Intelligent Pricing

An in-depth exploration of how a new dynamic pricing tool is changing the LTL industry—and what it means to the carriers, shippers, 3PLs and technology providers

Prepared by Banyan Technology
Dynamic pricing has long held the promise of selling pallet spaces on LTL trucks as airlines sell individual seats. The theory is solid—if equipped with client intel through a real-time system, carriers could offer client- and contract-specific pricing adjustments to fill available space.

But practically speaking, fully dynamic pricing that fluctuates up or down can be terrifying to shippers and third-party logistics providers (3PLs) that will have no certainty to budget expenses for the year.

With both the opportunities and potential limitations in mind, Banyan took the concept and created Intelligent Pricing—a tool that unlocks practical, win-win solutions for both carriers and shippers. This whitepaper explores the practical application and how different parties within the industry can apply the new technology shift to improve their respective businesses.

How Intelligent Pricing Works

Intelligent Pricing refines the concept of dynamic pricing and enables carriers to instantly offer pricing incentives on top of the discounts that are already contracted to shippers or 3PLs through an API-powered dispatch system. These adjustments are then automated to appear directly within shippers’ transportation management system (TMS) workflow as they’re making live routing decisions.

LTL carriers are embracing the new technology to better correct lane imbalances, test pricing, adjust for seasonality, expand new geographies and have the agility to adjust pricing as their networks change.

To accomplish this, carrier yield managers access a tool set that allows them to define a targeted segment of the market by geography, shipment attributes, clients and even customer behaviors.

The yield managers choose the amount of the incentives and the timing duration. They can define multifaceted rules and schedule them to run for predetermined times, or simply turn it on and off as needed. Carriers create baseline pricing that best suits their individual network, and then use the Intelligent Pricing solutions to maximize their efficiencies with the agility and speed of today’s market.

The result is that the shipper will receive their standard rate, which pulls from the tariff they negotiated, as well as the live lane special that will have its own unique quote ID attached, which is tied to a discount off their negotiated rate.

If the client changes any factors used to secure the live lane special prior to booking, the lane special is rendered invalid. It may be re-rated for an updated lane special if the shipment characteristics are still applicable.
This is done to expressly protect against billing errors at the point of execution and to ensure accuracy of data at the front end of the transaction to everyone’s benefit. The Quote ID generated by the Intelligent Pricing solution is automatically added to the bill of lading (BOL). For carriers that support the automated pro number assignment upon dispatch, Banyan adds that to the BOL automatically.

Upon tendering, all data used to create the live lane special is available to carriers through a webhook (or HTTP push API) to update the carriers billing departments with all the data needed to ensure invoice accuracy, including the quote ID, PRO number, BOL number and all of the shipment data fields used in the generation of the quote.

The carrier invoices the client directly and the client pays their invoice using whatever standard process that is currently in place between the two parties. If shippers are using an outside auditing company, the Live Lane Specials are typically treated as spot quotes. Otherwise, the only difference is a lower price.

A True Win for All Parties

How Carriers Win
Carriers’ motivations to access the system are driven by the ability to offer incentives where it makes sense for their business model and network operations. Most LTL carriers have tremendous business intelligence on their operations and visibility to where their assets could be used more effectively within their networks.

The challenge is that traditional customer pricing based on annual contracts doesn’t allow for changes to occur easily, and there are no effective mechanisms to communicate those changes to shippers. In the past, local sales reps called around to shippers offering lane specials and offered lane specials based on a spot quote. The spot quote number was written on the BOL, and the transaction was completed like any other shipment.

However, the widespread adoption of TMS systems across shippers and 3PLs has automated the rating across multiple providers and replaced the old routing guides. Often, TMS solutions save shippers more than 10 percent of their LTL spend just by using their existing contracts more effectively.

When TMS adoption combined with API technology for live, direct connectivity to carriers—pioneered by Banyan in the late 1990s—it opened new opportunities for carriers to work with clients on their own tariffs rather than a whitewashed, averaged foreign tariff that does not accurately reflect the carriers’ unique strengths and network efficiencies.

As API adoption has expanded over the course of the last decade, the carriers have greater ability to participate in shipper activity, rather than just what’s allocated to them on a routing guide. With the ability to participate in all available opportunities, the reality of their market share by client comes into view. Carriers don’t want every piece of every customers’ freight, but they do want to expand their business with what is a profitable fit for their network.

Perhaps some of the biggest, yet less obvious, advances have been in the ability to get more accurate and complete information to the LTL carriers through API tools the carriers have built. This leads to better quality data received earlier for more efficient carrier planning and network optimization, rather than using manual dispatching or EDI. This also provides tremendous self-service capabilities for clients to reduce the staffing overhead and subsequent costs per shipment.
Ultimately, these advances have helped improve carrier operations. They also highlight the inefficiencies of the legacy pricing policies that treat pricing as an annual event, with both the shippers and carriers making their best educated guesses on what will happen over the course of 12 months.

This outdated method adds layers of risk to the pricing to accommodate for unknown changes throughout the year. LTL freight is a truly dynamic industry, balancing daily changes in volumes, locations and asset utilization. Customer demand is fluid, and the ability for the carriers to define pricing should reflect the real-life conditions available at the time.

Intelligent Pricing equips carrier yield managers to make spot adjustments across their client base to incent freight to complement their network at that moment. Carriers may further constrain to offer premium discounts to their premium customers. By enabling the carriers to define and target specific geographies, shipment attributes, client behaviors, and even segmenting based on carrier specific groupings—which could include payment history, damage claims, dock accessibility, etc.—will drive shippers to modify their interactions and behaviors to earn those preferred discounts.

Additionally, carriers have the option of measuring and applying the qualifiers with their customers that are based around real data and good business practices, not just volumes of freight.

Significant opportunities lie with carriers to test and measure pricing incentives for shippers and quantify the real potential of their customers. Long have pricing departments relied on the promises of their sales teams and agents to dial in the potential of each customer and where they need to be to get the business. With Intelligent Pricing, yield managers may test pricing reductions without lengthy contract
negotiations and truly validate the reality of pricing adjustments and the volume impact produced from those adjustments. Replacing highly-educated hypothesis with actual hard data enables yield driven by factual data, and further reduces the risk of an annualized pricing commitment.

Ultimately, Intelligent Pricing will drive open dialogs and more comprehensive interactions between carriers and their shippers. The rhetoric of partners, although sincere, today is limited in tangible actions. Intelligent Pricing can have real impact to reward those shippers that embrace the considerations of their carrier suppliers.

**How Shippers Win**
For shippers, Intelligent Pricing is an opportunity to engage and expand the discounts already negotiated with their carriers. From their contracted rates, the pricing only adjusts lower from their negotiated contracts. That contracted rate serves as a pricing cap that will not be exceeded.

Shippers see the spot-quoted lane specials flowing seamlessly into their own TMS systems and don’t have to change processes to take advantage of the carriers’ incentives. The Live Lane Specials offered come into their rating processes just as any other rate to be considered from carriers, not unlike a volume spot quote or a guaranteed service quote that might return with a traditional rate shop request.

Each logistics or traffic manager has a responsibility to deliver savings every year—and the better they can quantify that savings, the more impact they have on their organization. Traffic managers can easily quantify the hard dollar savings and deliver results to their company executives, reporting not only on rate improvements, but actual costs versus contracted rates—another savings metrics available for the first time.

**Average Reduction as a % of Total LTL Freight Spend**

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<tr>
<th>Percentage</th>
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Banyan Technology / A White Paper on Intelligent Pricing
While there are many methods deployed today to capture and report savings, most come through either operation adjustments or rate negotiations with carriers. The operational savings are difficult to quantify for many logistics managers and most often measure performance rather than savings. The most common method to demonstrate savings is relative to industry increases or beating the carriers down to get an increased blanket discount. Naturally, the real impact of the negotiations is hard to truly quantify given the complexity of rules tariffs and the variability of the carriers’ tariffs.

These challenges have driven logistics managers to hold onto an averaged industry tariff, because it is a known annual negotiating process and an entrenched and accepted process to divide and budget shipping costs. What is omitted in these reports is the unquantified issue of the cost when shippers continue to subscribe to the averaged rate tables and require the carriers to base their pricing off a network that is not representative of their own. That false sense of security in the familiar is very expensive to license (based on annual spends), and the true costs are the restrictions of that strategy which burdens their negotiating options with carriers.

The product of the carrier’s yield manager using the Intelligent Pricing solutions is a live lane special. This term is used to describe the discounted quote that is the result of a qualified shipment. One of the capabilities of Intelligent Pricing is that Banyan’s API rating will always deliver the negotiated price, and if applicable, will also deliver a live lane special quote. For shipping managers, this difference is irrefutable savings that may be reported at whatever intervals are necessary.

Ultimately, Banyan’s patent-pending model creates natural savings through better information and agility for logistics partners to instantly respond to network and market changes. If a shipper wants better pricing, they can be a better customer with a specific set of actions and behaviors. The ability for carriers to incent based on factors other than volume helps smaller shippers be more competitive through good interactions and open communications with their carriers.

**TMS Solutions**

Transportation management systems (TMS) are plentiful in the market today, and each of the solutions that support LTL rating and execution must source their data from either building and maintaining the connections directly or by contracting with an outside service to support that effort. Intelligent Pricing delivers a clear competitive advantage for clients to capture better-than-negotiated rates. The early TMS adopters gain a measurable ROI contribution that can be applied to improve the TMS transaction or subscription costs to attract new clients.

Banyan has partnered with several exceptional TMS solutions already as a data service partner for LTL connectivity. The Intelligent Pricing tool changes the game of adding value to quantifiable savings on their customers’ freight spend along with the ability to capture and report on the ROI contributed.
When isolated, the ROI has savings to spare that can be blended to improve the ROI for the overall system.

Deploying Intelligent Pricing as a partner TMS delivers an instant advantage over competitors who are only getting their standard rates from carriers. This means clients can be shipping products cheaper than their competitors and increasing their profit margins, delivering a competitive edge not found outside of a Banyan partner.

**ROI Quantified**

While Banyan’s dynamic pricing technology is new, the financial impacts are very real. At the time of this writing, Banyan has secured most of the top 15 LTL carriers as Intelligent Pricing users and will be adding many more over the next few months.

One such national LTL carrier has already secured $1.5 million in new freight in a little more than 30 days. On that carrier alone, Banyan’s clients have received more than 7.15 percent savings on top of their negotiated discounts, for a total savings of over $392,000.

Any company can assume the responsibility to write and maintain their carriers’ APIs and get the pricing they negotiated. Banyan delivers the API that generates an ROI for its technology and TMS partners and users.

Third Parties and Intelligent Pricing

There will always be an important role for 3PLs to fill, especially for shippers that do not have the volume nor the expertise to keep pace with a rapidly growing business. Similar to HR, accounting and other critical functions, shippers will decide when it’s time to bring those functions in house. 3PLs serve a vital role to bridge that gap to support an organization for years or even permanently.

The 3PLs that focus on LTL rating are specialists, and over the past decade have carved out substantial business opportunities based on adding value to shippers. The relationship between the LTL carriers and 3PLs has been complicated and at times contentious. While there are many types of 3PLs, Banyan differentiates into two categories for the purpose of this whitepaper: transactional and holistic 3PLs.

Transactional brokers are those that are oriented to cast a wide net and may share their shipper relationships with carriers and other 3PLs. These brokers most often compete on price and ease of use through web portals. Service is a noted feature, but the compelling factors are typically price.

Holistic brokers more often target a smaller number of customers, and are truly outsourced transportation departments or partners that capture 100 percent of the shippers’ logistics moves by mode or across all modes. These may be under contract for 2 to 3 years with the shipper, or it may be bid annually as an outsourced provider—but they are typically well integrated in the shipper’s processes, business systems and reporting metrics.

The transactional brokers are those most in danger of losing ground to the carriers’ initiatives to work directly with shippers.
Their offerings are eroding as carriers introduce their own TMS solutions that support multi-carrier rating and new pricing opportunities to compete with the 3PLs sell rates. For the transactional broker, this will drive them to add value, likely through services that the shipper cannot get directly from carriers or concede some of their business back to carriers.

The holistic brokers are typically deeply integrated into their shippers’ business systems or operations. Carriers are not typically oriented to deliver the deep service component to smaller clients currently serviced by the holistic 3PLs. That service layer will likely drive the most successful third-party companies in the years to come.

Leveraging Intelligent Pricing

3PLs can work with carriers similar to shippers, through a new lens of open and transparent dialog. This is not the tradition for either side, but necessary for the market and the industry to evolve.

3PLs typically lead the market with technical adoption and aggressively innovate to add value to earn shippers’ business. As third-party brokers have discovered Intelligent Pricing, they recognize an immediate opportunity for a unique offering that they can bring ahead of the broader market adoption.

The concern of most carriers is that the brokers will retain all the savings for themselves and the shipper will not benefit, and that the target behavior or shipment attributes may not be exposed to the shipper or will be masked by the 3PLs, consuming all of the additional margin. Not an unexpected reaction, but Intelligent Pricing drives the 3PLs and the carriers to work together.

Carriers incent 3PL behaviors with specific tools like the margin manager. Carriers can offer different levels of incentives based on how much of the LLS discount is shared with the shipper. They can even exclude a 3PL or client-specific account number from receiving incentives if they are not acting appropriately.

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<td>Customer Sell Rate</td>
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Higher Margins and Lower Costs
The True Power of APIs

Many shippers have bought into the marketing hype that they must have APIs, but don’t fully understand the power of what is available to them. Yes, they are quick and easy to connect and significantly more cost effective to access and maintain, and certainly a very compelling argument is made to capture Live Lane Specials from carriers. But what is often missed is the agility and speed with which to work with carriers on pricing.

Most of the TMS systems in use today were founded on the notion of loading LTL static tables of rates, and an elaborate infrastructure was built up around normalizing all the carriers’ unique benefits under an averaged industry tariff. This included annual contracts, routing guides, bid packages and rate auditing. This served the industry well right after deregulation in 1980 when carriers rates were within 1 percent variance and the technology required a single rate structure because that was all that was supported. Although technology has advanced dramatically and the rates between carriers vary greatly, many of the legacy practices remain firmly entrenched with shippers.

Weening shippers from averaged pricing and annual contracts is a leap of faith that some prefer to step into slowly. Many shippers will retain the licenses and averaged pricing with a couple of their core carriers, and invite other carriers to propose pricing from whatever rate base the carrier can be most competitive. Because the shippers integrated APIs, that shipper can rate shop every move and the routing decisions made—through automated business logic or manually—on every shipment, as well as issue monthly feedback loops to the carrier reps on what lanes were lost and by how much.

What’s Next for the LTL Industry

Every year, more of the legacy infrastructure of static rates tables, annual pricing negotiations and siloed invoice audits get replaced with mature, scalable technology solutions. Doors open wider to build on the new capabilities, and that is where the next set of innovations will rise.

Some are already here and not widely adopted yet. More are making an impact with early adopters today, and will impact the market notably in the next 12 months. There are many on the horizon, and while it is early to see how the industry will adopt and the subsequent impact beyond a year, there are a few noteworthy trends to consider:

Fully Dynamic Pricing

Near term, look to see truly dynamic pricing introduced to the market. Carriers seek to add direct shippers down market and reclaim significant business from 3PLs. One strategy is to extend a multi-carrier rating tool directly and offer competitive direct pricing. The technology exists and is readily seen in Fed Ex’s LTL Select, HNRY from YRC, Arc Best and other carriers that market a direct multicarrier offering from their platforms.

Pricing strategies that are emerging are linked to maximum flexibility for the carriers. Shippers may subscribe to a carrier’s dynamic tariff with the understanding that the tariff may go up or down based on the lane and the needs of that carrier at that moment. Carriers may adjust the competitiveness across thousands of smaller clients based on their needs and appetite, and shippers are not tied to contracts or volume commitments. For smaller volume shippers, this may be the only way they can get direct pricing that is reasonable.
Within the fourth quarter this year, expect to see some significant carriers participate with a fully dynamic tariff. If that gains traction, it will be the 3PLs that will need to up their value propositions once again to attract shippers away from direct carrier relationships.

**Pricing AI/ML**

The introduction of Intelligent Pricing to the market also ushers in the automation of feedback loops to carriers and delivers incredible business intelligence that they have never previously accessed. These feedback loops become automated, with carriers currently consuming this data to manually adjust pricing through Banyan’s Intelligent Pricing toolkit.

However, very soon, the speed and amount of data flowing to the carriers will help drive suggested adjustments. It is a short hop for the carrier pricing managers to define and set rules to take advantage of their own defined triggers and metrics that will allow some pricing adjustments to be automated. These systems and their users will become more sophisticated and eventually allow for the machines to learn and make suggestions for additional opportunities. Each carrier will define their own rules and their own secret sauce for pricing that fits their business model and customer mix.

This is an exciting frontier to watch—and just the beginning of the journey for Intelligent Pricing.

**Conclusion: The Next Evolution**

This next chapter in the freight industry is just beginning to be written, with carriers in the driver seat—each subscribing to how these tools can be used to drive profitable business. Each carrier participating will have a huge advantage in pricing agility and reacting to market conditions. The progressive carriers are seamlessly integrated through their billing and seeking to build their own special recipe conditions that will drive their market growth objectives. This in turn will lead to more data intelligence and automation of pricing specials.

The shipper benefits from working with the carrier rep and allowing the carrier to select which lanes are best for their networks. And rather than throw a hand grenade by negotiating 12 months of rates in January, the shipper and their carriers can work together to polish the rates throughout the year.

The agreement serves as a starting point, and the monthly feedback opens the conversations and enables carriers to select what lanes are worth adjusting for their network. This is precision partnering throughout the year that delivers savings that is based on minimal risk to each individual carrier, because the carriers initiate the offer to make adjustments and update the shipper’s contract.

This strategy is a two-way street. There are lanes that may be unprofitable for carriers, especially if the shipper is requiring carriers to bid on a foreign tariff. The carriers measure the value of a shipper by their yield. If a shipper is not meeting minimum yield objectives, they may lose that entire contract with the carrier. In a less extreme example, a savvy shipper can ask their carrier reps to identify all of the lanes that are not operating at a desired yield and identify the severity with a one, two or three—with three being the worst). The shipper can review those prioritized lanes and selectively suggest that the carrier raise the rates on those lanes to a level that is acceptable, understanding that they may not be awarded those lanes in the future. The shipper can likely find another carrier to cover those lanes, and/or it may find that the carrier might want to become more aggressive over the course of the next billing cycles to recapture some of the lanes raised.

The point of the exercise is for shippers to understand their yield rather than just the discount percentage of their agreement.
Shippers and brokers need to be true partners with carriers and work with the technology the carriers are making available. The rewards are significant savings and tight working relationships with their preferred service providers.

For the TMS and ERP solution providers, if LTL connectivity is not their core offering, they must partner to extend it or the competition will. Leverage the tremendous ROI to the advantage of sales staff, and focus on workflows and user experiences for clients. Banyan continues to be a neutral partner.

Intelligent Pricing is an exciting innovation that will drive value to all parties that touch the LTL industry. Banyan is proud to introduce the solution with this whitepaper, and eager to see how Intelligent Pricing will be used by different carriers and different roles in the market. Intelligent Pricing has many more facets yet to be introduced to take advantage of shifts in demand and technology.

**ABOUT BANYAN TECHNOLOGY**

Headquartered in Cleveland, Ohio, Banyan Technology is North America’s leading provider of live carrier and API connectivity for transportation management. With over 2,000 TL, LTL, Local and Parcel carrier connections and 34,000 client locations accessing the application, Banyan Technology provides commercial shippers, brokers, and 3PLs with unparalleled access to carrier data. These connections boost efficiency, improve visibility and deliver permanent reductions in shipping costs.

**GET CONNECTED.**

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By reducing a few bad lanes for the carriers’, the shippers yield increases dramatically, leaving room to get more aggressive on the lanes that the carrier really wants to haul. Ultimately, this approach results in lower costs to a shipper, and yet a higher yield to their carrier.

Side effects of these strategies include very simple conversation to wave the general rate increases (GRIs) because the shippers and carriers are in open communications throughout the year. The other bonus is the elimination of the annual bid process.

Why start over when you can keep the dialog open and active every month?

It is like returning two to three months of time back to both shippers and carriers by simply removing a process that no longer delivers real value. Traditional freight audit and payment will likely not keep pace with monthly changes to contracts across multiple carriers on different base rates. There are simple solutions replacing the static infrastructure that LTL has lived in for so long.

All the steps listed above are strategies for shippers to truly partner with their carriers and open dialog about how they can assist each other’s business to grow profitably. These are initiatives and opportunities that exist over and above Intelligent Pricing. Implementing APIs is the ideal first step as it positions the shipper to amplify the impact of their API connectivity with Intelligent Pricing. Technology has shifted, and the shippers that adapt to take advantage of these processes are best positioned to deliver significant savings to their stakeholders.