SOLUTION GUIDE

# A Guide to Spot Rates and Digital Freight Brokerage

For anyone following the ongoing discussion surrounding supply chain challenges and high transportation costs has also noticed the rollercoaster of rising and falling rates over the last few years. During that time, shippers have turned to the spot market as a temporary –– and sometimes more frequent –– option to find transportation that meets their customers' expectations. This guide discusses the pros and cons of spot rates and how to effectively augment your typical contract rates. But for those newer to the discussion, let's start at the beginning.

## What is a spot rate vs. a contract rate?

A spot rate is a price or rate charged for a single shipment of goods on a specific route at a particular time. Unlike contract rates negotiated in advance and typically covering a set period, spot rates are dynamic and fluctuate based on various market conditions.

Supply and demand, fuel costs, seasonality, weather conditions, and other market variables influence spot rates. Shippers use spot rates for short-term transportation needs when they require immediate or ad-hoc transportation services –– like when they see an increase in demand and available capacity is tight. In cases like these, spot rates can be a good option because they offer flexibility to both shippers and carriers. There is no long-term commitment or agreement because they are specific to a single shipment. Shippers can quickly find available capacity, and carriers can choose the most profitable loads based on current market conditions. This makes spot rates more volatile than contract rates due to their sensitivity to market changes like driver and equipment availability and regional demand.

9600 Great Hills Trail, Suite 300E, Austin, TX 78759 | Tel. 1.512.425.3500 | e2open.com

unpredictability. Shippers who want to chase down rates may opt to use the spot market more frequently. However, they should only do so with caution. We recommend building partnerships and shoring up capacity for the future by building and maintaining routing guides and incorporating capacity commitments and service requirements in the tender process. Shippers using routing guides with carrier-defined capacity have performed better than their peers. After committed capacity with contract carriers is reached, it is best to take advantage of spot markets.

## Where do shippers turn to access the best spot rates?

Spot rates are commonly quoted and booked through a digital freight brokerage, also known as an online freight brokerage or a digital freight marketplace. A digital freight brokerage connects shippers with carriers to allow real-time price negotiation and facilitate freight shipment booking and management.

Digital freight brokers offer shippers of all sizes a competitive advantage in several ways. Shippers can compare prices and make informed decisions based on market conditions. With these services, shippers can find lower-cost spot rates or capacity for an unplanned shipment without the need for long-term, fixed-price carrier contracts that reduce organizational agility while increasing costs.

Digital freight brokerages often operate as marketplaces where shippers can post their freight requirements and carriers can bid on or accept those loads.

Shippers can receive instant shipment quotes based on distance, weight, type of cargo, and delivery timeline. Digital freight brokerages can also scale quickly due to their technology-driven nature, allowing them to accommodate a large number of shipments and carriers. The rise of digital freight brokerages has disrupted traditional models by offering more transparent pricing, more open access to carriers, and increased competition.

It's important to note that while spot rates provide flexibility, they are also subject to volatility and unpredictability.

## How do shippers optimize the use of spot rates and digital freight brokerages?

A best-in-class TMS, integrated with digital freight brokerages, makes it easy for businesses to rate, ship, and manage freight. Multiple digital freight brokers integrate directly with e2open Transportation Management to power instant quotes. Companies that use Transportation Management tap into pricing insights and access a broader network of carriers to connect with shippers across the U.S. Once initiated, shippers can immediately see booking options from digital brokers in the TMS.

With integration to digital freight brokers, shippers are equipped with a reliable TMS extended to a larger network of dray, full truckload, and less-than-truckload carriers. Shippers reduce the time spent manually searching for capacity and rates. Instant pricing and tendering based on real-time market conditions allow for faster decision-making and provide the agility to react quickly when necessary.

## E2open

E2open Transportation provides shippers access to reliable, guaranteed capacity with broader networks comprising over 60,000 carriers available 24/7. With this seamless integration, they can gain complete transportation management system (TMS) capabilities on one platform while reducing transportation spend and improving performance.



9600 Great Hills Trail, Suite 300E, Austin, TX 78759 | Tel. 1.512.425.3500 | e2open.com