COMMENTARY

The ‘good, bad, and ugly’ of LTL

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IN MORE THAN 40 years since the deregulation of trucking, US shippers have never experienced a more challenging less-than-truckload (LTL) market than that of 2021. Even with across-the-board increases in rates, capacity was difficult to come by.

That capacity crunch will continue for most of 2022, resulting in more rate increases. However, shippers can minimize the impact of higher LTL pricing, not by being tougher negotiators, but by being more friendly shippers.

Although shippers have changed their contracting and shipping practices to meet the requirements of the parcel carriers, they have not done the same for the LTL industry. Prior to the COVID-19 pandemic, there were too many carriers and too much excess capacity, which gave shippers the advantage in negotiations.

But over the last two years, an increase in LTL demand and difficulty expanding capacity have given LTL carriers an opportunity that parcel giants have had for decades. This development is evident in the most recent surcharge for extra-long shipments, first announced by Old Dominion Freight Lines (ODFL) and quickly followed by others. Such charges would have been unthinkable just a few years ago.

While some believe the type of dynamic pricing used by the airline industry will address the LTL capacity crunch and reduce rates for larger shippers, they overlook that airlines are largely a business-to-consumer (B2C) industry, even with many passengers traveling for business. Their model is not suited for the business-to-business (B2B) world of LTL, in which B2C shipments are non-existent and even small shippers represent less than 10 percent of the total market.

Instead, shippers should commit to certain volumes of business — either by lane or on a monthly or quarterly basis — to secure lower rates during the bid process, much as they do for parcel shipping with FedEx and UPS.

Having a steady, predictable stream of shipments will help LTL carriers to better allocate and utilize capacity, which will result in a higher level of service for the shippers and lower costs for operators, which in turn could allow them to lower rates. If, for example, airlines could get commitments from large corporations for travel by a certain number of their employees every week or month by certain lanes, they would prefer that over the current dynamic pricing model and might offer discounts accordingly.

In addition to practices that help carriers get better linehaul cube utilization, there is an opportunity to do the same in pickup and delivery (P&D) operations. Most LTL P&D trailers operate at 50 percent cube utilization because carriers can’t double-stack pallets in those trailers.

For shipments with more than one pallet going to the same consignee, instead of tendering two four-foot-high pallets, shippers should tender that shipment as one eight-foot-high pallet. That would increase P&D capacity and reduce dock handling cost, potentially translating to better rates for the shipper for the same weight.

And shippers who can also provide more shipment-level details, such as weight by pallet or the cubic dimensions of each handling unit, on a daily or weekly basis, in advance as orders are received, will be viewed as even more carrier-friendly.

With better order and warehouse management systems, more shippers have the ability to leverage order data to provide for better palletizing, which would allow for better assembly of pallets with products to be shipped at same price.

Shippers should not look at the recent developments that favor LTL carriers as a passing phase. Even if shippers gain the upper hand in negotiating in the future, they will still benefit from having made these suggested changes in their dealings with LTL carriers.

And, with the carriers deploying systems to differentiate shippers and shipments into “the good, the bad and the ugly,” carriers will still be in a better position to seek rate increases that reflect the real attributes of the freight they are hauling. Carriers that have ignored these practices, such as LME, New England Motor Freight, and most recently Central Freight Lines, have paid a huge price for doing so. They are out of business, and their customers are now paying much more to other LTL carriers. JOC

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