How to Decrease Cost & Improve Service

TRUCKLOAD SHIPPERS:
SPOT QUOTE OR CONTRACT?

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Introduction

For any shipper that moves any quantity of cargo via truckload, the question must be answered: **“Spot Quote or Contract?”**

SPOILER ALERT:
The correct answer the vast majority of the time is contractual. Surprisingly, often times the question is never posed.

Many shippers’ pricing strategies are worse than directionless…they are pitched, yawed and manipulated by default of issued rates from the very providers that would seek to advance their own position. In other words, the shipper has no strategy, thus, the void is filled by the strategy of transportation providers…a strategy that is designed to help themselves, not the shipper.

Having established that a strategy must be developed and that the shipper should drive that strategy, let’s define and examine. A spot quote is a one-time rate quote issued to a shipper for one transaction or one group of transactions. A contract rate is a rate quote issued to a shipper that is to be held static for a period of time, usually one year.

At any given snapshot of time, freight rates are falling or rising. The primary driver of the trajectory is the load-totruck ratio. If truck capacity is expected to be strained, rates can be expected to rise.

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It’s all about ratio and its composite contributing factors, not one single factor.

For example, the economy can be in growth mode but if trucks and drivers are being injected into the market at a faster pace than loads, rates will fall. Conversely, the economy can be struggling but if trucks and drivers are leaving the market faster than the economy is contracting relative to truckload shipping, rates can rise against the grain.

Think of contracted rates as a futures contract. It is an opportunity to advance a position based on (hopefully) the expert assessment of market trajectory. A shipper is no more forced to engage in contractual pricing than investors are forced to leverage futures contracts. Thus, shippers can choose to utilize spot quotes or contract rates where it benefits them.

If all factors indicate that rates will be falling, spot quote savings opportunities for the shipper abound. If, however, factors indicate a prolonged strain on capacity, shippers would be best served to lock in contract rates as a hedge against rising rates, as well as to capture capacity which when rates are rising, is increasingly scarce. Dollars rule but do not tell the entire story.

For those shippers with sensitive freight needs requiring higher levels of service, performance and loyalty are very important. A transactional spot quote, “cheapest wins” carrier relationship is not one that promotes loyalty, nor yields this best performance.

From the logistics providers’ perspective, contractual freight offers safety, continuity, a hedge against poor market conditions, and an opportunity to create efficiencies and thus, profit.

If, however, the contract does not obligate the carrier to render services and at a certain degree of performance, the market may offer better profit elsewhere, and the carrier may choose not to render services. This renders the contract useless. The rates are referred to as “paper rates”. If the provider is not the incumbent (and lack integrity), they are in the advantageous position of offering “paper rates” which they will honor if and only if market conditions allow profit at those rates. The other two possible outcomes:

1. ***They renegotiate and keep the business***
2. ***They walk. Thus, any contract for transportation services must include performance and acceptance provisions.***

Without them, the contract only appears to protect the shipper regarding price and access to capacity.

Ad hoc loads that appear sporadically during downward rate trends can offer some nice savings. Independent of that, contractual relationships yield predictable cost, higher service levels, and a provider that vigorously protects the business and shipper. When the tide goes out (diminishing leverage), it is good to have friends…it is even better to have capable partners that are contractually obligated to help.

ABOUT BR WILLIAMS TRUCKING, INC.

With humble beginnings back in 1958, BR Williams has grown into an award-winning supply chain management company servicing all 48 contiguous states and Canada. With facilities in Mobile AL; Piedmont, AL; Tallahassee, FL; Anniston, AL (two facilities); Eastaboga, AL; and Oxford, AL, B.R. Williams' distribution network supports over 50 customers and another 2,550 in the Trucking and Logistics divisions. Industries served include the following: automotive, defense, home improvement, education, food raw materials, textiles, chemical, industrial packaging, metals (finished goods), highway safety and more.

To discuss your Distribution, Logistics, or Transportation Services options, please contact Matt Nelson at matt.nelson@brwilliams.com or (800)-523-7963.

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