Seven Tips to Help Save Money on LTL Shipping

Nicholas Isasi, Executive Vice President, DM Transportation

Food manufacturers are overspending on less-than-load freight shipping. In some cases, this overspending totals tens of thousands to hundreds of thousands of dollars each year.

Less-than-truckload (LTL) freight shipping is used for smaller shipments that are too large to be sent as parcel but too small to fill an entire truckload. LTL carriers typically apply a discount on shipments starting at 150 pounds on a single pallet and up to 6,000 pounds on six pallets. Shipments larger than six pallets still may be shipped with an LTL carrier but are considered volume moves and are spot quoted, increasing the shipping cost.

LTL carriers also differ from most freight carriers in that they will combine a company's shipment with others, often moving the freight from their originating terminal each evening. The LTL freight is then transported via a hub-and-spoke system, where it is transferred between trucks and freight centers until it reaches its ultimate destination.

Despite the benefits of LTL freight shipping, LTL rates can be very confusing. While truckload rates are usually based on a per-mile rate plus a fuel charge, many factors determine LTL rates, and these factors can dramatically impact the cost of a shipment.

Here are seven things to know about LTL carrier class rates:

1. Base Rates: One of the biggest challenges in purchasing LTL freight services is analyzing the difference in cost between carriers. All LTL carriers establish their own base rates, which vary from carrier to carrier and from lane to lane. Base LTL rates are quoted per 100 pounds, sometimes using the term CWT, an abbreviation for centum weight or hundredweight. The CWT calculation is based on the freight classification, the weight of the shipment, the distance travelled and the origination and destination zip codes.

Carriers will provide a discount off their base rates and account for additional charges such as minimums, fuel and special pickup or delivery types (e.g., lift gate; inside delivery or pickup) separately. While all LTL carriers will follow a similar pricing structure that is discount driven, the rate base on which they calculate the discounts affects the net result of the pricing.

Carriers modify their rate base using a number of different factors. For example, they may lower the gross pricing for lanes where they need additional volume and increase gross costs for lanes where they have a good balance between trucks and freight. So, one carrier’s 65-percent discount in a particular lane may be more competitive than another carrier’s 75-percent discount in that same lane.

Additionally, carriers typically modify base rates annually during their general rate increase (GRI). The GRI that the carriers take is an average increase across all lanes, which may not reflect the higher and lower rate changes in individual lanes. Companies should re-cost their previous year’s activity after a GRI is implemented to determine the true percent increase on their business.

2. Classification of Freight: Classifications, or classes, are published by National Motor Freight Classification (NMFC), a standard that provides a comparison of commodities moving in interstate, intrastate and foreign commerce. NMFC standards have established 18 different classes — ranging from class 50 to class 500 — which are based on product density, stowability, handling and liability. The lower the class of freight — representing very dense and/or low-risk freight — the lower the rate when all other factors are the same. The higher the class — indicating lighter freight that typically takes up more space — the higher the rate.

For example, consider Styrofoam™ balls. They have a very high class rating because of their extremely low density. Since rates are based on weight and density, shipping 500 pounds of boxed Styrofoam balls would be more costly than, say, 500 pounds of bricks.

3. Freight All Kinds: Freight all kinds (FAK) is an agreement between a carrier and a customer that enables multiple items with different classes to be shipped and billed at the same freight class. For example, a customer that ships multiple commodities ranging in class from 100 to 200 could negotiate with the carrier an FAK in their tariff to rate all the items at an FAK 150. This helps simplify creating the Bill of Lading and auditing the freight billing process. Additionally, negotiating an FAK for shipments of different classes can be a source of significant savings for customers by reducing the amount paid on higher class shipments.

4. Distance: Distance plays a role in determining the CWT calculation for LTL freight. Typically, the longer the haul, the higher the CWT is. Another consideration is how many zip codes a carrier services directly. Many LTL carriers only serve a specific geographic region and won't handle a shipment from origination to destination themselves. If a shipment is sent to a location outside a carrier's normal service area, the trucking company will transfer the shipment to another LTL carrier for final delivery. This is called interlining, a practice that may result in higher costs due to lower discounts and higher minimum charges. Interlining also creates more opportunities for something to go wrong (such as loss or damage) during shipping due to the extra "touches" the freight will incur.

5. Weight: Rates are structured so that the more a shipment weighs, the less you pay per hundred pounds. As the weight of the LTL shipment increases and approaches the lowest weight in the next heaviest weight group, it will be rated at the lowest weight category and rate in that weight group.

One unusual aspect of weight's effect on LTL rates is the concept of deficit weight. Deficit weight is applied to a shipment by the carrier when it is less expensive to rate a shipment at an artificially higher weight. To do this, a shipment whose weight is close to the next weight break is artificially increased to the next weight break, decreasing the cost per pound. LTL carriers make this calculation, and if it is advantageous for the shipper, it applies the lower rate resulting in a lower cost for the shipment.

6. Minimums: Every LTL shipment is subject to an absolute minimum charge (AMC). This minimum charge is the charge below which a carrier simply will not go. Even after contract discounts are applied, shippers may find they are subject to an AMC buried in the tariff of the carrier. These minimums can be negotiated and applied in a number of ways:

- Many companies will negotiate a lower intrastate minimum charge for shipments that originate and deliver in the same state.
- Interstate minimums may be negotiated on a state by state or regional basis.
- International minimums (for shipments between Canada, Mexico and the United States) are usually higher than domestic minimums but can also be negotiated depending on volume.

7. Accessorial Charges: These are extra fees for services performed beyond simply shipping from one point to another. Examples include inside pick-up or delivery, lift gate service, residential delivery, waiting time, storage, packing and fuel surcharges. In some cases, many of these charges can be negotiated lower, negotiated to a flat fee or even waived altogether.

Understanding how these seven factors affect LTL freight shipping rates can help food manufacturers control freight costs. And controlling these costs can reduce the stress associated with the shipping process while producing significant savings.