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It is shocking that the less-than-truckload (LTL) sector continues to operate with legacy business practices from the regulated trucking era ended by the Motor Carrier Act of 1980. One glaring example is the D-83 revenue sharing mechanism for LTL interline shipments.

The mechanism designed to work in the days of regulated pricing now distorts and divides LTL pricing from actual costs, adversely affecting the margins and revenue of carriers in interline transactions. It's a relic of the Interstate Commerce Commission and should be abandoned. (Regulation of interstate truck pricing ended in 1980, and the ICC was closed in 1995.)

The D-83 provides for sharing of revenue between motor carriers based on the percent of distance a shipment was transported by each carrier. On its face, that is simple. A shipment with revenue of $800 transported 1,000 miles would be split as $560 for the carrier that moves it 700 miles and $240 for the interline partner that moves it 300 miles.

But the D-83 was designed for a time when carriers were paid the full published tariff rate and there were no rate discounts for shippers based on their shipment profile. Any carrier that charged a different price from that set out in its tariff filed with the ICC could be charged with "predatory pricing." So, the rates charged were uniform for all customers and accessible.

Also, prior to deregulation, the LTL industry had to use specific carriers that had operating authority to deliver shipments in specific markets. Additionally, the shipments moved in both directions between interline partners, thereby off-setting any shortcomings in the D-83 mechanism.

In spite of many changes in the LTL industry over the last 40 years, many shipments are still tendered today to a partner carrier using the D-83 approach. But today there are wide variations in pricing and revenue for the same type of shipment.

Carriers try to address that variation through formulas that result in payment of D-83 plus 90 percent of the D-83 amount or D-83 minus a few points, but that doesn't solve the underlying problem. In addition, with discounting, the D-83 payment may or may not include payment for accessorial services, even though the delivery carrier is still performing that service, allowing the tendering carrier to manipulate the allocation of revenue to the shipments for sharing with the interline partner.

Since the deregulation of interstate trucking in 1980, more than 90 percent of LTL shipments now move under negotiated contract rates. And with many carriers having full nationwide coverage, pricing is not always reflective of the cost of operating between two addresses but often by competitive and other factors necessary to secure the customer's business.

The tendering carriers now have flexibility to offer contract rates that can amount to lower base rates with higher accessorial charges or higher base rates with lower accessorial charges. That flexibility also allows rates in some lanes to be priced for higher profit while other lanes are priced at a negative margin, just to keep the freight.

So, when the originating carrier is tendering two shipments of identical characteristics in terms of weight, cube, stowability, etc., then the interline carrier’s charge for both shipments should be the same for delivery to the same address in Los Angeles. Yet, if one shipment originated in New York City and the other in Phoenix, under D-83 method, the amount paid for the one originating in New York City can be more than two times higher just because of the higher revenue per shipment related to the length of haul.

Furthermore, even two shipments of identical physical characteristics originating in the same market and thus having the same length of haul can have different pricing. One shipment could be for a small shipper on a lower discount and thus have revenue of $480 while another is for a large shipper with a higher discount with revenue of $225.

So, for two identical shipments originating in Dallas and delivered by the same partner in Columbus, OH, the activity-based cost for both shipments is the same. Yet the delivery carrier may get paid $110 for one shipment but only $54 for the other shipment.

The continued use of D-83 approach for interline shipments is often justified by LTL carriers on the grounds that there is no other alternative. Wow! In 40 years, the industry has neglected to develop a new approach that would reflect the post-deregulation marketplace that is now rife with discounts as high as 90 percent off the published tariffs.

What makes it worse is that there are over 5,500 active tariffs with even shippers having their own tariffs — a situation only found in the LTL sector. Thanks to SMC3 for maintaining these tariffs or the experience in submitting bids would be even more daunting.

D-83 payment also allows interline carriers to either ignore inefficiencies in their operation or for them to generate higher profit margin at the expense of the carrier generating that business for them, which hurts the ability of both partner carriers to increase their shipment count for lack of competitiveness against other carriers with more direct point coverage.

Most importantly, while the carriers seek to keep their contract rates confidential, the D-83 split results in the originating carrier sharing its pricing details on each shipment with the interline agent who may already be a competitor or will become one with such insight into the tendering carriers’ pricing.

Changes in LTL pricing since 1980 have made the D-83 method irrelevant and even harmful to some carriers, and justify its elimination. If one LTL carrier has successfully done so with a new approach that is working well for both partner carriers and is helping them increase shipment count, then others should be doing so also.

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