WHITE PAPER

Logistics Management Solutions

# 11 Steps to Reduce Your LTL Costs

**TranzAct Technologies, Inc.**

This White Paper outlines the actionable steps you can take to stay ahead of the increases, and tips to help you navigate through the process.

TranzAct

# 11 STEPS to Reduce Your LTL Costs

**These 11 steps are a combination of good internal business practices and processes, Carrier-friendly best practices, and technology-enabled operational processes. Some take cost out of your operation; others take cost out of your carriers' processes which can convince them to provide you with better rates. Many of these are "Quick Wins" -- changes that can be made rapidly and with little or no cost to your organization. Taken together, they form a holistic LTL cost reduction program.**

## 1. Benchmark your current LTL rates.

**Measure, measure, measure.**
The first step to reducing your LTL freight costs is to benchmark your rates to determine how they compare to similar shippers with similar volumes, then quantify your potential freight savings from renegotiating LTL freight rates.

Typically, a company will retain an outside third party that has database capabilities used for benchmarking purposes.

## 2. Gain "preferred shipper" status.

**What does it mean?**
Become a "shipper of choice" for your LTL carriers. This implies the carrier views your freight as being more desirable than another shipper's business. This may require you to change your negotiation process and some of your business practices.

**Consider the important factors.**
What makes your freight desirable? Obviously your freight rates are important, or how much revenue a carrier generates with your business; however, there are other important factors. One of the most important factors is your traffic lanes, where your freight actually moves.

Is your freight moving in "desirable lanes" for **this** carrier **--** lanes where the carrier is looking for density? Other factors include: Do you have high density, low cube freight that doesn't get damaged in transit? How many shipments are picked up or delivered at one time? Are you flexible in your pickup and delivery times? How are the carrier's drivers treated when they arrive at your docks? Do you pay your carriers' freight bills on a timely basis?

**Determine what it costs to do business with your company.**
Carriers determine how much it costs to do business with you, what it costs to meet any unusual requirements, and the profit they make on your account. Ask your carriers for an analysis that details this information so you can determine if there is anything you can do to lower your carriers' cost of doing business with you. This can be very important information to have as you are negotiating new rates and becoming a "shipper of choice."

## 3. Utilize a "shipper centric" customized base rate tariff that reflects your shipping patterns.

**Base tariffs are important.**
Your base tariff should reflect where you ship your freight (i.e., traffic lanes), and profile your shipments (e.g., weight break information). We have negotiated billions of dollars in LTL contracts and reviewed hundreds of LTL contracts over the years. One of the biggest mistakes shippers make is believing that the *base tariff* they employ is not really important because their priority is negotiating great discounts. WRONG! Whenever we see a shipper using a Common Bureau, or "off the shelf" base tariff (e.g., a carrier-based tariff or CZAR Lite), we know there is an outstanding opportunity to reduce LTL freight costs.

## 4. Utilize lane matching principles that route your freight with the "right" carriers.

**Understand which carriers want your freight and which lanes are most valuable to those carriers.** You can significantly reduce your LTL freight costs by asking the carriers a simple question, "Where do you want freight?" Unfortunately, many shippers continue to use the outdated "core carrier" practice which theoretically leverages their freight volume. Leveraging volume can be effective in direct or indirect product sourcing, but may actually increase your freight costs if not used properly for transportation sourcing.

You can maximize the value of your freight by understanding where carriers want to handle your freight, instead of focusing on how few carriers you can use. To achieve this, you need to know where your freight moves, and which carriers want/need freight in the lanes you have. Make sure you are using the right carriers in the right lanes to avoid paying higher rates. For example, don't use long haul carriers in short haul lanes, and vice versa.

## 5. Utilize a "shipper centric" contract.

**Negotiating effective fuel surcharges, assessorial charges, and a thorough rules tariff are extremely important.**
We have seen countless instances where a shipper does *almost* everything right (great rates with a customized tariff and a multi-tiered FAK rate structure), then overlooks negotiating effective accessorial charges and rules tariffs which protect their interests. They do such a good job getting proper rates that the accessorial charges become an afterthought.

**Accessorial charges should never be an afterthought; they represent a significant source of revenue for the carriers, and expense for the shippers**. If not thoroughly understood, accessorial charges and fuel surcharges can significantly increase your costs. For example, we have seen fuel surcharge calculations that can result in a difference of 20% or more in the final Freight Bill.

**How important is a rules tariff?**
Most shippers rely on in-house counsel, or their corporate law firm, for the negotiations of the carrier contracts and rules tariffs. Candidly, we often find that these attorneys are not familiar with transportation rules tariffs and accessorial charges. They fail to understand the mechanics of the accessorial charges which are included in the rules tariffs. In addition, they don't consider key issues such as the limitation of liability clauses which can affect your claims and exposure.

Over the years we've spent over $250,000 developing and maintaining a "shipper-friendly" contract and rules tariff because of the impact it can have on your freight costs! We encourage you to pay close attention to negotiating your accessorial charges and to make sure your contracts protect your interests.

## 6. Review your sales order polices regarding minimum order size and frequency of ordering to encourage the largest size shipment possible.

**Your sales policies affect your outbound freight costs.**
In the past several years, many companies have experienced increased costs due to customers who are demanding more frequent, smaller size shipments. Your outbound freight costs will rise as a result. This is especially true when customers focus on "lean" stocking strategies and do not incorporate transportation as part of their total landed, or delivered, cost of product. With LTL freight, the smaller the size of the shipment, the greater the relative cost!

**Look at your free freight and shipment frequency policies.**
You can mitigate the impact of this smaller shipment trend by reviewing your outbound freight policies and examining your free freight thresholds. It may be opportune to implement an increase in sales minimums that determine who pays for the freight.

We have seen companies increase their sales order total dollar value required to qualify for free freight or stratify their customers into different service levels to determine shipping frequency. These changes can increase sales and lower freight costs, since the subsequent shipments will be made in greater quantities.

## 7. Explore the use of load consolidation software or pool points to build larger shipments for as much of the transit distance as possible.

**Examine your outbound shipping patterns for efficient and effective consolidation opportunities.**
Consider changing your distribution network by adding consolidation or cross-docking facilities that reduce your total landed costs.

Some companies have lowered their LTL costs by *consolidating* -- aggregating minimums and small size LTL shipments into full truckload moves to remote destinations, them deconsolidating and employing local distribution for *final mile* delivery.

There are software programs that will optimize your daily shipment volume by consolidating parcel, minimum, and smaller LTL shipments, and will achieve the lowest overall freight costs. Evaluating your outbound shipments for the past 12 months coincident with analyzing your outbound lane volumes and delivery service levels can determine if this is a viable alternative for you.

## 8. Utilize rating, routing, and performance reporting systems to guide carrier selection and monitor routing compliance.

**Are you using the carrier with the best rates?**
There are a couple of components that affect your LTL costs. Obviously, low rates are one component which shippers focus on, but another critically important component is whether the carriers with the lowest rates meet your promised service levels on a consistent basis.

To ensure the right carriers are used, utilize rating and routing technology to optimize and automate the process and to consistently select the right carrier. If you've done your homework, the only carriers that should show up in your rating and routing database are the carriers which have been approved and perform consistently. Savvy shippers monitor their carrier compliance statistics on a weekly, or certainly no less than a monthly, basis. This can reveal instances where the lowest cost/best service carrier was not employed and the incremental cost of that decision. If you extend your network to include your vendors, compliance can examine your vendors' failure to use approved low cost carriers as well.

Remember, you can have the best rates in the world, but it doesn't make any difference unless you ***use*** the carriers with the best rates.

## 9. Review inbound terms to identify opportunities to reduce costs by unbundling vendors' product and freight costs.

**Focus on controlling your inbound shipments.**
One of the most lucrative ways to reduce your LTL costs is to take control of your inbound shipments. We have significant expertise and experience and have been helping shippers control their inbound transportation costs for over 25 years. When we encounter a company that does not control their inbound freight, we know there is an excellent opportunity for them to reduce their inbound transportation cost *by as much as 10%!*

If you doubt this figure, consider that your suppliers often employ freight as a *profit center*. Remember that *freight terms* can have a significant impact on transportation costs and that you can positively impact your operations by controlling inbound shipping schedules. Given these considerations, you can understand that a 10% savings objective is attainable. If you're interested in additional information about this topic, e-mail us at solutions@tranzact.com and we'll send you details of our Inbound Transportation Program.

## 10. Be open to change carriers.

**Which carriers should get my business?**
If you follow steps 1 through 9 delineated above, it may be possible to reduce your LTL costs and maintain your current carrier base. However, based on our experience negotiating billions of dollars in transportation contracts, we believe that to maximize your savings, your carriers must understand that they risk losing your business unless they positively meet your requirements.

You may think that is an elementary component of negotiation. However, you would be surprised at the number of shippers who enter their annual carrier negotiations with the expectation, or hope, that they won't have to change their carrier base.

**Trust, but verify what the carriers tell you and what data they are willing to share with you.**
Also, part of this step 10 recognizes that sometimes (actually quite often) carriers' operating data is not quite as accurate as they would like it to be. We've never heard a carrier tell a shipper that they are making too much money on their account, and that the shipper is entitled to lower rates.

What we *have* heard carriers say is that they must raise their rates because shippers are incredibly tough and shrewd negotiators resulting in the carrier losing money on their account. When a carrier tells a shipper that their operating ratio for your account is in excess of 100%, they are counting on your not being able to refute their claim since you can't audit operating ratios. Since you can't verify their statement, you can't refute their need for an increase. This is why we challenge shippers who claim it's impossible to save money on their LTL rates because their carriers told them they already have the lowest rates possible.

**What did you expect them to say?** That your rates are really high and that they are making a bunch of money off of your account? We encourage shippers to keep an open mind as they enter negotiations with their carriers. The fact that one carrier may not be able to carry your freight on a cost-efficient basis does not mean that other carriers can't do a great job of carrying your freight while reducing your rates.

## 11. Review your packaging.

**Don't disregard the fundamentals.**
One of the most neglected areas affecting transportation cost is the packaging of your product. Just like the trunk of your car, a truck has only so much volume, or can accept only so much weight. The question is, how much of that capacity do you want to consume to ship air or cardboard?

A number of years ago, HP's largest profit improvement initiative was the redesign of their printers' shipping cartons which created significant freight savings. Take a look at your typical shipment that you make or receive; if over 25% of it is air or cardboard, you should review your packaging design.

Let us know if you need help and we will put you in touch with experts in this area.

# Tips for navigating the 11 steps

**Small + Frequent shipments = Big Bucks over time!**
First, the secret to reducing your LTL costs is to recognize that you're dealing with the small transactions that occur on a frequent basis. Unlike some corporate savings programs which involve "big-ticket items" where a company can save $10,000 (or even $100,000) in one fell swoop, LTL savings programs are built on much smaller transactions that occur hundreds, if not thousands, of times each month. Given their frequency, the cumulative impact of an LTL savings initiative can be quite substantial over time. This is why you need to be focused on tactical processes that are efficient and effective.

### It's OK to ask for help.

Second, it's OK to ask for help. When we talk about reducing LTL costs, we sometimes hear the question, "If you're so sure about the potential to reduce LTL freight costs, then why aren't more companies doing just that?" Based on our experience, the reasons why companies don't pursue the LTL freight savings include:

a) They aren't aware of the opportunity to reduce LTL Costs
b) They don't believe it's possible for their company to reduce their LTL rates
c) They don't have the time or the expertise to pursue the savings -- and they don't want to ask for help, or consult an expert, to undertake the LTL savings project
d) They're concerned about how their company would react if these savings were realized -- they wonder if their company would question their competency, or ask why they hadn't realized these savings earlier.

For what it is worth, "c" and "d" above are the most common reasons we hear for the choice to stay in the dark. Don't be afraid to ask for assistance. In fact, asking for help can actually boost your career.

### Lowering LTL costs is a team effort.

In today's environment, companies can reduce their LTL freight costs. It may be necessary to seek assistance from within, or from outside, your department in order to actualize these savings. Examine the Top 11 list and ask yourself which steps will require assistance from outside sources.

For example, how will you benchmark your company's current rates? Realistically, only third-party firms maintain these data. Also, you may need assistance from your sales or purchasing departments to review your outbound terms or inbound transportation costs.

It is important to stay focused on the potential savings opportunities for your organization to generate the support you need to be successful. However, you may need to step up to the plate and ask, "Can you help me?"

### Be persistent.

Finally, be persistent – even in the face of great discouragement! Like any other change initiative, you may encounter naysayers or difficulties you didn't anticipate. Some of your carriers may not provide the responses you want; some of your internal staff may not be as cooperative as they could be. This is why every individual who undertakes these types of projects must be persistent.

If you're looking for a reason to be persistent, here is a word of encouragement: Based on what we've seen in the 3rd and 4th Quarters of 2014, you have the opportunity to reduce your LTL costs and generate significant savings. In fact, our last 3 projects completed in this time frame yielded a reduction in LTL costs between 7% and 15%, which meant big savings for these companies (and kudos for the project sponsors).

### No magic here

How did we do this and achieve double digit reductions? By following many of the steps included in our Top 11 list. There is no special mathematical formula, no secret sauce, and no magic wand you can wave to reduce your LTL costs. However, there are practical steps you can take which will yield results beyond your expectations. It will take hard work and dedication, but we know from experience that these savings can be realized – especially in today's market.

## Get started

### We'll take the first step with you.

TranzAct helps shippers reduce their transportation spend by providing the resources necessary to remain in control.

We'll help you complete Step 1 by Benchmarking your current LTL Rates. To make your decision easy, we are offering this benchmarking service free-of-charge. It provides you with a risk-free way to begin reducing your corporate LTL costs.

For more information, or to speak with a transportation guidance expert at TranzAct, contact us at 630-833-0890 or solutions@tranzact.com.