# Maximize Your Mini-Bid

## How Short-Term Contracts Produce Long-Term Benefits

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## Introduction

Annual transportation procurement events have never been the most popular time of year for supply chain professionals. For many, the request for proposal (RFP) process is seen as a costly, time-consuming and personnel-draining endeavor, managed with spreadsheets and incomplete insights.

While the outcomes of these negotiations might be annual contracts, many estimates show that the average lifespan of a truckload rate from that contract is actually less than 6 months.

Increased market volatility has made these rates even more tenuous in recent years, and that trend accelerated when the COVID-19 pandemic fueled unprecedented capacity tightness.

In response, more and more transportation and logistics teams have adopted the practice of "mini-bids," enabled by the emergence of cutting-edge analytics within the transportation space.

**While not designed to eliminate the annual procurement process, mini-bids act as a supplemental strategy, providing short-term revisions to rein in costs and shore up failing routing guides. This more continuous approach to procurement gives shippers a way to contain spending throughout the year and strengthen relationships with their preferred carriers.**

In order to properly execute a mini-bid strategy, your teams will need reliable, real-time data and accurate forecasts.

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## What is a Mini-Bid?

Mini-bids are opportunities to re-assess transportation spending based on changing market dynamics in specific areas of your freight network.

**Mini-bids focus on more agile procurement processes often used to address new or problematic lanes within a network, helping shippers find more reasonable rates than the spot market. Experts widely expect this trend to continue growing in popularity, even after the COVID-19 pandemic wanes, and the overall economy and supply chain begin to return to normal.**

This approach is also important because annual contracts are not binding documents, but instead a general agreement that shippers plan to tender a certain volume of freight that carriers will move at an agreed-upon rate. Even though there are no penalties for either party if the contracted volumes aren't met, these annual contracts have long served as reliable agreements, allowing each side to better plan for the year ahead.

However, during sudden capacity spikes, the fact that annual contracts are not binding becomes crucial. When tight capacity drives rates up and gives carriers more lucrative options on the spot market, some carriers will refuse to honor lower contract rates, presenting risks to transportation budgets.

That is exactly where mini-bids come into play — a "reverse auction" covering runs on a small number of lanes where capacity imbalances are most prominent and primary carrier rejection rates are highest.

Depending on the scenario, mini-bids may be run weekly, monthly or quarterly. They can be focused on new lanes to support freight network expansion, or existing lanes that are falling out of your routing guide and overextending your budget.

Many shippers prioritize these mini-bids strictly for their current asset-based carriers, narrowing the field and making the process easier to navigate.

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## Rise of the Mini-Bid

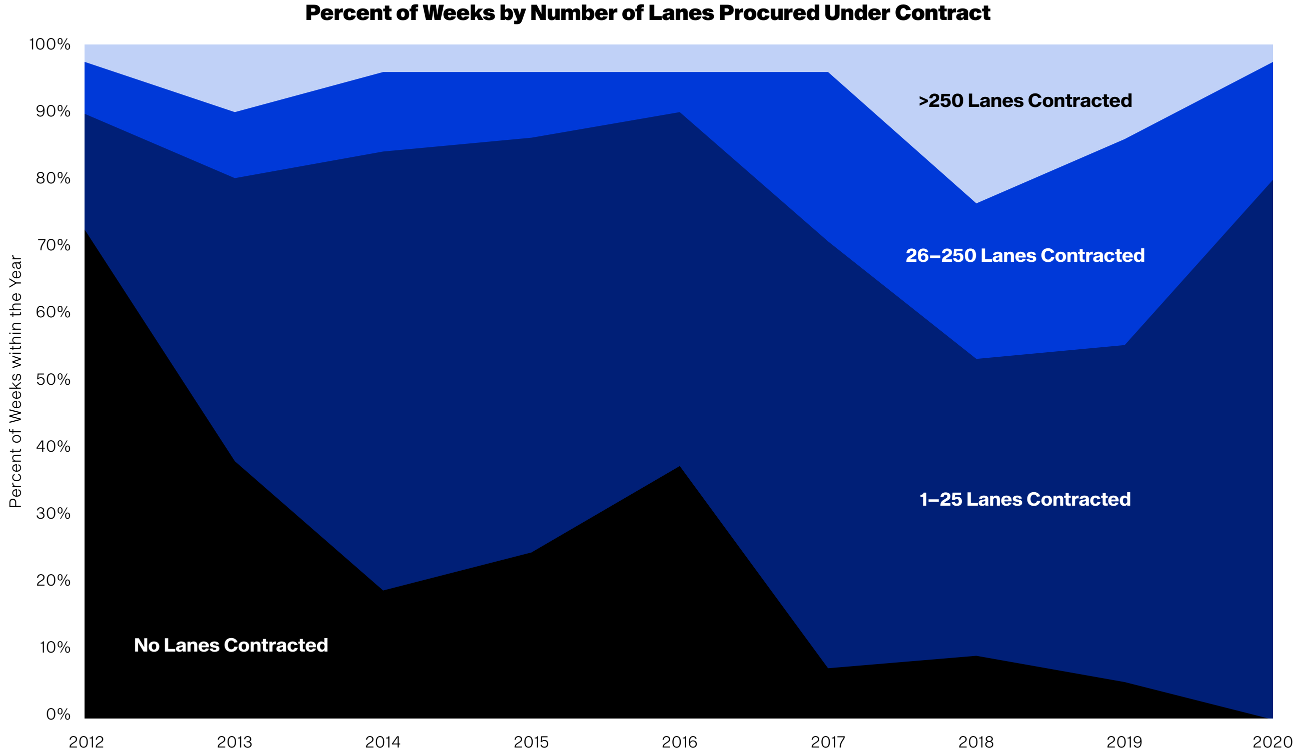
While mini-bids are not new, they've grown in popularity in recent years.

The figure below shows analysis conducted by the MIT FreightLab based on data collected from over 50 shippers. It shows the percentage of weeks from 2012 to 2020 where a certain number of lanes were entered into the routing guide as new contract rates.

**The number of weeks without newly contracted rates has shrunk dramatically over time. Over 70% of the weeks in 2012 didn't see the addition of new contract rates, but by 2020, the dynamic flipped to where almost 80% of the weeks in the year saw 1-25 new lanes contracted.**

This data provides a clear insight into how much more prominent mini-bid events have grown over time.

**Percent of Weeks by Number of Lanes Procured Under Contract**



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# Trigger Events for Mini-Bids

In general, there are four trigger events that indicate the need for a mini-bid.

### Freight Network Expansion

Over the course of a year, you may need to expand your freight network. That requires contract rates for new lanes that weren't in scope at the time of your annual procurement cycle, whether you're introducing a new product that requires new inbound lanes or expanding existing products to new regional markets that require new outbound lanes.

### Distressed, Failing Carriers

When market volatility peaks, some carriers may fail to meet your expected service levels or customer delivery windows for prolonged periods, ultimately hurting your bottom line. And when volatility continues for an extended time period (like it did in 2020), the economic forces of creative destruction inevitably force some carriers to close their operations and exit the market entirely.

In either scenario, you need new options for the lanes those carriers serviced, and targeted mini-bid events are the perfect approach to getting back on track for  those lanes.

### Tight Market Capacity

When capacity is tight and current market rates exceed established contract rates, the carrier may refuse contract rates or simply ask for higher contract rates. In some cases, a carrier could be seeking rates for a short period as a way to reposition certain equipment to a different region. In these scenarios, the carrier's actions may indirectly initiate a mini-bid process that ultimately helps you strengthen your long-term relationship.

Tight market conditions, resulting in routing guide failures and spot-market premiums, can cause you to spend your budget at an unsustainable pace. Mini-bids can help contain costs in these conditions. You can even anticipate seasonal spikes (typical in early autumn) when capacity is forecasted to be tight, and plan a mini-bid proactively ahead of these periods.

### Soft Market Capacity

On the other hand, when there is more truckload capacity, rates on the spot market may actually be lower than your contract rates, and the carrier is profiting more when you honor those contract rates.

If the gap is wide enough, it might make sense to initiate a mini-bid to rebalance these dynamics and lower your contract rates to align more closely with the spot rate. However, you may want to honor these contract rates as a bargaining chip for future scenarios when the tables are turned and the carrier is tempted to refuse contract rates.

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## Benefits of Mini-Bids

When guided by accurate, real-time forecasts and executed correctly, mini-bids can optimize transportation budgets with lower rates, repair broken routing guides, and strengthen relationships with your most important carriers.

More continuous procurement cycles allow shippers to:

1. Adapt to market conditions by leveraging an agile approach to freight operations.
2. Address troublesome lanes and find capacity in a more cost-effective manner than spot market alternatives.
3. Conduct trial runs with new carriers.
4. Enjoy non-financial perks, such as improved scheduling terms and overall efficiency.

Transportation teams also stand to benefit over the longer term when a carrier is seeking compromises on rates because it cannot meet earlier commitments on certain lanes. Even if the mini-bid results in somewhat higher rates, taking a cooperative approach during difficult times can make your organization a shipper of choice with preferred carriers.

**When you prioritize long-term relationships over short-term gains, your freight partners are far more likely to prioritize your needs in volatile markets.**

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## Potential Pitfalls

While the adoption of mini-bids has grown, there is still reluctance on the part of some transportation and supply chain teams. For some, there's the fear that the approach will require too many resources and take too much time, especially since annual procurement events are already such a heavy lift.

But when employed effectively, the shorter time frame involved in mini-bids reduces the need to forecast far in advance, thus reducing the time required to prepare.

There are risks, though, if a shipper is not prepared to act at the right moment. That means not only having relevant market information and continually monitoring spot market developments, but also tracking how current rates are impacting your annual budget.

**Without in-depth knowledge on market rates for specific lanes to inform your mini-bids, you may miss out on opportunities to contain costs and maximize transportation budgets.**

For example, a mini-bid could look compelling at a particular moment in time, but if rates on your trouble lanes are predicted to quickly normalize, the benefits of the mini-bid may be short-lived and fail to outweigh the costs involved in conducting the mini-bid. Access to the right insights and trends may indicate that holding off several additional weeks will present an even more inviting environment for a shipper.

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## How DAT iQ Can Help

Increasing the number of bidding events in a year places greater emphasis on the real-time collection of data on carrier performance, shipping patterns and rapid analysis.

**Leveraging the in-depth information available from DAT iQ can provide shippers the best insights on the current temperature of the market, as well as advanced freight forecasting on an ongoing basis to determine the best possible terms for mini-bid contracts. Freight market intelligence allows transportation teams to identify proactively the trigger points for a mini-bid.**

For example, DAT iQ publishes a Spot Budget Risk report for the most recent week, month, and year, broken down by dry van, temperature-control and intermodal sectors. These figures can be used as a proxy for the cost of a routing guide failure or over-run on the annual budget.

DAT iQ dashboards available to members of the Freight Market Intelligence Consortium can also help determine the rejection rate and corresponding spot rate premium ratio to expect for specific lanes.

All of the benchmark and forecasting tools available through DAT iQ are aimed at assisting shippers navigate what appear from the outside to be rapid and unpredictable market price swings. By gearing up with the best information and analysis, you will be more prepared to go out into the mini-bid marketplace, whether that is next week or many months from now.

**REQUEST A CONSULTATION WITH OUR TRANSPORTATION MARKET EXPERTS AND SEE DAT iQ IN ACTION.**

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## About DAT Freight & Analytics

DAT Freight & Analytics provides the most accurate insights into truckload markets, with the deepest and broadest data in the industry and the largest on-demand freight marketplace in North America. Since 1978, DAT is the source for market trends and data insights for shippers, brokers, carriers, media and industry analysts alike.

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