



Solving for Uncertainty

**The Definitive Guide for Managing
Variability in Transportation Budgets**

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01

Introduction

Budget variances in transportation and logistics are common, but the order of magnitude changed drastically during the pandemic. Soaring truckload, less-than-truckload and intermodal rates blew up budgets and caused shippers to re-evaluate how they can better account for cost variability.

The budgeting process starts with forecasting, but rate predictions have become more difficult with ongoing supply chain woes, capacity shortages and other unsettled market conditions.

This guide reviews two types of budgeting processes for transportation and identifies areas of opportunity to better account for cost variability. The strategies incorporate advanced rate analytics and forecasts to build more resilient and flexible budgets that can weather dynamic market conditions.

Shippers can use benchmarks to compare internal costs with market rates to accurately assess performance in specific lanes, plus share insights and results with transportation leaders and executives.

By using these strategies, transportation teams can establish a regular cadence for analytics and hold themselves accountable for budget performance as market conditions change.

They can also drive collaboration with internal and external stakeholders to make continuous improvements.

Establishing the budget

On a macro level, the annual transportation budget process starts by procuring the right mix of capacity for dedicated, contract and dynamic freight lanes. The specific mix of the portfolio depends on several factors that include current market conditions and the nature of the freight network.

In a tight capacity market, shippers may consider allocating more spend on dedicated capacity to ensure they have coverage in freight lanes with consistent shipment volumes. Once a dedicated strategy is set, shippers can then evaluate lanes best suited for for-hire contract freight.

In looser or softer markets, shippers can identify lanes that are better suited for dynamic spot-market relationships to take advantage of gaps between higher contract rates and lower spot rates from transportation providers.

While not necessarily binding in volume or capacity, contract freight is binding in price, so contract rates help inform the bulk of forward-looking budgets. Meanwhile, historical data on tender rejection rates on key lanes and the difference between spot and contract rates on those lanes can help project dynamic freight's cost impacts.

RFPs, routing guides and budget considerations

Selecting the right transportation procurement portfolio on an annual basis and adjusting throughout the year is critical to accounting for variability in a budget.

Once shippers have chosen their portfolio mix, the next step is to conduct an annual RFP

for their freight network and use the results to start budget planning. Annual RFPs take a considerable amount of time and energy, but the detailed carrier-lane assignments that result from the RFP meet a wide range of strategic and operational objectives.

The output of the annual RFP is fed into the routing guide, which is an electronic catalog that specifies which carrier should haul loads on which lanes and at what cost. Routing guides most often use sophisticated automation logic within a shipper's TMS that apply a "waterfall" approach to carrier assignment.

A waterfall approach means a shipment is first offered to the primary or preferred carrier on a lane. If the primary carrier rejects the load, it goes to the next carrier in the routing guide, and the process continues until a carrier accepts the load. As a last resort, if no carriers in the routing guide accept the shipment, it goes to the spot market, where the shipper needs to seek dynamic sources of capacity.

The deeper shippers go into a routing guide, the more they can expect to pay. When loads hit the spot market, the premium is typically 25 to 35% per load but can be much higher during a tight market.

While this approach results in a highly detailed transportation plan for the upcoming year, the budget process should adjust to market realities when the routing guide fails.

Budgeting with unit costs

Many shippers also develop budgets focusing on the cost per unit of goods sold, such as a case or pallet, as an alternative way to just focusing on costs for individual freight lanes.

A corporate finance department, for example, may hand transportation managers and analysts a budget in terms of cost per unit that is based on historical data analysis.

Accounting for variability in a per-unit cost basis is a more multifaceted process compared to using a routing guide alone.

When the cost of truckload shipments increases in a certain lane, managers can pull different levers to keep the cost per unit within budget.

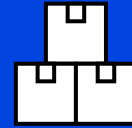
Approaches to managing unit costs to counter rising transportation costs



**Negotiate
better vendor
prices**



**Increase the
product sale
prices**



**Change size &
frequency of
vendor orders**

03

Developing the right approach

Whether planning a budget strategy using a routing guide or cost-per-unit approach, transportation managers and analysts can account for variability and make continuous adjustments to adapt to changing market conditions.

Planning for variability in routing guides

Routing guides are living documents that can be adjusted weekly or monthly, as needed, to improve costs and operational efficiency. To create realistic budgets, transportation managers and analysts must think about the routing guide beyond its tactical implementation and use it as a strategic planning tool.

When budgets need to be updated due to a new sales forecast from marketing, for example, transportation managers can translate the change in volume to changes

in the number of trucks needed per lane, and update network flows. Understanding network flows is crucial to anticipate changes that could impact the routing guide, such as fluctuations in the number of loads that a shipper will tender to carriers on a given lane each week.

Besides updating volumes and network flows, shippers can make ongoing adjustments to the rates they expect to pay for each lane by using historical data to estimate the rejection rate – either by carrier or by lane. Once you have an estimate of potential rejection rates, the next step is estimating premiums you'll pay in the spot market. With spot market premiums and rejection rates by lane or carrier, you can better estimate the costs of volumes beyond your contract rates. This exercise of predicting routing guide performance with more precision and planning accordingly will present a more accurate picture for budgeting spend throughout the year.

Planning for variability in unit costs

When budgeting per-unit transportation costs, your actual costs may be less important than other factors like maximizing fill rates and service levels. A shipper may not mind if transportation spend increases by 10% in a lane, for instance, so long as inventory and sales performance keeps pace with that increase.

When transportation costs increase and sales and inventory don't keep pace, shippers can use rate analytics to identify which lanes they are paying above market rates. When this happens, a shipper could use mini-bids to target new or existing transportation providers and determine whether making a change will justify the potential cost savings.

Practical ways to account for variable transportation costs:

- Focus on lanes that routinely fall out of the routing guide. Perform a root-cause analysis on lanes with high tender rejections and look for factors you control (e.g long detention times at your facilities).
- Consider mini-bids to stop routing guide leakage on lanes with “paper rates” where carriers cannot honor rate commitments.
- Use market rate in to negotiate pricing. Partner with carriers and brokers who offer consistent pricing aligned with accurate market indices.

Practical ways to account for variability on a per-unit basis:

- Monitor trendlines to compare per-unit transportation costs in specific lanes with market rate indexes
- Use market rate data to collaborate and negotiate on pricing with vendors
- Collaborate with internal sales and inventory departments to update product pricing or cost-saving strategies to get per-unit costs back in line with budgets.

Using analytics to manage variability

Shippers can simplify the complex process of planning variable budgets with accurate forecasting and market rate indexing tools. When conducting annual bids or procuring spot market capacity, shippers can use the tools to instantly validate rates they are getting from transportation providers and compare them to the broader market.

Shippers can benchmark internal costs against market rates and identify where changes may be needed to manage costs and improve routing guide compliance. Similarly, you could use benchmarking reports and historical data to conduct a sensitivity analysis for load rejections. Findings may reveal that 10% of loads in each lane will be rejected, for example, if rates stay within a certain range of market rates.

To improve routing guide compliance, a shipper could find the historical spot market cost for that lane and tack on a future rate of inflation, such as five percent.

When used in this manner, benchmarking analysis can help shippers quantify the probability that a lane will tend to have routing guide failures and the relative cost of the replacement. That is, they can calculate the expected “budget overrun” at a lane level.

Similarly, you could use transportation analytics to look at rates on specific lanes where your historical rejection rates have been highest, helping you predict how costs may fluctuate with more certainty. By analyzing spot market pricing for these lanes for the most recent week, month, and year by various modes — truckload, LTL or intermodal — helps illuminate the budget risk for loads that fall out of the routing guide for a certain period.

Transportation managers and analysts also benefit from sharing dashboards and forecasting data with senior executives to quickly consume important information. These tools help to make the most of limited facetime with senior leaders by focusing on the most pressing matters before they hurt the bottom line.

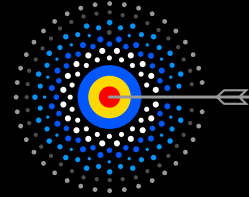


Ratecast from DAT iQ predicts truckload transportation rates with 95% accuracy, so you can anticipate impacts to transportation budgets.

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How DAT can help

DAT iQ eliminates inefficiencies and guesswork in shipper transportation budget planning.



DAT iQ provides the most powerful transportation analytics in the industry, collecting data from over \$125B in paid freight invoices annually, to inform transportation leaders' strategic planning initiatives throughout the full transportation lifecycle.

Our comprehensive transportation analytics provides insights tailored specifically to your business, with a robust benchmarking solution that allows you to always know the temperature of the current market. With DAT iQ, you can anticipate capacity shifts before they happen and identify the size and scope of risks to your budget. DAT iQ's solutions span 3 categories:

Rate Analytics

See past and present spot and contract market averages on virtually every North American trucking lane, as well as forward-looking forecasts with 95% accuracy that help calculate potential cost impacts that result from routing guide failures.

Capacity Analytics

Get granular visibility into truckload carriers and their potential cost savings in your network. Capacity insights help focus carrier sourcing workflows on capacity that can help keep costs aligned with budgets.

Performance Analytics

Utilize powerful segmentation capabilities that highlight your cost performance relative to the broader shipper market, your industry peers, or specific lanes / carriers, to identify continuous improvement opportunities.

With the comprehensive intelligence available from DAT, you can be proactive and build flexibility and more certainty into budgets in 2022 and beyond.

Visit dat.com/shipperiQ to learn how to use DAT iQ to improve transportation performance.



Analytics

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