DAT iQ Analytics

The Ultimate Guide

An In-Depth Look at Shipper RFP Best Practices

Key Planning Considerations

As shippers plan for 2024, supply chain challenges continue to dominate headlines.

The current climate is a key consideration as shippers undergo the request for proposal (RFP) process as part of annual planning, and it's more important than ever to optimize procurement processes that successfully find qualified and reliable carriers who can move freight at reasonable rates for the year ahead.

Shippers have benefitted from a reprieve in transportation and logistics costs once they finally dropped after historic highs throughout the pandemic. DAT iQ rate forecasting shows that the current inverted market will once again correct itself, driving rates back up again and signaling to shippers that it's time to start building resilience through smart planning.

Such trends are reflective of the greater macroeconomic context in which countless other decisions should be evaluated throughout the RFP cycle to optimize your carrier network. This guide provides best practices across the entire cycle to plan, evaluate, award and monitor with confidence.

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Key RFP objectives

Each year, shippers send out RFPs in search of carriers that can deliver quality service at a reasonable price. The goal of these RFPs is to set annual contracts with carriers that evstablish predictable rates and avoid the excess costs of negotiating several times per year.

A successful RFP results in:

Stability with reliable carriers

Fair, predictable rates

No excess costs of renegotiation

Quality service

Carriers with appropriate equipment types

Freight contracts are typically binding in price but not in volume, which means the carriers in the routing guide that resulted from the RFP process are not obligated to move all of the shipper's allocated volume at the contract rate. Shippers that award freight solely based on low rates may face tender rejections and spot market premiums as carriers allocate assets to higher-paying shippers' loads in peak seasons when spot market rates are more attractive than lower contracted rates.

Shippers can strengthen contracts by cultivating strong relationships with carriers, using transparent, data-driven methods that build trust and create mutually beneficial partnerships.

For a more predictable plan, experienced shippers know to award at a price that will be resilient throughout the lifetime of the contract. Though this is often not the lowest rate, it is a more sustainable one that carriers are able to service in the long-term.

To establish and maintain a strong foundation for mutually beneficial partnerships, you need to be able to efficiently assess market conditions and make adjustments accordingly. Fortunately, top analytics tools can provide you with accurate rate and capacity insights for lanes across the country. With this real-time data, you're best positioned to prepare your RFP, evaluate carriers, award contracts and monitor routing guide performance.

Life cycle of a transportation RFP

How to prepare your RFP

A thoughtful approach to the RFP process ensures the right lanes are put out to bid, enables a streamlined evaluation process and sets the tone for carrier relationships. Savvy shippers prepare for RFPs by segmenting their network in a variety of ways to properly analyze performance and make adjustments accordingly to fit with capacity needs.

When considering freight contracts, shippers should identify high-impact lanes with predictable round-trip schedules and higher volumes. These types of lanes are better served by private fleets and dedicated capacity arrangements. This option has recently been gaining traction as a result of recent market conditions. Usage of dedicated fleets increased 39% in 2021, according to the Council of Supply Chain Management Professionals, underscoring the importance of integrated partnerships with carriers.

Lanes with irregular and inconsistent volumes are best left out of the RFP process and managed on the spot market or through a freight broker instead. Doing so generally creates competition among brokers, representing an opportunity to bring rates down.

Once lanes have been prioritized, it is important to analyze your carrier mix to identify which carriers are performing well and can be more fully utilized, and which ones need to be replaced during the RFP to drive greater network alignment.

The tips on the following page will set you up for success as you prepare for the remaining steps of an RFP.

1 Review internal data

Consider historical volumes and rates for your existing lanes. By analyzing data from the previous one to two years, you'll have an accurate sense of your needs and costs based on past volumes and performance for your lanes.

2 Investigate data by time period to identify patterns

Be sure to look at weekly and monthly volumes, not just annual volumes. Assessing this data is key to understanding seasonality and painting a complete picture of your demand for the carriers that will be bidding on your RFP.

3 Understand demand outlook for existing lanes

You'll want to align with relevant internal departments and other stakeholders on directional demand forecasts and planned promotions for existing markets and customers.

4 Identify new lanes to support expansion

Consult key stakeholders on the strategies and operations that require expansion. These may include adding new customers, adjusting to changes in your freight network, or incorporating new manufacturing or distribution centers. It's important to source relevant data for new network lanes to familiarize yourself with pricing and set realistic expectations.

5 Bundle low volume lanes within broader geographic areas

Aggregate low-volume, inconsistent lanes to a broader region (e.g. 3-digit ZIP) to give carriers a better sense of demand. This helps align incentives and reduce your transaction costs relative to simple Origination-Destination pairs with low volumes. Bundling benefits carriers and encourages more competitive bids by pooling risk, reducing variability, and decreasing operational complexities. However, note that aggregating lanes where you already have high volume is less beneficial than bundling lanes where you have low to moderate volume.

6 Determine appropriate regional aggregation levels

A key challenge for shippers is to determine at which regional levels to bundle lanes. The larger the aggregated area, the more demand you can pool for your carriers. However, with larger areas, carriers have more uncertainty around deadhead miles, which may discourage bids or increase their prices. Essentially, bundling lanes is a balancing act between these two factors.

7 Research new carriers

Rather than conducting lengthy requests for information (RFIs), shippers can streamline research and onboarding by using data sources to prequalify candidates based on relevant search criteria such as certifications, equipment type, load board activity, etc.

8 Leverage rate forecasts

With accurate rate forecasting, you can account for seasonal swings and quickly arrive at rates that will be resilient through the full term of the contract. Combined with historical rate analysis, forecast models can help mitigate tender rejections, creating stronger budgets and smooth negotiations.

Bid evaluation best practices

Once you've created your RFP, you're ready to receive bids from interested carriers. You'll want to make sure that the carriers you select have the potential to be good partners, but how do you go about choosing the right ones?

1 Use the 80/20 rule

When evaluating bids and comparing them against past and forecasted rates, a general rule of thumb is that the top 20 percent of your lanes represent roughly 80 percent of your volume. Those lanes are where the cost management and cost avoidance opportunities lie, and where you should focus your efforts.

2 Hone in on lane-level data for your top 20 percent

Compare bids on your top lanes to both last year's average prices as well as forecasted rates over the first few quarters of the contract to get a realistic reference point. Seasonality is important, as well — if rate forecasts predict a drastic difference between peak and low seasons, you may want to consider awarding primary carriers separate rates for different seasons. This approach helps set resilient pricing and weed out the "bottom feeder" carrier bids.

3 Pay attention to tender rejection and acceptance rates

There is a clear relationship between tender rejections and rate premiums – when carrier tender rejections increase, rates escalate. A study showed that one to 10 tender rejections leads to a 13 percent premium on average over the primary carrier's contracted rate. More than 10 rejections — which typically causes a lane to fall out of the routing guide completely — leads to a 26 percent premium.

Bid evaluations should account for the lanes with the highest tender rejections. Accurate forecasting data can establish realistic cost projections and budget for loads that fall out of routing guides based on an expected value calculation (contract rate plus expected broker margins).

4 Consider bids higher than current or projected rates

Consult key stakeholders on the strategies and operations that require expansion. These may include adding new customers, adjusting to changes in your freight network, or incorporating new manufacturing or distribution centers. It's important to source relevant data for new network lanes to familiarize yourself with pricing and set realistic expectations.

5 Revisit lane-level data

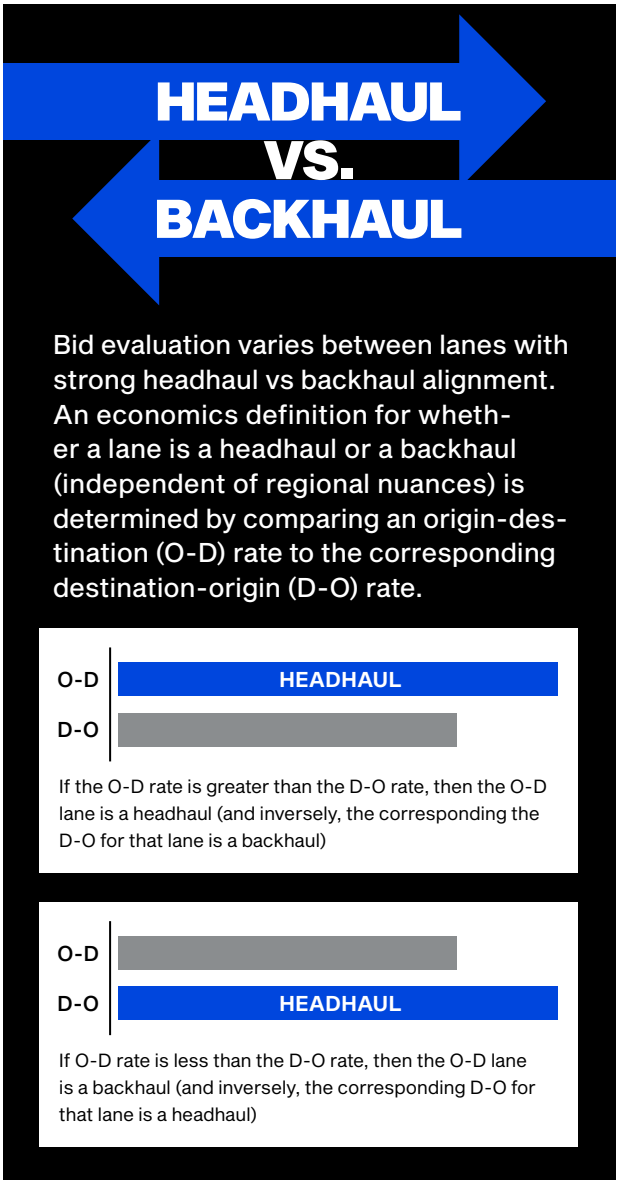
Aggregate low-volume, inconsistent lanes to a broader region (e.g. 3-digit zip) to give carriers a better sense of demand. This helps align incentives and reduce your transaction costs relative to simple Origination-Destination pairs with low volumes. This also encourages more competitive bids by pooling risk, reducing variability, and decreasing operational complexities. However, note that aggregating lanes where you already have high volume is less beneficial than bundling lanes where you have low to moderate volume.

How to navigate the bid evaluation process

Below is a framework for employing analytics to evaluate bids on a given lane. It gives the shipper a comprehensive view of how bids for the lane compare to each other, AND how they compare to historical and forecasted rates, referenced against the annual volume the shipper needs on that lane.

After explaining this analytical process, the guide will provide two fictional scenarios over the next few pages to demonstrate how it works.

- Plot bids on the lane using a histogram that shows capacity by linehaul rate.
  - Rates are on the X-axis, represented by linehaul cost buckets (excluding fuel and accessorials).
  - Capacity commitment is on the Y-Axis, showing how much volume the bids have committed at that rate.
  - The bars within the graph indicate capacity from bids at that rate, with stacked bar graphs reflecting capacity commitments from separate carrier cohorts.
- Include the shipper's annual volume for that lane as a horizontal line representing required annual capacity for the lane.
- Append market data points to the graph as an objective reference point to guide evaluation and awarding:
  - Historical Rates: The average rate for this lane across the previous 365 days as a comparison point against historical rates.
  - Forecasted Rates: The average forecasted rate for the upcoming year as a comparison point against potential future rates, as well as the maximum forecasted rate to account for seasonal peaks.



FICTIONAL SCENARIO DENVER, CO - LOS ANGELES, CA

To frame the analysis, the shipper first confirms that this lane has strong backhaul alignment: the average rate from Denver to Los Angeles is less than the average from Los Angeles to Denver by a wide margin, validating that the lane has a strong backhaul orientation.

Denver, CO - Los Angeles, CA
Shipper-to-Carrier Contract
Avg Rate:
$1.13
Min. $0.79; **Max:** $1.34

Los Angeles, CA - Denver, CO
Shipper-to-Carrier Contract
Avg Rate:
$3.46
Min: $3.36; **Max:** $3.63

▲ Rate insights from solutions like Rateview Analytics from DAT iQ quickly confirm that rates from Denver to Los Angeles are far lower than the rates in the other direction, confirming the lane is oriented toward backhauls.

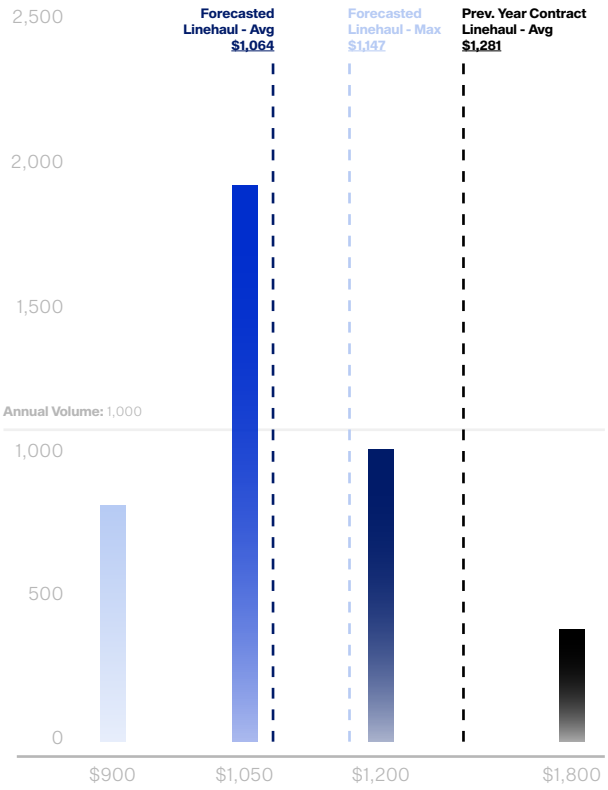
The shipper creates a histogram **(Figure A)** that shows a cluster of bids around $900 with roughly 700 loads in committed capacity across 3 carriers, and a larger cluster around $1,050, with just shy of 2,000 loads across 5 carriers. The next cluster is at $1,200 with about 1,000 loads across 4 carriers, and high-priced outlier bids at $1,800 and $1,950. The shipper needs 1,000 loads moved on this lane for the upcoming contract, reflected by the solid gray horizontal line.

The difference between the forecasted maximum ($1,147) and average linehauls ($1064) for the upcoming year is less than $100. This indicates little seasonality, so that should not be a top consideration when evaluating and awarding this lane.

Examining the gap between the lowest bids at $900 and the next highest bid at $1,050 is important: if the lowest bid carriers reject the load at $900, the price escalation for the next rate is only $150. Also the fact that this backhaul-oriented lane will typically place the carrier in a market with strong demand once it arrives in Los Angeles also provides more certainty around capacity, further reducing the risk in awarding the lower bids.

These insights reveal that there is relatively low risk in awarding the lower rates. The shipper should be confident awarding the roughly 700 loads to the $900 carrier bids, then awarding the remaining 300 loads in their total 1,000 annual volume for the lane to the $1,050 carrier bids. Despite the higher $1,281 average contract linehaul rate over the past year, most carrier bids are clustered near the forecasted average linehaul of $1064.

FIGURE A



FICTIONAL SCENARIO MINNEAPOLIS, MN - NASHVILLE, TN

The shipper first checks whether this lane is oriented toward headhauls or backhauls. The rates from Minneapolis to Nashville slightly exceed the opposite direction, indicating that this lane is a headhaul but with a more neutral orientation.

Minneapolis, MN - Nashville, TN
Shipper-to-Carrier Contract
Avg Rate:
$2.94
Min. $2.87; **Max:** $3.21

Nashville, TN - Minneapolis, MN
Shipper-to-Carrier Contract
Avg Rate:
$2.81
Min. $2.31; **Max:** $3.69

▲ Rates from Minneapolis to Nashville are higher than the rates in the other direction, but not by much. This is a headhaul lane that leans more neutral.

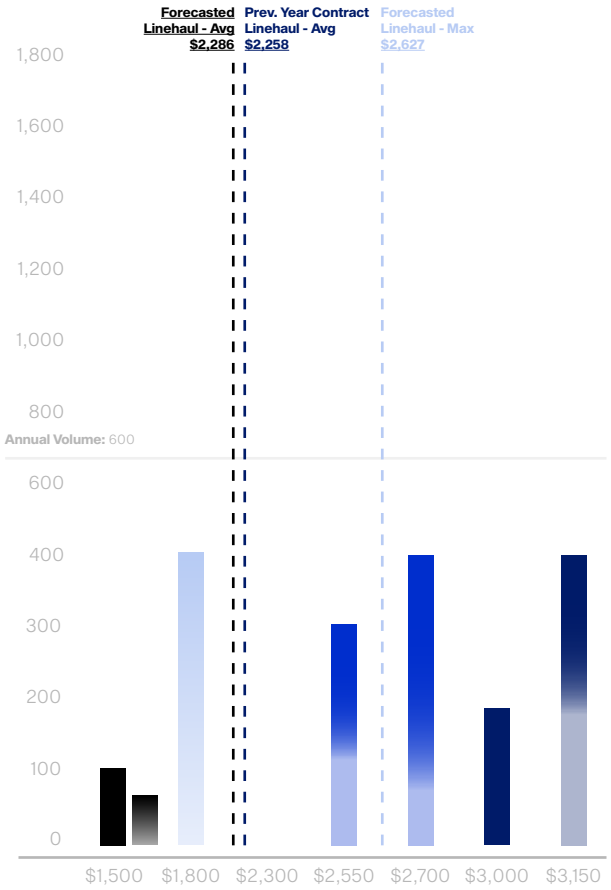
The histogram **(Figure B)** shows a wider distribution of bids. About 400 loads are clustered around $1,800 (with a hundred or so loads bid at even lower rates). From there the next clusters jump all the way up to $2,550 (for 300 loads), then $2,700 (for 350 loads), then $3,000 (for 200 loads), and finally $3,150 (for 350 loads). The shipper needs 600 loads moved on this lane over the upcoming contract cycle, reflected by the solid grey horizontal line.

The difference between the forecasted maximum ($2,627) and average ($2,286) linehauls for the upcoming year here are more pronounced than in the Denver to Los Angeles scenario. The difference is nearly $350, indicating seasonality should weigh heavily in evaluation and awarding decisions.

Unlike the Denver to Los Angeles scenario, these low bids appear to be outliers, as they are well below past and forecasted rates. The wider gap between the lower bid clusters and the high bid clusters indicates more risk in price escalations from tender rejections: if the carriers bidding at $1,800 reject the load when rates begin aligning to the forecasted highs, costs will increase by $750 (or over 40%) up to $2,550. Since the lane doesn't have as strong of a backhaul orientation, there is less certainty that the shipper will be able to secure capacity at a rate less than the $2,550 bids, and therefore more risk of routing guide failures and spot market premiums.

The analysis reveals how the low bids deviate from broader market data points, indicating significant risk in awarding the low bids. This combined with insights on forecasted seasonality

FIGURE B



impacting rates gives the shipper a solid playbook for approaching negotiations and awarding.

Here the shipper may consider awarding the first 300 loads to the $2,500 carrier bids, using the lower historical and forecasted averages as a bargaining chip to reduce the award rate slightly below the $2,500 bid rate. For the remaining 300 loads the shipper needs to secure, approaching the carriers bidding at $1,800 with the forecast data can inform a strategic discussion. By awarding a low season rate aligned with the $1,800, AND a separate high season rate closer to the $2,600 forecast maximum, the shipper strikes a balance between low cost and secured capacity during peak seasons. The higher peak rate is a win-win as the carrier would get a higher than expected award rate - a gesture of good will that strengthens the relationship.

Routing guide monitoring and analysis

The transportation and logistics industry is dynamic and iterative, which means you can't rely on "set it and forget it" processes. Instead, it's important to engage in ongoing monitoring and evaluation of your evolving freight network. Plus, RFP monitoring helps you prepare for the next round of contracts, or the process of preparing "mini-bids." Mini-bids are mid-cycle RFPs that often supplement annual strategies and are scoped to a handful of underperforming lanes.

To measure the success of your RFP, you need to continuously monitor contract rates and regularly evaluate your routing guides. In general, the same best practices for RFP evaluation can be applied to this stage as well. These include:

Follow the 80/20 rule (again)

It's helpful to orient your ongoing optimization efforts toward the top 20 percent of your lanes, as they make up most of your volume and represent the biggest cost management opportunities.

Review current performance against internal and external benchmarks

Considering internal data — such as contract rates and routing guide performance — as well as external benchmarks helps gauge the effectiveness of your RFP.

Monitor tender rejections and routing guide stability

Examine the stability of your key lanes (the top 20 percent) to identify relationships between tender rejections and rate escalation.

Tap into your network to find new capacity

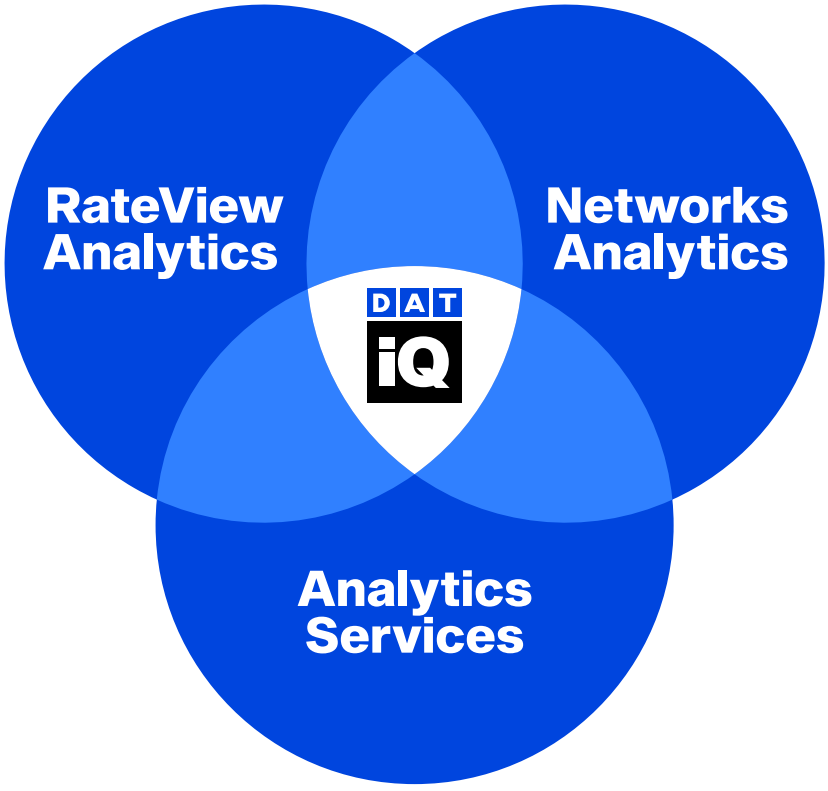
For lanes that often fall out of the routing guide, consider adding new carriers to meet your needs.

Setting yourself up for success

Keeping rates low is important for the RFP process but defaulting to the lowest bid can set you up for failure. Instead, balance the rates across all bids with a realistic picture of seasonal volumes, previous years' averages, forward-looking forecasts, and carrier quality and service levels.

To prepare your RFP, evaluate carrier bids, award contracts, and monitor performance, you need access to the best transportation analytics solutions. That's where DAT iQ comes in.

DAT iQ market intelligence and analytics equips shippers with actionable rate and capacity insights to increase operational efficiency and profitability, empower data-driven decision-making, and take charge of their network.



RateView Analytics

Generates visibility into past, present, and future spot and contract market rates for strategic sourcing, planning, and cost management.

Network Analytics

Produces extensive lane and carrier insights that help mitigate routing guide failure, secure reliable capacity, and build resilience with a diversified portfolio.

Analytics Services

Optimizes shipping operations with advanced data services, seamless integration support, and access to trained consultants with deep industry expertise.

Ready to take the uncertainty out of the RFP process? Schedule a consultation today to learn more about how DAT iQ shipper solutions can drive results for your business.

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