apply them to your work with other carriers in the spot market.

When spot is done and planned the right way, you will benefit as a shipper, and your carriers will do likewise. Both shippers and carriers face similar challenges these days. Shippers need to find more agile ways to secure the capacity they need and to minimise transport costs, while carriers need more dynamic and flexible ways of working, to secure sufficient business volume and reduce empty runs.

No matter what the market conditions are, it's essential to have a vital pool of carriers with a smart mix of contract and spot – including attractive lanes! This will help you to react smarter, no matter what the market conditions are, as it will enable you to secure capacities in tight markets more efficiently and achieve cost savings when markets are softening.

Assign attractive lanes and nurture a healthy pool of carriers on the spot market using Best Carrier.

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Key takeaways

It makes sense to devote a significant proportion of your procured lanes to your contracted carriers. However, not all shipments are fit for contracts. Therefore, having a healthy pool of carriers on the spot market is crucial for finding capacity at competitive prices, whatever the market dynamics. Maintain a healthy carrier pool by securing contracts for lanes that align with your carrier network, while honoring your contractual commitments. Use the spot market strategically to challenge contracted rates from time to time, offer attractive spot transports, prioritise timely requests and facilitate flexible matchmaking. Performance analysis and effective communication to understand which lanes fit your major carriers' network, lead to costs and overall market efficiency.

ASSIGNMENT SOLUTIONS

Optimise Your Transport Assignment and Execution Strategy in 4 Steps

CONTRACTED

CONTRACTED VOLUME:
PLAN FOR YOUR MOST STABLE LANES

Contract for your planned volume. Commit to assigning your primary carrier. Focus on your strategic relationship building and setting expectations for reciprocity. Avoid contracted ghost lanes where no volume is expected.

1

OPPORTUNISTIC SPOT

OPPORTUNISTIC SPOT:
TAKE ADVANTAGE OF SPOT PRICES

If your primary contracted carrier rejects, use spot prices to your advantage. Compare back-up contracted rates with spot price predictions and buy at the lower rate.

Don't miss out on the potential savings!

2

PLANNED SPOT

PLANNED SPOT:
MAXIMIZE YOUR FREIGHT STRATEGY

Make spot part of your strategy. Use Market Intelligence and tools like Market Insights to find imbalanced laneways, and get an enduring advantage with spot buying. Avoid ghost lanes (lanes that are under contract but never materialise) and pro-actively plan for spot instead.

3

OCCASIONAL SPOT

OCCASIONAL SPOT:
HANDLE EXCEPTIONS EFFICIENTLY

Exceptions happen. Utilize the spot market to efficiently manage any exceptions that may arise in a compliant manner, while ensuring access to capacity on short notice at competitive prices.

4

A HIGHLY FLEXIBLE ASSIGNMENT STRATEGY

Unlock the power of the right **assignment strategy** mix!

GET STARTED NOW

6

Use lane segmentation and put a variety of attracting lanes on spot

Which factors should be considered when deciding to send a shipment through an existing contract or direct to spot?

The short answer: consider your carrier's perspective. If it causes operational difficulties for your carrier, consider sending it direct to spot.

Contracted carriers respond to certain operational factors, which leads to corresponding cost implications that demonstrate when a shipper should opt to go directly to the spot market, rather than using a contract. This is called a segmentation approach, because it considers which segments of a shipper's network lend themselves better to spot than contract, and vice versa.

Asset-based carriers (i.e. those that own and operate the transport equipment) and third-party, non-asset brokers (those that contract with shippers and buy spot capacity as demand materialises) have fundamentally distinct revenue structures. As a result, they respond to operational factors differently.

The surge volume offered to a contracted carrier, where shipments within a week are above the contracted, expected volume on a lane between a shipper and carrier, plays an important role. This is because it impacts the carrier's probability of accepting the shipment and the resulting cost implications. **Asset-based carriers, in particular, have difficulty accepting surge volume that they have not planned for, due to their fixed capacities, charging premiums between 25% and 55%.** Instead, non-asset providers have access to a large pool of capacity, so they are better able to find the required capacity at lower prices, with extra charges ranging between 10% and 15%. Shippers can use this knowledge to distinguish between their base demand and surge volume and consider sending the latter directly to the spot market or use a brokerage provider instead.

Another important aspect is the impact of lead time on load acceptance probability from contracted carriers. While lead time does not have a large, consistent impact on the likelihood a carrier accepts a load, short lead times do come with additional costs to the shipper**. Rushed shipments on average cost an additional 30% to 35% more than the contract price. This offers the opportunity to either pinpoint processes to be improved, or look at the spot market, which may offer lower prices than the contracted carrier cost escalations.**

Use Best Carrier to find spot capacity at competitive rates for lanes with inconsistent patterns, surge volume and short lead times.

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Variations in demand are difficult for carriers to cover – particularly those with finite capacity and networks to keep in balance. In fact, lanes with highly volatile demand volumes cost the shipper up to 20% more than the contracted price, while lanes with low frequency demand cost 7% more. This suggests shippers should consider historical demand patterns, as these lanes may be a good opportunity to offload to the spot market rather than making the job more difficult for contracted carriers.

A key factor is the competitiveness of contract prices compared to current spot market rates. Contract prices are fixed for a given time frame, but the market fluctuates around those prices after they are set. Shippers expecting to use a contract price that is out of date are likely to be exposed to the spot market anyway. It is important for shippers to keep track of which contract rates have aged and no longer reflect market prices. Carriers may already be signaling that contract prices are out of date. Shippers can either update the contract accordingly or expect to use the spot market to serve a larger fraction of the demand.

Become a shipper of choice by always being on time and improving your relationship with carriers through Time Slot Management.

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Finally, facility processes play a role here too – especially in terms of detention times. **A carrier's tender acceptance is significantly reduced when a facility historically has wait times of more than two hours.** The costs for this implemented by carriers vary widely. Moreover, detention at drop-off facilities, rather than at pick-up facilities, tends to have a greater impact on the carrier. This is because dwell at drop-off facilities influences the carrier's ability to show up on time for its next shipment. Facility ratings systems have been integrated into existing and new transportation management solutions to help warn other carriers and identify areas of improvement for shippers. Facility dwell time results suggest shippers should look to nodes in their networks to determine where acceptance or price performance is suffering due to detention.

Key takeaways

The key consideration for choosing between contract and spot markets lies in understanding the operational dynamics from the carrier's perspective. The ideal factors for segmenting and assigning freight to the spot market are the types of freight that pose challenges for carriers, including urgent shipments, sudden volume surges, and shipments on new or more challenging lanes. Lead time influences costs, with rushed shipments costing 30-35% more than contract prices, prompting shippers to optimise processes or explore the spot market. Become a shipper of choice for both contracted and spot carriers, by offering the same yard experience with easy facility processes and low detention times.

7

Use a smart transport execution tool to assign your spot loads

Challenges in today's supply chain require advanced, modern solutions.

Improved spot freight management – from procurement to smart assignment and execution – is one of the best opportunities for shippers to control transportation costs and build operational efficiencies. The future of transportation logistics will undoubtedly include:

- A more strategic blend of contract and spot freight
- Implementation of spot freight rate indexes to minimise exposure in inflated markets
- Advanced technology to accurately predict pricing and improve spot freight tender acceptance

Logistic teams equipped with proper digital tools will be able to find capacity faster and more efficiently. When choosing a Transportation Management Platform, make sure it delivers a holistic approach to managing a mix of contract and spot buying, powered by an integrated network of logistics partners and a combination of manual, rule driven, data driven and automation tools with price prediction.

Price prediction functionality will be a key element in this, offering evidence-based guidance on competitive future market prices. Traditionally, price strategy has been set by sticking to a set of rules, whereas technology can help you target and achieve a set of goals, whether they be geared towards cost-saving, or performance.

With the industry seeing the adoption of far more complex transport flows and intermodal transports, it's important to consider a tool that enables you to move, manage and monitor all your transport flows (FTL, LTL and groupage) across all modes in a single, configurable, easy-to-use interface.

Automation also has an important role to play in enabling shippers to respond to market changes. It sets smart workflows to take over the repetitive tasks and only involves stakeholders to handle exceptions when a need arises, such as lack of GPS signal, arrival delays, or missing carrier confirmation. **Advanced platform solutions to manage spot freight can also automate load assignment to the carrier, based on strict business rules defined to reflect your freight procurement strategy.** These include (but are not limited to) assigning the cheapest carrier or the most preferred carrier for a specific trade lane, cargo type or customer, all while respecting customer SLA, carrier quota commitments and vehicle type requirements. This is a highly customisable and automated way of assigning carriers to transports, be it through your set contracts or via spot load assignment. In terms of cost management, automation allow tools to automatically calculate and assign costs (including free time or detention and demurrage costs) to various parties based on the transport leg, all before you start the execution of the transport.

Shipment or asset visibility data should be a vital part of your spot assignment solution. That involves information from carrier telematics, port or terminal statuses, real-time information on assets arrivals, ETA calculation and mapping of traffic data. It provides shippers with unmatched insights into the execution of their transports, including multi-leg destinations, stops, or collection points – all with the added contextual information of the transported SKUs. In addition to the ETA, the tool easily identifies if a shipment is on time, late, early, or even at risk of being late. Visibility over timeslot appointment and the loading and unloading activities at the timeslot location further extend the coverage of shipment visibility.

Collaboration should also be at the core of the tool, with transparency as a key element throughout the transportation chain. The possibility to customise dashboards and views for different user groups with different access levels and responsibilities, ensures all parties always have access to necessary information.

Communication capabilities, like embedded chats, allow for instantaneous communication between teams allowing for exceptions to be managed quicker and more collaboratively.

Find capacity on the spot market at competitive prices, expand your network, reduce empty miles and challenge your contract rates with Best Carrier.

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Key takeaways

To leverage the spot market shippers need more than a good strategy, they need advanced tools. A holistic Transportation Management Platform, powered by an integrated network of carriers and logistic service providers, along with rule-based and data-driven automation, is essential for securing capacity at competitive rates on the spot market. Incorporating functionalities like price prediction and benchmarking, load visibility, carrier communication, exception handling, and integration with other transport functions, such as dock scheduling, empowers shippers to strategically leverage the spot market. This not only enhances operational efficiency but also contributes to overall cost-effectiveness.

8

Leverage automation, AI, machine learning and behavioural science

Artificial intelligence (AI) provides the technological advancements to move beyond historical data analytics for improved predictive abilities and better outcomes in the spot freight market.

While previous digital load boards relied on historical lane and load data to determine an average price, AI utilises machine learning to compare the same historical data against actual human behaviour to develop real-time pricing strategies. Machine learning combines traditional data science, whereby numbers alone guide decisions, with behavioural science, which acknowledges the existence of biased, alterable human behaviour in decision making. In the spot freight market, machine learning informs AI by overlaying statistical analytics with behavioural analytics to predict spot market rates and guide autonomous procurement.

Predicting spot market freight rates is a difficult practice, due to the sheer complexity of global supply chains and ever-changing market conditions. Traditional freight brokerage prediction strategies relied on historical lane history data and an individual's expertise and knowledge of current market trends to calculate a rate. As data technology evolved, brokers had a more robust view of lane history and trends, but continued to rely on human decision-making to ultimately set prices. **Modern AI technology can now fully automate spot rate prediction and pricing without any human input.** But can it be trusted to do so?

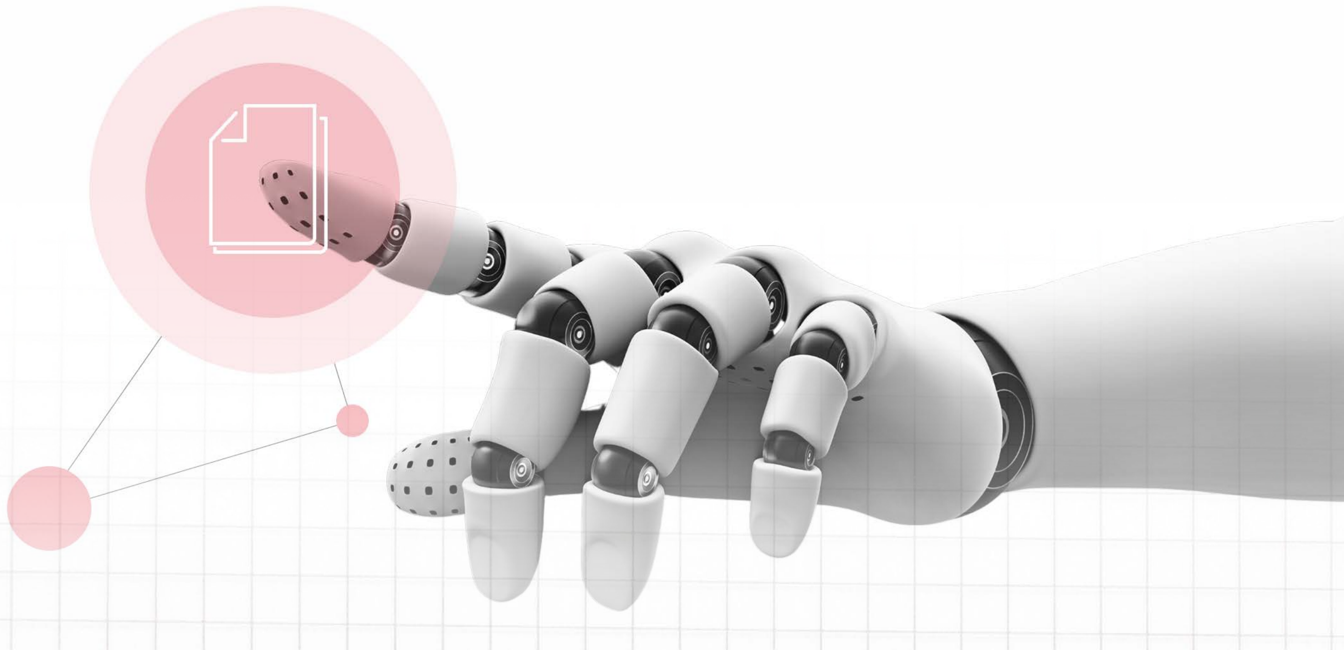
The power of prediction in the spot freight market is immense, particularly when supported by AI and machine learning. These technologies are designed to perform complex mathematics and statistics at a rate that humans cannot – they simply find solutions more quickly, efficiently and accurately. This level of predictive processing provides more than a single spot rate to be used for broadcasting on load boards. **AI prediction technologies calculate customised spot rates, based on individual carrier profiles and truck positioning and are the backbone of autonomous procurement.**

Understanding how and why carriers accept spot market loads is crucial for minimising spot freight costs. Carrier profiling technology applies behavioural and data science to determine the needs and decision-making patterns of individual carriers, and creates a personalised and relevant user experience. **AI carrier profiling identifies the carriers most likely to accept a spot load at a particular rate and drives customised offers to secure capacity quickly.** By eliminating the use of load boards and bid systems, carrier profiling ensures the best possible spot freight outcomes for procurement teams, and a streamlined process for carriers booking spot loads.

Autonomous Procurement is an AI-powered, automated approach to spot market procurement that leverages advanced machine learning and behavioural science to navigate the balance of predicted price and capacity. The autonomous procurement solution uses a catalogue of tendering strategies to strike a balance between speed, cost-savings and the ability to secure capacity. It then automates the tendering process to carriers with the best predicted outcomes.

There are several key differences between Autonomous Procurement and traditional spot procurement:

- **Shippers are making offers, not asking for bids.** Autonomous procurement utilises advanced market knowledge and carrier profiling to present customised offers rather than relying on carriers to dictate rates.



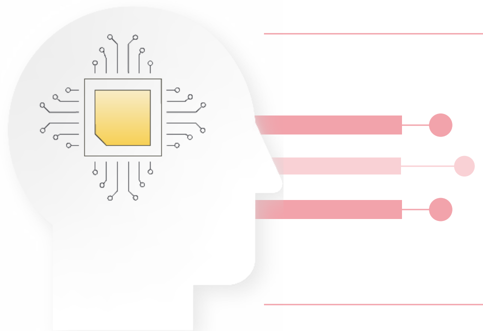
- **The offers are instantly accessible.** Carriers do not have to wait for acknowledgment on a spot freight bid, Autonomous procurement confirms the shipment immediately.
- **Offers have a high degree of differentiation.** Unlike digital boards, which present a singular rate across the network, smart tendering customises rates based on carrier preferences and history.
- **Offers and prices evolve over time.** Autonomous procurement takes into account current market conditions and adjusts carrier offers accordingly to ensure that capacity is secured for the best rate, at any given moment.

With machine learning, shippers are not just broadcasting broadly to carriers and hoping someone accepts. **Their tenders are more targeted and offer a 'match-now' price that provides both sides with instant feedback and faster results.** Tender rejections, in the standard sense, are significantly reduced, as pricing becomes a fluid, on-going series of dynamic offers. This yields the following benefits:

- Easy identification of your preferred carriers
- Faster negotiation cycles and matches to capacity
- Ability to accurately target a wider range of carrier partners with relevant loads
- Deeper, mutually beneficial relationships with carriers
- Strategic Orchestration + AI is greater than tactical management

Carriers also benefit from machine learning and an AI-based approach. They are trying to plan their day and optimise routes. They're getting deluged with quote requests and want to accept only the freight-hauling opportunities that best fit their strategic plans. It takes time to evaluate and provide quotes for each request, but accepting a reasonable offer is as easy as clicking a button. If the carrier wants to negotiate, machine learning makes that easy as well. If it's a reasonable bid that cannot be beaten, the machine accepts the offer on behalf of the shipper.

Autonomous Procurement is a dynamic, evolving solution that answers the biggest challenges in spot freight market procurement, assignment and execution – providing cost-savings and improved operational efficiencies for shippers and freight brokerages. It eliminates the need for traditional pricing strategies and carrier negotiations, by matching the right loads to the right carriers at the right price.



Use AI and machine learning to find capacity faster and cheaper, with Autonomous Procurement.

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Key takeaways

AI revolutionises spot freight management by leveraging machine learning for predictive pricing and autonomous spot procurement and assignment. Unlike traditional methods, AI analyses both historical data and human behaviour in real-time, offering customised spot rates based on carrier profiles. Autonomous Procurement, an AI-powered approach, replaces bid systems with instant, differentiated and tailored offers for each carrier/load, reducing tender rejections, ensuring quick matches, and fostering deeper relationships between shippers and carriers. This dynamic solution enhances efficiency and cost-savings in spot freight market procurement and assignment.

9

Collaborate with your carrier partners

Recent years have highlighted the importance of breaking down barriers and fostering greater collaboration between shippers and carriers.

In the past, there has often been an adversarial mindset of "us versus them." Shippers aimed to secure the best discounts, while carriers pursued top revenue for their services on specific lanes. However, both parties today now recognise the value of working together to establish mutually beneficial outcomes.

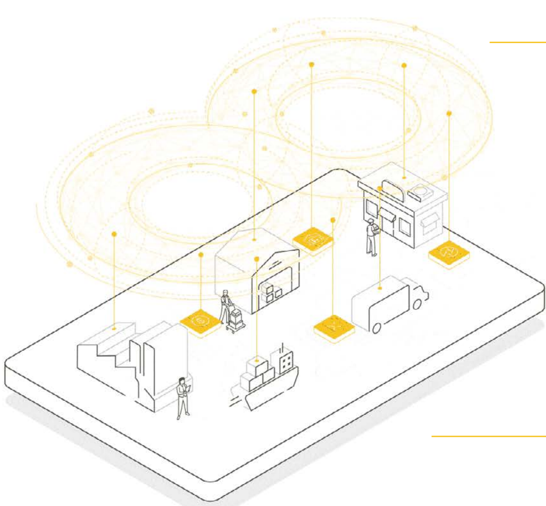
Collaboration is defined as "the act of working together with other people or organisations to create or achieve something". Historically, there has been a lot of talk about the importance of supply chain collaboration, but it hasn't been practiced as much. To leverage the spot market , collaboration between shippers and carriers is undoubtedly an area that needs to be developed.

In today's highly competitive operating environment, effective communication plays a vital role in fostering strong relationships between shippers and carriers. By leveraging the latest advancements in transportation management platforms, shippers now have the opportunity to bridge the gap with carriers by seamlessly connecting on a unified platform, leading to mutually beneficial outcomes.

One of the ways shippers can use technology to collaborate with carriers is when handling shipments that exhibit inconsistent patterns. This includes scenarios where shipments are irregularly distributed throughout weekdays, or when the destination is determined in proximity to the shipment date. In such instances, **it is crucial to collaborate with carriers to reduce empty miles and capitalise on the backhaul spot market, which plays a strategic role in carriers' cost structure and truck relocation**. Instead of confining operations within existing blanket contract rates, embracing the spot market enables shippers to tap into backhaul demand, increasing the likelihood of securing transportation for their shipments at prices below the market rates. Importantly, this practice also contributes to reducing your carbon footprint as you reduce empty miles and carbon emissions.

Another great way to leverage technology to collaborate with carriers is using a Transportation Management Platform for data-driven decision making. Such solutions connect shippers and carriers on a unified platform where they can seamlessly share data and enjoy end-to-end visibility, enabling informed conversations, setting realistic expectations, and promoting mutual accountability. **Making decisions and engaging in discussions based on a single source of data ensures transparency and eliminates the possibility of withholding information, keeping all parties grounded and fostering a culture of openness.**

Another challenge in the transportation industry is the capacity and labour shortage, which pose challenges for both shippers and carriers. To distinguish themselves from competitors, shippers are adopting strategies to reduce dwell time and enhance communication. Dwell time is a key concern for transportation providers, as it can result in missed deliveries and dissatisfied drivers. By utilising a unified platform in collaboration with shippers, carriers gain the advantage of accessing data to identify which shippers will receive capacity, streamlining the allocation process.



Enhance your transportation operations by fostering collaboration with carrier partners, sharing end-to-end visibility data and making informed, data-driven decisions with Transporeon.

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Key takeaways

Shippers and carriers recognise the need for collaboration and are moving away from an adversarial mindset. Leveraging transportation management platforms can facilitate effective communication, by connecting both parties on a unified platform. This leads to mutually beneficial outcomes, such as overall industry efficiency, optimising backhaul opportunities and reducing empty miles. Transportation Management Platforms also allow shippers and carriers to share data and enjoy end-to-end visibility, enabling informed conversations that set realistic expectations and promote mutual accountability. Digital platforms also foster collaboration to address industry challenges, like capacity and labour shortages, allowing carriers to streamline allocation processes and identify shippers receiving capacity.

Conclusion

In conclusion, spot should happen, but it needs to be strategically planned and effectively executed to optimise your logistics operations, supply chain and business outcomes.

Understanding the distinction between contract freight and spot freight is fundamental. While contract freight provides stability and predictability, strategic spot freight offers flexibility and potential cost savings. By comprehending the state of the spot market, including its challenges and benefits, you can make informed decisions that align with your business objectives.

Equally important is understanding how spot rates are composed. Factors such as market demand, capacity constraints, fuel prices, commodity type, lane characteristics and other market dynamics influence spot rates. By staying informed about these elements, you can negotiate better rates and optimise your procurement strategy and assign your loads accordingly.

Adopting a portfolio approach to freight procurement, in which rather than following a blanket approach to cover all lanes we only create RFQs for those lanes we're sure will materialise – keep new and low volume lanes on the spot market – is another crucial aspect. Diversifying your carrier base and maintaining a healthy pool of reliable carriers on the spot market can help to mitigate risks and ensure consistent service levels. By strategically segmenting lanes and offering attractive opportunities on the spot market, you can attract carriers and secure competitive rates.

Using a Transportation Management Platform with smart transport execution tools can greatly streamline the process of assigning spot loads. Leveraging automation, artificial intelligence, machine learning, and behavioural science enables you to optimise load assignments based on various factors, such as carrier performance, availability and cost. Such tools can analyse data, identify patterns, provide valuable insights for decision-making and make proactive adjustments to your procurement strategy and load assignment, enhancing efficiency and cost-effectiveness.

Collaboration with your carrier partners is key to succeeding in the spot freight market. By fostering strong relationships, open communication, data sharing and mutual trust, you can build a network of reliable and responsive carriers, and work together towards achieving mutually beneficial goals. Collaborative efforts can lead to better service, improved capacity allocation, and more favorable rates.

In summary, to harness the benefits of the spot freight market and optimise your freight procurement strategy, it is essential to have a comprehensive understanding of:

- **Contract and spot freight**
- **The dynamics of the spot market**
- **How spot rates are determined**

Adopting a portfolio approach, cultivating a healthy carrier pool, and utilising technology-driven solutions will contribute to your success. Additionally, collaboration with carrier partners and embracing automation and advanced technologies will position your business for improved competitiveness and outcomes in the ever-evolving freight industry. By implementing these strategies and continuously adapting to market changes, you can enhance your freight operations, drive cost savings and achieve your business goals.

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