CSCMP hottopics

MAY 14, 2019

The Road to On-Demand Freight and How it's Positioned to Transform Logistics

Bill Driegert, Sr Director, Uber Freight

CSCMP

Educating and Connecting the World's Supply Chain Professionals.™

Due to tight capacity in 2018[1], shippers increasingly engaged the spot market at budget-breaking prices. Today, capacity is plentiful and spot rates are 20-30% below contract rates. While the swing in pricing over the last 12 months has been unusually pronounced, shifting rates are part and parcel of working in the freight world. As we enter the produce season, shippers are preparing for the capacity pendulum to swing back once again, resulting in more reliance on the spot market.

Moving large amounts of spot freight is challenging for enterprise shippers. The average spot load can take hours to manage, taxing limited resources with intensive manual work for everything from pricing and booking to load acceptance, planning, and scheduling. Additionally, shippers often rely on historical rates because they can't see current market conditions, resulting in missed opportunities for flexibility, savings, and service improvements.

Fortunately, new technology is unlocking the potential of on-demand freight. Not only is this technology widely available, it also offers the promise of being viable at scale, enabling enterprise shippers to participate in the spot market like never before.

REAL-TIME FREIGHT OPERATIONS

The advent of real-time freight markets, where rates and capacity information are accessible at any time, has made instant pricing and booking increasingly popular. But real-time freight operations is still a young, growing idea. Too frequently, when shippers are faced with a surplus of loads to move, they reach out to third parties, placing themselves at the mercy of negotiated rates, slow manual processes, and the whims of whoever is on the other end of the phone. Additionally, shippers have very little insight into available capacity and limited ability to objectively evaluate rates against the market. This problem is further compounded during holidays, weekends, and after business hours, when the market is especially thin. Tendering loads this way can take hours of back and forth over the phone and email, and ultimately creates a market that is not efficient, or even functional, at multiple levels. This type of inefficiency also results in rate volatility from shipper to shipper and carrier to carrier.

Over the past few years, new technologies have shined a light on market prices and simplified the booking process. At Uber Freight[2], we built an app that enables carriers to book loads without ever making a phone call. Shippers of any size can take advantage of our robust carrier marketplace, which lets them access guaranteed real-time market prices and gives them the power to price and book freight with just a few clicks.

By embracing real-time freight operations, shippers can move loads with the confidence that their prices reflect the overall state of the market. And as real-time freight operations becomes more popular, across both spot *and* contract freight, it has the potential to redefine traditional RFP and manual bid processes.

"Pricing technology solutions are enabling shippers to take advantage of the market's ups-and-downs without compromising on their budget or quality of service."

CONTRACT FREIGHT & RFPS

Real-time freight booking and pricing opens up many new possibilities for logistics—savings in soft markets, better service in tight markets—yet, widespread adoption will be difficult to achieve. Most shippers still want a greater level of predictability and reliability in their transportation network that's offered by annual RFPs and bidding cycles that lock in contract freight rates.

Contract freight is intended to provide more reliability for shippers, both in rates and service. However, it's hard for shippers to know[3] if they are getting a good deal when they receive RFPs for the year ahead.

RFPs are based on a collection of forecasts and estimates of lanes, volumes, and rates for the following year. Shippers predict the lanes they will have next year and carriers estimate pricing, but the actual decisions that determine which lanes are shipped and the volumes on each are often made by planning and scheduling tools disconnected from the RFP bidding process. If those tools—which help determine distribution, capacity, inventory, and replenishment—had access to real-time rates, the systems would make better decisions, contracts would be more certain, and service would become more reliable.

If I were a shipper trying to make a sourcing decision for the next two weeks, knowing the real-time pricing for those fourteen days would guide my decision. It may result in sourcing from a new location during produce season, even though I use a different one for the rest of the year. If I had to rely on static contract rates in my network planning tools, I wouldn't be able to make a dynamic tradeoff to correctly time the produce surge.

As real-time freight technology becomes more prevalent, shippers will steadily gain flexibility, insight into the market, more reliable service, and material savings for their business. At Uber Freight, we've already begun offering future-committed rates on short time horizons with Lane Explorer[4]. The industry also recently debuted Freight Futures contracts[5], with the first trade sold on the FreightWaves platform at the end of March.

For shippers, it's important to understand how these different pieces fit within their transportation planning and procurement processes. It's also essential to have a framework in place that allows them to take advantage of new pricing tools and contractual forms.

COMPETING OBJECTIVES

The various contract forms and pricing tools in the freight industry each prioritize a different objective for shippers: **rate hedging** (freight futures), **reliability** (real-time spot and short-term contract rates), and **cost** (long-term contracts). Every shipper must find their balance among these objectives.

It's too early to predict how the usage of futures contracts will evolve, but one potential benefit is that futures contracts can help limit budget risk by reducing exposure to rate volatility. This works both ways, however; if the market softens it will not guarantee that you'll pay the lowest cost. The traditional RFP process helps to lock in lower costs, or the option of a lower cost. However, RFPs don't provide guarantees and may not be reliable as the market tightens. Within traditional contracts, neither carriers nor shippers are bound to be good actors. Spot freight, on the other hand, can provide greater reliability during capacity crunches, as long as the shipper is willing to pay market rates. In soft markets, the spot market can be both reliable and lower cost.

ON-DEMAND LOGISTICS

New contractual forms and true on-demand logistics solutions are starting to come to market. Pricing technology solutions are enabling shippers to take advantage of the market's ups-and-downs without compromising on their budget or quality of service. Contracts that can be generated in real-time, driven by advanced market insights and machine learning, can guarantee shippers predictable rates at the time that a shipper needs to make a decision. Whether that decision involves distribution strategy adjustment, working with a new vendor, or any number of network changes, on-demand logistics makes the answer clearer and easier to obtain. Generating rates through APIs reduces the manual workload involved with massive RFPs. Additionally, since real-time pricing will more accurately reflect the market, shippers will reduce uncertainty to carriers as well, improving overall transparency and reliability.

This idea is taking off amongst smaller shippers with less volume, who have recently begun taking advantage of instant booking and real-time pricing[6], embracing the idea of on-demand logistics at scale to improve their operational efficiency. It's now possible to replicate that success at the enterprise level as well by integrating these types of solutions into their TMS. A recent example is the integration of Uber Freight into SAP's Logistics Business Network[7], which brings enterprises access to real-time freight booking as a long-term sustainable solution. By incorporating technology that helps automate the procurement process, shippers of any size can truly optimize their supply chain and simplify their transportation departments as a whole.

As technology in the freight industry continues to advance, real-time pricing and real-time contracts will be more widespread, leading to the rise of true on-demand logistics. By embracing it, we have the potential to change the economics and procurement strategies of freight for good.

FOOTNOTES

[1] https://www.trucks.com/2019/01/02/freight-growth-slow-after-smashing-records-2018/

[2] https://www.uberfreight.com/

[3] https://www.wsj.com/articles/truckers-see-momentum-slowing-heading-into-2019-11548075600

[4] https://www.uberfreight.com/blog/lane-explorer-sets-a-new-standard-for-price-transparency

[5] https://www.freightwaves.com/freight-futures

[6] https://www.uberfreight.com/blog/how-uber-freight-is-bringing-pricing-visibility-to-narragansett-beer

[7] https://www.uberfreight.com/blog/uber-freight-sap-partnership

About CSCMP Hot Topics

Issues of *CSCMP Hot Topics* may include early results from ongoing research being conducted for CSCMP or other organizations; new supply chain practices, thought-provoking ideas, or emerging trends; discussions of changes in the broader business and regulatory environment that may impact the supply chain and logistics field.

CSCMP™

Educating and Connecting the World's Supply Chain Professionals.™