Logistics MANAGEMENT

RESEARCH BRIEF

Driving Down Unexpected Less-than-Truckload Transportation Costs

In the LTL world, that first freight quote doesn't always reflect the final cost of moving goods from origin to destination. Here's how this impacts shippers and the role that technology plays in helping companies drive down unanticipated LTL charges.

SMC3

INTRODUCTION

Shippers and third-party logistics providers (3PLs) have been dealing with rising transportation costs over the last 2-3 years. In a world where costs continue to rise, the last thing you want is a lack of transparency, unexpected surprises and/or transportation costs that exceed those originally quoted.

A quoted rate may increase during transit for multiple reasons; data entry errors, wrong classification, incorrect freight weight and/or inspection changes or additional services called "accessorials" needed for delivery. These unplanned costs can be frustrating and may delay payment to carriers, impact service levels and impede operational efficiency.

"Not all of these fees are noted on the original freight quotes, so shippers don't always have upfront visibility into their total freight costs," says Brian Thompson, chief commercial officer at SMC³, a one-stop knowledge hub for LTL technology, data and education.

Less-than-truckload (LTL) carriers offer flexible, shared transport of shipments from origin to destination. This mode is generally cost-effective, but disconnected systems—such as those that exist between a shipper's and carrier's transportation management system (TMS)—can create gaps between the parties.

For example, shippers and carriers use separate systems to manage transportation; carriers have pricing systems; and logistics providers have quoting, planning and transportation management systems. Due to the complexity of LTL pricing programs and numerous factors that impact the final rate, disparate systems can lead to discrepancies, a miscommunication or a lack of communication before, during or after the freight moves.

To learn more about how companies manage their LTL freight function and the unexpected fees that come with it, Peerless Research Group (PRG) conducted a survey on behalf of Logistics Management with sponsorship by SMC³. The survey is based on responses from 162 professionals, all of whom are personally involved with the LTL transportation function—either for their own companies or for other organizations.

WHAT'S KEEPING COMPANIES UP AT NIGHT?

Accessorials, invoicing errors and other unexpected freight fees have been keeping more supply chain operators up at night lately, with 2/3 of respondents indicating that invoice discrepancies and surprises cause disruptions. Operating in an environment where supply chain shortages, labor constraints and changing customer demands are happening daily, companies don't want to be surprised when they receive an invoice for an LTL shipment that was delivered a month ago.

Carriers may reweigh and reclassify freight, for example, or they may apply accessorials to certain geographies (e.g., deliveries to remote destinations or cross-border shipments). Using dimensioners, carriers also measure and reweigh a very high percentage of the freight that moves through their networks. Whereas in the past physical inspection was used to justify a charge adjustment, dimensioners can more quickly and accurately measure for size, density, packaging and other variables. This can equate to higher freight costs without the shipper even knowing the packages warranted the increased rate.

Carriers are also constantly evaluating the costs to provide service across their network, but they usually only adjust their base rates annually. Additionally, only a fraction of their customers likely has contracts that are based on the carrier's most current version of rates. Add-on fees tied to specific geographies is one mechanism carriers have turned to in recent years to pass along the costs of servicing specific zip codes, states or countries. "However, the sheer number of zip codes with high-cost fees and frequency with which those points and charges can change throughout the year creates a challenge for shippers to reflect those changes in their TMS when they run rate quotes." Says Brian Thompson, chief commercial officer at SMC^3.

AN EXPENSIVE-BUT-SOLVABLE PROBLEM

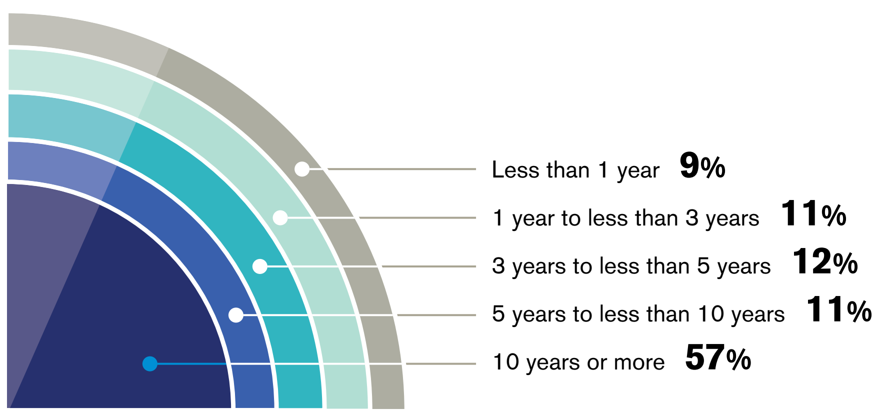
As mentioned earlier, impact from the combination of LTL environmental dynamics and pricing variables can be complex and costly. It becomes costly when an individual company or 3PL organization selects a carrier by running a rate quote upfront and making a decision based on that pricing. Then when invoiced, receives a cost higher than expected, diminishing the shipper's load profitability. Multiply that across hundreds or even thousands of loads per week and it's easy to see how critical upfront research and due diligence are for every shipment.

WHO'S MANAGING LTL SHIPPING?

More than half (57%) of the respondents surveyed have been personally involved in the LTL transportation function of their company for 10 years or more, while 12% have been managing LTL for three to five years. Their most common titles include VP/general manager (17%), logistics/distribution manager (16%), transportation manager (14%) and corporate/ divisional manager (12%).

FIGURE 1

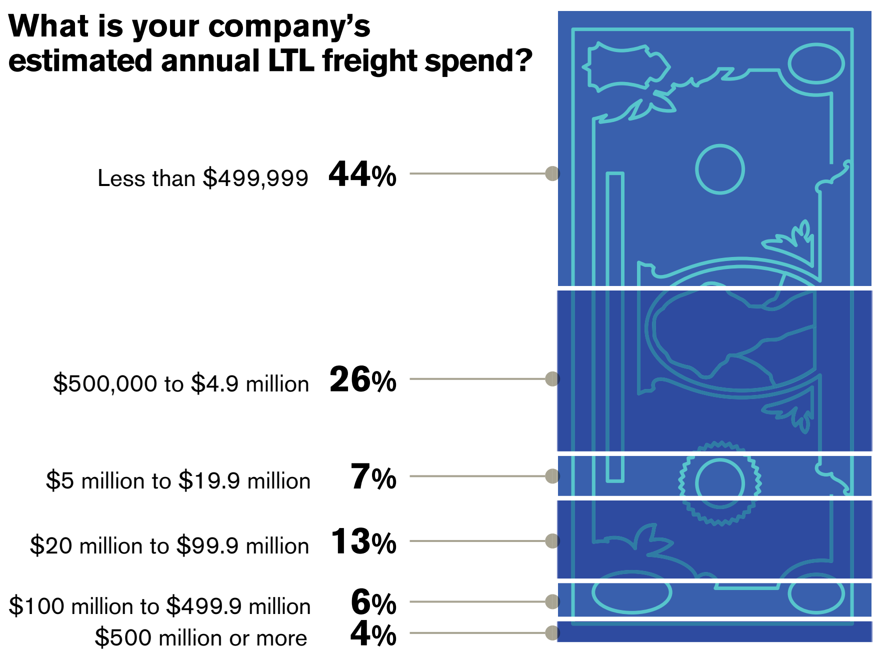
How long have you personally been involved in the LTL transportation function for your company?



GETTING LTL FREIGHT QUOTES

When it comes to LTL freight spend, 44% of respondents say their companies spend less than $499,999 on this mode annually and 26% spend anywhere from $500,000 to $4.9 million. Additionally, 13% spend between $20 million and $99.9 million on LTL freight annually, 7% spend $5 million to $19.9 million, 6% have LTL freight spend of $100 million to $499.9 million (6%) and 4% spend $500 million or more.

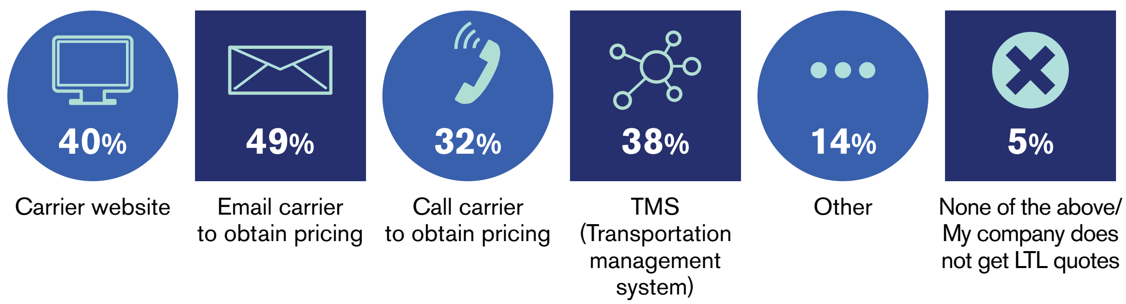
FIGURE 2



To obtain LTL quotes, 49% of companies email the carriers directly, 40% get quotes via the carriers' websites, 38% receive their quotes through a transportation management system (TMS) and 32% call the carriers directly to get quotes.

FIGURE 3

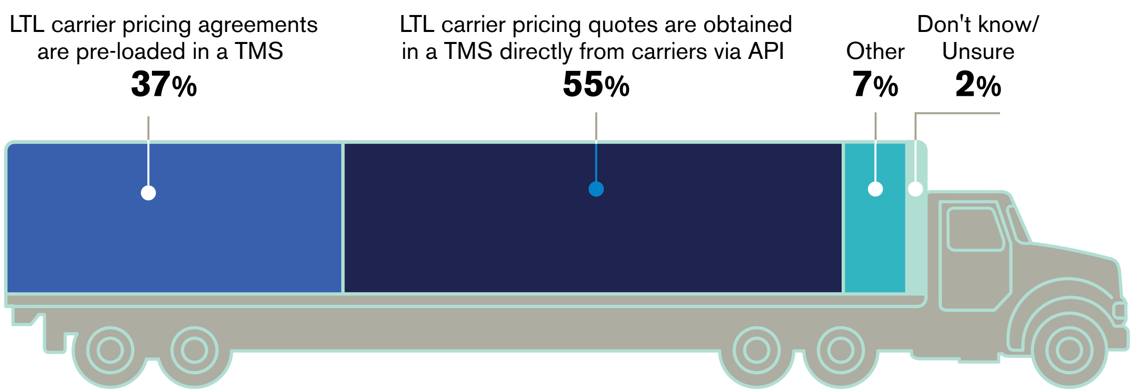
How does your company obtain LTL quotes?



Of those companies that use a TMS to get their LTL quotes, 55% say that the quotes are obtained in a TMS directly from carriers via an application programming interface (API) and 37% use LTL carrier pricing agreements that are pre-loaded into their TMS platforms.

FIGURE 4

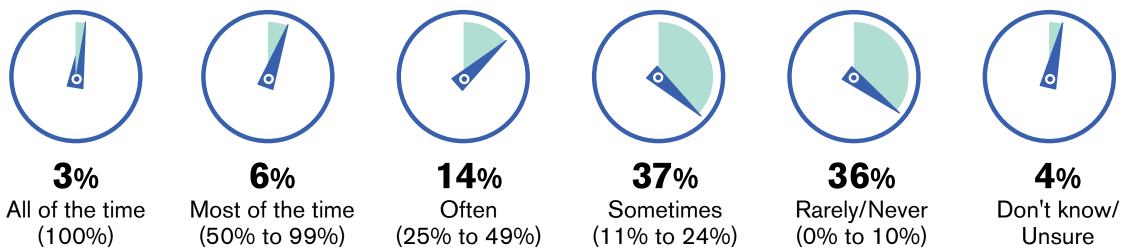
In regard to obtaining LTL quotes in your TMS, which of following best describes how you obtain pricing?



Of the shippers that obtain quotes through their TMS platforms, more than half of them (51%) experience invoicing discrepancies and errors. About 6% of all respondents say they find discrepancies “most of the time” and 3% encounter these problems 100% of the time.

FIGURE 5

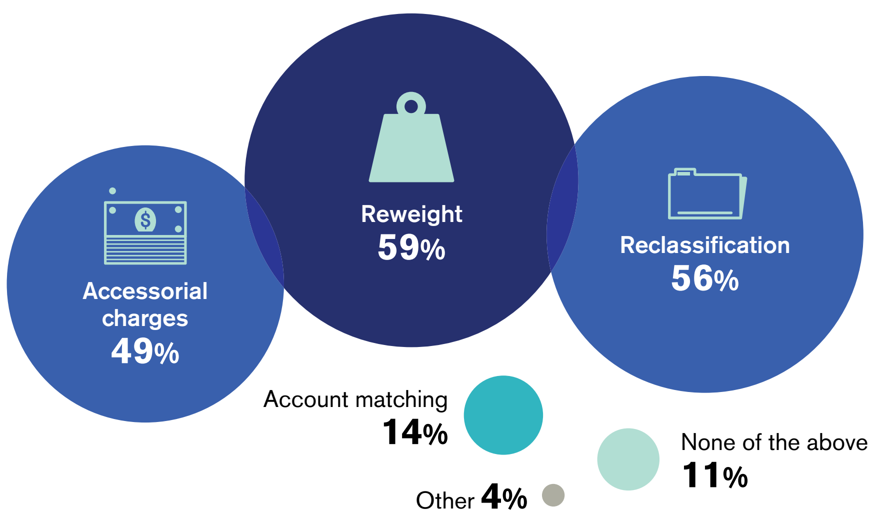
How often does your company experience LTL invoice surprises/discrepancies/issues?



In most cases, the problems stem from re-weight (59%), reclassification (56%) or accessorial charges (49%).

FIGURE 6

Which of the following reasons cause LTL invoice surprises/discrepancies/issues at your company?



DEALING WITH DISRUPTION

Nearly half (46%) of respondents say that accessorial charges and their related impacts have both increased in recent years.

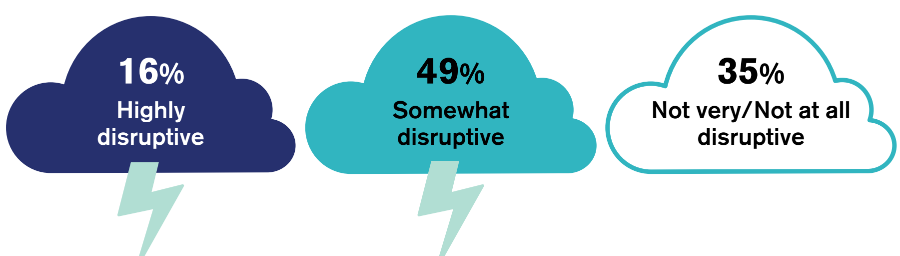
FIGURE 7

During the course of your involvement in LTL transportation, have you noticed a change to LTL accessorial charge impact to your business?

Sixty-five percent of survey respondents consider these errors and discrepancies to be disruptive to their LTL function.

FIGURE 8

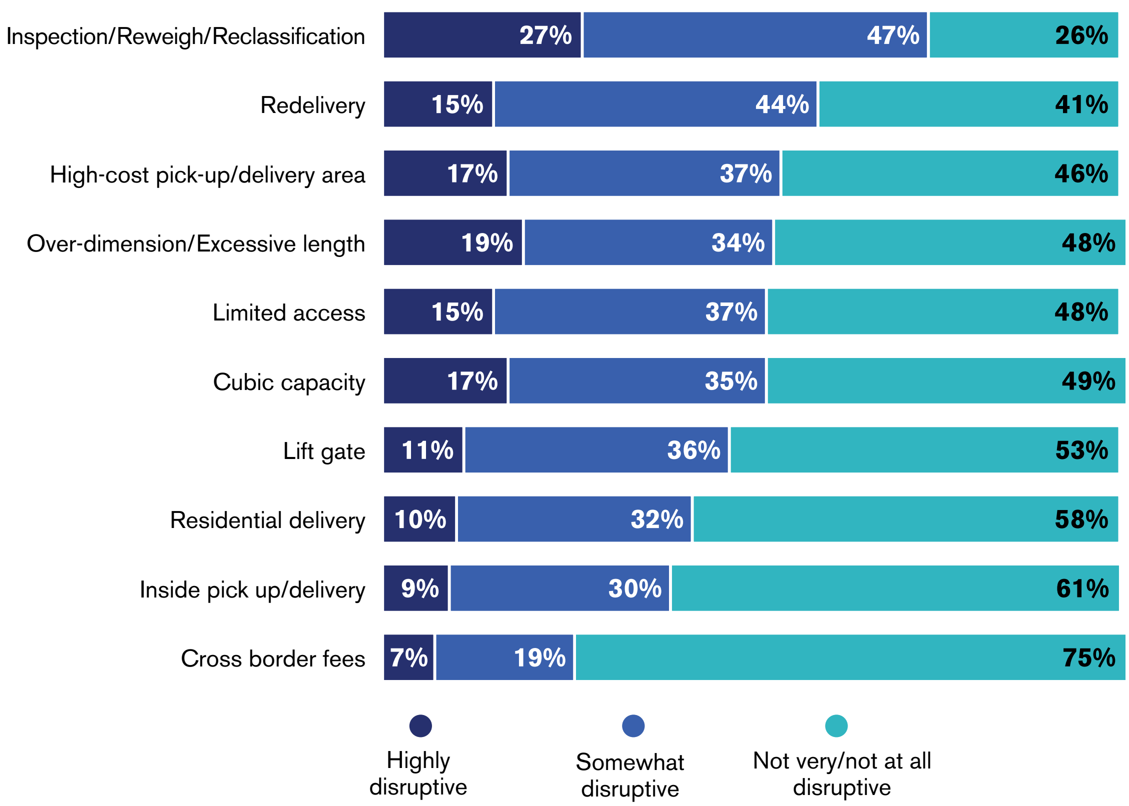
How disruptive are invoice surprises/discrepancies/issues that you have with LTL invoice(s) at your company?



In rating how disruptive LTL invoice accessorial charges discrepancies are to their operations, nearly three-quarters (74%) of respondents consider inspection, re-weigh and/or reclassification to be either highly or somewhat disruptive.

FIGURE 9

How disruptive are each of the following accessorial charges to LTL invoice surprises/discrepancies/issues at your company?

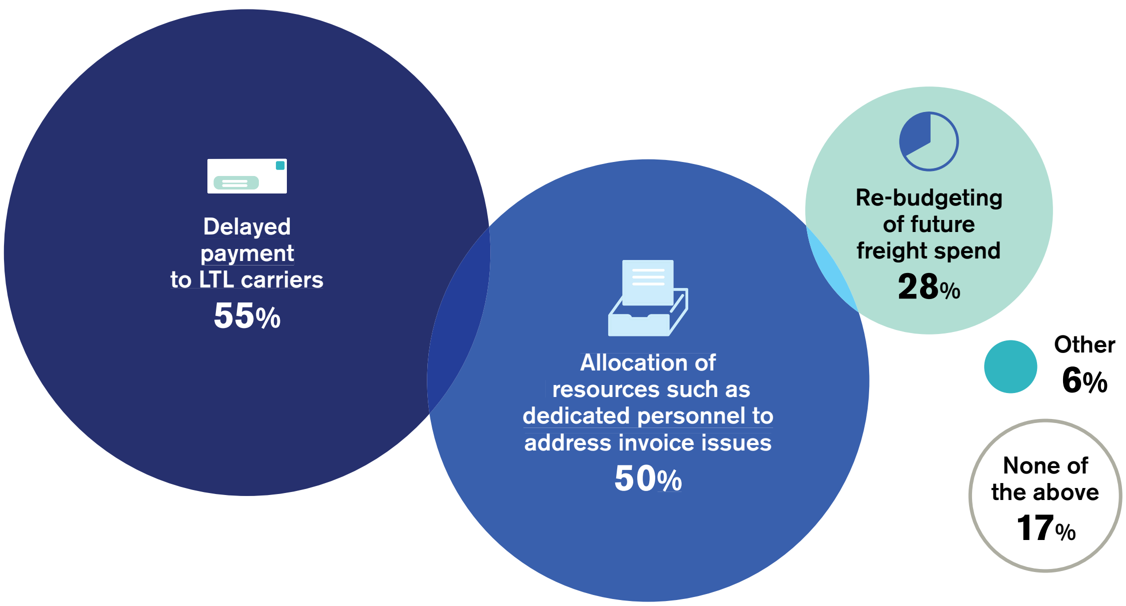


Also, over half of companies (53%) say over-dimension or excessive length charges are either highly or somewhat disruptive. Redelivery is disruptive for 59% of shippers' LTL operations, followed by cross-border fees (for 25% of shippers) and inside pickup or delivery fees (39%).

When companies encounter invoice discrepancies, 55% of them wind up delaying payments to their LTL carriers. Half of them say the issues impact the allocation of resources, including having to dedicate personnel to address invoice issues and 28% say it affects the re-budgeting of future freight spend.

FIGURE 10

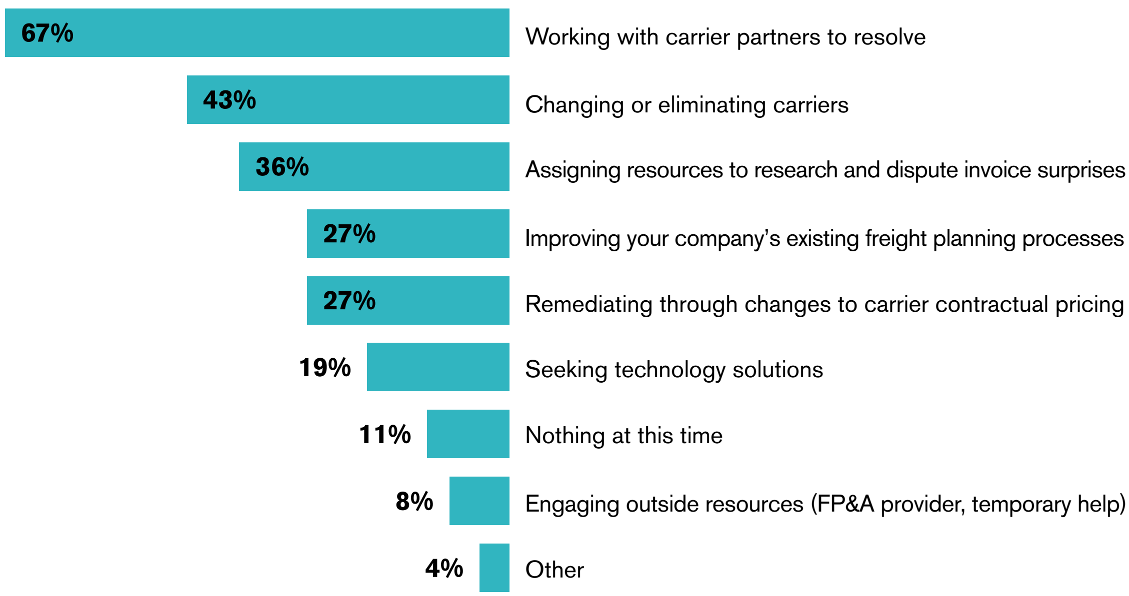
Which operational impacts does your company experience due to invoice surprises/discrepancies?



In most cases (67%) of companies address LTL invoice surprises or discrepancies by working with carrier partners to resolve the issue. Others (43%) will change or eliminate and still others (36%) assign resources to research and dispute invoice surprises.

FIGURE 11

How is your company addressing LTL invoice surprises/discrepancies?



Other respondents (27%) say they tackle the issues by improving their company's existing freight planning processes or by remediating through changes to carrier contractual pricing (27%). Nineteen percent seek out technology solutions that will help them solve the LTL invoicing discrepancies and 8% engage with outside resources to help them resolve the issues.

CONCLUSION

The rising costs of doing business, high inflation, rising interest rates and persistent labor shortage are also taking a toll on companies' bottom lines. Pressured to do more with less, these companies are looking for new ways to manage their costs. And the sooner they act, the faster organizations can identify and offset some of the transportation cost pressures and make better business decisions.

As the survey uncovered, there is a clear need for better transparency between shippers and their carriers. In many cases, the lack of connectivity between systems creates these gaps, with 38% of companies quoting carriers utilizing their own TMS and 37% of all surveyed companies managing their LTL contracts within their TMS. With nearly half (46%) of respondents stating increasing difficulty dealing with accessorial charges over the last few years, having a technology platform that brings everyone together on the same page and working from the same playbook has never been so critical.

Several technology solutions are available that will improve the accuracy of rate quotes. SMC^3 continues to expand the RateWare family by introducing accessorial management solutions that optimize transportation planning, reduce billing disputes, help eliminate invoice surprises and build operational efficiency for shippers and carriers. SMC^3 also offers direct-carrier API connections which send quotes directly from the carrier's TMS to the shipper's system and enable shipment visibility from dispatch to delivery. As a technology and data solutions provider that seamlessly connects shippers, 3PLs and LTL carriers, SMC^3 improves communication and data flow between all transportation providers. This, in turn, reduces the number of invoice "surprises" that may surface.

"Along with getting a rate quote to ensure that the appropriate discount and only the right charges are applied to every invoice," Thompson says, "shippers use our platform to retrieve electronically stored documents and add automation to their process, versus having to manually review every single invoice."

SMC^3 is a hub of expertise in the LTL arena. Fueled by heavyweight, analytical APIs, the organization delivers its core competency—LTL pricing expertise—through collaborative pricing technology that supports end-to-end, ongoing predictability in shipper/3PL-carrier relationships. Thousands of North American shippers, carriers, logistics service providers and freight-payment companies rely on SMC^3 's sophisticated LTL base rates, content and expert bidding and planning tools to make the best business decisions, achieve higher returns on their transportation investment and meet the dynamic demands of the market.

CALL TO ACTION

Learn how SMC^3's solutions can help manage invoice surprises and optimize supply chains by contacting us today at 1-800-845-8090, visiting us online at www.smc3.com or emailing us at sales@smc3.com.