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Use lane segmentation and put a variety of attracting lanes on spot

Which factors should be considered when deciding to send a shipment through an existing contract or direct to spot?

The short answer: consider your carrier's perspective. If it causes operational difficulties for your carrier, consider sending it direct to spot.

Contracted carriers respond to certain operational factors, which leads to corresponding cost implications that demonstrate when a shipper should opt to go directly to the spot market, rather than using a contract. This is called a segmentation approach, because it considers which segments of a shipper's network lend themselves better to spot than contract, and vice versa.

Asset-based carriers (i.e. those that own and operate the transport equipment) and third-party, non-asset brokers (those that contract with shippers and buy spot capacity as demand materialises) have fundamentally distinct revenue structures. As a result, they respond to operational factors differently.

The surge volume offered to a contracted carrier, where shipments within a week are above the contracted, expected volume on a lane between a shipper and carrier, plays an important role. This is because it impacts the carrier's probability of accepting the shipment and the resulting cost implications. **Asset-based carriers, in particular, have difficulty accepting surge volume that they have not planned for, due to their fixed capacities, charging premiums between 25% and 55%.** Instead, non-asset providers have access to a large pool of capacity, so they are better able to find the required capacity at lower prices, with extra charges ranging between 10% and 15%. Shippers can use this knowledge to distinguish between their base demand and surge volume and consider sending the latter directly to the spot market or use a brokerage provider instead.

Another important aspect is the impact of lead time on load acceptance probability from contracted carriers. While lead time does not have a large, consistent impact on the likelihood a carrier accepts a load, short lead times do come with additional costs to the shipper. **Rushed shipments on average cost an additional 30% to 35% more than the contract price. This offers the opportunity to either pinpoint processes to be improved, or look at the spot market, which may offer lower prices than the contracted carrier cost escalations.**

Use Best Carrier to find spot capacity at competitive rates for lanes with inconsistent patterns, surge volume and short lead times.

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Variations in demand are difficult for carriers to cover – particularly those with finite capacity and networks to keep in balance. In fact, lanes with highly volatile demand volumes cost the shipper up to 20% more than the contracted price, while lanes with low frequency demand cost 7% more. This suggests shippers should consider historical demand patterns, as these lanes may be a good opportunity to offload to the spot market rather than making the job more difficult for contracted carriers.

A key factor is the competitiveness of contract prices compared to current spot market rates. Contract prices are fixed for a given time frame, but the market fluctuates around those prices after they are set. Shippers expecting to use a contract price that is out of date are likely to be exposed to the spot market anyway. It is important for shippers to keep track of which contract rates have aged and no longer reflect market prices. Carriers may already be signaling that contract prices are out of date. Shippers can either update the contract accordingly or expect to use the spot market to serve a larger fraction of the demand.

Finally, facility processes play a role here too – especially in terms of detention times. **A carrier's tender acceptance is significantly reduced when a facility historically has wait times of more than two hours.** The costs for this implemented by carriers vary widely. Moreover, detention at drop-off facilities, rather than at pick-up facilities, tends to have a greater impact on the carrier. This is because dwell at drop-off facilities influences the carrier's ability to show up on time for its next shipment. Facility ratings systems have been integrated into existing and new transportation management solutions to help warn other carriers and identify areas of improvement for shippers. Facility dwell time results suggest shippers should look to nodes in their networks to determine where acceptance or price performance is suffering due to detention.

Key takeaways

The key consideration for choosing between contract and spot markets lies in understanding the operational dynamics from the carrier's perspective. The ideal factors for segmenting and assigning freight to the spot market are the types of freight that pose challenges for carriers, including urgent shipments, sudden volume surges, and shipments on new or more challenging lanes. Lead time influences costs, with rushed shipments costing 30-35% more than contract prices, prompting shippers to optimise processes or explore the spot market. Become a shipper of choice for both contracted and spot carriers, by offering the same yard experience with easy facility processes and low detention times.