Bid Boldly

A Freight Broker's Guide to RFPs

TABLE OF CONTENTS

Every fall leaves turn color, migrating birds head south and shippers make their requests for proposals. An annual ritual, shippers use RFPs to lock in pricing for contracts, the rates a shipper and a logistics provider agree on for a specific lane and time period.

Brokers respond with their best price for each lane, and from those responses shippers select the winning bids, feeding them into their routing guide or TMS.

The RFP process dates back to the 1980s, when trucking deregulation created a free market. Seeking a mechanism to determine how much to pay for freight services, shippers settled on an auction, allowing competition among providers to generate the best rates and service.

For brokers, RFPs are a necessary part of doing business, providing access to the stability of long term contracts and mitigating risks tied to the gyrating spot market.

Going up against large established carriers in an RFP can seem like a daunting task. But with the right strategies and rate forecasting tools, even small brokerages can be contenders, leveraging the process to improve their bottom lines.

Studies suggest that a successful bid means winning only eight percent of the time, but a good showing can still benefit a broker in other ways. While a broker might not win a specific piece of business, a positive impression on the shipper can potentially lead to future business.

What Shippers Want

Contrary to popular opinion, shippers aren't inevitably drawn to the lowest-cost provider. More often they are trying to identify a brokerage with an acceptable risk profile — one that gives the shipper a reasonable amount of confidence its suppliers will deliver the loads for the agreed upon price.

Equipped with increasingly sophisticated bid optimization tools, shippers today run complex scenarios that analyze the cost benefits of assigning a given provider different lanes in the network, zeroing in on the mix of suppliers that will best meet their goals.

Among the variables that get plugged into the different scenarios are on-time performance, tender acceptance and the ability to match inbound and outbound lanes.

Brokerages factor into these calculations in several ways. They help shippers achieve a desired mix of asset and non-asset providers, and often play an important role as backstop carriers, drawing on their ability to secure less predictable lanes and flex up and down in response to changing market conditions.

What Brokers Want

Like shippers, brokers view RFPs as a means to achieve business certainty.

Volatility in the spot market impacts everyone in the freight markets, and brokers who rely on same-day loads and rapidly changing prices can expect equally unstable and unpredictable bottom lines.

Balancing spot freight with long term contracts is the path to stability for the non-asset carrier. And the best way to secure contract freight is through the RFP process, whether brokers actually win the bid or simply make a favorable showing with the shipper, increasing their chances of success the next time around.

Broker RFP Strategies

Brokers submitting bids need to be clear-eyed about what they can — and cannot — accomplish. Equally important is leveraging the RFP process to cultivate relationships that will translate into new business.

These guiding principles converge around the issue of incumbency — brokers who have developed relationships with shippers are more likely to be awarded contracts than providers the shipper has not worked with before.

How does a new entrant break in? A good rule of thumb is to pick a piece of the shipper's business you know you can cover. Consider a two hundred-lane RFP. A broker that selects and wins five- to ten of those lanes will be an wv-bent the following year, putting them in a better position to win additional lanes.

It's important to note that winning a shipper's business unprofitably is still losing. Brokers need to win a predictable amount of freight at a price that will give them margin to drive growth.

Shippers will likely view with some skepticism a $20 million broker who bids on an entire 500-lane RFP. Remember that a successful bid is a balance between price and ability to execute. Nothing gets a broker blacklisted faster than promising what they can't deliver.

Carving out a niche is another way for brokers to compete against larger more established players. A new applicant might want to steer clear of a highly desirable lane — Atlanta to Chicago, for example — and set their sights instead on a route less traveled.

For instance, lanes such as Tuscaloosa, AL, to Charlotte or Indianapolis, MS, to Detroit are routes where the shipper is likely to have a hard time sourcing consistent asset-based capacity due to various supply/demand imbalances. However, brokers can utilize numerous partner carriers to provide consistent and cost-effective capacity while maintaining high service levels.

Bidding confidently on these less-traveled lanes requires deeper market data. Access to accurate freight analytics is critical to providing service on a shipper's most problematic lanes.

Pricing: The Data-Driven Solution

Nailing an RFP ultimately boils down to accurate pricing, a fraught and uncertain task. Price your bid too high and it will get rejected. Bid too low, and you end up covering loads at a loss or coming back later and asking the shipper for more money.

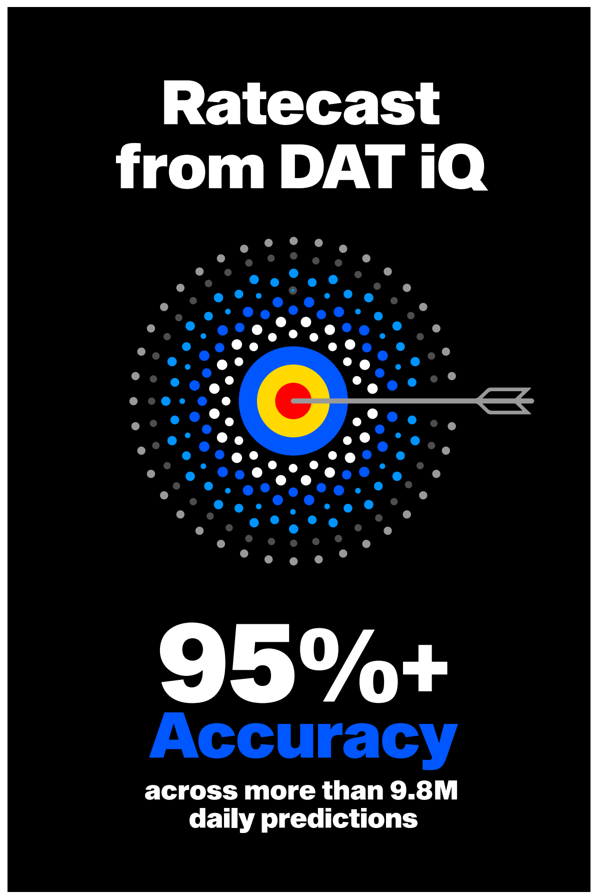
Striking a balance requires mining current and historical freight market data, and paying attention to an array of factors impacting the lanes you want to target.

Just as shippers take advantage of software platforms to vet carrier proposals, brokers now have rate forecasting tools at their disposal rate to ensure the bid process is more (data) science than art.

As the leader in freight analytics, DAT iQ elevates the industry's largest truckload rates database into the actionable insights found in products like RateView Analytics. Those products include tools like the Ratecast forecasting model that's 95 percent accurate across more than 9.8 million daily predictions.

The Ratecast feature mines the company's vast trove of trucking marketplace data, factoring in supply and demand and variability over time to yield a freight forecasting model built on more than 10 years of historical records.

Importantly, Ratecast accounts for seasonality, rate cycles on given lanes and broader freight trends. The model yields a more nuanced and complete picture of the market, bringing transparency and rigor to the bid process, in turn building trust between brokers and shippers.



Conclusion

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Add speed and confidence to your RFP bids

Learn more about rate forecasts available from DAT iQ.
Visit DAT.com/Ratecast

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Since 1978, DAT is the source for market trends and data insights for brokers, carriers, shippers media and industry analysts alike.