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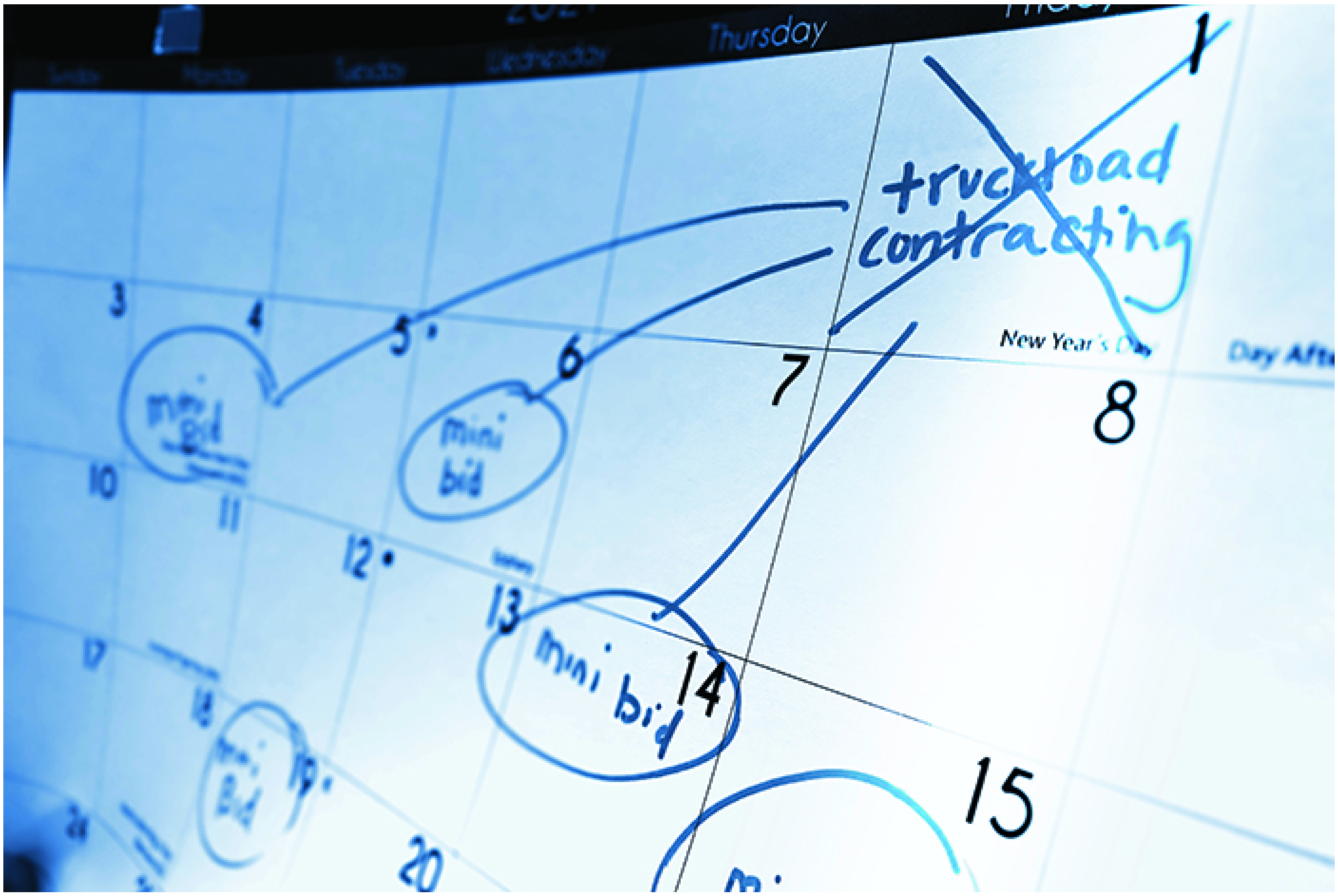

With only three months until the traditional truckload bidding season, US shippers are looking for ways to avoid costly rate hikes in annual contracts. Photo credit: Sue Abt/JOC Images.

Unprecedented supply chain disruption caused by the COVID-19 pandemic has US shippers rethinking how they procure freight transportation, especially truckload services, and that means taking a fresh look at how they put their freight lanes and business out for bid as the end of 2020 draws closer. Shippers are modifying their approach to bidding, using more short-term “mini-bids” than ever before, and turning to technology to improve a process that often breaks down when market prices swing quickly, failing both shippers and their carrier partners.

If the currently frenzied freight environment and fears of tight capacity weren’t reason enough for change, US shippers are only three months away from the first quarter of 2020, when they typically renew their annual trucking contracts. They’re looking for ways to avoid costly contract rate hikes propelled by a historic surge in spot truckload rates that began in May and has barely slowed since.

They won't do that by sticking to traditional practices strictly focused on price, shippers, analysts, and trucking executives tell JOC.com. The bidding process will have to be more specific, more flexible, and more collaborative.

"We can't go back to last year's playbook," Matt Montour, senior director of logistics at IPC, the purchasing cooperative for franchisees in the Subway restaurant chain, said in an interview. "There's a need to be agile, and that's why a lot of companies, including us, are doing mini-bids to help us get through the next few weeks. All of my peers are struggling with the same problem, which is how do we get carriers to commit to pricing agreements we made weeks ago, while avoiding shifting to the spot market? There's no one playbook to manage that."

As supply chain problems multiply and high demand puts pressure on rates, "there's a lot of appetite among shippers for doing things differently," said Chris Caplice, executive director of the Massachusetts Institute of Technology's Center for Transportation and Logistics and chief scientist at DAT Solutions. "For one, you don't have to bid everything. Shippers and brokers have realized that. A lot of people think a static annual contract is the only kind you can have, but there are degrees along a continuum, and that's what we're trying to flesh out."

Digitization and analytics are becoming central to shipper efforts to determine when to go to market, what capacity to bid on, and how to bid. "Transportation procurement is very heavily manual, it's very tedious, and it's very costly," said Bart De Muynck, vice president and analyst at consulting firm Gartner. "The problem is you're usually looking at historical data that isn't relevant, and you don't know what's going to happen with rates tomorrow. That's why so many shippers this year had carriers come to them and say, 'The contract I gave you two weeks ago, I have to break it.'"

Short-term contract push

Since 2004, Caplice has run the Freight Market Intelligence Consortium (FMIC) acquired by DAT in June from Chainalytics. The FMIC benchmarks and forecasts truck, intermodal, and ocean pricing for shippers, and it increasingly provides analyses on pricing and contracting affecting tactical, lane-by-lane transportation purchasing decisions. The consortium receives and analyzes about $50 -billion worth of shipper transactional data a year, including weekly data from about 60 shippers with $20 billion in annual transportation spend, according to DAT.

From that vantage point, the change Caplice sees coming to contracting and bidding is gradual, but still real, and made necessary by how rapidly supply networks and rates are changing. "I don't think annual bids will ever go away; they just can't. You need some kind of budget," he said. "But it takes roughly three to six months to run a bid, and then it doesn't take effect for a couple of months. The carriers are bidding for something that won't arrive for six to 12 months." It's impossible to stick to such a contract when market prices swing rapidly, as they did this year.

"Every shipper wants consistency, the lowest price every day of the year, but in today's market that's not possible," Montour said. "The COVID pandemic has been six years of economic cycles in six months, and it's challenging to explain all the dynamics. All of our lanes aren't the same, and the capacity situation is going to be different week to week. Every week since April has been a bit of a different flavor when it comes to capacity. At some point a market like the Midwest or Texas will be a challenge, and that will turn on its head four weeks later."

Many shippers that signed annual contracts with carriers when pricing was low in early 2020 saw those contract awards refused in July, as freight demand and spot pricing spiked. They were forced to go back to the table and renegotiate or find new carrier partners, a difficult job in the midst of the COVID-19 pandemic. The need for more flexibility to adjust to fast-changing market conditions is pushing shippers toward shorter-term contracts, said Ben Cubitt, senior vice president of supply chain and transportation at third-party logistics operator Transplace.

"In March and April, we saw the lowest spot rates on a per-dollar average we've seen in seven years, and now that per-dollar average is the highest it's been, so we've had both the low and the high in the same year," he said. "Everybody is struggling with it. Shippers are in a world of on-time, in-full penalties imposed by retailers. The coronavirus disease has made supply and demand unstable. We're hearing shippers say they need different strategies that value their incumbents" — i.e., those core carriers with which they already have contracts.

The same dynamic is taking shape in the trans-Pacific ocean trade, where a lack of available outbound vessel space and record spot rates from Asia is increasing demand for short-term freight contracts to supplement capacity.

Keeping carriers close

Transplace negotiates hundreds of contracts each year for all types for shippers, and Cubitt said keeping those incumbent motor carriers close by ensuring their capacity is valued should be a key strategy in the next round of contract negotiations.

"We're seeing more shippers pre-negotiate with their biggest carriers," he said. "They'll go to them and say, 'These lanes are working for both of us. If we can come to an agreement on price, I won't bid those lanes.'" That keeps a core book of business with those carriers and shrinks the size and cost of the bid.

More than anything, Cubitt sees shippers shifting toward micro- or mini-bids that cover a shorter time span and perhaps a small chapter of their business, rather than the whole book. "We've seen a huge increase in mini-bids," driven largely by constantly shifting shipper and carrier networks, he said. "For the first 25 years of my career, I could do an annual bid and it worked 95 percent of the time. But looking at the last five years, they've been the most dynamic years we've ever seen." This year, the COVID-19 pandemic and resulting global recession once again redefined how dynamic supply chains can be, Cubitt said.

"You do a bid and think things are going to go one way, but then the product keeps surging," he said. "Now, all of a sudden, you're shipping from someplace 50 miles away from your original origin point, or you're shipping direct from a plant to a store, so you have to do a 400-lane mini-bid."

Cubitt said many of Transplace's large shipper customers are doing mini-bids every month or two. "One thing driving this is that carriers are over-subscribed," he said. "They may have contracted for 100 loads in Atlanta but only have 60 trucks available."

Truck driver availability became a major issue again in the third quarter and will shape the experience of shippers through the end of the year. "Carriers tell me they've gone from having 95 percent of their trucks seated to 90 percent seated," said Cubitt. "They've hired more recruiters, and they can't move the number. And carriers that are struggling with basic commitments can't meet surge demand." Some "displaced" drivers may return to the road as COVID-19 relief money runs out, but many "missing" truck drivers are still on the road, just chasing different freight for a higher rate.

"A lot of drivers have gone out of their traditional markets to chase the dollars and volumes in what's become a Gold Rush," said Montour. "You have drivers who do that for the produce season every year, so it's common. For shippers like Subway, that means a lane may be easy one week and then very tight the next. So we're doing what we can to match up demand with dedicated capacity and keep drivers in certain markets. We can do that through mini-bids." Subway, he said, "has very consistent flows. We'll be there when the rush is over."

IPC is also working with freight broker C.H. Robinson Worldwide to match its freight network to C.H. Robinson's network of asset-based carriers to identify opportunities to reduce cost across lanes and make its network more efficient.

C.H. Robinson in September launched Procure IQ, a tool that integrates a business's shipping lanes and its freight database to reduce, if not eliminate, the need for an annually negotiated lane bid. Given the size of C.H. Robinson's truckload brokerage business, the launch is a significant one for large truckload shippers.

C.H. Robinson is one of several logistics and technology providers taking aim at the trucking procurement process, along with companies such as Convoy, Leaf Logistics, Transfix, and Banyan Technology, with the stated goal of reducing shipper reliance on a bidding process that increasingly breaks down post-bid. The launch of Procure IQ follows a June study of more than 1,000 shippers in which C.H. Robinson found more than half are looking for tools in the areas of predictive analytics, reporting, and dashboard development.

"The biggest thing is understanding your own data and your carriers' performance not over the past few months but the past weeks," Montour said. "It's not just how good your data set is but how fresh and consistent you can pull it. A lot of people in my role, we like to look at a year's worth of data, or a quarter. Right now it's very different. Our capacity struggles in September are different from July. We've had to look at very finite, very recent history, to talk about service. We're not waiting until the end of the month. We're having to make adjustments week to week."

Increased use of mini-bids may be a lasting result of the COVID-19 pandemic. "We still do annual contracts, but the challenge is how do you get through the next few months?" said Montour.

The annual contract increasingly may be more of a benchmark than something written in stone, and it may come to include more dynamic pricing mechanisms or leave pricing more to the mini-bids while focusing on other aspects of the shipper-broker and shipper-carrier relationships. Timing of annual contracts may also become more important. Unlike in the ocean sector, trucking bids take place throughout the year.

"If your contract was from June to June, June was a completely different situation than we're in now," Montour said. "If your contract is October to October, you've already had to make adjustments to your rates. Those who are doing late summer or fall bids are in a fairly good position to secure capacity, but will they be happy with their rates? I don't know. But the mission now is more about can you get a truck and maintain service?"

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