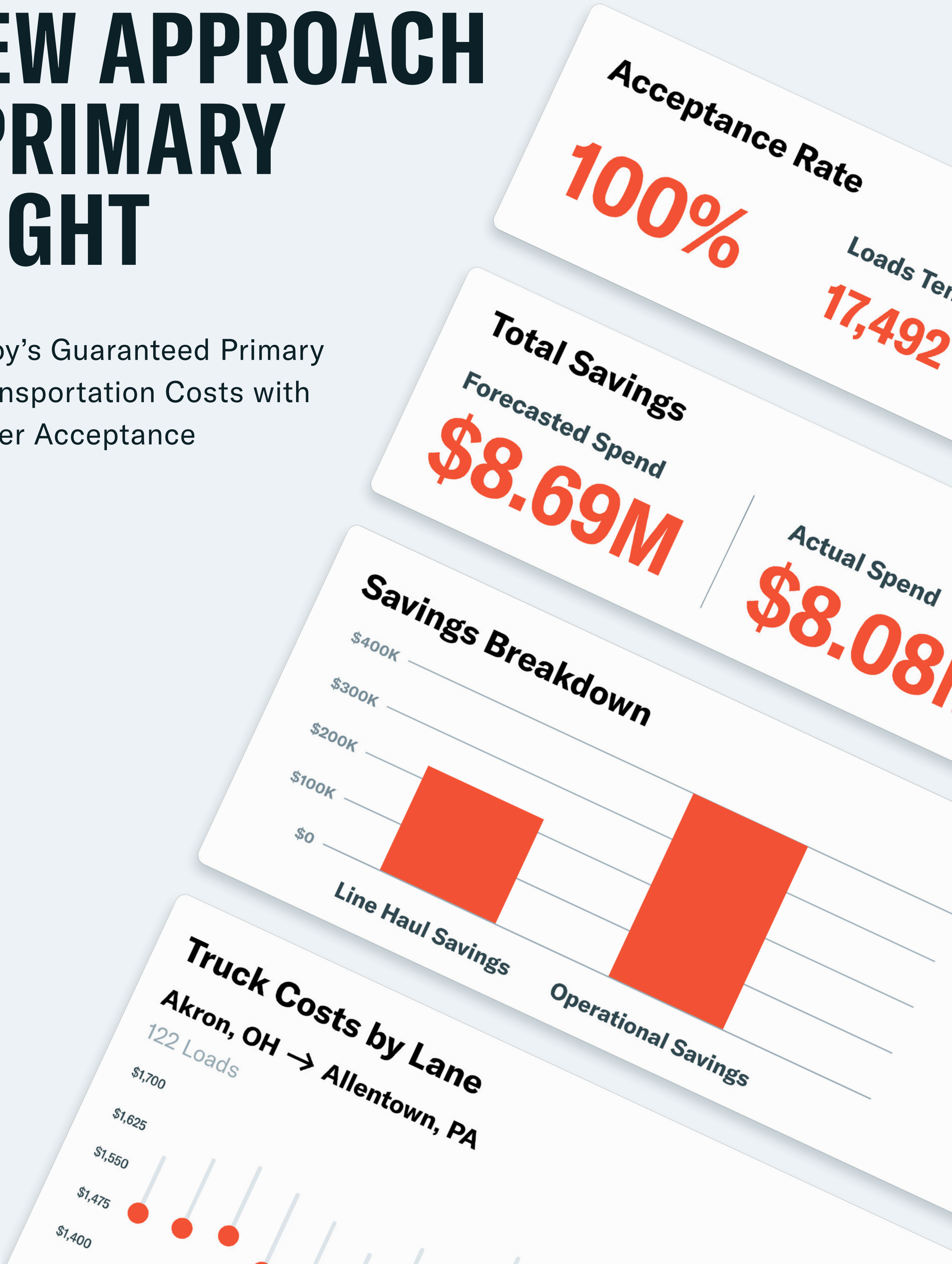
CONVOY

A NEW APPROACH TO PRIMARY FREIGHT

How Convoy’s Guaranteed Primary Lowers Transportation Costs with 100% Tender Acceptance



Introducing Convoy Guaranteed Primary, a unique alternative to the RFP that offers 100% tender acceptance at a fixed margin that can be 50% lower than the industry average.

With Guaranteed Primary, shippers can:

- Lower transportation costs by up to 19%
- Increase service quality by never having to rely on spot
- Eliminate thousands of hours wasted each year sourcing capacity when tenders are rejected
- Receive unparalleled transparency into truck costs and total savings realized through the program

The RFP is a cornerstone of the freight procurement process. For high-volume shippers, it provides a foundation for annual budgeting, and its resulting contracts are meant to provide transportation teams with reliable, quality capacity, budget predictability, and operational savings.

At the same time, the RFP process takes months to complete and costs millions in operational expenses each year. Even after contracts are signed, they quickly break down. In tight markets, tender rejection forces transportation teams into their routing guides, where they spend thousands of hours annually sourcing capacity and paying higher prices. In soft markets, shippers renege on volume commitments, spending operational hours to find cheaper rates on the spot market, but at the risk of working with unfamiliar, lower-quality carriers.

Regardless of market conditions, the RFP creates a zero-sum game that pits shippers against brokers and carriers, establishing a relationship founded on mistrust. Within six months, much of the effort that went into the RFP is moot, with half of all negotiated contract rates or tender acceptance levels no longer being honored.

The challenges of running RFPs and managing contracts are well known to all parties involved. What's less understood, however, is the premium that shippers pay for contracts, and how little budget stability and cost savings they actually provide.

In fact, data from the last half-decade reveals that the premiums associated with RFP procurement and contract management can cost shippers more than if they were simply to pay open market rates throughout the year. This means that, for many shippers, the RFP is actually a financial liability, wasting thousands of hours and millions of dollars annually.

In this paper, we examine the true cost of annual transportation procurement and freight contracts, and how they fail to deliver on the promises of reliable service and lower, predictable costs.

We then introduce Convoy's Guaranteed Primary, a new approach to primary freight that can save shippers millions of dollars annually while providing 100% tender acceptance, all without an RFP.

TABLE OF CONTENTS

THE TRUE COST OF THE RFP

The freight market of 2020, more than any time in recent history, has exposed the shortcomings of the RFP. In March, the demand for food, beverages, and household goods drove up truck prices, resulting in higher tender rejection rates and contract repricing conversations between shippers and freight companies. After a brief period of market contraction, truck prices began steadily rising again in May. By July, tender rejection had reached levels not seen since the tight market of 2018. And by August, one in four outbound tenders were being rejected, prompting a second round of contract renegotiations.

While the events of 2020 are unprecedented, they highlight the fundamental flaw of RFPs and traditional freight contracts. Namely, they attempt to assert control and predictability over an unpredictable freight market. And because of this, they invariably fail to deliver on their promises of reliable and quality capacity, budget stability, and cost savings.

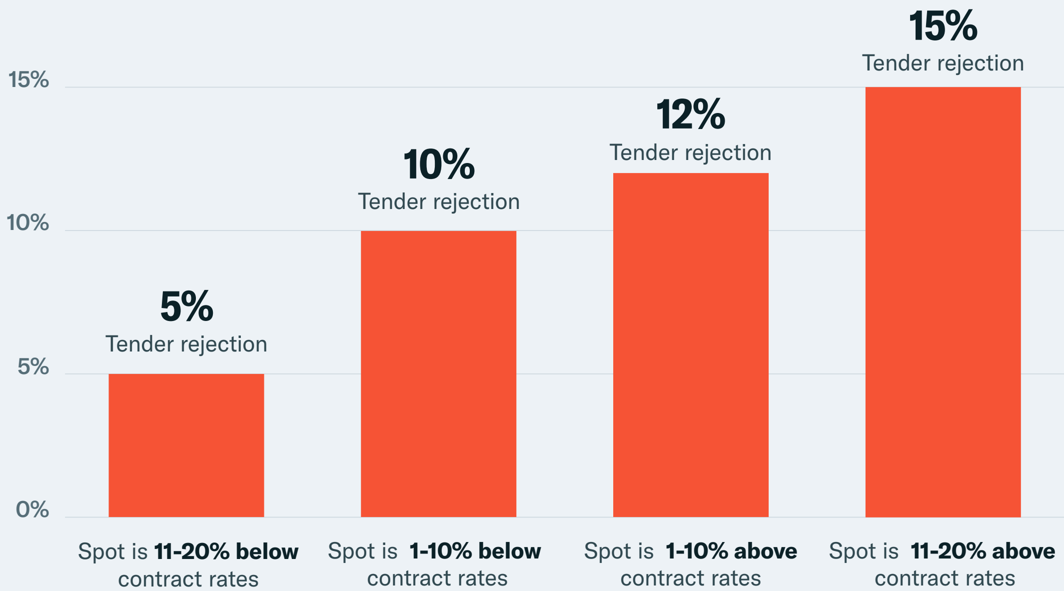
The Broken Promises of Reliable, Quality Capacity

Without RFPs and contracts, every shipment would be subject to the spot market. There'd be no guarantee of coverage, and transportation teams would work with many carriers who aren't experienced in hauling their freight.

So RFPs hold the promise of providing reliable capacity, binding carriers to a shipper throughout the contract term and improving service quality through greater carrier consistency. Yet in tight markets, this promise is quickly broken. When contract rates expose carriers to sufficient financial risk, they reject tenders and gravitate toward the more profitable spot market. As a result, shippers fall back into their routing guide or spot where they're more likely to work with unfamiliar carriers, receive lower-quality service, and face higher risk of service failure.

An analysis of data from FTR, DAT, and FreightWaves confirmed a strong correlation between tender rejections and the delta between contract and spot rates. As spot rates climb further and further away from contract rates, tender rejections rise almost one for one.

As spot rates rise above contract rates, tender rejection increases



The Broken Promise of Budget Predictability

Because transportation is often a large part of a shipper's annual operating expense, building an accurate budget forecast is critical. The RFP is the primary input for that budget—its goal is to provide transportation and procurement teams with a sense of stability. Even as the market shifts, contract rates are meant to remain steady, providing budget predictability over the next year.

Of course, this is rarely how things actually play out.

Natural shifts in the market—particularly increasing demand or contracting supply—lead to the problems of primary tender rejection discussed above. As tenders spill over into the backup routing guide or spot market, premiums of 15% or more can create significant budget overages.

In addition, significant market swings, or failure of contract carriers to meet obligations, can lead to mini-bids. These short-term procurement events can impact 10-30% of the shipper's volume in any given year, and each mini-bid incurs fixed and variable costs that affect the budget forecast.

Shifting market conditions, mini-bids, and other changes in business operations result in contract rates decaying long before their planned expiration. In fact, after just six months, approximately 50% of all negotiated rates no longer apply.

The Broken Promise of Cost Savings

Beyond budget predictability, the RFP is also relied upon to reduce transportation costs. By locking in truck prices over the course of a year, shippers can theoretically guard against constantly fluctuating market rates. But when administrative costs and primary contract failures are accounted for, RFPs actually cost more than if shippers simply rode the highs and lows of the spot market.

To illustrate this point, let's take a closer look at contract rates over the last half-decade. The chart below shows a contract rate index—an aggregate view of rates from 2014 through the start of 2020.

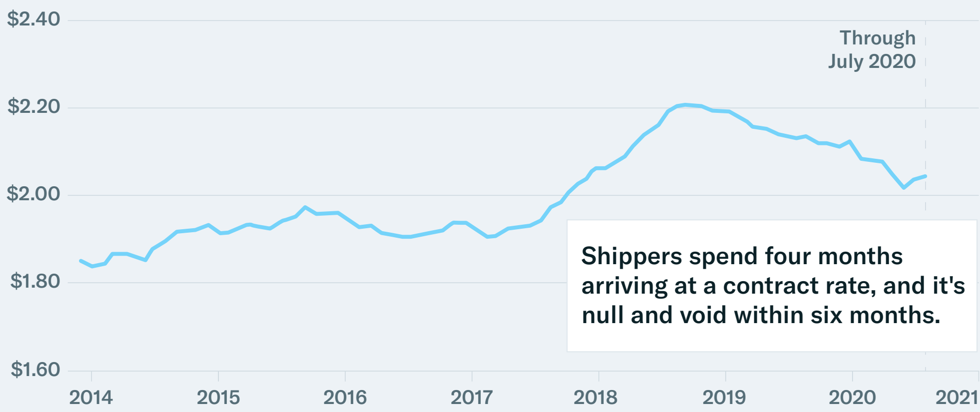
However, these rates present an incomplete view of the total costs incurred by shippers through the RFP process.

First, they don't account for the fixed costs of running the procurement event itself. These costs can vary substantially based on annual truckload volume and the quality of the procurement process. A midsize shipper with a $100 million annual freight budget will typically use 17 people to vet 150 carriers over 16 weeks, with the entire process costing $2.5 million.

Second, they don't include the operational costs of source freight when contracts fail. In tight markets, shippers are subject to backup or spot premiums when tenders are rejected. And in soft markets, shippers often renege on contracts to chase lower-cost spot freight, but in doing so, they incur overhead in the form of operational hours, and expose themselves to increased risk by working with unfamiliar, lower-quality carriers.

The contract rate index shows aggregate contract rates over a six-year period.

Contract Rate Index



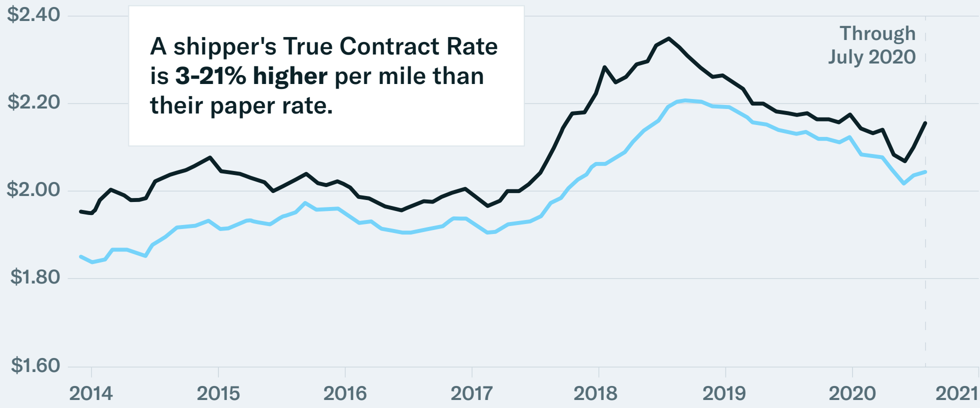
Source: Convoy analysis of FTR, DAT and FreightWaves data, 2014-2020.

For a typical midsize shipper, the combination of RFP administration and the operational overhead of sourcing capacity when contracts fail increases rates by anywhere from 3-21%. This reveals the fully burdened cost of sourcing and managing contracts, which we call the *True Contract Rate*, shown below.

The True Contract Rate includes RFP operational overhead as well as backup and spot spillover costs when tenders are rejected.

True Contract Rate

Contract Rate Index



Source: Convoy analysis of FTR, DAT and FreightWaves data, 2014-2020.

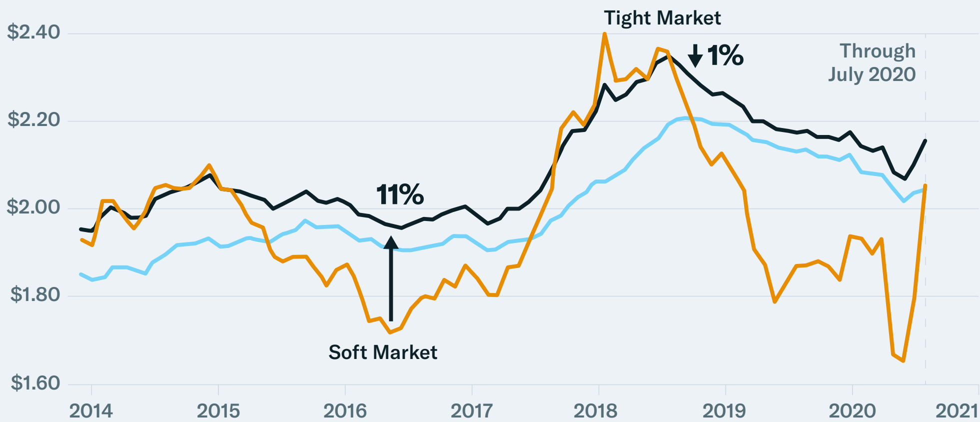
By comparing the True Contract Rate to spot rates, we can see that the RFP process and its resulting contracts don't actually lower costs as shippers would expect. Between 2014 and 2019—a period that covers two full freight cycles—shippers paid, on average, the equivalent of spot market rates during the 33 tight-market months when spot rates were above contract rates. And during the 39 soft-market months, shippers either paid 11% above market on average, or they broke their contracts to source capacity on the spot market, reducing service quality and incurring operational overhead.

On average, the True Contract Rate is roughly equal to spot rates (1% better) in tight markets, and 11% higher than spot rates in soft markets.

Spot Rate

True Contract Rate

Contract Rate Index



Source: Convoy analysis of FTR, DAT and FreightWaves data, 2014-2020.

INTRODUCING CONVOY GUARANTEED PRIMARY

The RFP fails to deliver on its promises because it tries to force stability onto an inherently volatile freight market. The dynamics of that market will never change. So improving upon the RFP requires a completely new approach to sourcing primary freight.

Guaranteed 100% primary tender acceptance

Significantly lower shipping costs

Full transparency into Convoy's costs and margins

In 2019, Convoy began to pilot a program called Guaranteed Primary. The program set out to deliver on key promises of the RFP without the overhead of running a months-long procurement event. In the last year, Convoy has successfully rolled out the program to shippers of all sizes across retail, consumer packaged goods, food and beverage, automotive, and packaging industries. Based on the success of the pilots and growing demand from transportation and procurement teams, Convoy is now making Guaranteed Primary broadly available to truckload shippers across the continental United States.

For shippers, Guaranteed Primary delivers a unique combination of benefits:

1. Guaranteed 100% primary tender acceptance
2. Significantly lower shipping costs
3. Full transparency into Convoy's costs and margins

In tight markets, Guaranteed Primary means that shippers never have to worry about failing over to a backup or spot carrier. In soft markets, the program enables shippers to "ride the market down", saving costs as truck prices dip.

For small shippers, Guaranteed Primary can reduce shipping costs by up to 19 percent, and for large shippers, the program can result in 8-figure annual transportation savings.

For Convoy, Guaranteed Primary provides a win-win scenario that's never been possible with RFPs and traditional contracts. First, with 100% tender acceptance, we can provide our customers with higher-quality service that isn't subject to tender rejection and repricing in tight markets. Second, through committed volume, we can provide more consistent work for drivers in our network, supporting small carriers and owner-operators across the country. And finally, through a low, fixed-rate margin, we can lower shippers' transportation costs while also reducing our financial exposure as the market inevitably shifts.

Breaking the zero-sum game of the contract rate

Guaranteed capacity

100% tender acceptance means peace of mind in any market condition

Guaranteed capacity

Save on operational overhead and rates with up to 50% lower margin than industry average

Transparent pricing

Full confidence with complete transparency into truck costs and regular savings reports

CONVOY

How Guaranteed Primary Works

1. **No RFP overhead**
   When a shipper uses Guaranteed Primary for any particular lane, they completely eliminate the need for an RFP. Instead, the shipper and Convoy agree to allocate all volume on the lane to Convoy.

2. **Agree to a low, fixed margin that is up to 50% lower than the industry average**
   In contrast to traditional contracts that set a fixed rate per mile, Guaranteed Primary establishes a fixed margin that shippers pay Convoy to haul each load. The margin can be up to 50% lower than the industry average of 15-18%, due to the efficiency and automation of the Convoy digital freight network, reducing transportation costs with every shipment.

3. **Convoy guarantees 100% tender acceptance**
   As the shipper tenders loads to Convoy, we guarantee acceptance by tapping our nationwide network of hundreds of thousands of trucks. And through the use of an automated bidding system, carriers compete to haul loads, ensuring that our customers always get capacity at the lowest available rates.

4. **Convoy provides unparalleled transparency**
   Throughout the process, Convoy provides full pricing transparency, sharing our truck costs and margin for every shipment. Each month, our customers receive an insights report detailing the estimated savings they've received comparing their actual costs to what they would have spent using an RFP or the spot market.

5. **Shippers can cancel at any time**
   If a customer is unsatisfied with the program for any reason, they can cancel anytime.

Isn't this just a cost-plus program?

At first glance, Guaranteed Primary looks a lot like a traditional cost-plus program. Although both programs make use of a fixed margin, there is an important difference. Cost-plus programs are backward-looking, while Guaranteed Primary is a predictive (future-looking) program.

With cost-plus, transportation teams don't have access to accurate carrier costs at the time of tendering. Instead, shippers just receive an invoice after delivery. This leads to operational headaches and unexpected costs because shippers are expected to reconcile the actual carrier costs for every shipment.

By contrast, Guaranteed Primary is based on Convoy's predictive pricing models. When transportation teams tender their freight (e.g. daily, every few days, weekly), Convoy instantly generates a rate that predicts our costs to source the truck. Our pricing is based on machine learning models that get smarter with every shipment. And we take on the liability of our predictive rates being accurate. When our rate predictions are off, we shoulder the financial burden, eliminating the need for any billing reconciliation.

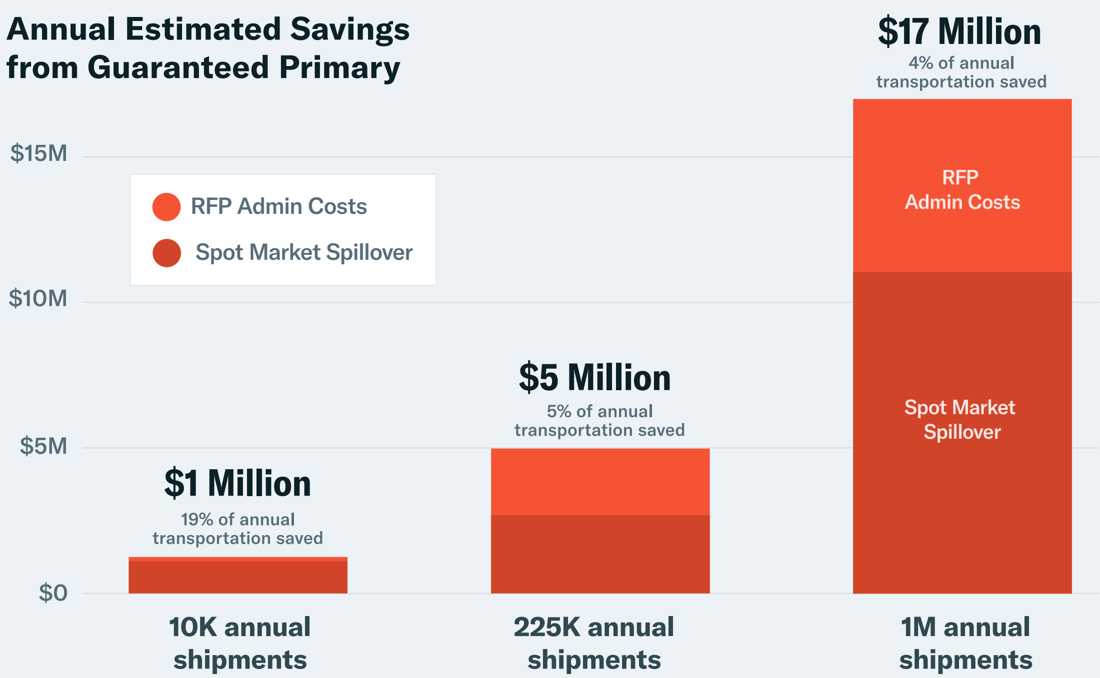
Reducing Transportation Costs

Guaranteed Primary has already demonstrated the ability to lower our customers' total freight costs.

There are four key drivers behind these savings:

1. First, customers pay a fixed margin that can be 50% lower than the industry average, shippers save money with every load.
2. With 100% guaranteed tender acceptance, shippers eliminate the need to divert shipments to their backup routing guide or spot carriers, where margins can exceed 30 percent in tight markets. As part of this, shippers avoid the stressful, labor-intensive process associated with scrambling to secure capacity.
3. In soft markets, shippers ride the market down and benefit from lower truck prices without the need to manually source capacity on the spot market.
4. And finally, Guaranteed Primary eliminates the fixed and variable costs associated with managing an annual RFP event, as well as any shorter-term mini-bids throughout the year.

Annual Estimated Savings from Guaranteed Primary



Source: Convoy analysis of FTR, DAT, and FreightWaves data, 2014-2020.

Guaranteeing Capacity

In addition to lower transportation costs, Guaranteed Primary guarantees 100% primary tender acceptance.

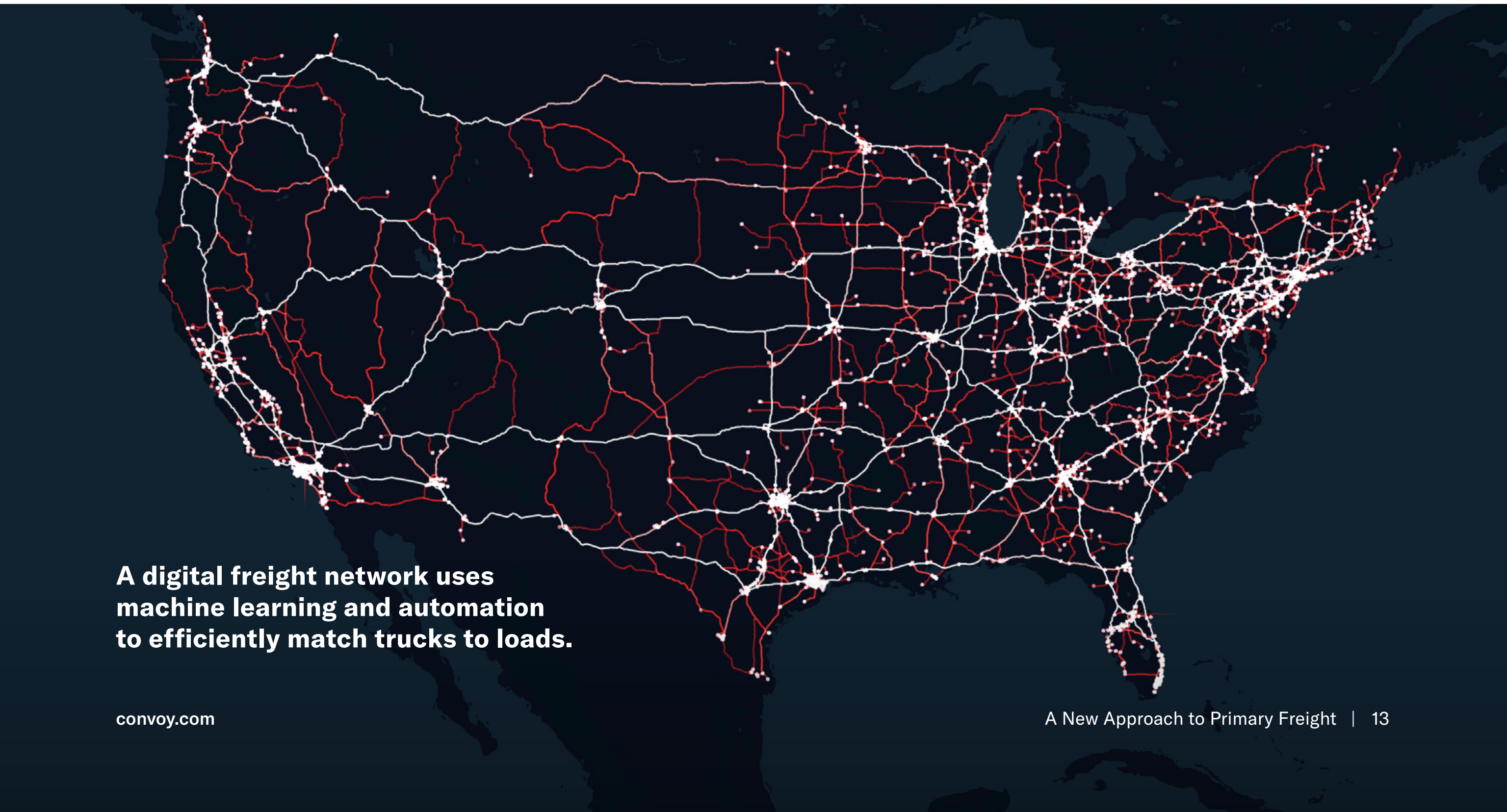
Providing this guarantee begins with having access to a massive nationwide network of carriers and trucks. As of September 2020, Convoy is one of the largest truckload networks in the nation, with more than 50,000 carriers and more than 300,000 trucks pulling dry and refrigerated loads. In addition, Convoy offers a nationwide drop-and-hook network with thousands of smart trailers that can be hauled by any driver in our network.

Convoy works with shippers to identify lanes we can service through the Guaranteed Primary program based on our ability to provide reliable and consistent supply at competitive rates.

We then use technology to ensure that we always have capacity available, even during periods of surging demand.

Specifically, we use a combination of GPS and machine learning models. First, we use GPS to confirm the location of the hundreds of thousands of trucks in our network. Then, we use machine learning to determine how many of those trucks will be willing to accept the load and able to make on-time pickup.

In the live-load pilots we've run since summer 2019, we've maintained a 100% primary tender acceptance rate and we've expanded to cover over 4,000 lanes, even during the unprecedented demand shocks caused by COVID-19.



A digital freight network uses machine learning and automation to efficiently match trucks to loads.

Providing Transparency

When shippers use Guaranteed Primary, they're making a bet that Convoy can reduce their transportation costs while knowingly riding the highs and lows of the freight market.

This can be a daunting proposition based on how different the model is compared to traditional RFPs and contracts.

To address this concern, and to ensure that Convoy is continually working to cost-effectively source capacity, we provide an unmatched level of transparency that isn't available from any other asset-based carrier or traditional broker:

1. Prior to starting Guaranteed Primary on any lane, we'll forecast the shipper's savings in advance and share this information with them. On a monthly basis, we'll track progress toward this goal.
2. Through monthly reports, we provide detailed analytics on our customers' operational and line haul savings, our tender acceptance rate, and our actual truck costs with granularity into individual lanes by day of the month. As part of this, we show daily truck cost ranges by lane and how cost-effectively we sourced trucks on that day. For example, in some cases, we may not source the least expensive truck based on our confidence in the driver's ability to make an on-time pickup.
3. At a customer's request, we can also benchmark our monthly sourcing performance against a market index (e.g. based on DAT).

In addition to providing visibility into Convoy's costs and performance, it's also important to note that our business model is naturally aligned with the best interests of our customers. Unlike brokers, who are motivated by the financial gains of maximizing margin for each shipment, our business growth is based on our ability to source capacity as efficiently as possible.

That's because a digital freight network like Convoy grows through a network effect:

The more efficiently we source capacity, the more we can drive down costs for shippers. The more we drive down costs, the more volume shippers tender to our network. The more volume in our network, the more we can combine multiple shipments together, creating more lucrative opportunities for drivers. The more lucrative the opportunity for drivers, the more capacity they provide to our network.

For more information on how this network effect works, benefiting shippers and carriers, **click here.**

September 2020 Guaranteed Primary report

Total Costs

Your monthly spend and what we paid to the carriers.

Our Truck Costs	Your Total Spend
$7.48M	$8.08M

Convoy Margin: 7.4%

Tender Acceptance

100%

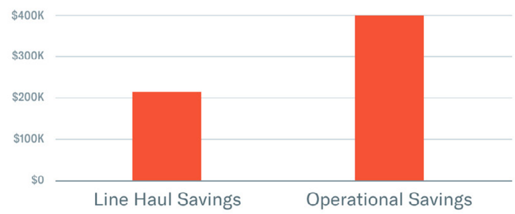
Loads Tendered	Loads Accepted
17,492	17,492

Total Savings

Your monthly savings with lowered operational overhead and line haul savings.

Forecasted Spend	Your Total Spend
$8.69M	$8.08M

Savings Breakdown



Truck Costs by Lane

Akron, OH → Allentown, PA

122 Loads

WRAP UP

The freight industry has a complex love-hate relationship with the RFP. On one hand, it's become ingrained in freight culture as an annual tradition, and it's perceived as a critical mechanism for preparing transportation plans and budgets. On the other hand, it's widely seen as a necessary evil that pits shippers against brokers and carriers in a thinly veiled game where there's always a winner and loser based on market swings.

Now, years of data have shined a light on the true cost of the RFP.

Months of effort and millions of dollars spent sourcing carriers and negotiating stable rates quickly give way to a shifting market that renders half of all contracts void within six months. The promise of reliable capacity from a limited set of well-known primary carriers gives way to the reality of tender rejection in tight markets and the thousands of hours spent finding backup and spot coverage. And when all is said and done, the promise of cost savings is never realized, with shippers' financials faring better if they'd simply paid market rates.

Guaranteed Primary is a unique alternative to the RFP. It delivers on the promise of significantly reducing transportation costs. It gives shippers a level of coverage certainty that traditional contracts can't. And by providing visibility into Convoy's costs, margins, and sourcing performance, the program establishes trust and the foundation for a new kind of mutually beneficial relationship.

Guaranteed Primary is now available for shippers of all sizes. You can try it across any number of lanes, nationwide, and can cancel anytime, risk-free.

To get started, visit convoy.com/guaranteed

ABOUT CONVOY

Convoy is the nation's most efficient digital freight network. We move thousands of truckloads around the country each day through our optimized, connected network of carriers, saving money for shippers, increasing earnings for drivers, and eliminating carbon waste for our planet. We use technology and data to solve problems of waste and inefficiency in the $800B trucking industry, which generates over 72 million metric tons of wasted CO2 emissions from empty trucks. Fortune 500 shippers like Anheuser-Busch, P&G, Niagara, and Unilever trust Convoy to lower costs, increase logistics efficiency, and achieve environmental sustainability targets.