

Stability for Carriers and Shippers

“Density is the god of all transportation, no matter what mode. When we started to try and fill the business with density as it expanded, that got us into an aggressive pricing position, and then we went into a death spiral. We got distracted chasing shiny objects”
YRC Chairman, President and CEO William Zollars.

What we face is a looming “brain drain” that experts say will accelerate as 78 million baby boomers age. They know how to get things done and have the trust and experience earned after 30 years plus in the industry. The U.S. Government Accountability Office says 50 percent of today’s work force will be gone within five to ten years. It is estimated that half of the 3.2 million leading-edge baby boomers who turn 62 this year will take early retirement.

So how does density and “brain drain” have anything to do with supply chain and density/cube pricing? And, more importantly, what does this have to do with my life?

Some Background

Since the 1940s, motor carriers have been permitted to collectively determine rates and practices that apply to the transportation they provide. Under the Reed-Bulwinkle Act (Reed-Bulwinkle), now codified (as to motor carriers) at 49 U.S.C. 13703, motor carriers acting collectively could be immunized from the antitrust laws by submitting the agreements governing their collective activities to the Interstate Commerce Commission (ICC) (and now to the Surface Transportation Board) for approval.

The NCC (National Classification Committee, now CCSB as of 1-1-2008) whose agreement was approved by the ICC in 1956, is the predominant classification body in the motor carrier industry. After the Motor Carrier Act of 1980 (the 1980 Act) had substantially reduced Federal motor carrier regulation in order to promote competition, the ICC investigated the activities of the NCC to determine whether they conformed to the aims of the new legislation. The ICC found that continuing the NCC’s antitrust exemption was consistent with the new, pro-competitive National Transportation Policy, but only if the classification process were modified so that it focused on only four factors related solely to transportability: density, stowability, liability, and difficulty of handling. These four factors determine your class (pricing) used in the National Motor Freight Classification. The new NMFC issued January 17, 2008 and effective February 16, 2008 does not reference the Title 49 Section 13703 (g) of the United States Code and no longer appears on the inside cover of the 2008 NMFC issue STB NMF 100-AG.

The National Motor Freight Classification (NMFC) has outlived its key use borrowed in 1936 from the railroads Uniform Freight Classification (UFC) of creating a “simplified” table of classes to which a rate can be assigned. International modes of ocean and airfreight have long utilized a cube/weight calculation as they were designed to serve the needs of craft with limited capacities. With modern warehouse and transport management systems, we have the cube and weight already in tables and the origin, destination, service requirements, and value known. The carrier could use a cube/density-based scale to quote a rate that would reflect the revenue they wish to

earn in a particular lane of movement. A tariff that reflected cube and density would provide the carrier with valuable planning information for terminal cross-docks and long haul load equipment selection and last mile equipment and manpower.

Further, computers can store other shipper choices in service levels, release value for insurance and even delivery date windows to take advantage of cost saving efficiencies in day of week variations the carrier might share with them. Add to this the ability for systems to communicate with each other in load tendering, tracking, invoicing, and settlement and you have the ingredients for a transportation transaction without paper, auditors, and the NMFC.

Benefits to Shippers and Carriers

The change to a system based upon cube and density benefits shipper by providing an understandable rate structure that, with some innovation in packaging (e.g. nesting), can allow for self-control in cost reductions. The system used internationally would now be used domestically as well allowing for uniformity in systems, data, and metrics.

For carriers, a system that allows for accurate cube and density information at time of tender will enable operational planning at forward terminals and cross-docks as well as improved utilization of equipment. Most immediately, it will allow for a change in the classification/FAK LTL rating system, which has become permeated with massive discounts (we have seen 90% discounts), complex exceptions, and paperwork.

The bad news is for the multi-billion dollar legal, post-audit, and audit firms who obtain revenue from the artificially complex NMFC-based system of rating LTL in the United States. The new system, when adopted, will allow for paperless pre-rated, autopay transactions between shipper and carrier utilizing standard calculations and meaningful rate discount programs that support greater efficiency in load optimization, labor, and fuel usage.

Now back to the future. What does all of this have to do with you? A significant number of baby-boomers along with their experience within the shipping industry will be lost. If you do not study history, you will repeat history's mistakes. The knowledge of the shipping industries roots need to be passed along. This knowledge of motor carrier history is where you will gain a significant advantage over others in the industry. Know where and when your current pricing structure evolved. If you know how the carrier makes money, you will not put yourself and the carrier at risk handling your commodities that allow subpar return on the carrier's investments. The country needs profitable, healthy carriers to deliver the nearly 70% of our goods.

Now consider your in house talent and experience and if you feel that a system that started in 1936 still has value, by all means use it. If however you can see that with the addition of density/cube pricing to existing legacy systems, we will have a win, win, win, (shipper, carrier, consignee), then invest your time wisely and look for the new options the January 1, 2008 STB Antitrust ruling allows.

You might find that this new law is an extension of the Motor Carrier Act of 1980.

The MCA was envisioned to be a sweeping de-regulation of the trucking industry. When President Carter signed the bill, He proclaimed: This legislation will remove 45 years of

excessive and inflationary Government restrictions and red tape. It will have a powerful anti-inflationary effect, reducing consumer costs by as much as \$8 billion each year, and by ending wasteful practices. Labor will benefit from increased job opportunities. The trucking industry itself will benefit from greater flexibility and new opportunities for innovation. "The Act" prohibited rate bureaus from interfering with any carrier's rights to publish its own rates eliminated most restrictions on commodities that could be carried, and deregulated the routes that motor carriers could use and the geographic regions they could serve.

Density/Cube pricing - what is it?

Density/Cube based pricing is a process that allows carriers and shippers of any size shipments to eliminate unnecessary cost/process out of their system. It has been designed to:

1. Eliminate freight bill auditing by outside firm.
2. Generate a rated CSD (cube shipping document) to enhance the old bill of lading.
3. Automatic advanced shipment notices on inbound/outbound.
4. Shop lane segments/weight breaks/best cost by day to ship.
5. Insurance is purchased only on items needed, or reduced.
6. Offers the ability to custom select delivery times and dates.
7. Offers multi payment options to carriers.
8. Offers fuel surcharge reduction based on region/total shipment count.

These are just a few of the options; you can mix and match, or just continue to use your existing methods and systems. The Visibility Group will benchmark all current cost. The Visibility Group can help you take advantage of this system/process using existing carriers, systems, and process with little or no risk. Reductions of supply chain cost of 10 to 15 percent are common. Saving money is something everyone understands.

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Hank Mullen of the Visibility group is available for group instructions, and as a speaker.