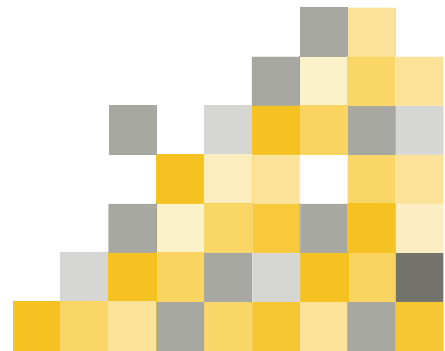


TRANSPOREON



A Modern Guide to Spot Freight Procurement

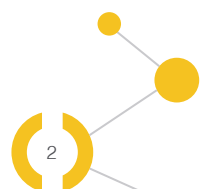


Introduction

Supply chain disruptions and capacity constraints have dominated headlines for the past two years, highlighting the instability and fragility of the global freight market. Freight rates increased across all modes of transportation in the wake of the COVID pandemic, leading to routing guide failures and rising tender rejection rates, only to do a complete 180-degree turn in early 2022 with rates at multi-year lows.

This leaves shippers and procurement teams relying on the volatile spot freight market far more frequently, left at the mercy of carrier bids and unpredictable spot rates. Overblown transportation budgets and shrinking profit margins are trickling into inflated prices for goods and bringing into question traditional freight procurement strategies. The C-suite is paying attention to these costs more than ever before.

Navigating the evolving freight market must include a comprehensive and efficient strategy for spot freight procurement. This article offers an overview of the spot freight market and spot market rates, and explores how technological advances in artificial intelligence and machine learning are modernizing spot freight procurement.



Understanding Contract Freight vs. Spot Freight

Contract freight rates, also known as primary or dedicated rates, are based on agreements between a shipper and transportation provider for projected volumes on a specific lane. These rates are most often determined by annual bids and RFPs, and shippers award lanes based on rate, service, and capacity metrics. Contract rates historically account for approximately 85% of truckload freight and benefit both shippers and carriers by providing a certain level of predictability and reliability. Contract rates are incredibly valuable in stable freight markets, but can present issues when faced with unforeseen events. Extreme shifts in market conditions often cause carriers to reject contract rates, with little legal recourse available to shippers. When contract rate tenders are rejected, shippers must rely on the spot freight market for capacity.

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. Freight generally enters the spot market under several circumstances:

- › **Shippers 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 encounter shipments that fall outside of an RFP or contract. Spot freight that results from failing routing guides and [tender rejections](#), however, poses a larger threat to transportation budgets due to unexpectedly higher costs at the mercy of the spot market.

State of the Spot Market

The [spot freight market](#) is historically turbulent, as rates constantly fluctuate to reflect supply and demand in the truckload market. In the wake of the coronavirus pandemic, however, this fluctuation has been more unpredictable and chaotic than ever before, causing freight rates to skyrocket and creating massive disruption in the supply chain. This is often referred to as a “capacity crunch” - the result of a sudden spike in demand that the transportation industry could not support, but that is slightly oversimplified. Total freight volumes have remained relatively flat over the last two years. While the market has seen some relief in Q2 of 2022, we know that history often repeats itself. Once freight volumes hit pre-2020 levels, we could see an even further ‘capacity crunch’ due to ongoing driver shortages. The recent capacity crunch is the result of several independent, yet confounding, factors:



Change in demand patterns: Pandemic lockdowns and the injection of economic stimulus funds created a sudden shift in consumer spending habits away from services and toward finished goods and products. E-commerce boomed, creating more demand for inland trucking and final-mile delivery of goods.



Trucking workforce: An aging workforce combined with the trucking industry’s difficulty in recruiting younger drivers has made it difficult to meet transportation demand.



Equipment production: Semiconductor and steel shortages impacted the production of new tractors, trailers, and chassis to meet demand as outdated equipment is pulled off the road.



Inflation: A rate that was negotiated 12 months back, or even 3 months back may no longer be considered a ‘market rate’ due to the 7-10% we are currently experiencing.

The inability to keep up with changing transportation demand led to increased freight rates across the board, which has been further exacerbated by economic inflation and increasing fuel costs. As transportation costs rise, tender rejections also increase, sending more freight into the spot market. So while total freight volumes have not increased, spot freight volumes have nearly doubled, making up [approximately 25%](#) of volumes. Higher volumes of spot freight increase rate variability, and even when rates drop, it’s never certain how long they’ll stay that way.

How Are Spot Freight Rates Calculated?

Spot freight rates fluctuate 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 origin market, expect rates to be inflated as shippers battle for availability 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 like electronics and machinery generally cost more in the spot freight market than low-value bulk goods, 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: Timing 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.
- › **Day 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. Short-haul loads that pick up Friday and deliver Monday generally have higher spot rates, especially for temperature-controlled reefer loads.
- › **Time of day:** 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.

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.

Challenges and Benefits of the Spot Freight Market

Utilizing the spot freight market for capacity procurement is daunting and presents significant challenges for shippers. Managing costs is a top concern due to extreme market instability, particularly as failing routing guides and increasing tender rejections push more freight into the spot market. This creates an unexpected and dramatic increase in a shipper's freight budget and can threaten profitability for the entire organization. Even procuring reliable rates in the fragmented spot market is a challenge. Despite having hundreds to thousands of carriers in the market, shippers are lucky to get a handful of options, with little insight into how accurately those options reflect true market value for a given load.

High volumes of freight in the spot market increases 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 requires in-depth knowledge on the current market, strong negotiation and multi-tasking skills, and a lot of time. Even the best-staffed and experienced logistics teams are struggling to keep up with volatility and increased spot freight volumes, and many are reporting burnout as a result.

Despite these challenges, there are benefits to using the spot freight market for procurement. Most notably, the spot market can deliver capacity when routing guides fail or when shipping low-volume lanes and project freight. It 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 reflect 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. The spot freight market plays a critical role in truckload transportation and offers substantial benefits to the shippers who understand how to navigate it well.

Technology to Optimize Spot Freight Procurement

Numerous technology solutions for simplifying and streamlining spot freight procurement have entered the market in recent years. The prevailing thought is that digitization of processes will drive efficiency and profitability in the transportation industry - but so far digitization alone has not delivered substantial improvements.

[Digital freight brokerages \(DFBs\)](#), like Convoy and Uber Freight, sought to disrupt the truckload market with slick user-interfaces and click-to-book options for spot freight procurement, but have failed to meaningfully differentiate themselves from traditional brokerages in service or cost-savings. This is because DFBs utilize the same digitized load board strategies as traditional brokers, using historical data analytics to predict an average freight price, and presenting that price to their network of carriers. The first carrier to respond is awarded the load, even if there were other carriers in the network that would have accepted a price below the average. This means the brokers consistently give away margin and shippers consistently overpay on spot freight, which is a rather inefficient business model.



Predicting Spot Rates with AI, Machine Learning, and Behavioral 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 utilizes [machine learning](#) to compare the same historical data against actual human behavior to develop real-time pricing strategies. Machine learning combines traditional data science, whereby numbers alone guide decisions, with behavioral science, which acknowledges the existence of biased, alterable human behavior in decision making. In the spot freight market, machine learning informs AI by overlaying statistical analytics with behavioral analytics to predict spot market rates and guide smart tendering.

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 customized spot rates based on individual carrier profiles and truck positioning and are the backbone of smart tendering.

Carrier Profiling

Understanding how and why carriers accept spot market loads is crucial for minimizing spot freight costs. [Carrier profiling](#) technology applies behavioral and data science to determine the needs and decision-making patterns of individual carriers, and creates a personalized and relevant user experience. AI carrier profiling identifies the carriers most likely to accept a spot load at a particular rate and drives customized 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.

Smart & Autonomous Tendering

[Smart, autonomous tendering](#) is an AI-powered, automated approach to spot market procurement that leverages advanced machine learning and behavioral science to navigate the balance of predicted price and capacity. Smart tendering software uses a catalog of tendering strategies to strike a balance between speed, cost-savings, and the ability to secure capacity, and automates the tendering process to carriers with the best predicted outcomes. There are several key differences between smart tendering and traditional spot procurement:



Shippers are making offers, not asking for bids. Smart tendering utilizes advanced market knowledge and carrier profiling to present customized 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, smart tendering confirms the shipment immediately.



Offers have a high degree of differentiation. Unlike digital boards, which present a singular rate across the network, smart tendering customizes rates based on carrier preferences and history.



Offers and prices evolve over time. Smart tendering 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.

Smart tendering is a dynamic, evolving solution that answers the biggest challenges in spot freight market procurement – 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.

Taking a Modern Approach to Spot Freight Procurement

Issues in today's supply chain require advanced, modern solutions. Improved spot freight procurement is one of the best opportunities for shippers to control transportation costs and build operational efficiencies. The future of procurement will undoubtedly include a more strategic blend of contract and spot freight, implementation of spot freight rate indexes to minimize exposure in inflated markets, and advanced technology to accurately predict pricing and improve spot freight tender acceptance.

TNX by Transporeon delivers automated, efficient spot freight procurement through advanced AI and machine learning. Their technology uses data and behavioral science to develop comprehensive carrier profiles, inform dynamic smart tendering strategies, and ensure the best possible outcome for every load that hits the spot market. Automated spot procurement eliminates the need for bid management and carrier negotiations, and gives shippers and transportation teams time to focus on high-level priorities instead.



Take control of spot freight
procurement with TNX by Transporeon -
schedule a demo today
to learn more.