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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.

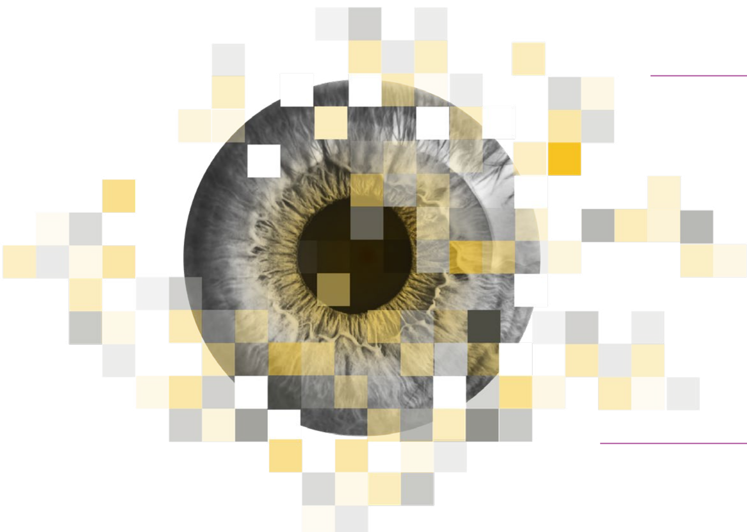
- **Timing:** this has a significant impact on spot rates and will be highly case-dependent. General timing tips to consider when sending freight to the spot market include:
    - **Lead time:** same-day loads come with premium price tags, because most carriers are already booked, and capacity is limited. 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.