TAKING A DIM VIEW:

It may not be long before all LTL packages are automatically scanned for their dimensions and in a split second a determination is made to charge the actual weight vs. the higher cost dimensional weight.

LTL carriers have begun to invest in expensive, on-dock, three-dimensional size measurement capturing machinery. These carriers are hoping to one day be able to more accurately charge shippers rates based on the actual dimensions of their shipments, rather than the traditional weight-and-distance-based formula that has been in effect since the industry was regulated or even earlier.

Like airfreight carriers, LTL truckers want to be paid on the commodity that they are selling – the capacity of their trucks. To optimize the value of this commodity carriers like FedEx Freight, YRC Worldwide, Old Dominion, Saia, and probably many other are preparing for “dimensionalization.” The LTL market might be ripe for change simply because of its composition. The top six LTL carriers (FedEx Freight, YRC regional and long-haul, Con-way, UPS Freight, ABF and Old Dominion) carry more than half of the freight in the US.

The LTL marketplace was gravely damaged with the introduction of FAK rates which had a significant impact on the class rate programs that allowed carriers to take into consideration the type of products that they were actually carrying in their trailers. Lightweight, oversized LTL shipments tend to “cube out” before they “weigh out” in a traditional 53-foot trailer that is allowed to carry 80,000 pounds. Light bulbs, paper towels and other light weight commodities will cube out a truck at very low weights. When shipped with the commodities where shippers have FAKs in place, the carrier revenue and margins are sub-optimal. Carrier revenue comes up short when they handle freight that weighs less than 15 pounds per cubic foot.

The challenge for carriers is getting the dimensions to determine the charge. In years gone by, parcel carrier UPS used to give their drivers a chain that would measure the girth of a package. Today the process must be automated with nominal costs for overhead scanning machines to make it worthwhile. With new lower cost laser-driven dimension equipment coming on line carriers will be better able to charge compensatory rates on lower classified, lightweight shipments. Carriers will pitch this new pricing as easy to understand zone based, density based pricing. But from a financial perspective this will not be an easy sale unless carriers can unify on the new pricing structure. While we do not expect this to happen, we do expect the zone density price format to be pushed most aggressively by the parcel carriers which are also in the LTL business. The problem, as always with trucking, is capacity. Lightweight, bulky LTL shipments tend to “cube out” before they “weigh out” in a traditional 53-foot trailer that is allowed to carry 80,000 pounds.

Right now, there is little penalty for shippers and manufacturers who clumsily package shipments in air-filled boxes that take up excess room in trailers. Twenty pounds of toilet paper costs roughly the same to ship whether it's in a 10-foot by 10-foot by 10-foot box, or it's in a box that's 25-by-25-by-25. This could all change if dim pricing methodologies are instituted by the LTL carriers. Any carrier who encountered, for example, two 10,000 pound shipments of lower classified freight that filled an entire 28-foot or even 53-foot trailer has long coveted a method to raise the revenue for that shipment, or any other shipment that weighed less than 15 pounds per cubic foot. Also, experts say, this pricing revolution could be implemented only if virtually the entire $35 billion LTL sector moves in lockstep to institute it. Because of antitrust laws and other competitive factors, that could be difficult—and might ultimately lead to lawsuits by reluctant shippers.

Chuck Clowdis, the veteran trucking research analyst, said dimensional LTL pricing has been discussed by truckers for at least for the past 10 years, and maybe longer. "I recall nearly three decades buying tape measures and training a sales force in how to attempt a rudimentary estimation of cube and the impact on trailer space utilized," Clowdis recalled. "Carriers attempted some pricing regulations that raised the rates for any single shipment taking an entire trailer but the problem persisted."

The problem is carriers allowed the ubiquitous "FAK"—"Freight All Kinds"—rating concession surge to rob them of one remedy—the true classification of Class 100+ freight. About a decade ago, trucking consultant Hank Mullen pushed the dim pricing idea but couldn't move it forward. However, now that "laser-driven dimensioners" have been made it affordable to LTL carriers, the dim pricing idea has gained traction anew. "We need to simplify this process," says FedEx Freight CEO Bill Logue. "It's not going to happen overnight. Different customers will have different needs. It will be a long-term, dual type environment. It will take a long time."

Shippers, no doubt, will have a major say in this gravitation away from traditional class-rating system. Certainly the carriers will be better able to charge compensatory rates on lower classified, lightweight shipments. But the shipper will need to see value in this change, or else he or she will gravitate to one of the LTL carrier holdouts that can be counted on to buck the new system, experts said.

Already, UPS and FedEx are planning widespread use of dim pricing in their small package units, starting early next year. But whether that system can be expanded to the more staid LTL industry is an open question that even industry leaders have doubts. "The LTL industry is complicated because it's tied to class pricing system," Logue explained. "We use zone density based pricing that is very clear. A large portion of our business is small to medium customer that wears many different hats. Simplification is very important. They're used to it on parcel side." "There is a large customer base that could move to simplified process as you build it," Logue said. "Others could migrate to it. Whatever is right for that particular customer." Logue said FedEx Freight is already testing overhead dim machines in its regions to capture dimensions. In the short term, that information is being used to capture accurate dimensions of current shipments, and enables the carrier to make rate adjustments when it can. "But more important, it helps us build our costing models," Logue explained. "We have real data on that customer. That is the long term value. It makes us better at costing." Logue said FedEx Freight would "expand that capture rate as we see the value. I don't think we're there yet. As long as we're clear that dim machines work and are accurate, the data is what the data is. Overhead capture of dim is just another tool. It is not the end-all for dim pricing."

A major advantage for the customer, Logue explained, is in automation. He said the new dim pricing model is "ideal" for small and medium-sized customers already using FedEx Ground and Express for parcel deliveries. With this model, "There is no need for another LTL carrier," Logue said, explaining that FedEx Express, Ground and LTL services can be offered on one platform. "We're trying to make LTL experience as simple as the parcel experience," Logue concluded. He said more than 90 percent of FedEx Freight customers already are using other services offered by FedEx. "Bundling is one of our key values and one of the great successes to our growth," he said.

"If you can make a customer process more time effective and easier, customers will migrate to it," Logue predicted. "There are challenges. But if you can give an expedited solution that works, they'll migrate to it. The small and medium-sized customer is looking to reduce time and improve value. If you put it out there, it will be well received." Still, Logue conceded the LTL industry has "long way to go" in the dim pricing revolution, but added, "We're working hard to put the pieces together.

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