



Losing Money in LTL? Try Small Parcel

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Complacency is costly. Nowhere is this truer than in the way some companies practice less-than-truckload (LTL) shipping. Many shippers are choosing costlier LTL services when they could be using small-parcel shipping. In fact, the average shipper may overspend by 15 to 20 percent on LTL, which is unconscionable in these cost-conscious times.

The problem is three-fold. First, even the most advanced shipping organizations are baffled by LTL and small parcel's changing weight requirements. Drop weights that were once suitable only for LTL—the 200-pound to 600-pound range—may now be more appropriate for small parcel.

Second, small-parcel carriers haven't done a thorough job of marketing themselves as an alternative for certain package weights.

Third, even companies that can confirm that LTL is appropriate for certain shipments aren't factoring in hefty accessorial charges. Despite a lower base rate, accessorial charges for some LTL shipments actually equate to a higher overall expense than small parcel.

One great example is fuel surcharges. Current published rate fuel surcharges for ground small parcel shipments are approximately 2.5 percent, while LTL shipments are running at 12 percent.

WAYS TO AVOID LTL OVERSPENDING

Confused yet? Don't worry. Avoiding LTL overspending simply takes an investigative eye. Here are a few tips:

1. Analyze and rebalance. First, make sure you're comparing apples to apples. That means reviewing your LTL and small-parcel contracts and pricing, and normalizing data to ensure valid comparisons.

The next step is analyzing all LTL shipment

costs and related accessorial charges for a specific time frame—one month or one quarter, for example. After you establish the true LTL cost, re-rate the same shipments for small parcel. This will provide the data you need to determine the weight break level that indicates when LTL is more cost-effective.

After you identify the weight break level, create a set of routing guidelines that clearly spells out what weights are best suited for LTL versus small parcel.

2. Measure compliance. Once you establish new routing guidelines, it's time to walk the walk. Make sure vendors, suppliers, and internal shipping locations comply with these new rules.

Depending on the complexity of your supply chain, it may be a good idea to implement warehouse management or transportation tracking software to ensure changes are being made. These easy-to-use tools can help you report your savings and evaluate the effectiveness of your new LTL shipping strategy.

3. Ensure fair market pricing. If you haven't renegotiated your LTL and small-parcel carrier rates lately, you're letting complacency get the best of your shipping budget. It's a proven best practice to regularly solicit competitive bids from multiple carriers, regardless of how much you like working with your current vendor.

Once you compile competitive pricing information from multiple LTL and small-parcel carriers, familiarize yourself with each carrier's tariffs. Seventy percent off a UPS freight charge is not the same as 70 percent off a FedEx charge. One method used to normalize freight data comparisons is a median tariff structure—commonly called CzarLite to achieve a coherent picture of pricing.

For some companies, navigating carrier renegotiations and complex pricing models

may seem too time consuming and labor intensive. Making this effort is absolutely necessary, however, to prevent the overspending that gouges today's shippers.

Consider using a third party to verify your pricing. Most third parties work on a contingency basis and can help drive significant savings, or at least verify the rates in place. Even if your staff is proficient at these tasks, outside spend management experts have the market insight to cut out more fat—often at no additional expense.

4. Debunk LTL discounting myths. As explained above, different carriers have different tariffs and discounts. It's critical to read the fine print, especially when it comes to discounts that appear to deliver great savings but only under certain terms. What are the minimum charges? What other accessorial charges will impact your final cost? How will certain costs—such as detention fees, multiple stops or construction delivery charges—affect your spend?

Getting this perspective requires an in-depth understanding of your enterprise's unique shipping characteristics, as well as constant reconciliation with carrier rate changes and their implications. Certain discounts are ideal for some companies and useless for others. Not until the final calculations are complete should you assume the cost-effectiveness of one LTL provider over another.

A TIME AND A PLACE

All this talk about overspending shouldn't deter companies from using LTL. There's a time and a place for it. However, it may not be the best solution for certain shipments. If shippers want to respond effectively to the cost crunch that will define 2009, they must take advantage of the cost benefits that both LTL and small parcel offer.