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The Struggles of Automation in Freight Pricing and Tendering

In practice, a customer sends a Request for Proposal (RFP) to their carriers. Historically, the pricing is meant to hold true for one year. Once returned, each carrier's pricing is loaded into the customer's Transportation Management System (TMS) which automates the load tendering. Typically, the least expensive carrier is the first to receive a tender. If rejected, the load is tendered to the next least expensive. It all works well in a stable freight environment but unravels quickly in times of volatility.

The challenge starts with the RFP. Many carriers fear losing visibility of their customer's freight by being priced too high. They think, "How low can we go?" If they are tendered the load at their RFP price and there has been a market shift, they may ask for more money or reject the tender. To protect the validity of their RFP/TMS, the customer often will not agree to more money and their TMS will tender the load to the next least expensive carrier. However, carrier #2 is likely only slightly more expensive, and recent market swings have been so much more than slight. So, carrier #2 asks for more money or rejects the load. During 2020, primary tender rejections reached as high as 88 percent. Shippers reported having to reissue RFPs and reloading their TMSs within 30-60 days. So much freight shifted away from RFP rates last year that 1 of every 4 truckloads moved to the spot market which reached pricing highs of 35 percent over 2019.

The worse disservice a carrier can do to its customer is to accept the tender and sit on it for any length of time before surrendering. When freight is hot, the longer it sits on the dock the more expensive and difficult it is to get a truck on it. In response, some TMS providers are enhancing their platforms to better automate spot market buys. They agree that the biggest challenge is "timeliness." It will always be tough to beat or match the time it takes for a customer to call their most trusted carriers, negotiate a price and move on.

Probably the best thing about last year for many of us is that it is over. It is certainly not a year to look at as we try to make decisions on how to best manage transportation costs in the New Year. However, we should do our best to prepare for the predicted capacity issues as our country emerges from this funk. RFPs going out early this year will likely not survive well past this Spring. If you are using a TMS for load tendering, have a plan B already in place to quickly address sudden increases in freight costs.

Stay safe and healthy,
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