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SONAR SCI: use for daily load planning

FreightWaves SONAR Supply Chain Intelligence (SCI) platform is designed to evaluate the effectiveness and efficiency of a shipper's freight spend by:

(1) Benchmarking shippers' current or target rates to the market or industry peer group.
(2) Showing the lanes where shippers have the most negotiating leverage.
(3) Showing shippers where they are most at risk of their load not being covered.

While data that shows shippers where their rates are relative to the market is most obviously useful in negotiations, it is just as important in managing day-to-day operations.

When tendering loads to carriers in a particular lane, it is important for shippers to know not only what percentage of similar tendered loads are currently being rejected by carriers, but also whether their tenders are more or less likely to be rejected by carriers than most other shippers' loads.

During the process of establishing contract rates, shippers are strategic about where their rates stand relative to the market. For instance, they may make the strategic decision to set rates that are very competitive (attractive to carriers so tenders are less likely to be rejected) in their most mission-critical lanes where the negotiating power is typically in carriers' favor.

Meanwhile, shippers may bid very aggressively (rates less attractive to carriers) in lanes where shipments are generally less time-sensitive and in lanes where the negotiating leverage is typically in shippers' favor since there are ample transportation alternatives.

But, as we have seen, especially over the past two years, market conditions change quickly with trends in local freight markets that diverge sharply from historical norms.

After tender rejection rates move in response to volatility in market conditions, contract rates typically follow. As a result, shippers may find that their rates are stale, relative to when contracts were drafted, often varying widely by freight market or lane.

Shippers should continually monitor where their contract rates stand relative to the market so they know where loads are likely to fall through the routing guide and can proactively allocate resources to have contingencies in place (such as having routing guides in order) in the key lanes. That can help shippers mitigate the risk of having to pay elevated spot rates. That is particularly an issue in a rising freight rate environment and/or when shippers' rates are priced below the market.

Just as importantly, loosening freight market conditions can create a situation in which shippers are overpaying. That should serve as a heads-up to shippers that they may want to be more aggressive and re-bid their freight earlier than usual.

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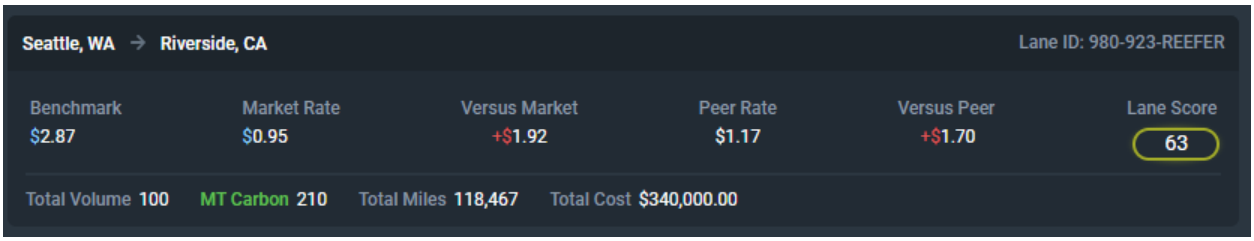
Shippers should benchmark their contract rates against industry peers and make adjustments accordingly.

The FreightWaves SONAR Supply Chain Intelligence (SCI) application shows transactional data from completed contracted loads, both for dry van and refrigerated loads. The data is broken down by lane and filtered by the shippers' industry. In short, it allows shippers to see what peers are paying to ship similar loads.

The SONAR SCI platform allows shippers to benchmark themselves against the overall freight market as well as members of a shipper's peer group. Benchmarking against a shipper's own peer group is important because different industries have widely different service requirements.

Each lane is given a Lane Score with a higher Lane Score (on a scale from 1 to 100) indicative of an easier lane for shippers to find and manage transportation capacity. Therefore a higher Lane Score is generally a lane on which shippers have more pricing leverage.

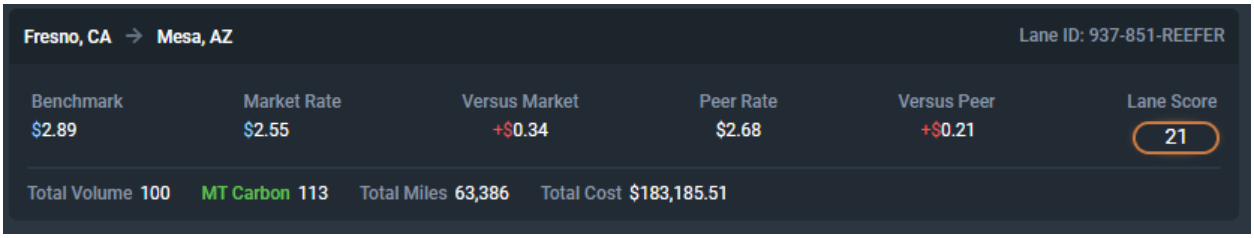
Seattle to Riverside, California is a lane where Shipper X has an opportunity to lower its freight rates during the next round of negotiations.



The example above from hypothetical Shipper X shows a backhaul lane from Seattle to Riverside. That lane is typically relatively easy for shippers to manage. However, even though the Lane Score is relatively high, the shipper is paying well above both the market and peer-group average rate. When both of those conditions are present (the shipper is paying above market rates and the lane is generally easy to cover), that indicates the lane should be among the first lanes that a shipper evaluates when looking to lower its freight spend. In short, it's low-hanging fruit.

SONAR tender rejection data in the lane shows that the Seattle to Ontario/Riverside lane (blue) is far easier to cover than most (orange). With Shipper X paying more than the market in the lane, it should expect a tender rejection rate far below the 12.4% market tender rejection rate in the lane.

Fresno, California to Mesa, Arizona is a lane that is generally difficult for shippers to cover, as indicated by a low Lane Score.



Fresno to Mesa is an example of a headhaul lane where transportation capacity is frequently scarce. Mesa is predominantly a backhaul market, with little outbound freight, so carriers are reluctant to accept inbound loads to Mesa. This means that Shipper X will often have to pay carriers an above-average rate to secure regular capacity.

Based on the benchmark rate that Shipper X is paying, which exceeds both the overall market rate and Shipper X's peer-group rate, Shipper X is taking the necessary steps to secure capacity on a regular basis, making a difficult lane to cover slightly easier. As a result, a smaller percentage of Shipper X's tenders will likely be rejected by carriers relative to its peers. The Fresno to Mesa, AZ lane is an example of a lane where a lower rate is not always better.

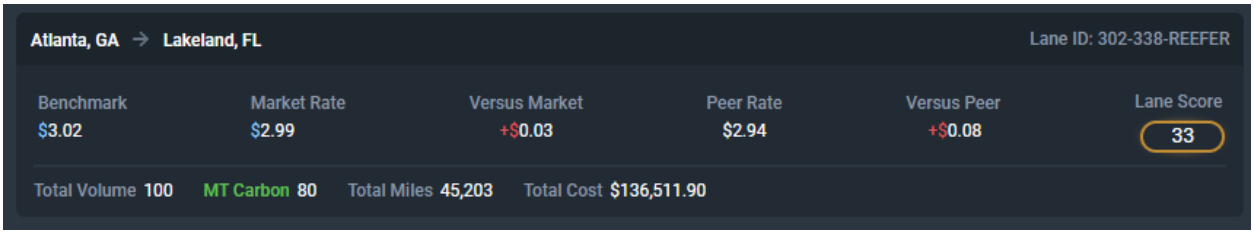
While the tender rejection rate in the Fresno to Mesa/Phoenix lane is below the national tender rejection rate currently, that is often not the case (such as the fourth quarter 2020 when the tender rejection rate in the lane frequently exceeded 30%).

Further exploring these markets in SONAR reveals that what has differed from historical norms is that the market for inbound Phoenix loads has loosened faster than the U.S. freight market as a whole, while Phoenix's status as a backhaul market has become less severe (Headhaul Index above right has become less negative since November).

Breaking down lanes in SCI between dry van and reefer reveals divergent market trends

FreightWaves SCI allows Shipper X, which also operates facilities on the East Coast, using both dry van and reefer trailers throughout its network, to view how its rates compare to the market in both networks. Shipper X moves both dry van and reefer loads between Atlanta and Lakeland, Florida. The reefer loads are slightly easier to cover, resulting in a higher Lane Score, 35 in this instance, compared to the dry van loads with a Lane Score of 25.

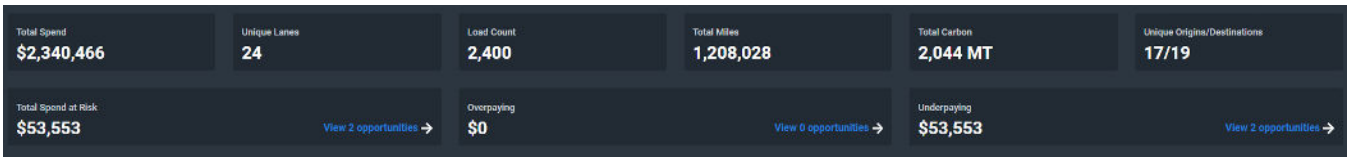
Shipper X pays reefer rates that are slightly more than the overall market and peer group in the Atlanta to Lakeland lane, making it slightly easier to cover. Additionally, understanding that Lakeland has more outbound reefer freight than inbound freight allows Shipper X to be more aggressive with its rates when securing capacity going into the market.



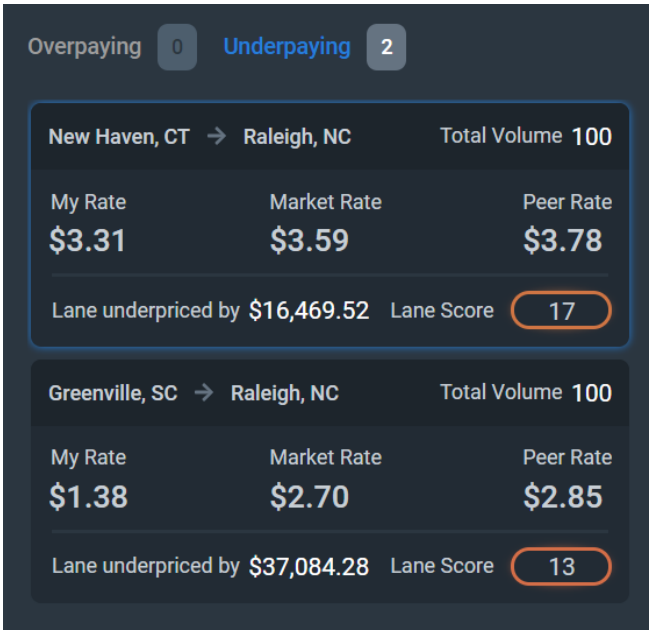
Meanwhile, it is more difficult for Shipper X to cover dry van loads from Atlanta to Lakeland. Not only is the benchmark rate (i.e., what Shipper X is currently paying or targeting) significantly below the overall market and peer-group rates, but it is also a difficult dry van lane to cover with a Lane Score of only 25.

In order to better manage loads day-to-day, Shipper X may want to dedicate resources to building its routing guide in this lane, since it is likely that dry loads in this lane will fall through the routing guide to the spot market.

SONAR SCI allows shippers to identify those lanes on which they are the most at risk of underpaying/overpaying:



Utilizing 24 different lanes that Shipper X has within its network, with 100 loads per lane, Shipper X is significantly underpaying on two of the lanes based on the overall market rate and Shipper X's benchmark rate. Across those two lanes, Shipper X is underpaying by ~$54,000.



Diving further in, Shipper X is able to identify that the company is underpaying on lanes destined for Raleigh, North Carolina. On the New Haven, Connecticut to Raleigh lane, Shipper X is underpaying the market rate by nearly 8%, or $16,500 over the course of the 100 loads in the lane. The destination market has a SONAR signal of 45, which shows that carriers are maintaining pricing power within the Raleigh market. The Lane Score of 17, which is low to begin with, signals that the lane is already difficult to cover and coupled with the significant underpayment, Shipper X is at risk of having the load fall through the routing guide and ending up having to pay spot market rates, which are likely well in excess of the contract market rate.

Along the Greenville, South Carolina to Raleigh lane, Shipper X is paying nearly 50% of the market rate resulting in underpaying carriers by almost $40,000 across the 100 loads. With a Lane Score of 13, the lane is extremely difficult to cover and would represent a lane that a cushion above market rate could be beneficial to secure the necessary capacity for the required service levels. With Shipper X underpaying across the lane, loads suffer the same fate as those on the New Haven to Raleigh lane, and eventually Shipper X is having to pay significantly more in the spot market.

Being able to identify lanes that are at risk, of both overpayment and underpayment, will allow Shipper X to make cost-effective decisions without sacrificing service levels. Overpaying or underpaying along certain lanes may in fact be beneficial, but the ability to view those lanes that are at risk allows for day-to-day operations to focus on lanes that need assistance instead of those operating efficiently.

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