

END TO HONOR SYSTEM

IN RECENT MONTHS, many shippers have expressed concern about accuracy of billing by less-than-truckload carriers. Having pushed the LTL carriers to be more

vigilant with making correction for weight and other aspects of shipments for proper revenue capture, SJ Consulting researched the validity of such perception by conducting an extensive survey with several large LTL shippers, 3PLs, and freight audit and pay firms, with particular thanks to Williams & Associates. The freight

charges on LTL shipments by these companies exceed \$8 billion over a 12-month period, representing 22 percent of the total industry revenue.

To understand the results of the survey, it's critical to address the context that may be creating the perception of billing inaccuracy among the shippers. For decades, the LTL industry has relied on an honor system for shippers to provide true characteristics of their shipments, required to accurately bill the customers for their shipments. The key attributes required on the bill of lading included weight, freight class (to reflect density, stow ability, handling, and liability), number of pallets, and/or number of pieces (think packages) in the shipment.

To randomly verify the accuracy of the data on the bill of lading, the carriers created a weight and inspection department, which would randomly test certain shipments. The cost of such resource and impact on dock productivity limited the auditing to 5 to 10 percent of the shipments. Such reliance on the honor system gave reasons for other shippers to not pay attention to the accuracy of the shipment characteristics, resulting in more shipments being billed incorrectly and causing cross-subsidy

between shippers and hurting carriers' profits.

The honor system wasn't limited to the LTL industry. The parcel industry, dominated by UPS, also operated on an honor system for decades. However, recognizing huge revenue leakage with the honor system, when RPS started in March 1985 to compete with UPS in ground parcel service, it incorporated a SWAK (scan, weight, and key the destination ZIP code) process that involved capture of actual weight and origin/destination ZIP code and package barcode, which was a key factor in billing for accurate weight. The cost of the equipment and labor for this process had an instant payback.

Since then, FedEx Ground (formerly RPS) and UPS have rapidly deployed technology to incorporate scales and dimensional equipment in their automated sortation system in hubs and service centers, allowing them to capture accurate weight (not just in pounds but even in ounces) and dimensions (in fractions of inches) of 30 million parcels a day. The result is that the parcel industry has converted from an honor system for weight and cube to actual weight and dimensions, and thereby is able to capture the true operating cost of parcels with the same weight but different dimensions. Furthermore, such attention to capturing all attributes of the parcels has helped the parcel carriers achieve 99 percent billing accuracy on millions of parcels.

In contrast, the LTL industry, facing an operational model that requires most shipments to be moved with forklifts, had to wait for technology that could weigh and capture dimensions of shipments that can't be moved using conveyors. In the mid-1990s, companies such as Avery Weigh-Tronix introduced forklifts with scales that could capture weight of shipments in motion, and 10 to 15 years later, Cubicscan and Mettler Toledo offered ceiling-mounted dimensioning machines.

Despite the \$65,000 cost of such dimensional machines, LTL carriers that have deployed them have found an instant payback.

Such investment also has allowed the LTL carriers to improve the accuracy of their billing resulting from 95 percent of shipments getting weighed (instead of 5 percent by the W&I people). It's no surprise that the two factors most commonly viewed as contributing to carriers' bills differing from self-billed invoice are attributed to difference in class and weight. The survey found range of billing accuracy was 94 to 99 percent depending on the carrier, with the average being 97 percent. This is far better than 85 percent for the ocean carriers reported recently by The Journal of Commerce.

The most interesting revelation of the survey was that what shippers perceive as a billing error actually is due to shippers providing an estimated weight or freight class for dimensional attributes of their shipment that are corrected on more shipments as more LTL carriers deploy scales and dimensional machines. Given that about 50 percent of bills of lading have errors in weight or description of the shipment, it's no surprise that with more shipments being verified for weight and class of freight, a correct invoice gets perceived as a billing error.

Despite shippers' perception, the LTL industry has an impressive record in billing accuracy, and it is finally converting rapidly from an honor system. In addition, shippers need to rapidly adjust to getting billed for the correct weight, density, and other characteristics of their shipments. Similarly, the LTL carriers must ensure that the corrections for weight and density are legitimate and accurate if they want to contain the growth of the freight audit and pay cottage industry. **joc**

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