RFQ SECRETS

How to achieve success with freight bids

BY DAN GOODWILL

As shippers wrestle with the continuing challenges of tight capacity, increasing freight rates and elevated fuel surcharges, many companies are turning to a formal request for quotation (RFQ) process to address these issues. The RFQ process is now viewed by some shippers as a mechanism to leverage their freight volumes to secure the capacity they require while ensuring some measure of rate stability.

There are other developments that are encouraging more companies to engage in this process. In the past, shippers had to gather a mountain of information on their freight volumes, commodities and lanes and prepare a comprehensive document that they could submit to carriers and 3PL's for bidding purposes. With the development of online freight bidding tools such as Bid$ense from SMC3 and BidSmart from Schneider Logistics, the process of conducting a freight bid has been greatly simplified and enhanced, the timeline has been compressed and the analytical tools much improved over tedious spreadsheet evaluations of the past. In addition, much of the process can be outsourced to organizations experienced at conducting these bids.

After spending 22 years in various executive positions in the transportation industry, I have been assisting shippers with their freight bids and carrier negotiations over the past couple of years. This has included conducting a number of RFQ's. I would now like to share with carriers some of my experiences and offer suggestions on how to respond more effectively to shipper requests.

Don't Assume You're in the "Driver's Seat"

First, if your company is the incumbent carrier, do not assume that you are in the "driver's seat," even if you have had a good relationship with the shipper. The process of initiating a freight bid often starts at the top. A new management team may take a fresh look at their financial results and determine that transportation costs represent an area of opportunity. A new CFO or vice-president of logistics may view transportation costs as potential "low hanging fruit" in the search for cost reductions. Even as incumbent carrier, make sure you present a winning bid and compelling "value added" proposition.

Make Sure Your Costing Model is Up-to-Date

Having sat on the carrier side of the negotiating table for so many years, I am amazed at the variance in rates that you see when you ask carriers for a freight bid. Certainly some of the variance can be explained by the volume of business the carrier may have in the lanes listed in the bid, the quality of the business the carrier has in those lanes and how balanced an operation they run.

While this may explain some of the variances, others can only be explained by the fact that the carrier may not have correct or up-to-date costs for the key components of their business (i.e. pick up, cross-dock, line haul etc.). Don't miss out on an opportunity to add valuable revenues and profits by having an obsolete costing model. Make sure your costing model is up-to-date.

Be Creative

This may appear to be a peculiar suggestion in view of the specific requirements outlined in some freight bids. In fact, being able to think "out of the box" and develop a solution custom designed for each specific shipper is exactly what many shippers are seeking. Each carrier that receives a freight bid should contrast the bid requirements with its various operating divisions and business partners. If a carrier has a transaction based truckload division, a dedicated fleet operation and a brokerage business, it may make sense to look at which pieces of the bid can or should be met by each division. Fitting the various segments of the shipper's business to the appropriate business unit of the carrier may be the best opportunity for your company to present to the shipper the best solution at the lowest cost.

Submit Your Bid on Time

Assign the task of preparing your company's bid response early and make sure you submit a well thought out bid on time. Some companies treat freight bids like some students treat term papers. They look at the bid in the final few days and then either submit a low quality bid or miss the deadline. While freight is plentiful in 2006, a freight bid does not mean that the shipper's rates are, or will be "in the gutter." In fact, the bid may be awarded to carriers that are more in the "middle of the pack" in rates but have the service, technology and people to do the job right.

Check the Math

Many companies forward the bid to a junior pricing analyst. The bid may or may not be reviewed by a more senior pricing manager (i.e. director of pricing) before it is forwarded to the shipper or the shipper's negotiating agent. Sometimes the bid will contain mistakes that can be attributed to a lack of attention to detail or a misreading of the bid (i.e. a failure to realize that a milk run is performed twice in a day rather than only once).

In some cases, the bid submission contains errors in arithmetic. Sometimes I will point out these mistakes to the carrier since in the end, this particular carrier may be a good fit for the shipper. In other cases, where the carrier continues to make errors in math, we have to move on to carriers that can get it right. Check the math in your bid before it is sent to the shipper.

Communicate Your "Value Added" Proposition

In some bid packages (i.e. Bid$ense), there is a group of questions that address a broad array of variables (i.e. on time service, claims ratio, operating ratio, size and age of fleet etc.). The answers to these questions provide good insight into the carriers' ability to serve the needs of the shipper.

However, I encourage carriers to develop a "boilerplate" proposal that can be customized to the requirements of each shipper. Use this document to present a compelling story on why your company can best meet the needs of the shipper. For example, if you have broader direct service coverage in the province of Quebec, make sure you tell the shipper. If your on-time service performance or claims ratio is superior to industry standards, don't be shy to include this in your proposal.

If you aren't sure what the company is looking for, call the shipper and ask some key questions. I have seen an RFQ that was less than a page. If you wish to be successful, do your homework and present a bid response that directly addresses the needs of the shipper.

Be Prepared for Multiple Rounds of Negotiations

In many cases there is a requirement for at least one or two rounds of negotiations. It is only after the bids are in that some opportunities to negotiate with selected carriers become apparent. Volume discounts and negotiations on accessorial charges (including fuel surcharges) are often best left to the negotiation rounds.Those carriers that take a position of arrogance or inflexibility risk being left "out in the cold". I encourage carriers to think through their "end game strategy" and be prepared to negotiate a "Win-Win" contract with a desirable shipper.

If You Secure the Business, Focus Carefully on the Implementation

During the early stages of the process, the carrier's pricing and sales groups are most engaged. Once the business is awarded, it is essential that the operations team gets directly involved. This is the time when the terminal manager or the director of operations should accompany the account manager to meet the prospective client. There should be a clear understanding of the shipper's requirements (i.e. pick up time, equipment required for pick up, number of trailers in the yard, cut off times etc).

There are carriers that make it to this stage only to "blow the account" by not meeting the shipper's expectations. Since this is a period of vulnerability for the transportation manager, a carrier that falls down may cause the shipper to run back to the incumbent carrier and negotiate a revised pricing proposal. All the time and effort that was devoted to the preparation of the bid, selling the shipper on the value of the company and negotiating the rates will be lost if the shipper loses confidence in the carrier at this stage.

During my years at Yellow Transportation, we had a "Platinum Service" program for new accounts. A dedicated customer service representative would monitor every shipment for a prescribed period of time to make sure there were no mishaps. Once Yellow became comfortable with the shipper's transportation requirements and the shipper became comfortable with Yellow, the account was solidified and the risk of the shipper running back to the incumbent had diminished. I encourage carriers to put these types of processes in place to ensure that they retain the business they fought so hard to secure.

The RFQ process can be a useful vehicle for shippers to leverage their volumes with carriers that are well equipped to service their requirements. By following the steps outlined above, carriers may enhance their chances of adding new profitable business to their company's portfolio of customers. **MT**

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