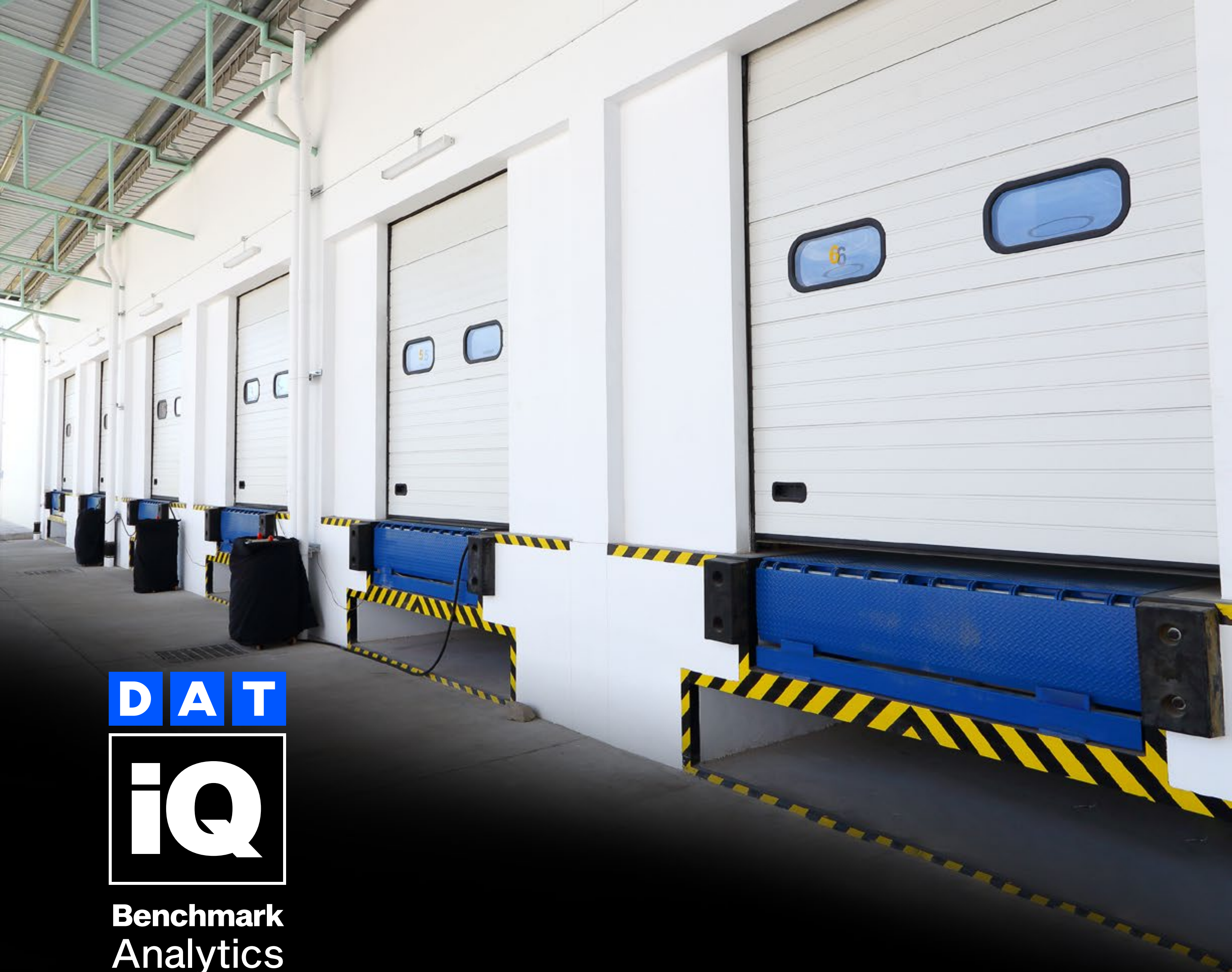

DAT iQ

Benchmark
Analytics

Solving for Uncertainty

A Guide for Variable Transportation Budgets

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Introduction

From the outside, annual transportation budget planning seems as straightforward as any other area of your business. Bids go out and contracts are agreed to, making the process appear almost mundane.

Those who have gone through this annual event know it's an inexact science. From continually evolving market conditions to sudden disruptions from natural disasters, even the most thorough transportation budgets require flexibility.

That truth became crystal clear throughout 2020, as COVID-19 created unprecedented market tightness, and upended every aspect of our daily activities. That underscores the need to expect the unexpected and have contingency plans in place.

Shippers need to prepare for a continued period of market volatility. The distribution of COVID-19 vaccines was a welcomed development at the end of 2020, but it also created another layer of potential uncertainty.

As the overall health situation gradually improves, the pent-up demand among consumers could boost certain sectors of the economy more quickly than others. This could create further capacity imbalances until life returns closer to normal, similar to what played out as the pandemic reached the United States in early 2020.

This all raises a question: What are the best ways to create a robust transportation budget to help guide senior leadership through what could be another tumultuous year?

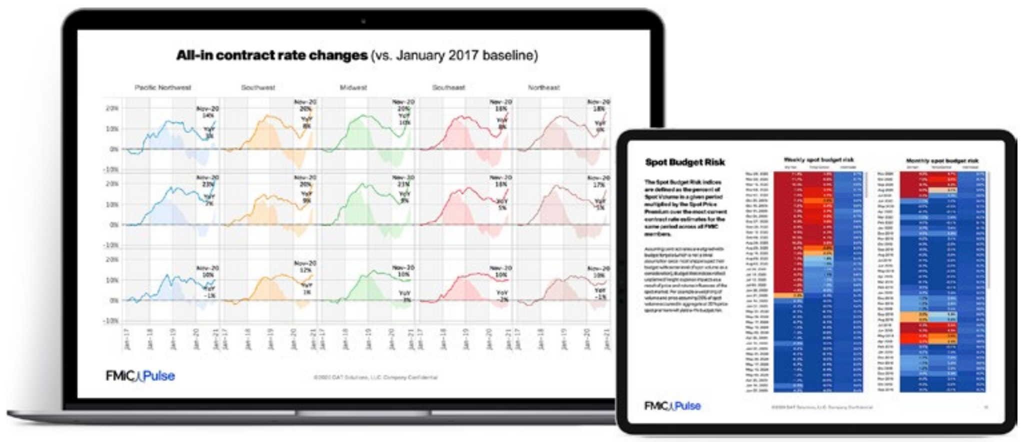
02

Developing the right approach

Regardless of market conditions at any one moment in time, the most successful shippers take the sophisticated approach of crafting a variable budget based on expected shipping volumes and applying a primary carrier's rates to the forecasted annual volume. Next, the rates are adjusted by an estimate of the rejection rate – either by carrier or lane – and filled with an estimate of the spot or alternative rates for those cases.

Variable budgets can seem complex at first, but with the cutting-edge forecasting and data available from DAT iQ by your side, a wealth of budget planning and savings information is at your fingertips.

For example, the monthly Pulse Signal Report shows the spot budget risk for the most recent week, month and year by various modes. Also valuable are the Freight Market Intelligence Consortium's suite of transportation dashboards that help you understand spot-to-premium rate ratios on specific lanes where your historical rejection rates have been highest, helping you predict how costs may fluctuate with more certainty.



The Pulse Signal Report is available monthly from DAT iQ

03

Preparing for success

In many cases, senior executives are not aware of all of the complexities involved with transportation. Even so, they still expect the highest level of service at the lowest possible price. With so many other important issues on their agenda, the time available to thoroughly explain these intricacies may be limited.

Two major areas that need to be stressed are 1. The unique nature of contracts and 2. The fundamental diseconomies of scale for truckload.

These two topics are covered in detail in the following sections. The ability to share dashboards and forecasting data from DAT iQ allows senior executives to more quickly consume the most important information, allowing you to use valuable face time on only the most pressing matters.

The information flow with senior management must be an ongoing one, especially with the pandemic not yet over. This can help address any number of emerging issues, such as excessive detention times or packaging changes, before they hurt the bottom line.

04

A word about contracts

Another important difference is the nature of truckload transportation contracts. These contracts are binding in price, but not in volume provided by the shipper or capacity supplied by the carrier. Shippers are not financially punished if they fail to reach a promised volume level, just as carriers are not expected to accept all loads.

There are, of course, metrics tracking primary carrier acceptance rates to reflect the health of a carrier relationship, but not meeting contracted volumes doesn't come with a direct financial penalty. Instead, it risks damage to the relationship, potentially resulting in the loss of future volumes for that carrier.

Even if these contracts are not enforceable, they have long served as reliable agreements, allowing each side to better plan for the year ahead and serving as the foundation for mutually beneficial business relationships.

However, with overall capacity remaining so tight, shippers now face an elevated risk of some carriers refusing to honor certain rates that were previously agreed on. When this happens, the first line of defense for shippers is routing guide alternatives, and then ultimately the spot market.

Alternatively, carriers could seek upward rate renegotiations or decide to re-route their trucks to more profitable loads. This can be a risky strategy for carriers, which could harm these successful, long-lasting relationships in response to advantageous, short-term market conditions. Nevertheless, it may be too tempting for some to resist, leaving shippers scrambling for last-minute spot market alternatives.

This process could also give shippers leverage to request improved on-time service in return for paying the higher rates, but is still likely to lead to unforeseen budget variances.

The evolving nature of these contracts makes it all the more important to keep executives in the loop, especially as popularity grows for targeted "mini-bid" contracts periods throughout the year. When executed successfully, mini-bids can help reduce cost, while showing your commitment to being a steward of your organization's finances.

05

Diseconomies of scale

Among the most striking differences between procuring transportation versus other products and services is that truckload transportation exhibits "diseconomies of scale."

With most commodities, procuring a larger quantity reduces the per-unit cost. This is not the case with truckload carriers–increasing the number of loads on a lane will lead to higher cost per load.

This is due to the nature of truckload shipments, where the carrier has to operate their assets over a balanced network. Any unforeseen demands will throw this network out of balance because a truck and driver need to be diverted from other uses to cover that demand. COVID-19 exacerbated this situation, as supply and demand were thrown completely off balance with a crash in demand in spring 2020, followed by a capacity crunch in the fall.

This reality makes the interaction with financial and senior executives all the more critical. If you are not on their radar to explain diseconomies of scale and other complexities on a regular basis, they could be less likely to respond positively when conditions change, because they are more familiar with the traditional scenario of higher quantities reducing costs.

These diseconomies of scale also mean you need to develop a more sophisticated approach to account for tight markets.

06

Planning for growth

Expanding product lines or adding customers provide businesses new avenues of growth, but also fresh budget challenges. For example, an expansion could mean entering a new region of the country, one that is closer to the company's manufacturing facility. There may be an assumption that the shorter distance translates into lower costs, compared with existing markets farther away. Once again, this is not necessarily accurate.

If that new, closer destination is not a more balanced market for truckload transportation, rates are likely to be higher. When finding backhauls is more difficult, carriers respond by charging higher rates, so it's critical for this to be incorporated into budgeting processes as expansion plans are being developed.

A similar situation could play out with the introduction of a new, larger factory that enhances manufacturing but also alters the distribution map.

Once again, sophisticated data and benchmarking can address these situations, as well as handling unexpected capacity challenges that develop if drivers need to offload at multiple docks or have to wait long periods between stops.

07

How DAT iQ can help

Technology continues to revolutionize the freight transportation industry, and cutting-edge analytics from DAT iQ play a leading role, eliminating inefficiencies and guesswork from the critical budgeting process.

Our comprehensive data 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.

The DAT iQ Signal Reports provide a weekly, monthly and annual spot budget risk index by mode (dry van, temp-control and intermodal) to reflect unplanned freight expense impacts as a result of price and volume fluctuations in the spot market. Benchmarking dashboards offer a clear understanding of your price performance relative to the broader shipper market, your industry peers or specific lanes—information that is not available through internal metrics alone.

Backed by actionable insights and rate information from the deepest database of contract and spot market shipments in the industry, DAT iQ allows you to quickly recognize seasonal capacity and demand patterns in key lanes, while also identifying sustained changes in spot market rates.

With the comprehensive intelligence available from DAT, you can be proactive, rather than reactive, and build in flexibility to achieve a higher degree of budget certainty than ever before.

08

About DAT iQ

DAT iQ provides analytics on rates, volume, and capacity, with a database of over $110B in annual freight spending sourced directly from paid transactions, not third party data.

With granular benchmarks, rate and capacity analytics, and custom reporting and analysis, DAT iQ helps supply chain and logistics teams drive bottom line performance.

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Review your supply chain strategy and operations with DAT iQ's transportation market experts.

www.DAT.com/shipperiQ