MAKING THE CASE FOR A SINGLE LTL RATE-BASE

by Joe Heilig

In the development of LTL Request of Proposals (RFP) for our clients one of the most important elements of the process is the utilization of a single rate-base. We find that this is a critical component of a successful RFP process and it pays dividends in future years. In instances, when shippers are using multiple carriers we find that their pricing agreements are usually based on each carrier's own unique rate-base.

Typically motor carriers develop their own rate-bases from a neutral rate-base, and then adjust the rates by lane to their operational network and cost requirements. Carriers will adjust rates up or down to accommodate headhaul lanes such as inbound to Florida or empty mile backhaul lanes out of Florida or Texas. If they have unbalanced lanes due to the loss or gain of a large customer they may adjust the base-rate up or down to promote or attract new business on a lane to create a balanced or equal linehaul flow. Eliminating or reducing empty miles is a critical cost factor for all LTL carrier operations.

The main benefits of a single base rate are:

- Provides for an easy carrier-to-carrier comparison and benchmarking in negotiation and compliance
- Controls cost variations from annual general rate increases
- Simplifies technology. One rate base to load into a TMS that does not change
- Speeds carrier contracting and automation of audit and payment

Easy Rate Comparison in Negotiation

When conducting an RFP and evaluating multiple carrier's pricing, a single rate base allows you to effectively compare the carrier's pricing by simply comparing the discount level, minimum charge, FAK range and fuel surcharge table. If you are utilizing multiple carrier rate-bases, then you must not only evaluate the aforementioned cost factors, but also compare each competing carrier's tariff for total net cost. The following table of actual carrier pricing with varying levels of discounts applied to each carrier's individual rate-base illustrates this point.

Lane: Richmond, VA to Odessa, TX, Class 85, 2,000 lbs			
Carrier	**A**	**B**	**C**
Base-Rate Gross Charges	$ 4,101.20	$4,188.60	$3,315.00
Discount	81.0%	80.5%	77.0%
Net After Discount	$ 779.23	$ 816.78	$ 762.45
Fuel Surcharge Percent	29.5%	22.9%	29.0%
Fuel Surcharge	$ 229.87	$ 187.04	$ 221.11
Total Net Charges	$ 1,009.10	$1,003.82	$ 983.56

Note that carrier “C” has the lowest discount level, but their base rate is lower, which results in lower total net charges. By utilizing a single rate-base the net cost comparison is greatly simplified. We find that many shippers are expending significant administrative time in routing their freight by conducting online carrier lookups to compare total charges. If the discount level is the primary decision factor, then a single rate-base makes this analysis clean and simple.

GRI Control

Carrier lane adjustments and overall rate increases are implemented in the carrier’s General Rate Increases (GRIs). However, we are finding that the carriers are implementing these GRIs more frequently than they have in the past, as the table below details.

Carrier	Date	GRI %	Date	GRI %	Date	GRI %	Month Interval
ABF Frt	10/1/10	5.9%	7/25/11	6.9%	6/25/12	6.9%	11
Con-Way Frt	11/1/10	6.5%	8/1/11	6.9%	7/9/12	6.9%	11
FedEx Frt	11/1/10	6.9%	9/6/11	6.8%	7/9/12	6.9%	10
Old Dominion Frt	11/15/10	4.9%	9/6/11	4.9%	8/6/12	4.9%	11
SAIA	10/15/10	5.9%	8/22/11	6.9%	7/16/12	5.9%	11
UPS Frt	10/18/10	5.9%	8/1/11	6.9%	7/16/12	5.9%	11
YRC FRT	9/20/10	5.9%	8/1/11	6.9%	6/26/12	6.9%	11

Note that FedEx Freight (the largest less-than-truckload, or LTL, carrier in the U.S.) is taking a 6.9% general rate increase on July 9, 2012. This follows a general rate increase of 6.75% taken on September 6, 2011. The net effect of instituting these two general increases in less than 12 months is a substantial revenue bump for FedEx Freight but a significant cost increase to their shippers. Calculating the net cost increase (excluding fuel surcharge) on an average shipment which moved August 30, 2011 versus August 30, 2012 would result in a 14.1% increase. By taking two separate rate increases within 12 months, FedEx Freight lessens the shipping public's perception of how much their base rates are actually increasing.

If your pricing is based on the carrier’s rate-base and your discounts remain unchanged, then your costs are increasing accordingly with each GRI taken by the carriers. However, one simple way to control these GRI rate bumps is to use a single rate-base which remains constant from year to year. .As a result, shippers have been able to reduce or minimize their cost increases below the carrier’s average GRI percent by negotiating an adjustment of their current discounts and minimum charge.

TMS Technology Simplification

A single rate-base eliminates the annual need to update or reload multiple carrier rate-bases with GRI increases. In addition, the cost and time of the initial TMS vendor setup is significantly reduced.

Audit and Payment

Utilizing a single rate-base reduces the variables involved in conducting audit of freight invoices and carrier payment. A single rate-base can also reduce your audit transaction fee if the audit firm needs to only load and maintain one rate-base.

Summary

In conducting LTL RFP's, enVista strongly encourages and supports the use of a single rate-base which results in shipper transportation cost savings (short and long term), technology streamlining / maintenance savings and carrier invoice audit / payment savings. Typically carriers will try to reject the use of a single rate-base other than their own by making threats to eliminate guaranteed delivery savings or other service offerings. The main reason for this strong objection is that they can't automatically implement GRI's and therefore any annual rate adjustments will negotiable. Our history in conducting RFP's is that the carriers will eventually agree to the single rate-base if they want to haul your freight. Therefore, be strong minded in this objective.