

Holding carriers accountable means knowing the freight market

There is a scene in *Curb Your Enthusiasm* where Larry David, who had never before purchased illegal drugs, asks a dealer, “Is that a fair price you’re quoting me?”

Without adequate data and information on the freight market, shippers can find themselves in the same disadvantageous position as Mr. David.

Shippers’ primary operation is not moving freight; it’s processing food, or manufacturing auto parts, or selling office supplies.

Yet, shippers must negotiate with carriers and brokers that live, eat and sleep freight, many of which spend big capex dollars to be armed with internally developed freight intelligence systems.

While the information gap is less applicable to mega-shippers that have private fleets like Walmart, the typical information asymmetry issue is magnified when shippers are of relatively modest scale.

In addition to whether shippers are being charged a fair price, there is also the question of whether shippers are getting what they are paying for. Getting back to Mr. David, even if he was, in fact, quoted the going market price, the uninformed customer would not know if the product he was receiving was of adequate quality.

Similarly, since most freight contracts do not have “teeth,” and given the volatility of freight markets, it can be difficult for shippers to ascertain whether they are receiving sub-par service levels for what they are paying.

If carriers are rejecting one load of every 10 tendered loads, that could be solid service or poor service depending on the context. If carriers are rejecting twice as many loads in September as they were in August, that could be par for the course in a tightening market – or not.

FreightWaves SONAR can be used in many ways to help shippers manage the information gap and hold carriers accountable for fair prices and adequate service levels.

Here is where we recommend starting:

- 1) Are carriers overcharging? Use SONAR SCI to benchmark rates against what shippers in your industry are paying.
- 2) Are we getting the service we are paying for? Use SONAR to see how often carriers are rejecting loads with similar characteristics to yours.
- 3) Which carriers should be elevated in the routing guide? The highest carriers in your routing guide shouldn’t always be the ones with the lowest rates. Use SONAR to score carriers based on your most important criteria.

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Shippers need to ensure carriers aren't price gouging on lanes, and therefore blowing out transportation budgets

The lack of information and data sharing between shippers and carriers (or 3PLs) has long plagued the transportation industry, which has put shippers behind the eight-ball, particularly when sharp market shifts take place. At a basic level, shippers need to know that their freight is going to be picked up and delivered on-time, on a regular basis, and without paying an arm and a leg over market rates.

In recent years, as information has become somewhat more accessible to all parties, the rise of mini-bids when the freight market is highly volatile and/or uncertain (both in periods of extreme tightness and looseness) has allowed shippers to hold carriers accountable and adjust rates on a more timely basis.

Using both FreightWaves' flagship SONAR and the SONAR Supply Chain Intelligence (SCI) platforms allows shippers to gain actionable insights into what is happening into the freight market, leading to more productive negotiations and relationships with carriers.

In order for a hypothetical Shipper X that is undergoing a quarterly carrier accountability review to ensure that the provided service by carriers is in line with market expectations, Shipper X needs to understand how contract rates have moved in recent weeks and months (up, down or sideways). In addition, Shipper X needs to understand how freight markets have responded (such as with lower tender rejection rates to higher contract rates).

The average dry van contract rate has increased by nearly 25% in the last 12 months, which is a signal to Shipper X that old contract rates are likely obsolete. Plus, if Shipper X's contract rates went up more than 25% in the past 12 months, Shipper X deserves an explanation.



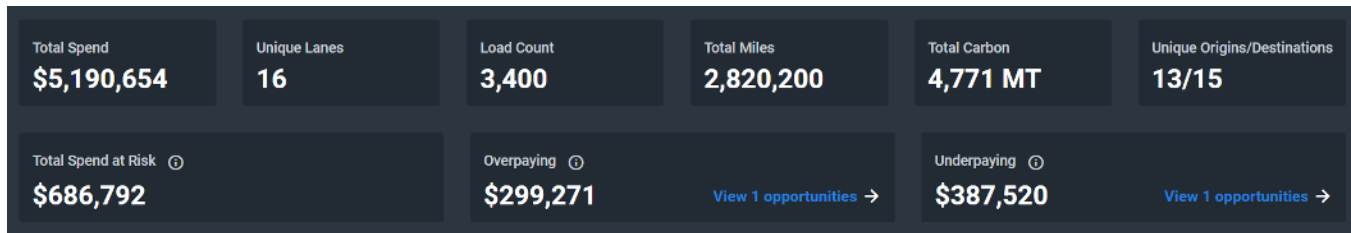
FreightWaves SONAR. Initial Average Dry Van Contract Rate (VCRPM1.USA)

Diving further into the contract rate chart, Shipper X would be able to identify that the national average contract rate increased between 6-7% during the second quarter of 2021.

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Shipper X would then be able to take that information into its own carrier network to determine if it has been raising contracted rates faster, in line with or slower than the national average. This will allow Shipper X to determine if it has been paying higher than the market rate on specific lanes.

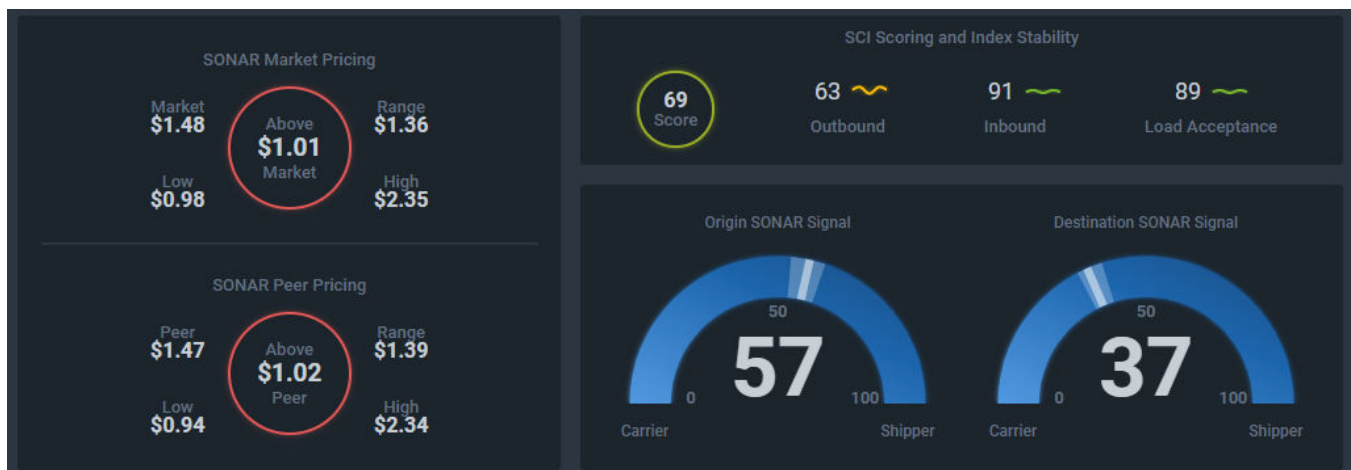
With FreightWaves SCI, Shipper X is able to break down contract freight rates by lane across its entire network and target lanes that have exceeded market rates, and determine if carriers are overcharging for services relative to the difficulty (or ease) of managing a given lane. Shipper X is currently looking at 16 unique lanes that cost over \$5 million in transportation spend. With SCI's summary view, Shipper X is able to identify that there is only one lane in which Shipper X is significantly overpaying (or carriers are overcharging) over the past year.



FreightWaves SCI. Shipper X is significantly overpaying on one lane over the past year, resulting in nearly \$300,000 at risk.

With shippers' transportation budgets being blown out during the past year due to the extreme tightness and unwavering freight demand, targeting specific lanes will allow shippers to allocate the resources necessary to improve their transportation spend.

The one lane where Shipper X is significantly overpaying is Houston to Los Angeles; its carriers are charging Shipper X more than \$1 per mile over the market rate. This lane as a whole is relatively desirable for carriers, given the typical ease of getting loads out of Los Angeles, as the Lane Score indicates (69 is the third-highest score of the 16 lanes Shipper X is reviewing). The fact that Shipper X is overpaying in this lane is likely a result of stale rates; in the past year, as the West Coast ports have broken import records, rates on westbound lanes to the West Coast have not appreciated as fast as national average freight rates.



FreightWaves SCI. The Houston to Los Angeles lane is being severely overpaid for a destination that is favorable for carriers.

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Breaking down the lane, the outbound Houston lane is more volatile than the inbound Los Angeles lane, but shippers do hold a pricing advantage out of the market over the past year. Looking at the load acceptance score (the inverse of tender rejections) indicates that carriers are likely to accept a load in this lane, because the destination is a favorable carrier market. With just 11% of loads being rejected along this lane, compared to the national average exceeding 20%, shippers should be able to pay close to the market rate. In this instance, carriers are overcharging Shipper X by a significant amount.

Shipper X should take this information to the carrier and should figure out why a given carrier is charging so much more than the market rate and make a data-backed decision on how to move forward with the carrier to ensure that service metrics are maintained and pricing is fair compared to market rates.

To evaluate service levels, look for loads in which carrier compliance levels are underperforming compliance levels predicted by SONAR's granular data sets.

Evaluating the quality of the service provided by carriers can be tricky because no two loads are the same. Plus, different shippers place greater value on different aspects of service. Some shippers may value always having the carrier arrive on time to the minute to avoid shutting down a production line and keeping inventories. Other shippers may value never having to pay demurrage and accessorial fees even when carriers are kept waiting while loading and unloading for longer than they should.

There is no way for FreightWaves to have access to data on all factors important to those directly involved in a transaction. But, holding carriers accountable on compliance is one very important area in which using SONAR can be very effective.

The unique thing about transportation contracts is that they “don't have teeth.” Unlike other industries, when a carrier doesn't comply with a contract, it cannot be sued for breaching that contract. Conversely, carriers cannot sue shippers if a shipper says, for instance, it expects to tender the carrier 100 loads a week and does not tender any.

Without the threat of a lawsuit, carriers are tempted to reject contract rates and “chase the shinier object,” in the form of highly rated loads on the spot market, when such loads become available. But, when spot loads are available, carriers must weigh the potentially short-term gain of scoring highly rated spot loads against how much they value their relationships with the contractual customers.

Carriers rejecting loads too often is indicative of shippers not getting adequate service. Having to re-tender loads is time-consuming and the shipper runs the risk of having to pay exorbitant rates in the spot market.

An uptick in rejections will often leave shippers questioning whether it was entirely a result of tightening freight market conditions (and therefore beyond carriers' control) or whether carriers really should have prioritized Shipper X's contractual loads since they are a valued customer.

Making such an evaluation is more of an art than a science, even with the wealth of data contained in SONAR. In addition to spot load availability and a carrier having equipment in a particular market, carrier compliance levels can be impacted by a wide range of other factors such as:

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- Special service or equipment requirements
- Outbound freight market characteristics
- Inbound freight market characteristics
- Seasonality/timing of holidays
- Length of haul
- Timing of when the load is tendered

Therefore, we recommend getting very granular when evaluating carrier compliance rates. SONAR provides a breakdown of tender rejection/compliance rates by equipment type, length of haul, lane and outbound/inbound market. Shippers should evaluate those tender rejection rates in the context of their own special requirements, which may cause their own tender rejection rates to be higher or lower than comparable statistics.

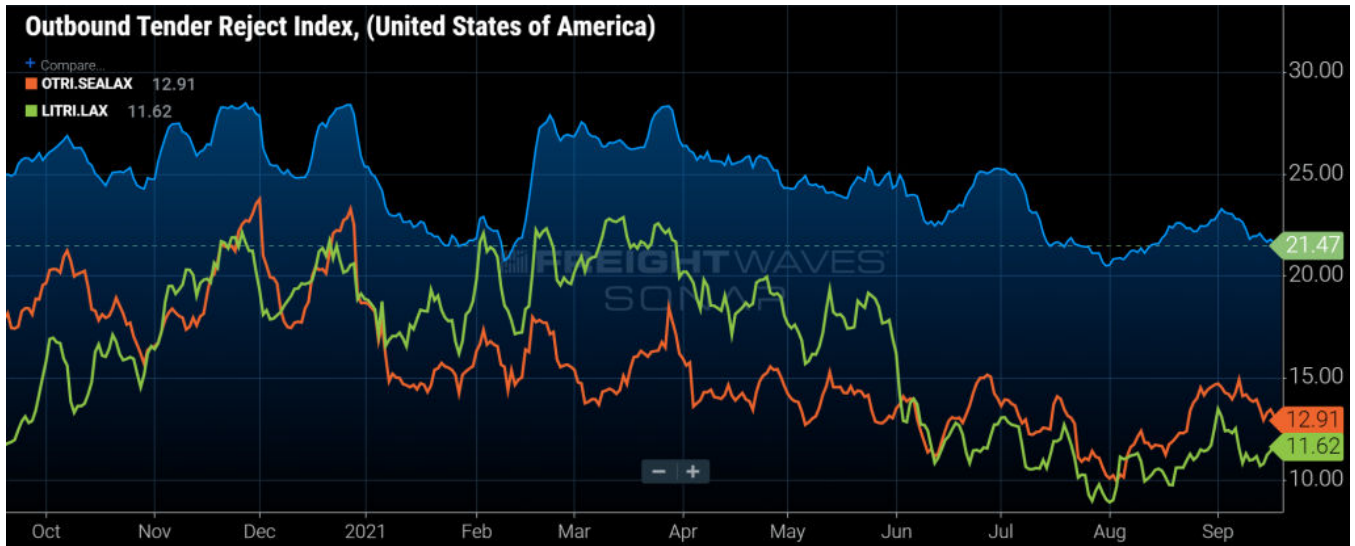
As an illustration, we show two examples in which we add context to show: first that a relatively high tender rejection rate is justified (the shipper is receiving satisfactory service); and a second example in which a tender rejection rate that appears low on the surface should really be lower (shipper is receiving subpar service).

Seattle to Los Angeles – a lane in which shippers should hold carriers to a low tender rejection rate.

The nationwide outbound tender rejection rate on September 19th was 21.47%, meaning that carriers are rejecting slightly more than one of every five tendered loads. For a large national shipper, comparing its overall tender rejection rate to the latest national tender rejection rate is a quick first step to see if it is getting adequate service.

So, a carrier rejecting only 15% of its tendered loads might seem like it is providing solid service. But, context is important. If that carrier, for instance, is hauling loads for Shipper X primarily from the Port of Seattle to points south, then Shipper X should expect compliance rates that exceed the national average (and rejection rates far below the national average).

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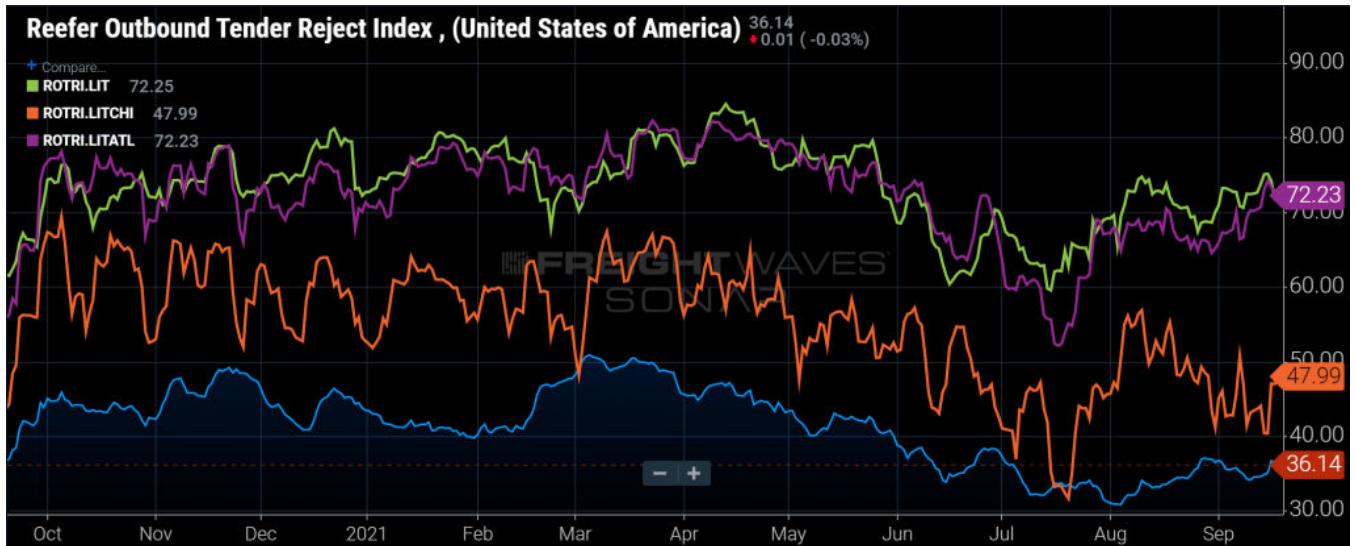
FreightWaves SONAR. Long-haul inbound L.A. tender rejection rates (LITRI.LAX) and tender rejection rates in the Seattle to L.A. lane (OTRI.SEALAX) are consistently well below the national tender rejection rate (OTRI.USA).

The blue line above shows the nationwide tender rejection rate, which has been in the elevated range of around 20%-28% for the past year. The green line shows the tender rejection rate for long-haul (800 miles or greater) loads moving inbound to the Los Angeles area, which has consistently been well below the national tender rejection rate and, in late July, dipped below 10%. Carriers are more willing to head to Los Angeles than most places because outbound loads are plentiful, thanks to the nation’s largest port complex. Similarly, the tender rejection rate from Seattle to Los Angeles is well below the national average at 12.9%. That is historically a backhaul lane, as it is now. Therefore, shippers that are moving loads long-haul to L.A. and/or in the Seattle-to-L.A. lane should demand that carriers reject no more than about 10%-12% of tendered loads.

Little Rock to Atlanta – a reefer lane in which shippers should be more patient with compliance levels.

Of course, for every lane and freight market that have tender rejection rates that are below the national average, there is a lane that has higher tender rejection rates than the national average. In those cases, in the current freight market, carriers will likely reject far more than 1 of every 5 loads and shippers should be far more patient with carriers on their compliance levels. SONAR data quantifies that and tells shippers how patient they should be.

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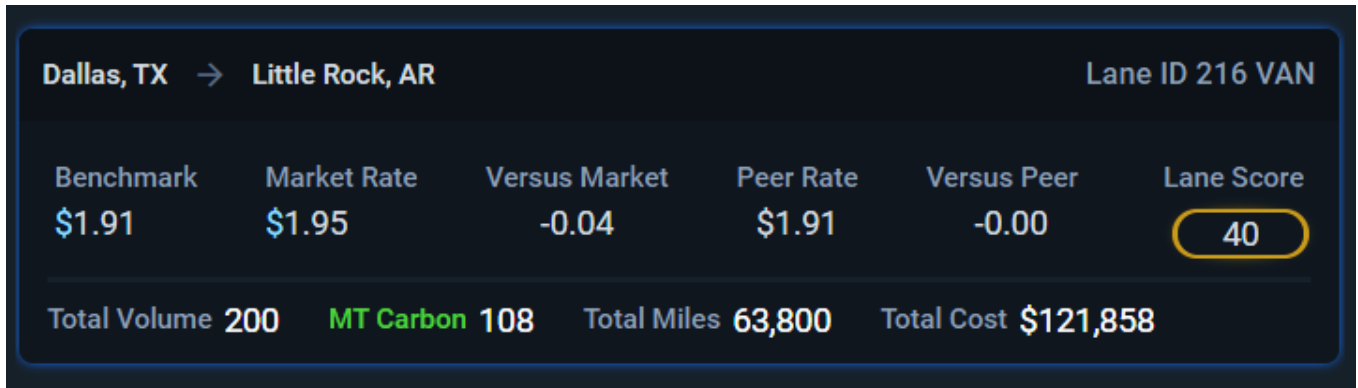
FreightWaves SONAR. Tender rejection rates on reefer loads outbound from Little Rock (ROTRI.LIT) are well above national reefer tender rejection rates (ROTRI.USA). There is more relative tightness in moving reefer loads from Little Rock to Atlanta (ROTRI.LITATL) than from Little Rock to Chicago (ROTRI.LITCHI).

Consider the poor shipper that needs to move refrigerated loads from Little Rock to Atlanta – it is dealing with a 72% tender rejection rate in that lane, in line with the outbound tender rejection rate for all refrigerated loads moving outbound from Little Rock. That’s far higher than the 36% tender rejection rate for all refrigerated loads, but given the tightness in the lane, shippers shouldn’t fire a carrier over a 50% carrier compliance rate in outbound refrigerated Little Rock loads. In fact, that may be indicative of attentive service. As shown in the chart above, moving refrigerated loads from Little Rock to Chicago, while challenging, is less onerous for shippers than most outbound reefer loads from Little Rock – that lane has a tender rejection rate of 48%. Therefore, a highly granular look at the market is needed to get an accurate assessment of carrier service levels.

Identify and compensate carriers with exceptional contract compliance across key network lanes.

The ability to pinpoint and acknowledge superior carrier performance throughout a shipper’s network can be just as important as initial carrier selection. Long-term carrier compliance and reliability on critical lanes within a shipper's network is often a function of carrier relationships and compatibility. To facilitate those long-term carrier relationships, a shipper needs to allocate proper compensation and accommodation to carriers that dependably cover their trickiest, yet most critical lanes.

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(FreightWaves SCI: Benchmark Lane profile for Dallas, TX to Little Rock, AR. Outlining lane level spend, score and carbon footprint)

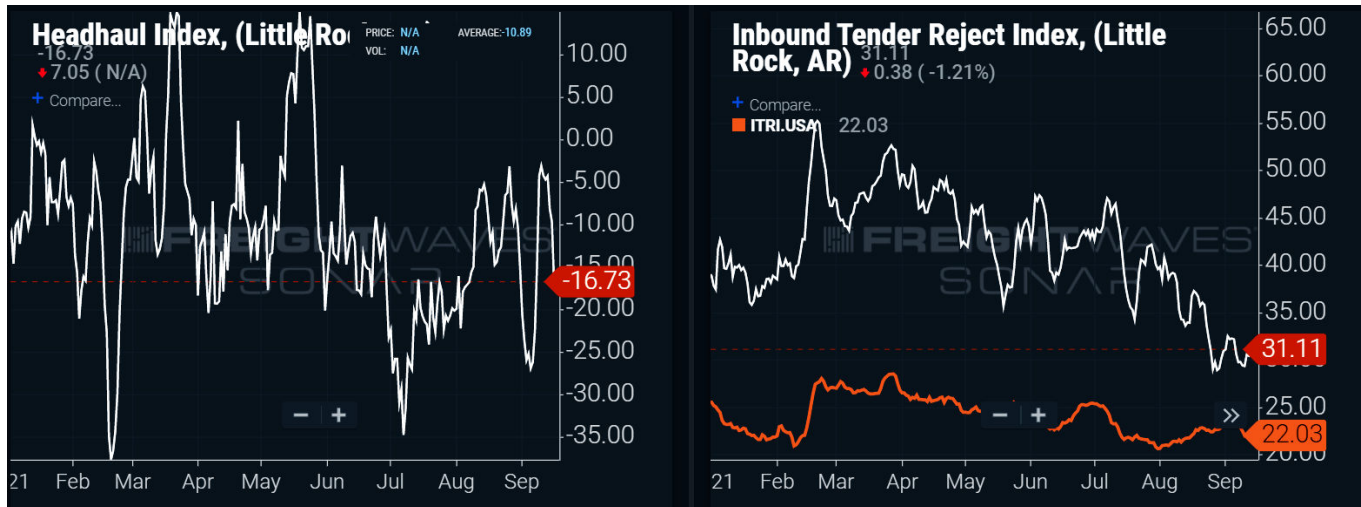
By employing FreightWaves’ SONAR SCI platform, Shipper X can quickly deduce that its Dallas to Little Rock dry van lane was more difficult to cover than most, judging by a below average lane score of 40. Over the last quarter, hypothetical Shipper X has received reliable contract compliance along this lane from its primary carrier, limiting its exposure to the inflated spot market. Despite being in line with peer rates, Shipper X’s primary carrier is running at \$0.04 below the market rate, a level that most shippers would expect to see an increased risk of compliance failures on this difficult-to-manage lane.



(FreightWaves SCI: Overall lane score coupled with stability scores for both origin and destination as well as tender acceptance rates)

Little Rock is a small market which controls just ~0.4% of outbound tender market share nationally. Lack of significant outbound volume contributes to its typical status of a backhaul market, where inbound load volumes eclipse outbound load volumes (Indicated by a negative SONAR Headhaul Index). As a result, carriers are much less willing to take a load into Little Rock, where they may have to deadhead out, or be forced to accept a low-rated brokered load. Investigating this lane further, we can see that the inbound tender rejection rate into Little Rock has historically been far in excess of the national average, leading to the low load acceptance score of 68. Despite its backhaul characteristics, the market is also prone to steep fluctuations in the magnitude of its haul index (bouncing between 10 and -30), leading to its slightly lowered inbound stability score of 84.

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(Chart: FreightWaves SONAR. {Left} HAUL index for Little Rock, AR. {Right} Inbound Tender Rejection Index for the Little Rock market {White} as compared to the national average {Orange})

By understanding the market deterrents on this lane, Shipper X can better appreciate its carriers' unblemished routing guide compliance. In an effort to nurture the relationship going forward, Shipper X could take strides to make the lane more attractive for the carrier, ultimately reducing its lane-level operating ratio. By increasing the benchmark rate, the shipper could assist in covering potential deadhead mileage and the depreciation expense of any drop trailer assets that have been tied up by the carrier. Opening up window times and improving schedule consistency could provide the carrier with more load matching opportunities, diminishing the risk of not finding a supported backhaul.

If possible, Shipper X could also look to provide additional volume on the lane. Doing so will allow the carrier to hire a dedicated driver to facilitate the business, assisting the recruiting process with a consistent route and salary. If compatible, the carrier could be awarded additional, more attractive business within the shipper's network. Doing so can improve both shipper transportation spend, by adhering to contracted rates, and improve carrier revenue streams. By utilizing SONAR SCI, shippers can identify and initiate rewards to deserving carriers that support their critical, yet difficult network requirements.

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