DAT RateView

Win by Losing: How to Respond Effectively to a **Shipper's RFP**

By Mark Montague, Industry Pricing Manager, DAT Solutions

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In recent years, bidding on a shipper's Request for Proposal packages has become an unavoidable practice for carriers and freight brokers. As a transportation services provider, you have almost certainly constructed many of these bids, including your schedule of rates, terms and conditions, hoping to win a share of the shipper's business. As transportation pricing has become extremely volatile, however, some brokers and carriers have discovered that their hard-won contracts are no longer profitable.

This report discusses new strategic and tactical approaches to the RFP response process, including some new technology solutions to help you make the tough calls on pricing in dynamic markets and segments. In some cases, you may choose to submit a bid even when you are not sure that you can win the contract based on price. Losing the bid can become a net positive, if you engage with the shipper in a strategic way. Regardless of the response format or strategy, there are certain principles which remain constant.

Before you craft your RFP response, decide on your goals and develop a strategy that will achieve them. Your goal may be to win the entire bid, to win only a portion of the bid, or just to make a good showing. There are sound reasons for each position.

Strategy #1: Win the Entire Bid

If the shipper/client business is very attractive and fits well with your existing business, you may decide to secure the entire package or as much as is allowed. In that case, you might decide to make some compromises on pricing in order to make your bid as appealing as possible to the shipper.

Strategy #2: Win Part of the Bid

If the RFP includes a selection of lanes that are profitable and/or a good fit with your existing business, you can design your bid to focus on only those portions of the contract. This strategy opens the opportunity to build or enhance an ongoing relationship with the shipper. If other providers exit later, your company will be in a prime position to take on additional lanes at more profitable pricing.

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Strategy #3: Lose the Bid, but Make an Impression

Depending on the business climate and the attractiveness of the freight, there could be many or few bidders. Even when there are many bidders and the contract price is driven below your operating cost, you can benefit from completing the RFP package. A professional bid establishes legitimacy in the eyes of the shipper, and opens up future opportunities to develop a working relationship.

Also, if your competition offered bids that were overly aggressive, there is a very good chance that their low-price strategies will lead one or more of them to fail or walk away from the contract. This opens the door to the next tier of companies – including you. If you enter at a later date, at a price that supports your own revenue and profit requirements, your bid package may eventually prevail. At the very least, complying with all the rules of the bid and responding on time should result in an invitation to bid in future years.

Execution: Understand and Comply with the Shipper's RFP

Successfully completing an RFP package depends on much more than supplying rates. In fact, some companies will state that rates are the least important part of the RFP package. Most professional logistics departments realize that they are shopping for more than just price. They are buying a business-critical service that must meet an exacting standard, in order to support their supply chain.

Your RFP response must be grounded in a thorough understanding of the shipper's underlying requirements, and your statements should acknowledge and answer those needs clearly. Clarify exactly what services you provide, and explain how your services differ from your competitors' offerings. The shipper will usually give you a framework for the rules of engagement, including the format for response, the additional materials that can be provided and the amount and type of contact permitted between respondent and principal. Within that framework, there are opportunities to differentiate your company from the competition, based on the unique value your company provides.

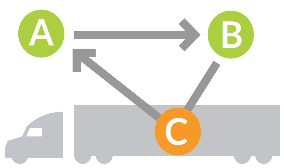
Frequently, bids include a degree of ambiguity. This is where you can and should exercise some creativity in stating your good assumptions. Use appropriate channels, as specified by the shipper, to clarify any aspects of the bid that could be turned to your advantage. This contact also offers an opportunity to get to know the shipper better and build relationships with key players. You can use this opening to demonstrate your competence and to respectfully suggest improvements in the RFP process. The principal may elect to share your recommendations with all other respondents, which establishes your company as a thought leader and may help to score points with the shipper's bid evaluation team.

Avoid these Common Mistakes

Companies often lose bids because they fail to understand or communicate the most simple things. Common issues can include:

- Failing to specify the mileage system
- Neglecting or not budgeting accurately for accessorial fees or fuel surcharges
- Using an incorrect or otherwise unacceptable formula to calculate fees and other elements of the bid

It is good practice to document and share your working assumptions, as this can explain pricing differences among competitive bids. For example you may need to convert the bid format from representative geographic areas to specific points or vice versa. When you do a good job of laying out your assumptions and formatting your proposal so it can be understood easily, your bid may win over a lower-priced competitor.



Price Accurately with Benchmarking Tools

Most companies that respond to RFPs spend all their time on pricing. In this report, we focused first on other aspects of the bid. That's because a bid can be eliminated from consideration for mistakes in format or content that are unrelated to price. If you're serious about winning the shipper's business, however, you will want to submit your bid with the best possible price structure.

You already have solid knowledge about the lanes where you have experience. Use that as the starting point. Add external sources of information to support your own rate portfolio. Brokers can consider quotes from carriers as a source of rates, and carriers can analyze the way this new piece would fit into existing operations. For both groups, this is an opportunity for creativity. Brokers will want to look for carriers based in or around destination cities that are central to the RFP, because those carriers may consider this business as backhaul that positions their assets for other scheduled trips. Carriers have their own sense of direction based upon their unique profile of facilities, equipment domiciles and driver base. By initiating an ongoing dialogue with your carriers, you may develop a new understanding of their capabilities in a given direction or lane.

Carriers who bid on RFPs can develop TriHaul (triangular) routes or other creative dispatch patterns to handle lanes that are not in their current portfolio. A thorough understanding of customer requirements may lead to innovative solutions for loading, dispatching or unloading equipment, to make trips work better for the shipper and for your company.

As you put together your pricing matrix, you will want to compare your lane rates against the prevailing rates in the marketplace. These are the costs or prices that your competitors also encounter. Look for a benchmarking product such as DAT RateView™, which provides both contract rates and spot market rates derived from actual freight bills and rate agreements for tens of thousands of truckload freight moves across North America.

Your pricing analyst also needs to evaluate volumes, seasonality and timing, and to understand any risk factors. The lane rate history in RateView can support this analysis with a 13-month window into the seasonal trends for each lane. You may wish to stipulate that some conditional language be added to the contract, to cover future changes in regulations or other elements that are not in your control but may have a material effect on your ability to honor the contract terms. For example, a change in Hours of Service (HOS) or mandatory enforcement of Electronic Logging Devices (ELDs) can change the pricing dynamic overnight.

Improve Your Bid with Map and Mileage Software

Other software tools can enhance your presentation and improve its accuracy. For example, mapping software can be used to create a visual representation of your capabilities or plans to service the shipper's business. It is also useful to explain the proposal internally and to help sell the solution. You will also want to use a recognized and reliable mileage software package. ALK Associates' PC-Miler® is a favorite, because of its close approximation to actual travel distances. Sometimes the shipper will dictate the mileage software preference in the RFP. If you choose a different mileage system, be prepared to understand and reconcile any divergence from PC-Miler or the shipper's preferred benchmark.

SMC3® provides a good method of evaluating different carrier tariffs and also their own LTL tariff system for evaluating less-than-truckload rates. Frequently, the pricing analyst needs to calculate break points and may be able to secure more truckload movements by demonstrating break points that are lower than conventional wisdom.

Analyze the Margin with a Pro Forma

If you developed your pricing matrix based on prevailing rates, you need to review your bid to ensure that you have preserved an adequate margin. The margin should be appropriate to your objectives. For example, your primary goal may be gaining access to a new customer or increasing market share. The business may have strategic implications in its relationship to other pieces of business. Or you may be hoping for the best possible return on this one sale. Whatever your goals might be, you need to cover

About the Author

Mark Montague, Industry Pricing Manager at DAT Solutions, has been a logistics and transportation professional for more than 30 years. Since joining DAT in 2008, Mark has been instrumental in developing the company's successful RateView™ spot market rates database and pricing tools. Mark holds a BS in Economics and an MBA in Transportation Management. He is also an accomplished blues musician.

About DAT

DAT, a subsidiary of Roper Industries, specializes in data and analysis pertaining to truck capacity and rates for domestic freight transportation. DAT has been serving transportation and supply chain professionals with innovative products and services since 1978.

your costs and contingencies and produce some return on your investment. One of the best ways to do this is to create a pro forma balance sheet that corresponds to your bid.

A pro forma can start as a simple spreadsheet. Consider annual volumes and the price per load and calculate a revenue figure. Then add up all the costs that support that revenue. Remember to allocate a proportion of your indirect costs or overhead to support this new piece of business. Then evaluate the return and assess whether it will improve the health of your business. If it is just adding volume without profit, you may want to re-think your strategy.

Using your spreadsheet, you can weigh risk by considering several possible outcomes and assumptions. Copy your pro forma, change one variable, and assign a percentage representing the likelihood that this new scenario will arise.

Perform the same test with each assumption, and you will have created a model of the RFP's real value to your business. Later, you can plug your actual experience into the pro forma to understand and analyze whether reality conformed to your initial plan.

Summary

Here are the key elements that have been discussed in this report:

- Start with a specific goal or strategy
- Understand and conform to the key components of the bid, including who to contact and when
- Obtain market intelligence from internal and external sources, and validate your findings with benchmarking tools
- Measure and analyze the financial effect of your bid pricing on your overall business to ensure adequate margins