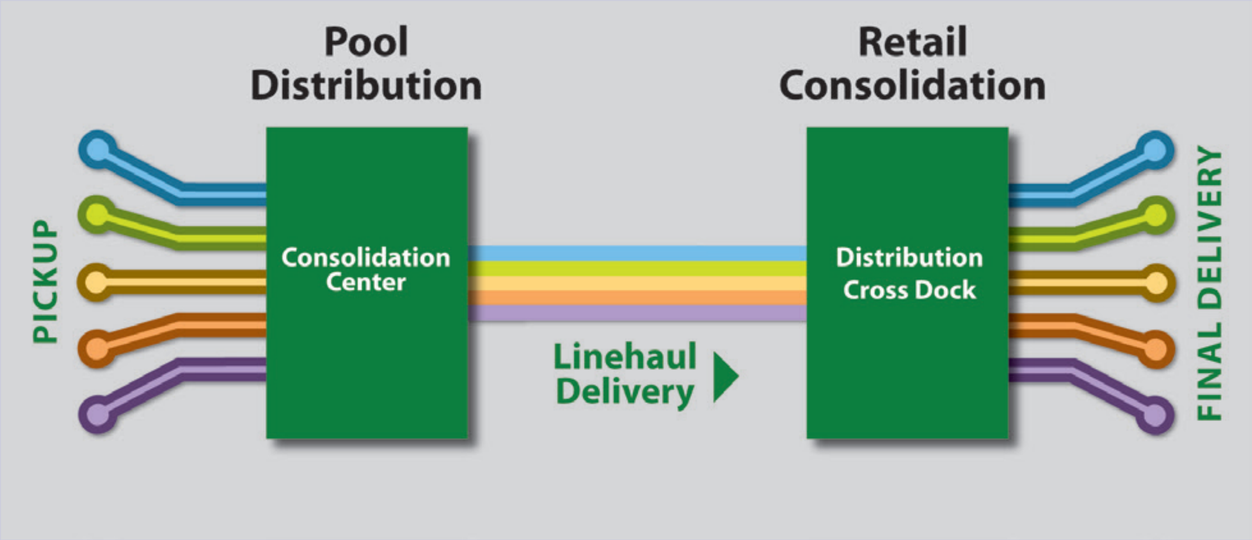
LTL Secrets Revealed

How Collaborative Freight Strategies are Creating Greener, Lower-Cost Alternatives to LTL



A KANE Viewpoint

You've been shipping via less-than-truckload (LTL) carriers for years. Yes, they're expensive, schedules are unpredictable and sometimes it's hard to make sense of the bills. But you're a smaller shipper, so the faster, more reliable service of a truckload (TL) carrier is out of reach because you can't fill a trailer, right?

Hold on, there is a less expensive and better way.

These days, even smaller shippers can avoid the drawbacks of LTL shipping. They do it by calling upon the matchmaking capabilities of a third party logistics provider (3PL) to build multi-vendor truckloads for both region-to-region and last mile distribution.

Let's explore some unflattering secrets of LTL freight and see how collaboration can dramatically reduce your freight costs, while also boosting your green cred.

What LTL Carriers *Don't* Want You To Know

1 **LTL costs more.**
You'll pay 25%–35% more than small shippers who collaborate on transportation. "LTL by its very nature is inefficient," says Kevin Smith, president of Sustainable Supply Chain Consulting in Windermere, FL. "When you consolidate multiple loads and use one vehicle to transport the product from one general location to another, you create a lot more efficiency."

2 **The price keeps going up.**
Your LTL rates are almost certain to rise 6%–10% every time you renew your contract. And smaller shippers lack bargaining clout when negotiating with large LTL carriers. "LTL carriers might not care as much about you if you're spend is small," says Chaiyong Thana, team leader, supply chain, in the Dallas office of the consultancy TranSystems. Truckload carriers – especially in populous markets such as the Northeast – compete a lot harder for loads. That keeps their rates at a steadier level year over year.

3 **Legacy costs inflate LTL rates.**
Many of the biggest LTL carriers have legacy cost burdens that they have to pay year after year. That forces them to have higher rates, and those rates become the norm for the whole LTL market. Smaller carriers that operate without these legacy costs simply put their prices a shade below the big guys' and enjoy the generous margins that result.

4 **You'll have trouble predicting and comparing costs.**
The price tag for an LTL shipment depends on the weight and dimensions of your freight, the pallet count, the freight classification and the origin and destination. Each carrier uses its own formula to crunch those numbers, and each sets certain weight thresholds for achieving volume discounts. So it's hard to know in advance what your shipment will cost, or to compare different carriers' tariffs. "LTL is not the most convenient transportation mode to audit or to trace how much you actually spend," says Thana.

5 **The rate they quote is rarely the final rate.**
Any service beyond basic delivery triggers an added accessorial charge. Maybe you need your freight loaded or unloaded. Maybe you need it delivered to a congested metro area. Or maybe your load demands special equipment. Some LTL carriers even charge extra to use their technology to monitor the status of your load.

6 **Shipments take longer than you'd expect.**
Freight sent via LTL could take twice as long to reach its destination compared to consolidated truckload freight. For example, a consolidated TL shipment from Pennsylvania to Arizona takes about three days, compared to six to ten days via LTL.

7 **You'll need to carry extra inventory.**
If you rely on LTL for inbound transportation, your freight won't always hit your dock when you need it. You'll have to carry several extra days' worth of buffer stock to make sure there's always enough inventory to meet demand.

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8 **Delivery windows may be jeopardized.** For outbound freight, longer LTL transit times and unpredictable schedules put you in danger of violating retail customers' service requirements. Missed delivery windows could result in chargebacks and may even sour your relationships with valued customers.

9 **Damage rates are higher.** An LTL shipment moving from the eastern U.S. to the west passes through as many as six trucking terminals. "Every time you handle something, you run the risk of damaging or losing it," says Smith. For instance, a load moving on a trailer that's only half filled might shift. A worker might leave a pallet behind on a dock or put it on the wrong truck. Someone might drop or crush a carton.

10 **LTL increases your carbon footprint.** When you and other companies in your region all send independent LTL shipments, that that puts excess trucks on the road. The result – congested highways and more greenhouse gases in the atmosphere.

The Alternative: Collaborate and Consolidate

Pool distribution and consolidated last mile transportation strategies give small- to medium-sized shippers the chance to combine smaller volumes into full truckloads. These strategies take advantage of the fact that 3PLs can combine shipments from several companies going to the same destinations. When a 3PL helps shippers collaborate, those companies gain the freight density they need to drive down costs. And they don't need to rely on LTL networks.

This simple "share the ride" concept, while nothing new, is surprisingly underutilized. But more and more small shippers are starting to realize that their lack of freight volume doesn't leave them without options.

Here's how these collaborative strategies work.

Pool Distribution

Let's say that several consumer packaged goods (CPG) companies need to get their products from the Northeast to the West Coast for final distribution. In the past, each company would make a separate deal with an LTL network. But with pool distribution, all of them can ship their product down the road to a regional 3PL consolidation center, where workers combine those loads onto a single truck. The companies may be shipping to different customers in different locations, but they can still share the cost of the longest leg of the journey. Once freight arrives in the destination region, pool distributors cross dock the consolidated load, sorting and segregating product to match the retail orders provided by the 3PL.

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A region-to-region shipment doesn't always go directly to a pool point. It may ship direct to a common customer of all companies on the truck, such as a Walmart distribution center (DC), or it may stop at a retail DC and then move to the pool point. The 3PL determines the route, based on order characteristics.

Retail Consolidation for Last Mile Delivery
Consolidation opportunities don't end with the linehaul delivery. Many CPG companies ship to the same regional DCs of Walmart, Target, CVS and other mass retail and grocery chains. A 3PL can use transportation management software to review pending retail orders, comparing ship-to points and requested arrival dates for different vendors. Based on this analysis, the 3PL loads one truck with multiple vendor orders for the same retailer. The retailer benefits by receiving the same volume of freight in fewer shipments. Shippers gain the economies of consolidation while still hitting all ship windows – and avoiding chargebacks!

While CPG shippers might battle for customer attention on the store shelf, their products don't compete in the back of a truck. Collaborating on a share-the-ride strategy lets "passengers" split the freight costs, paying as much as 35% less than non-consolidated shipments.

Think airport shuttle. Why cab it when you can hop in a van and share the ride with five of your neighbors who are all headed to the same place?

Some 3PLs, such as Kane Is Able, combine pool distribution and retail consolidation programs to provide an easy, lower cost solution for national distribution. The 3PL maintains relationships with pool distribution partners in each region of the country, with tight system-to-system integration.

When You Switch from LTL, Here's What You Gain:

Lower costs: Paying a portion of the price of a consolidated TL shipment costs much less than paying full price for LTL transportation. With pool distribution, combined with consolidated last mile delivery, your load travels most of the way via the more economical mode.

Candy Company Saves Money, Cuts Lead Time

A manufacturer known for its candy, chewing gum and collectible trading cards uses a pool distribution program to move product from Pennsylvania to customers across the U.S. Each month, hundreds of TL trailers carry its products, along with freight from several other candy manufacturers, to pool points across the nation. There, workers break the bulk shipments into individual orders for local delivery.

The first year this company used the pool distribution program rather than LTL, it reduced freight costs dramatically. The company also improved lead time by 20%, lowered handling rates, and reduced chargebacks.

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Predictable costs: Compared with LTL carriers, TL haulers are far less likely to slap you with significant rate hikes from one year to the next. Competition for freight moving out of densely-populated markets is just too fierce. Carriers that want to capture that business keep their rates flat.

Rates you can understand: Instead of using complex algorithms to determine how much they'll charge to carry a given load, TL carriers base their rates simply on miles traveled and the weight of the load. Whether you're shipping paper clips or huge end cap displays, it's easy to figure out what you'll pay – even if your load is an odd shape or takes up lots of space on the trailer.

Access to advanced technology: Many LTL carriers can update you on the status of your load via electronic data interchange (EDI) or a similar technology. But if you don't ship enough volume, the carrier might charge you extra to access that information. When you collaborate with other companies via a 3PL you gain direct access to track and trace information through that 3PL's online portal.

Reduced inventory carrying costs: Regional consolidation puts your freight on linehaul trucks that move your goods around the country on a regular schedule, without passing through multiple terminals. There's no need to hold product until you accumulate enough to fill a trailer. If you need it, you can get TL service several times a week. Reducing days in transit and increasing the reliability of your distribution network allows you to significantly reduce your inventory.

Less risk of loss, error or damage: The longer a load stays on the same truck, the greater the chance it will reach the consignee correctly, on time and intact.

Happier customers: Because pool distribution and retail consolidation offer faster, more reliable service, with less risk of damage or error, you'll find it easier to meet customers' service demands. So you'll incur fewer chargebacks and gain the good will that leads to more business.

Consolidated Loads Realize 62% Cost Improvement

A leading snack manufacturer uses a retail consolidation program to ship raisins and other dried fruits to customers in New England and Mid-Atlantic states. The company's Northeast distribution partner, 3PL provider Kane Is Able, also serves other CPG manufacturers that share the same retail customers. As a result, this snack company's orders can ship in the same trailer with candy, condiments and other grocery items.

According to the company's vice president of supply chain services "When we compared those consolidated shipments with our LTL moves, we found that the collaborative approach reduced the company's cost per hundredweight (CWT) by 62%."

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3PL Matchmaker Role Delivers Big Savings

The costliest miles for a truck are the first 50 and the last 50. LTL is expensive because it involves multiple first and last mile sequences – as many as six. Consolidation strategies combine freight from multiple 3PL customers to create direct, lower-cost truckload shipments.

Some large companies with deep pockets operate pool distribution and retail consolidation programs of their own. But small- to medium-sized shippers can use 3PLs to achieve similar results. Look for a provider that not only has experience implementing collaborative freight strategies, but one that serves plenty of companies with products and retail customers similar to your own. That's the partner that will offer you the most opportunities to collaborate and save. A 3PL with the right expertise, infrastructure and optimization technology can help you dramatically reduce freight costs and improve your service to customers, while avoiding the problems posed by LTL.

About KANE

KANE helps consumer product companies get retail goods to market efficiently and effectively. We operate in every region of the U.S. and our logistics services include transportation, distribution, packaging, cross-docking, retail consolidation, and people logistics.

Looking for ideas to make your retail supply chain work better?

LET'S TALK

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