DAT iQ Analytics

# 6 Truckload Myths Debunked

Runaway inflation and supply chain bottlenecks turned transportation into a regular boardroom topic. This makes it easier for transportation leaders to get executive buy-in and influence business outcomes, but to get the C-suite to better understand the nuances of truckload freight, you may have to debunk one or more of these common myths.

MYTH 1

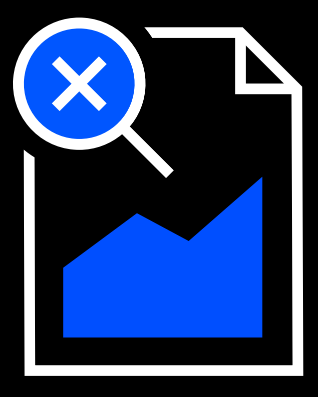
## Increasing volume reduces cost per load

The procurement of most goods results in economies of scale, where increasing quantities decreases cost per item. Truckload freight, however, exhibits economies of scope. Carriers try to keep their inbound and outbound routes balanced and will lower costs when the origin of their next load is near the destination of the previous one. If a shipper increases inbound volumes to a market that has low outbound volumes, the carrier may raise rates.

MYTH 2

## The purpose of an RFP is to find the market rate

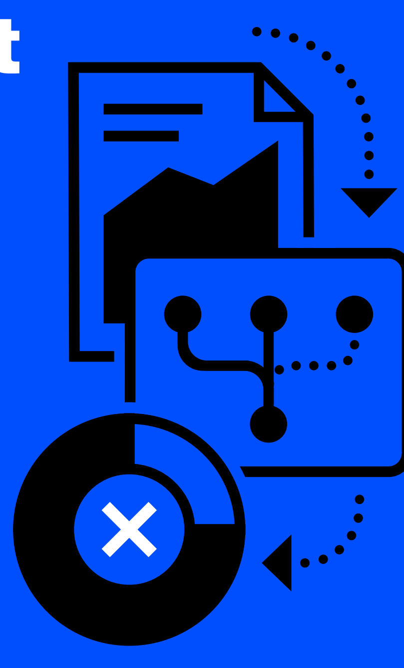
The RFP determines the rate that aligns a shipper's service needs with a carrier's capacity. Internal operations and policies vary widely among shippers, and their service needs for the same lane may differ significantly. Executives may assume the RFP sets the market rate but do not account for these differences that make the concept of a standard market rate almost irrelevant.



MYTH 3

## The RFP creates the routing guide, which defines the budget

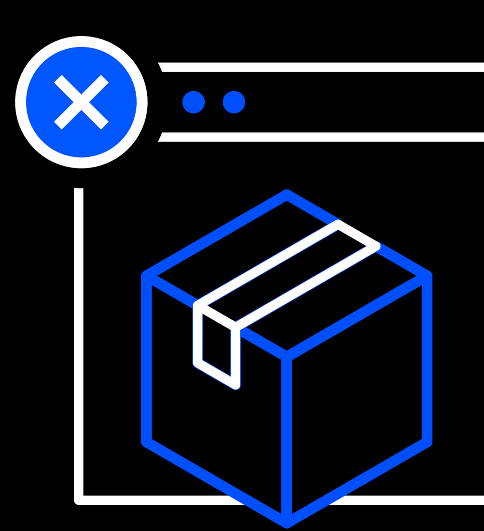
The RFP creates a routing guide that determines which carriers will move freight and at what rates. Executives may assume the routing guide sets the budget. Unplanned shipments, carrier capacity shortages and other challenges will cause routing guide failures that impact costs. While the routing guide is a good starting place, transportation leaders should budget for a percentage of freight to cost more than rates in the routing guide — and take the opportunity to educate executives on the nuances in this process.



MYTH 4

## Carrier contracts ensure capacity

Truckload transportation contracts are not typical business contracts. They are binding in price, but not in shipment volume or carrier capacity. Explaining the dynamic nature of transportation will help executives understand why. Carriers face market conditions daily that impact truck availability, just as shippers face supply chain challenges and sales pressures that impact shipment volumes.



MYTH 5

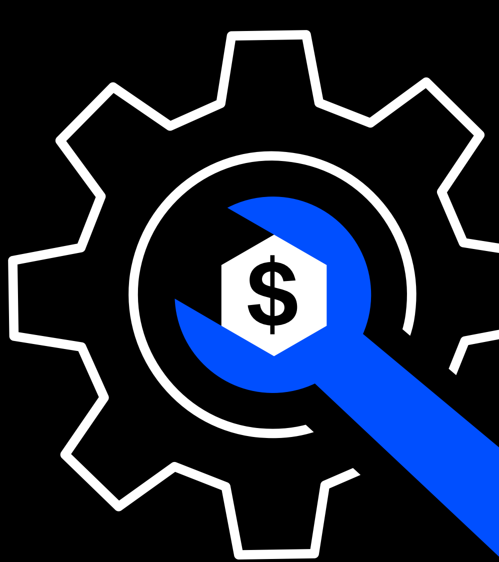
## Paying higher rates leads to better service

Higher prices don't equate to higher service levels in truckload freight. In order to keep a shipper's business, smaller carriers tend to provide superior service at lower rates on lanes they operate. National carriers provide wider capacity coverage, servicing lanes that smaller, regional carriers can't, but at lower service levels and slightly higher rates. Low-cost, low-service carriers are quickly cut out of the network because shippers need to get products delivered on time.

MYTH 6

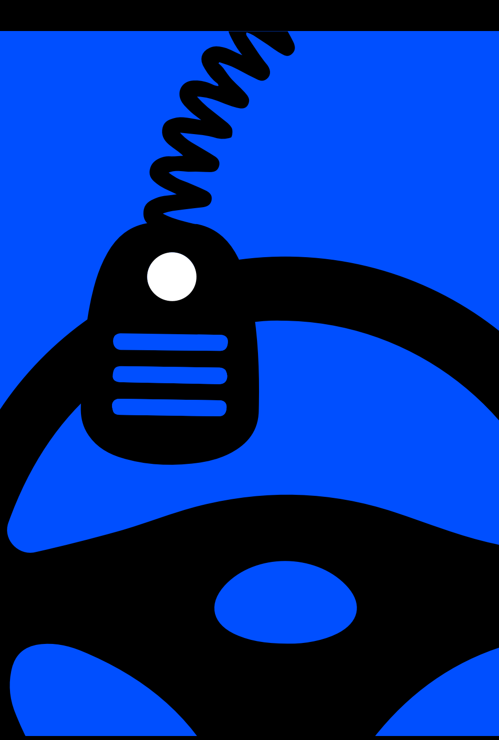
## Transportation is a simple make vs. buy decision

Procurement decisions are framed around whether to make the service internally or buy it from a vendor. Transportation best practices suggest a portfolio approach with both "make" and "buy" components. The "make" decision aligns with dedicated and private fleets to bring capacity in-house to service steady, balanced lanes. The "buy" decision can include contract carriers for relatively consistent lanes with moderately high volumes, and spot carriers for one-off lanes and more sporadic freight.



## How to steer the conversation

Debunking truckload myths has been a common challenge during the pandemic, as transportation got the attention of top-level decision makers. Transportation leaders now have more opportunities to educate the C-suite on effective transportation strategies, and deliver solutions by using comprehensive transportation analytics.



Avoiding these mistakes often comes down to having reliable data and insights. Get a 360-degree view of the transportation market place with analytics from DAT iQ.

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