

Freight and Logistics Negotiations Using Internet Based Tools

Over the last five years, the Freight and Logistics industry has undergone great change, both technology and structure wise. The industry has gotten lean and pushed many employees out as independent contractors. We have seen several large firms who avoided restructure end up filing for liquidation.

There have been benefits of the changes. The information regarding load structure, backhauls, and equipment/driver availability is easily obtained, making the overall cost structure of the industry much more competitive with other modes, like rail.

Many logistics buyers have taken advantage of this newly available information to drive better rates for the most common routes. Using internet based reverse auctions, buyers are able to “market” their needs on a specific route to many suppliers simultaneously, and the result is significant savings. There are some challenges to this process, but experience shows that it lowers rates by as much as 13-15% on some routes.

An online auction allows logistics companies the opportunity to view multiple routes, load size, and the frequency of use. They can place their bid and see what their competition bids. They can change their bid to respond to the new pricing. An auction is typically open for only 30 minutes to increase the pressure on repeat bidding.

The critical element to receiving the lowest pricing is defining the load extremely well, specifically common weights, pallet structure, holiday or volume swings, etc. A secondary element is getting the dominant market force on a specific route to bid. A third element is communicating the terms of the contract, which clearly calls out the game plan on fuel price changes, truck availability, unexpected requirements, and minimum notification times.

Once this information is properly packaged, and the logistic companies are identified and contacted, the event can proceed. All firms involved receive training in a mock reverse auction event within days of the actual. Generally, the contract is awarded to multiple suppliers, as truck availability may be influenced by the low prices obtained in the event.

The most common results of this process are minimum savings of 3% and a maximum of 15%, unless a backhaul opportunity exists. In this scenario, a firm may bid simply the fuel cost to get the truck and driver home.