

New Pricing Options

There are only a handful of specialists who understand the nuances of the National Motor Freight Classification (NMFC). The average shipper is not capable of negotiating as well as the carrier who has years of experience in the rules, classes and exceptions. A whole industry of professionals has grown up to support the shipper including consultants, auditors, and attorneys. All extract a portion of the value of the transport system.

Borrowed in 1936 from the railroads Uniform Freight Classification (UFC) of creating a “simplified” table of classes, the NMFC has outlived its classification process which a rate can be assigned. International modes of ocean and airfreight have long utilized a cube/weight calculation designed to serve the needs of craft with limited capacities. Due to modern warehouse and transport management systems the cube and weight tables exist and the origin, destination, service requirements and value known. Carriers currently have the ability to use a cube/density-based scale to quote a rate. A tariff that reflects cube and density will provide valuable planning information for terminal cross-docks and long haul load equipment selection for the carrier. Further, computers can store other shipper choices in service levels such as release value for insurance and delivery date windows to take advantage of cost saving efficiencies in day of week variations. 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 the need for paper, auditors and the NMFC.

A Collaborative Solution

The Visibility Group: A consortium of companies, with a shared vision of cube based pricing™© for LTL and package transport systems, which has begun to encourage and cajole the industry forward.

Mullen Associates: Provides consultation to and coordination of interested parties

Capgemini: Provides process and technical integration services for carriers and shippers

Georgia Southern University: Providing research and best practices to support change.

Benefits To Shippers And Carriers

Changing a system currently based upon ambiguous classifications to a more exact system of cube and density benefits the shipper by providing an understandable rate structure that, with some innovation in packaging (e.g. nesting) can allow for self-control in cost reductions. Cube based pricing is a system currently used internationally and should now be used domestically to allow for uniformity in systems, data and metrics.

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In addition to being beneficial for shippers, cube and density benefits carriers with a system that allows for accurate cube and density information at time of tender to enable operational planning and improved utilization of equipment. For the immediate future, it will allow for a change in the classification/FAK LTL rating system, which has become permeated with massive 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 pre-rated paperless autopay transactions between the shipper and the carrier. This process will utilize standard calculations and meaningful rate discount programs that support greater efficiency in load optimization, labor and fuel usage.

ANTITRUST AND CHANGE

We see short-term problems in getting the industry involved to change their long-standing way of doing business with the motor carriers and the NCC. The new “antitrust” ruling by the STB, will hit a wall of “the way we all do business. The cost savings and potential visibility into the supply chain is staggering. Who can turn down the potential 8% to 10% cost reductions for carriers and shippers?

This different way of doing business will provide greater efficiency but will not be sufficient to motivate paradigmatic change unless a crisis is clearly imminent. You have an important role to play in creating paradigmatic change. You can take steps to make your companies’ cultures much more change friendly, rather than adhere to standard practices.

Your organizational culture reflects the actions/attitudes of the leaders. Being open-minded about the need to fundamentally change the way of doing business, you can condition your company’s culture to respond positively to paradigmatic change. A company’s most important asset is a management team inclined to learn quickly by thinking and doing, embedded in an open-minded culture. “It’s not the strongest of the species that survives . . . nor the most intelligent . . . but the one that’s most responsive to change.” - Charles Darwin

STB CONCLUSION

For the reasons given, we find that termination of our approval of the 11 remaining bureau agreements is necessary to protect the public interest. The resulting removal of antitrust immunity should ensure a competitive motor carrier industry.

This action will not significantly affect either the quality of the human environment or the conservation of energy resources.

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It is ordered:

1. The Board's approval of the agreements of the 11 extant motor carrier bureaus is terminated.

2. The applications for geographic expansion to nationwide authority in STB Section 5a Applications No. 46 (Sub-No. 20) (SMCRC), No. 34 (Amendment No. 8) (Middlewest Motor Freight Bureau, Inc.), No. 22 (Amendment No. 7) (Pacific Inland Tariff Bureau, Inc.), No. 60 (Amendment 10) (Rocky Mountain Motor Tariff Bureau, Inc.), and No. 25 (Amendment No. 8) (The New England Motor Rate Bureau, Inc.) are dismissed as moot.

3. *This decision will be effective September 4, 2007.*

By the Board, Chairman Nottingham, Vice Chairman Buttrey, and Commissioner Mulvey.

Density as a pricing method?

Density is the weight of a commodity expressed in pounds per cubic foot. NCC's Density Guidelines are a scale of suggested class ratings for a range of shipment densities. Generally speaking, assuming all other transportation factors remain constant, as density rises, classification ratings decrease and vice versa. The ratings range from 500 (for a density of less than 1 pound per cubic foot) to 50 (for a density of 50 or more pounds per cubic foot). Under NCC's non-linear density scale, density changes at the lower end of the density scale affect classification ratings far more than those at the higher end of the scale. The shipper organizations contend that this approach penalizes shippers carrying light density items, and gives carriers a greater incentive to pursue upwards ratings adjustments than shippers have to pursue downward adjustments. NCC contends that the non-linear scale accurately reflects the impact of density changes on each end of the scale.

The STB now says that we no longer need this system of classes. We now need a new way to determine shipping classes. Enter Density/Cube pricing.

Just the facts

We know of no CFO that will take any unnecessary risk, or change any system, method, or process without some benchmark to prove the new system or method really works.

The 120-day deadline appears to put the multi-billion industries at risk. I am of the opinion that the system needs to change, but not at the cost and confusion this will create. Here is the real dilemma: If we change the LTL class and rate system, isn't it logical to include the small package companies' pricing also?

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UPS in 1907: \$100 insurance free, 50 pounds per package, 100 pounds total shipment weight per day to one location.

Shipping instructions for routing were:

- Up to 50 pounds UPS, 51 pounds or greater LTL.

UPS in 2007: \$100 insurance free, 150 pounds per package, total shipment weight up to 2000 pounds (hundredweight)

- You need a really good TMS to make an informed/business rules decision.

65% of the LTL shipments are 500 pounds or less, and move less than 400 miles from origin. How do UPS, Fed Ex and DHL rate and class all these shipments.

Are they a party to the NMFC? Clearly 150 pounds or greater is an LTL shipment.

Termination of approval is consistent with our policy goal to meet the needs of shippers and other consumers of motor carrier services. [74] Moreover, to the extent our decision facilitates the entry of competitors to NCC that might devise different ways of determining the transportation characteristics of commodities, we believe it will increase the variety of pricing options available to both carriers and shippers

The Visibility Group has solutions and methods to rate and classify shipments by:

- Class
- Density
- Cube™©
- FAK
- Point to Point
- Pallet rates
- Truckload stop off
- Nationwide rate/cube/density database.
- Or any combination of the above.

From 39 years of transportation industry experience, we know that shippers want to:

- Minimize risk
- Know saving
- Use existing systems
- Use existing carriers

The Visibility Group can do all of the above. We know what the STB is trying to accomplish, and we agree 100% a change is coming.

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Created by Hank Mullen

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