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Published on *JOC.com* (https://www.joc.com)

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Recent technological developments would enable a new LTL carrier to design a network that would meet the rapidly evolving supply chain needs of shippers, says the author. Photo credit: Shutterstock.com

For the past several months, the media has been saturated with news about startups in the parcel industry, the result of explosive volume growth driven by the COVID-19 pandemic and a belief among investors that the current parcel service providers are not responsive to the needs of retailers and consumers.

Although the less-than-truckload (LTL) sector is also experiencing unprecedented growth thanks to changes in the e-commerce supply chain, it is still operating with the shackles of decades past and has largely been shielded from new entrants. However, the timing is right for a new carrier to

enter the market to handle shipments that are larger or heavier than parcels but still smaller than a truckload shipment.

Just as shippers have supported new carriers in other areas of trucking, they will do so for the LTL segment, provided the new entrants are not stuck in the same outmoded methods of defining — and pricing — their services.

In many ways, the LTL industry still defines its value proposition as “less than” a competing market segment, despite the fact that there is very little in LTL that is actually less than truckload. Compared with truckload services, LTL costs more per pound of cargo, has longer transit times, takes more labor to handle per shipment, requires more capital investment, and has higher incidences of damage and loss. To top it all off, the pricing scheme used by LTL operators is so complex that trying to understand it can give shippers and carriers migraine headaches.

In that sense, a new entrant to the LTL sector would be better off identifying as a “more-than-parcel” carrier, rather than a “less-than-truckload” operator.

Regulation-era pricing

Despite being deregulated between 25 and 40 years ago, many of the LTL sector’s practices have not changed. The most onerous of these regulation-era practices is pricing.

LTL pricing is based on a matrix of more than 40,613 five-digit zip codes, 18 product classifications, and nine weight categories, resulting in more than 276 billion possible zip code-to-zip-code rate configurations. Taking into account the more than 4,000 base rates set by carriers and shippers, there are more than 1.10 quadrillion combinations

To put the absurdity of such pricing in perspective, this figure is more than 1,000 times greater than the total number shipments handled by the LTL industry since its birth in the 1930s.

The pricing complexity is such that even with a 78 percent discount, a 1,943-pound LTL shipment from Charlotte to Winston Salem, North Carolina is billed at $615 ($7.70 per mile), close to a full truckload rate. A 944-pound shipment from Lawrenceville to Commerce, Georgia, just 44 miles away, has a base rate of $1,872, which amounts to $42 per mile, according to actual bills of lading seen by SJ Consulting.

Another example of base rate absurdity seen in a real invoice was a charge of $1,784 for a 480-pound shipment from Houston to El Paso. That amounts to $437 per hundredweight with fuel surcharges, compared with an industry-wide average of just $25 per hundredweight, which translates into a discount of 94 percent. Imagine getting hit with these charges as a new shipper unaware of such base rate and discount level insanity.

The complexity in pricing has created an opportunity for brokers, who now manage approximately 30 percent of the $42 billion LTL market, up from just 5 percent in 2000. In addition, it has fueled the growth of hundreds of transportation management systems (TMSs) and other technology-driven businesses aimed at helping shippers simplify the self-inflicted wound that is LTL pricing.

Even more amazing, shippers have come to believe that by having their own LTL tariffs and a TMS to manage the more than 4,000 base rates, that pricing is not only transparent, but accurate. In reality, shippers are operating in a “black box” that has created the need for third-party freight payment and audit companies to catch the myriad mistakes in LTL invoices.

Barriers to entry

Similar to any market, there are barriers to entry in LTL, but those barriers would be far lower for a startup that doesn’t attempt to copy the old LTL model, based on a pickup-and-delivery operation designed to “bump the docks;” pricing that requires bidding using over 4,000 base rates; accessorial charges such as detention, which penalizes shippers for deliveries by a less-efficient driver; billing based on the honor system for shipment characteristics; integration with hundreds of TMSs to compete for shipments; and technology that precludes direct carrier-shipper interactions.

For example, Forward Air, which for decades operated in the freight forwarding segment, has seen its operating margin drop from 16.4 percent in 2014 to 8.3 percent in 2020 following the acquisition of Towne Air and the inherent pricing complexity associated with its LTL services.

Recent technological developments also would enable a new LTL carrier to design a network that will meet the rapidly evolving supply chain needs of shippers.

In the parcel industry, for example, the successful launch of Roadway Package System (RPS) in 1985 — and the company’s eventual acquisition by FedEx — transformed the competitive landscape of the entire parcel industry, all while achieving a higher operating margin than its competitors and offering lower rates to the shippers.

For a more modern example of the LTL sector’s inability to evolve, one could look to the development of electric automobiles. Major incumbent automakers have been working on an electric car since the 1990s, and yet Tesla is the most successful electric car on the market because it did not allow itself to be held back by “traditional” or “status quo” thinking.

If new parcel startups can succeed with just four carriers — UPS, FedEx, DHL, and the US Postal Service (USPS) — controlling about 95 percent of the market, it stands to reason that a highly fragmented LTL market in which demand is quickly catching up to available capacity is more than favorable for a new carrier to disrupt an antiquated industry.

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