Kicking the habit

THE US LESS-THAN-TRUCKLOAD (LTL) industry has no one to blame for the continuation of pricing based on the National Motor Freight Classification (NMFC) system but itself. While a few carriers such as ABF Freight and FedEx Freight have rolled out dimensional pricing, and others have expressed the desire to do so, they have largely overlooked the reasons for shippers' reluctance to switch to dimensional rates.

First, these carriers' pricing departments are challenged to provide customers open to the switch with revenue-neutral pricing. Second, these carriers' efforts are being undermined by their friendly trade associations, which benefit from the continuation of the current classification-based pricing structure.

Since the 1930s, the NMFC system has grouped commodities into 18 classes ranging from 50 to 500 based on a product's density, stowability, handling, and liability characteristics. Dimensional pricing, broadly used outside of North America, uses the weight and volume of cargo to determine rates instead.

I have spent a considerable amount of time over the last several months trying to convince a large LTL shipper to switch to dimensional pricing with one of its many carriers. After several conference calls, the carrier wanted to take the dimensions of the shipments provided by the shipper and convert them back into the NMFC pricing model, causing the shipper to defer further engagement in the conversion process.

However, it was a valuable exercise, as it confirmed the LTL industry cannot take a cold-turkey approach to moving away from the NMFC model. Instead, it will need to be a gradual process, similar to weaning oneself from other dependences.

The carriers have done a great job of supporting technological developments to weigh each shipment via scales mounted on forklifts and equipment that can be mounted on the docks for in-motion capture of dimensions.

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While this has made it practical for every shipment to be billed in exactly the manner it is tendered using real-time shipment characteristics, shippers are reluctant to let go of the NMFC pricing model due to their belief — right or wrong — that switching to dimensional pricing will result in a price increase.

And the carriers have failed to educate shippers that incorrect shipment attributes result in incorrect pricing, with some shippers subsidizing freight charges for other shippers who could be their competitors. This is happening to a greater extent with shippers on freight all kinds (FAK) pricing.

For the LTL industry to achieve a meaningful shift to dimensional pricing, shippers need to be educated that NMFC does not account for changes in product characteristics, packing, and the manner in which the handling units are tendered during the time since that product was evaluated for classification. All such deviations result in less or more cubic capability utilization of a trailer. In addition, use of non-standard pallet sizes can lead to wasted cubic space in a trailer.

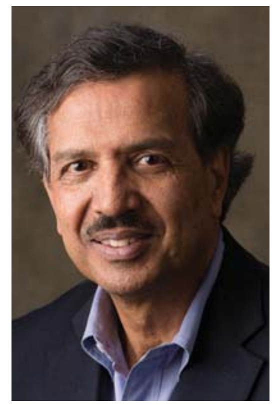
To compound the problem, many shippers still put notes on the shipment such as "Do not double stack," or a cone on the top of the shipment stating "Fragile," with the expectation that the entire space above that height will be left open without stacking of other shipments. However, in these instances, if the carrier bills them for the entire height of the trailer, the shipper will often fight those additional charges.

Shippers are entitled to have their freight handled without damage, but how that is accomplished should be left entirely to the carrier.

The industry should explore means by which NMFC and dimensional pricing are integrated in the transportation management system for clarity on how the two relate to each other. And, if dimensional pricing results in a different charge than the product-related NMFC method, the shipper should be able to see the reasons for such deviation and obtain insight into ways the cubic density could have been reduced to match what was expected using the NMFC classifications.

The bottom line is that carriers must find a way to bring an end to a badly outdated NMFC model that results in 1.2 quadrillion potential rates for an industry that delivered about 250 million shipments for $50 billion in market size in 2021. That amounts to over 4.8 million rates for every LTL shipment, illustrating the absurdity of the current model.

That absurdity is compounded by



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an industry supporting thousands of tariffs, including those customized for large shippers. It's no wonder there are large pricing departments at LTL carriers, adding to overhead costs and creating opportunities for 3PLs to penetrate the LTL industry.

It's time to wean the LTL industry off the NMFC model. Going cold turkey is not working. **JOC**

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