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Understanding the state of the spot market, challenges and benefits

The freight market is historically challenging, as rates constantly fluctuate to reflect supply and demand in the truckload market.

This is particularly true for the spot market. Another critical factor, directly connected to supply and demand impacting the spot market, is shipping capacity. This is the amount of assets and personnel available to transport goods.

When demand is significantly higher than supply, it leads to supply chain disruptions and a capacity crunch. This imbalance in supply and demand could be due to a spike in shipment requests, like in the wake of the coronavirus pandemic, or a reduced capacity, as recently experienced with the driver shortage. Though we've seen an increase in capacity in 2023 and the freight market shifting 'back to normal' at a position of relative equilibrium, shipment capacity still faces some challenges:

Change in demand patterns: during the pandemic lockdowns, there was a shift in consumer spending habits away from services and towards finished goods and products. The services sector is now getting back on track, but the growth of e-commerce and the increasing demand for inland trucking and final-mile delivery of goods continue to play a major role in logistics and supply chains.

Trucking workforce: an ageing workforce combined with the trucking industry's difficulty in recruiting younger drivers, has made it difficult to meet transportation demand, leading to a driver shortage across the globe.

Equipment production: semi-conductor and steel shortages still impact the production of new tractors, trailers and chassis and hinder manufacturers' ability to meet demand, as outdated equipment is pulled off the road.

Inflation: a rate that was negotiated 12 months back, or even three months ago may no longer be considered a ‘market rate’ due to the 7-12% inflation rates we are currently experiencing in several markets.

High volumes of freight in the spot market increase pressure on logistics staff, as they attempt to secure pricing, manage bids, and drive time-sensitive rate negotiations with carriers on a daily basis. Effectively managing spot freight takes time and requires an in-depth knowledge of the current market, strong negotiation and multi-tasking skills. Even the best-staffed and experienced logistics teams can struggle to keep up with volatility and increased unplanned spot freight volumes.

That’s why **it is crucial to closely monitor market conditions and understand the current market contracted and spot rates for your major corridors and their near-term trends.** Additionally, tracking rejection rates from contracted carriers and overall market capacity is imperative to maintain cost effective and efficient procurement and assignment strategies. There are available digital tools, such as Market Insights, which monitor the transportation market and provide in-depth, real-time market insights and indexes into lanes, corridors and their development over time. This includes contracted and spot rates, capacity levels, rejection rates, fuel price, rate forecasting and cost of ownership calculation.

Get in-depth insights into markets, lanes, rates, capacity, cost and their development over time with Market Insights.

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Despite these challenges, there are many benefits to using the spot freight market. Most notably, **the spot market delivers capacity** when routing guides fail, or when shipping low-volume lanes and project freight. It also **allows shippers to expand their networks and access a wider range of carriers** to source capacity and keep freight moving.

While recent fluctuations in the spot freight market reflected constrained capacity and economic inflation, this is not always the case. When the freight market flips to softer conditions, rates decrease and **shippers may pay less in the spot freight market than they do under contract rates.** To enjoy better spot market rates, avoid using it solely as a last option to handle exceptions. When you only put less attractive lanes with short lead times on the spot you cannot expect to get attractive rates.

The spot market, contrary to popular opinion, can also help build a mutually beneficial relationship with your carriers. The majority of carriers do not want 100% contract, but are leaning more towards a 80/20 mix of contract and spot, due to the dynamics and volatility within daily operations. Contracts are typically based on expected volumes, however, it is fairly uncommon for shippers to guarantee fixed volumes every single day. It's this volatility that makes a mix more appealing to carriers**. Talk to your major carriers and discover which lanes would be beneficial on the spot market, for both parties, as it can help them reduce empty miles and help you to find capacity at more competitive rates.**

Find capacity on the spot market at competitive prices, expand your network, reduce empty miles and challenge your contract rates with Best Carrier.

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Another benefit of the spot market is keeping a pulse on the transportation market overall. When a shipper incorporates strategic spot into their operations, they can more actively monitor the freight market, follow spot rates to challenge contract rates, and measure and access capacity. This empowers than to move and manage shipments in an agile and competitive manner.

Overall, the spot freight market plays a critical role in truckload transportation and offers substntial benefits to the shippers, who understand how to navigate it well.

Key takeaways

The freight market's dynamic nature, driven by supply, demand and shipping capacity, poses challenges, especially in the spot market. These challenges include shifts in demand patterns, an ageing trucking workforce, equipment shortages and inflation. However, the spot market also has many benefits, including handling exceptions, finding capacity at competitive rates, expanding carrier networks, building mutually beneficial relationships with partners, using backhauls and improving overall industry efficiency. Effectively managing spot freight demands real-time market insights, negotiation skills and the ability to leverage digital tools.