CONVOY

A SAFETY NET FOR TENDER REJECTION

Getting better backup and spot coverage

CONVOY

You've got a truckload of goods to send to a retailer's warehouse. With a major holiday next week, a late delivery will lead to unfulfilled orders and unhappy customers. As the clock is ticking, you open your TMS to discover that your primary carrier on the lane just rejected the tender. What do you do?

You consult your routing guide, but the backup rates were quoted during the last RFP. One by one, your backup carriers reject the tender like falling dominoes.

Sourcing a carrier via spot introduces additional hassle. You email a broker, who puts you on hold while he negotiates with an unfamiliar carrier. He offers you a quote, but it seems high. Is he taking advantage of your situation? With the clock winding down and a dozen other loads to deal with, you accept the bid and hope that your truck arrives on time.

This is an all-too-common scenario for supply chain teams in 2020. The spring of this year was the most volatile quarter in modern freight history. And in the summer, we witnessed soaring tender rejection rates that surpassed 2018 levels.

With the tight market showing no signs of softening, logistics leaders are looking for a transportation safety net for their rejected tenders.

THANKFULLY, THERE'S A BETTER APPROACH FOR BACKUP AND SPOT.

Digital freight networks like Convoy are built for tight and volatile markets like the one we face today. With technology for instant pricing, guaranteed coverage backed by machine learning, and competitive rates derived from hundreds of thousands of qualified carriers bidding to win your business, Convoy can alleviate the burden of rejected tender with backup and spot truckload services.

Read on to learn the underlying dynamics of tight freight markets, how backup and spot can fit into your transportation strategy, and how Convoy can provide you flexible capacity to meet your needs for the current freight market and in any environment that lies ahead.

TABLE OF CONTENTS

WHAT'S DRIVING THE TIGHT MARKET?

CONVOY

What causes tight freight markets?

A tight freight market occurs when truckload demand outstrips supply - for example, when you have more goods to move and a short supply of trucks. This dynamic of low supply and high demand puts upward pressure on freight rates.

In a tight market, contracted freight prices may fall below spot market rates. This leads to a rise in tender rejections, as carriers back out of loads they previously agreed to in favor of more profitable freight on the spot market.

Sometimes the market cycle is predictable. For example, we can expect prices to rise when demand for shipments is high (e.g., produce seasons and holiday seasons) and carrier supply is low (e.g., DOT week).

Other times, the freight market is unexpected and volatile. That brings us to 2020.

Making sense of 2020 dynamics

Following a soft market through most of 2019, we saw a massive spike in demand in March 2020 due to panic buying caused by COVID-19. Just as quickly, demand plummeted in April along with volume and rates.

In the months that followed, the country has reopened faster than many predicted. According to a Convoy customer survey conducted in July 2020, more than 50% of retailers, food and beverage manufacturers, and grocery stores have shipment volumes that exceed pre-crisis levels.

This rise in demand is compounded by reduced supply, with some carriers exiting the market and others opting to temporarily stay home. The result has been a dramatic increase in rejected tenders for contract freight.

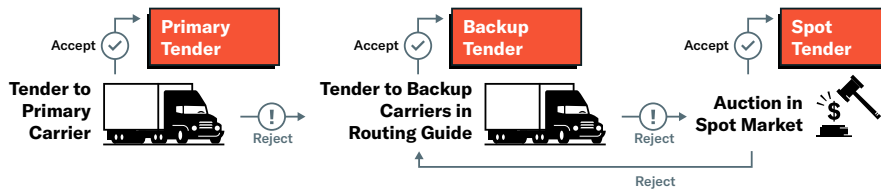## OUTBOUND TENDER REJECT INDEX
May to August, 2018 vs. 2020
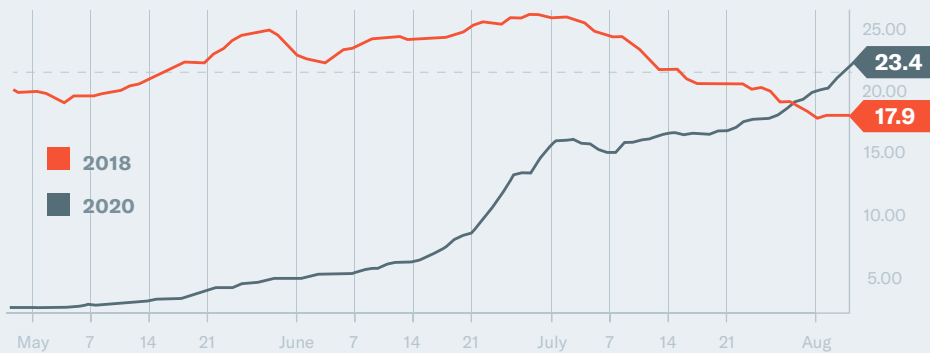
Between May and August 2020, outbound tender rejection rates rose from near-zero levels to an astonishing 23.4%, surpassing 2018 levels for the first time.

Source: FreightWaves[1]

Accept ✓ → **Primary Tender**
Tender to Primary Carrier
! Reject →

Accept ✓ → **Backup Tender**
Tender to Backup Carriers in Routing Guide
! Reject →

Accept ✓ → **Spot Tender**
Auction in Spot Market

Reject

Rejected contract tenders send logistics teams to backup and spot

When a primary carrier rejects a load, the shipper typically consults their routing guide, running through their list of backup carriers.

A routing guide helps load planners secure a known carrier and avoid the spot market, where they'd pay the highest rates and increase the risk of inconsistent service levels.

A shipper typically gives each backup carrier a couple of hours to accept or reject the shipment based on the rates that the carrier submitted during the RFP process. Each rejection takes valuable time, and as shippers continue to go through their list of backup carriers, their shipment price continues to increase[2].

If no backup carriers accept the bid, the shipment will move to the spot market.

Backup can provide significant savings relative to spot

In instances when a contract carrier rejects shipment tender, research shows that backup carriers tend to provide significant savings relative to spot in tight markets. According to researchers from MIT Supply Chain Management, spot rates cost 35% more than contract rates during the tight market of 2018. By contrast, backup carriers in a routing guide caused an increase of only 11% over contract[3].

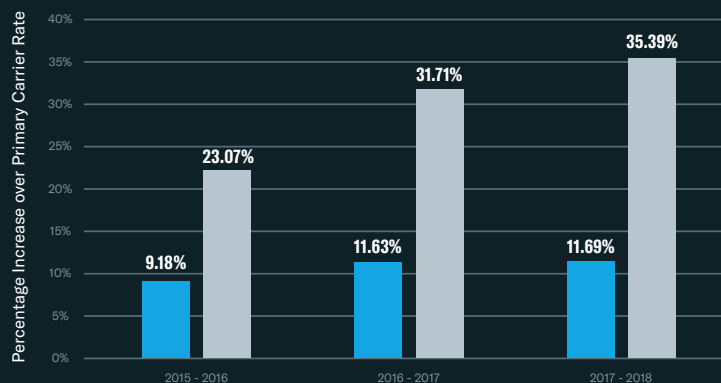This sends two strong signals to transportation teams navigating tight markets:

1. It pays to have reliable backup coverage in your routing guide.

2. It's wise to work with providers that offer spot capacity at competitive rates.

Digital freight networks like Convoy are well-suited to deliver on both of these needs.

ROUTING GUIDE & SPOT PERCENTAGE PREMIUM

Source: MIT Supply Chain Management, June 2019

■ Routing Guide
■ Spot

Percentage Increase over Primary Carrier Rate

2015 - 2016: 9.18%, 23.07%
2016 - 2017: 11.63%, 31.71%
2017 - 2018: 11.69%, 35.39%

Percentage premium in routing guide and spot market

DIGITAL FREIGHT NETWORKS

A safety net for tender rejections

Convoy launched the first digital freight network in 2015, a time of unique opportunity based on the convergence of three technologies: smartphones, mobile networks, and machine learning. Using these technologies, we built a new kind of freight company from the ground up that provides truckload capacity for supply chains in any market.

In the past five years, Convoy has scaled its carrier network to hundreds of thousands of trucks, providing reliable and flexible freight services for companies of all sizes, from multinational enterprises like Anheuser-Busch and Unilever to independent microbreweries and direct-to-consumer startups.

Whether the market is experiencing the wild swings that we saw in the second quarter of 2020, or the tightening capacity we're seeing in the third quarter, a digital freight network is uniquely positioned to adapt to shifts in supply and demand, and to provide logistics teams with greater peace of mind.

For teams experiencing high rates of tender rejection, Convoy's digital freight network provides three distinct benefits for backup and spot freight.

Instant pricing

Confirm coverage and prices, fast. No waiting or negotiating.

Guaranteed coverage

100% confirmed every time we bid. The price you see is the price you get.

Competitive rates

Tens of thousands of the nation's best carriers competing for your freight.

> Digital freight networks can help companies that are looking for real-time available capacity or looking to reduce transportation costs during the current crisis, as well as during future challenging times."

Gartner. *Supply Chain Report* [4]

DYNAMIC BACKUP

Instant, guaranteed rates in your routing guide

A routing guide can help you secure reliable backup coverage at a known rate when a primary carrier on a lane rejects a load. In practice, backup carriers do not always meet this ideal.

In tight markets, backup carriers often reject tenders for the same reason primary carriers do so: truckload rates rise higher than their original bid price. Additionally, backup carriers can take hours to respond to loads. The combination of lost time and rejected coverage adds up to a frustrating experience for transportation planners.

Convoy's Dynamic Backup offers a solution that addresses these pain points. We provide dynamic prices in your routing guide with instant rates. These rates adjust based on real-time market data. We guarantee coverage on 100% of the loads we bid on with dynamic pricing, saving you time and hassle with every load.

Convoy can deliver these benefits because of our massive carrier network and our machine learning models that find the best truck available at a competitive rate. We make it easy to gain access to our digital freight network and our Dynamic Backup from the convenience of your preferred TMS.

We have partnerships and turnkey integrations with leading TMS providers listed below. And even if your TMS isn't listed, we can support any EDI-capable system, including homegrown TMSes, with free setup and customer support whenever you need it.

Our growing list of TMS partners

ORACLE Transportation Management

MERCURYGATE

BLUJAY SOLUTIONS

One Network Enterprises™

Teknowlogi

TRANSGROUP WORLDWIDE LOGISTICS

Logistically Your Digital Shipping Partner

BlueYonder

FreightPOP

recon logistics

SHIPWELL

SwanLeap Transform the way you ship

DYNAMIC BACKUP CASE STUDY

An estimated $168k savings in four months

Since the launch of Dynamic Backup in 2018, Convoy has priced nearly half a million backup loads using the capability. Our customers cite time savings and cost reduction as the biggest benefits, along with the peace of mind that comes from knowing they have a safety net when their tenders are rejected.

Recently, we implemented Dynamic Backup with one of our food and beverage customers and measured the initial results over the first four months. This company's logistics team already had a robust routing guide, and Convoy was among the backup carriers.

Prior to the launch of Dynamic Backup, Convoy covered approximately 200 backup loads per week for this company. This volume increased dramatically when we implemented Dynamic Backup in their TMS.

Relative to our average shipments per week, Convoy covered 3,000 additional loads in the first four months. When analyzing the price paid per load relative to the industry benchmark, we saved our customer 6% compared to their backup alternatives and nearly 10% in comparison to the spot market.

This added to significant savings over the four months we studied. When calculating the premiums our customer would have paid by going with higher-priced backup alternatives and shipping on the spot market, we estimate our customer saved $168,000 by using Convoy's Dynamic Backup.

Beyond reducing our customer's transportation costs, Convoy's Dynamic Backup helped their logistics team avoid the operational burden of dealing with the spot market, saving them thousands of hours over the course of four months.

VOLUME COVERAGE INCREASE THROUGH DYNAMIC BACKUP

The light gray portion indicates the volume we covered through standard backup rates without Dynamic Backup.

The orange shows the additional loads that Convoy covered once we implemented Dynamic Backup.

■ Dynamic Backup ■ Standard Backup
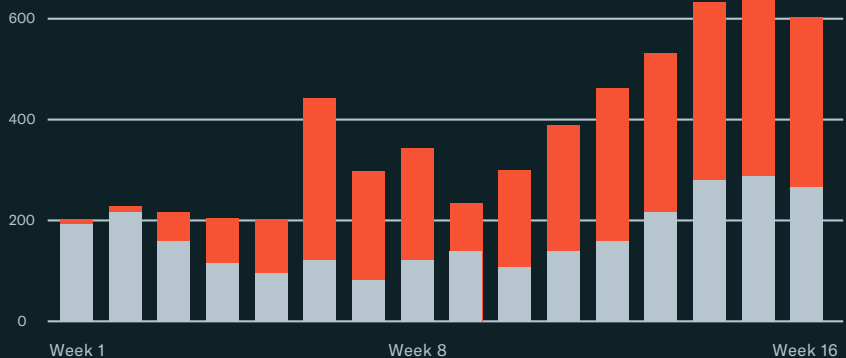
INSTANT RESPONSES

More automation, less back and forth

When a tender gets rejected by both primary carriers and backup carriers, the load moves on to the spot market. At this point, every minute matters. Unfortunately, tender response times on the spot market can take hours.
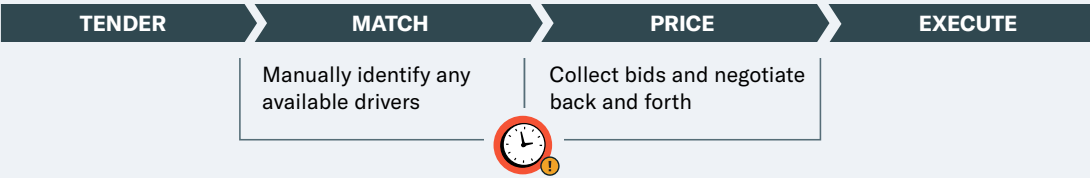
Sourcing a carrier on spot is often run through a freight broker. Brokers make hundreds of phone calls a day, asking carriers if they have trucks available. They coordinate using emails and track pricing and availability using spreadsheets. When things work well, an individual broker may match a truck to a load once every hour.

This manual operation is more time consuming and more prone to error and miscommunication. For transportation planners, this translates to more time spent waiting to confirm whether their loads will be covered.

Convoy takes a different approach to deliver instant pricing. We eliminate the need for phone calls, rough estimates, or back and forth negotiation. Instead, we generate instant prices based on real-time market data and machine learning models.
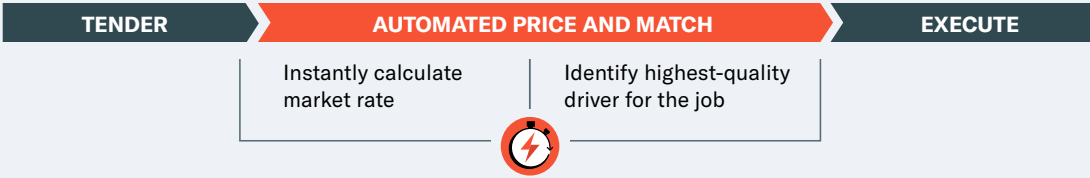
FROST & SULLIVAN

" Convoy is currently the only company that has achieved 100% automation of loads to trucks." [5]

TRADITIONAL APPROACH
Measured in hours

TENDER	MATCH	PRICE	EXECUTE

Manually identify any available drivers

Collect bids and negotiate back and forth

DYNAMIC PRICING
Measured in seconds

TENDER	AUTOMATED PRICE AND MATCH	EXECUTE

Instantly calculate market rate

Identify highest-quality driver for the job

Instant prices with machine learning

Convoy's machine learning (ML) models analyze information from our shipment history and characteristics unique to each lane. The models account for the type of goods in the trailer, how our carriers rate the pickup and drop-off facilities, the time of day, freight seasonality, and hundreds of other inputs.

We combine this analysis with real-time market rates and our carrier availability in the region of the pickup to generate a quote. The rates generated by our machine learning models are not only instant, but they also represent a more accurate and fair reflection of the current market.

In fact, our machine learning models are running continuously, applying calculations before you even submit your tender request. That's why

Convoy is able to provide you a response in a fraction of the time that it takes other providers. This is how we can achieve instant response times for both backup and spot freight.

ML on every shipment and in your TMS

Our machine learning models automate key points in the shipment lifecycle beyond tendering, including matching, hauling, performance and safety analysis. We apply ML to every load we haul, including spot, backup, and contract freight.

A great way to get this benefit is with Convoy's TMS integrations. Our integrations give you access to our freight network from within your existing tools. This saves you hours on shipment management and removes the uncertainty of not knowing whether your load is covered.

TREASURY WINE ESTATES

" Convoy's large support team and quick response time has cut out the anxiety of waiting for a coverage confirmation from a slow broker."

GUARANTEED COVERAGE

Flexible capacity for every shipment

Another pain point with the spot market: Brokers don't guarantee coverage when they accept a load. It's frustrating to have a broker back out after you've already accepted their offer. When it happens, it means more time, money, and effort exerted looking for coverage.

Convoy ensures you avoid this scenario by providing a 100% coverage guarantee for every load we bid on. This is a promise that most other freight companies can't match. How do we do this? It starts with having access to a lot of trucks.

As one of the largest truckload carrier networks in the nation, Convoy provides access to hundreds of thousands of trucks. We connect with our carriers via our smartphone app, so that at any moment we know their availability

and location. Whenever you ship with Convoy, we analyze our network to confirm that we have qualified carriers in the region that can make an on-time pickup at the price we set.

Flexible capacity in uncertain markets

The size and connectivity of our network also enables us to flex capacity to provide coverage when the market is volatile.

This capability was put to the test in March 2020, one of the most volatile months in modern freight history. We flexed to meet the needs of our food, beverage, and CPG customers, that saw surges in demand due to COVID-19. As demand for their products skyrocketed and tender volumes spiked, we flexed network capacity up more than 50% to accept their spot and backup loads.

> **❝** Convoy disproportionately services our hardest freight, yet they consistently deliver some of the best results out of our carrier partners."
>
> **P&G**

54% CAPACITY FLEX DURING COVID-19

Convoy's network adapted to cover spiking tender volumes for our customers during the peaks of the COVID-19 panic buying.

150%		
100%		
50%		
Pre-COVID (February)	COVID Peak (March)	COVID Lockdown (April)
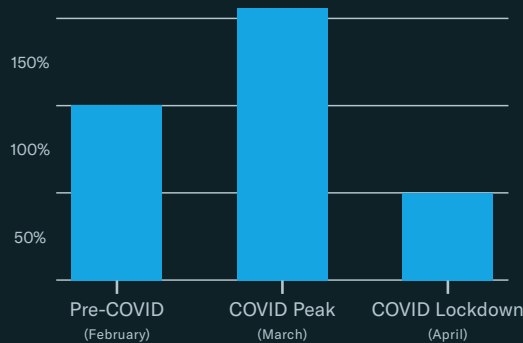
COMPETITIVE RATES

Pricing based on real-time market data

When you work with a freight broker, their incentive is to maximize the margin between the price you pay and the price they pay the carrier. The average brokerage margin ranges from 15% to 20%, though the spread can go much higher than that, especially in tight markets. Without transparency, it's hard to know whether the price you're quoted is fair and competitive.

The best way to get a competitive rate is to have carriers compete to win your business. This dynamic is one of the key inputs to Convoy's pricing model.

We can surface your load instantly to hundreds of qualified, nearby carriers that can bid to accept your freight. This ensures that the price you pay is based on real-time market data.

When we quote an instant price for backup or spot freight, we stand by it — the price you see is the price you get. This means no more back-and-forth negotiations if the market shifts or a carrier decides they want a higher rate.

We're also transparent with the rates we quote. Using our online shipper platform, you can see whether our rate for any load is below, in line with, or above current market rates.

The result: You save time and get peace of mind that your load will be covered at a competitive price.

" Convoy's timely response to our quote requests coupled with their competitive rates has saved us a lot of money."

HOW WE ENSURE YOUR RATE IS COMPETITIVE:

1. We generate an instant, guaranteed price to respond to your tender, using machine learning to analyze massive data sets.

2. When you accept our rate, we post the load to thousands of qualified carriers via our smartphone app.

3. Carriers can either accept the load instantly at our initial offer, or they can bid their price higher.

4. The carriers' bidding behavior feeds into our real-time market data, informing how we price the next loads we bid on.

RELIABLE PERFORMANCE

CONVOY

Asset-like quality and service levels

For contract freight, you're likely working with a familiar carrier with predictable service levels. However, when sourcing spot capacity after a tender rejection, you may need to entrust your goods to a carrier you haven't worked with before. This introduces uncertainty about the service quality you'll receive.

This is a common concern when working with freight brokers. Because brokers are motivated to maximize their margin, they have a tendency to source the cheapest carrier available, even if doing so could come at the expense of reliability.

Convoy maintains the industry's most stringent requirements for driver safety and reliability. Before a driver can accept a load, our system checks crash history, vehicle maintenance, speeding tickets, and traffic violations.

We use machine learning to continuously monitor driver performance and generate individual scores for the tens of thousands of carriers in our network. If a carrier falls below our standards, they can't haul your freight. We apply this to every load we accept, across contract, backup, and spot.

Our model improves over time as new shipments provide more data to analyze. This gives our customers industry-leading levels of safety and reliability.

Convoy's quality and compliance process has helped us achieve a crash rate that's 16% lower than the industry and a cargo claims rate that is 1/20th of the industry average[6].

Flowspace

" I highly recommend Convoy to anyone who is seeking high quality, transparent, and reliable transportation."

300k
Over 300k carrier quality checks are done monthly

16%
Lower crash rating compared to the industry

1/20th
The claims-incident ratio compared to the industry average

WRAP UP

Peace of mind with a tender rejection safety net

You've got an important shipment with a tight turnaround, but your primary carrier rejects the tender. What happens now?

If you've integrated Convoy's Dynamic Backup into your TMS, you simply click "Apply Routing Guide." You'll get an instant price, guaranteed coverage, and a truck that's slated for on-time delivery, all at a competitive rate.

Alternatively, with Convoy set up as one of your spot providers, we can cover your load when your backups fall through.

In either case, your logistics team will save time, lower your costs, and gain peace of mind that your goods will be delivered on schedule and in great condition.

Now is the time to build your safety net for tender rejections. Convoy can help.

Contact us today to get started at **convoy.com/shipper**

ABOUT CONVOY

Convoy is the most efficient digital freight network and one of the largest truckload carriers in the United States. We move thousands of loads around the United States and cross-border to Canada each day through our optimized network of dry vans and reefers, helping shippers lower transportation costs, reliably deliver their freight on-time, and achieve their sustainability goals. With the reliability of leading asset carriers and the flexibility of leading brokers, we're a top-tier carrier for Fortune 500 companies in food and beverage, consumer packaged goods, retail, building and materials, oil and gas, automotive, and packaging.

REFERENCES

[1] Seth Holm, Freightwaves. (2020, August 15). *Outbound tender volumes stay strong.* FreightWaves.com

https://www.freightwaves.com/news/outbound-tender-volumes-stay-strong

[2] Yoo Joon Kim. (2013). *Analysis of Truckload Prices and Rejection Rates.* MIT SCM

Yoo%20Joon%20Kim%20Executive%20Summary%202013.pdf

[3] Nishitha Reddy Aemireddy and Xiyang Yuan (2019, June). *Root cause analysis and impact of unplanned procurement on truckload transportation costs.* MIT

https://dspace.mit.edu/bitstream/handle/1721.1/121317/Aemireddy_Yuan_2019.pdf

[4] Bart De Muynck, Gartner (2020, April 02). *How Digitized Freight Platforms and Other Transportation Technologies Can Help With Current Domestic Transportation Capacity Challenges.* Gartner.com

https://www.gartner.com/en/documents/3982948/how-digitized-freight-platforms-and-other-transportation

[5] Silpa Paul, Frost & Sullivan (2019, March 26). *Expect Fast Adoption of Digital Freight Brokerage Solutions.* Trucks.com

https://www.trucks.com/2019/03/26/expect-fast-adoption-digital-freight-brokerage-solutions/

[6] Lorin Seeks, Director Quality & Compliance (2020, June 24). *Paving the Way to Safer Roads with a Digital Freight Network.* Convoy.com

https://convoy.com/blog/paving-the-way-to-safer-roads-with-a-digital-freight-network/