Controlling Your Shipping Fuel Cost

So just what do we do? How do we control or limit the impact fuel is having on our bottom line profits? The Visibility Group has a number of solutions and methods that you can implement and also collaborate with your carriers to reduce the fuel cost, in addition to an 8 to 10 percent decrease in your total freight spend.

The things you can review now are the cost to move your less than truckload (LTL) shipments. These are determined by two key factors: (1) freight class and (2) your carrier's base rate.

Most collectively set base rates are for less than truckload (LTL) movements where established in conjunction with the National Classification Committee (NCC, now CCSB) classification procedures. Classification, which involves the grouping of commodities with similar transportation characteristics into categories, or "classes," does not involve the actual setting of base rates but is a part of the motor carrier ratemaking process. Every commodity that can be shipped by truck is placed into a class with other commodities with similar transportation characteristics, and each class is assigned a number, which increases as transportability becomes more difficult. In order to reach a final price, carriers using the classification typically apply a base rate to the class into which the commodity transported falls. Under the current framework, a carrier on its own may determine the class applied such as Freight all kinds, FAK (18 classes 50 to 500) to your commodities or use the class assigned by the NMFC (national motor freight classification). The NMFC fortunately is not the last word on the subject. It's guidance to carriers, not commands; they don't have to follow it if they don't choose to.

Most carriers have different base rates for each year. There is a value in requesting base rates from the current year. In some cases customers will request base rates from years back as far as 1992. Below are some base rate options for the shipper to request from the carrier to price their freight.

1. The carrier's base rates, Carrier A using Carrier A rates.
2. Carrier A using Carrier B base rates.
3. Using a Rate Bureau determined base rate.
4. Using your own base rates that you have determined by your studies.
5. Cube Base PricingTM that you agree on what to pay to "lease or rent" space from the carrier.

Once the base rate year is determined, you should address minimum charges. Most carriers have an absolute minimum charge. These can range from $59.00 to over $100.00 interstate, usually lower for intrastate. If you intend to ship packages weighing from 30 to a total weight of 1000 pounds, this will be significant.

The carriers now will assign their base rates to the classes agreed upon. The carrier can use any of the options above, and then apply negotiated discounts to arrive at your charges.

Your LTL fuel surcharge is a percentage of these charges, currently in the 37% range; it varies by carrier.

A higher class of freight will cost you more per hundred pounds to ship. By accurately classifying your freight, you eliminate higher fuel surcharges on shipments improperly classified by the carrier or by your shipping department. A great question to ask your transportation people and carriers is, "When was the last time we reviewed our freight descriptions?"

An excellent avenue to control fuel cost is to balance shipment size and shipment frequency. While your marketing and inventory control staffs want smaller, more frequent shipments, these strategies come at a price. Smaller shipments cost more per pound to ship and are more likely to be subject to the minimum charges discussed earlier. When the business model allows it, larger and less frequent shipments can result in significant freight cost savings.

We are now seeing the entrance of a new generation of integrated carriers. The distinction between small package, next day and second day services, less than truckload, truckload, business and residential delivery has become increasingly blurred. Add to this the combination of a fleet of aircraft, or access to this fleet for domestic and international shipments and your total freight spend with an integrated carrier can multiply by two or three fold.

The "bundled "approach can present a significant opportunity to your bottom line. The integrated carrier can spread their cost over a greater volume of business and exploit the improved economies of scale. Your ability to use the leverage of concentrated business volumes to negotiate better pricing and a possible "fuel charge cap", or reduced scale is obtainable.

The Cube Base PricingTM mentioned in the 5 carrier pricing options above is a direct result of a STB (Surface Transportation Board) ruling that is effective as of January 1, 2008. The STB ended the "antitrust immunity" the carriers have enjoyed for over 50 years. No longer can a group of carriers determine your base rate charges in "GRI" general rate increase meetings that happened at least once a year and sometimes twice a year. The carriers no longer vote on your freight class. This is done now by a panel of 6 known as the CCSB (www.nmfta.org).

While Cube Base PricingTM is not yet sufficiently fashionable for most shippers and carriers to bring it into general acceptance I feel that the long practice of not thinking that the current method of pricing is wrong in the internet age of today, gives the current method a superficial appearance of being right and is defended as the custom of pricing. As the uproar subsides about the lack of flexibility in the old NMFC class system of pricing and the new STB antitrust ruling is understood, this new Cube Base PricingTM solution in time with the efficiencies and visibility offered will make more converts. The question remains is "how long can the shippers and carriers let this 8 to 10 percent reduction in cost remain unused".

The following examples are of a ground shipments LTL Class 100, then as LTL Class 92.5 (one class less than 100) The last examples are of next day air shipments same weight. The information was obtained from carriers' web pages, June 06, 2008. Shipment is from Atlanta GA 30310 and Memphis TN 38110.

Class	**Weight**	**Transit Time**	**Fuel Surcharge**	**Total Landed Cost**
100	500 lbs.	1 Day	$49.77	$184.29
92.5	500 lbs.	1 Day	$46.45	$172.00
NDA[1] AM	500 lbs.	1 Day (08:00 delivery)	$493.20	$2,254.70
NDA	500 lbs.	1 Day (10:30 delivery)	$413.40	$1,889.90
NDA Saver	500 lbs.	1 Day (3:00 delivery)	$401.40	$1,834.90

Source: Carrier websites

[1]NDA is next day air service

70% discount applied to ground LTL charges was given by carrier web page pricing.

Additional information on how to schedule a classification review please see our web page at www.thevisibilitygroup.com or call 678-880-8243. We also offer a web demo on the Cube Base PricingTM solutions.

 At $6.00 per gallon your TL fuel surcharge will be 100%