



## The Case for a Re-Indexed LTL Benchmark Pricing System

An SMC<sup>3</sup> White Paper, December 2015

# CzarLite<sup>®</sup>XL

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## What is a benchmark?

For a transportation purchaser, it is immensely easier and more accurate to measure competitive pricing from a common rating point.

In a data-driven world, all companies need to be motivated by numbers. Effective metrics are essential to competitive success. Benchmarking ensures that companies are aligned with changes in the marketplace that may impact profitability.

Benchmarking best practices are a business cornerstone of effective metrics-based organizations—no matter what the strategic, operational or financial goals. These best practices rely on a combination of systematically updated information that serves as a stable metric for making informed decisions. The keys are analysis of information collected and distributed independent of external influence and widespread usage so that the industry has a common, understood language. In a nutshell, within the world of LTL, the benchmarking process serves as common ground for pricing negotiations.

## The Call for Another LTL Rating Option

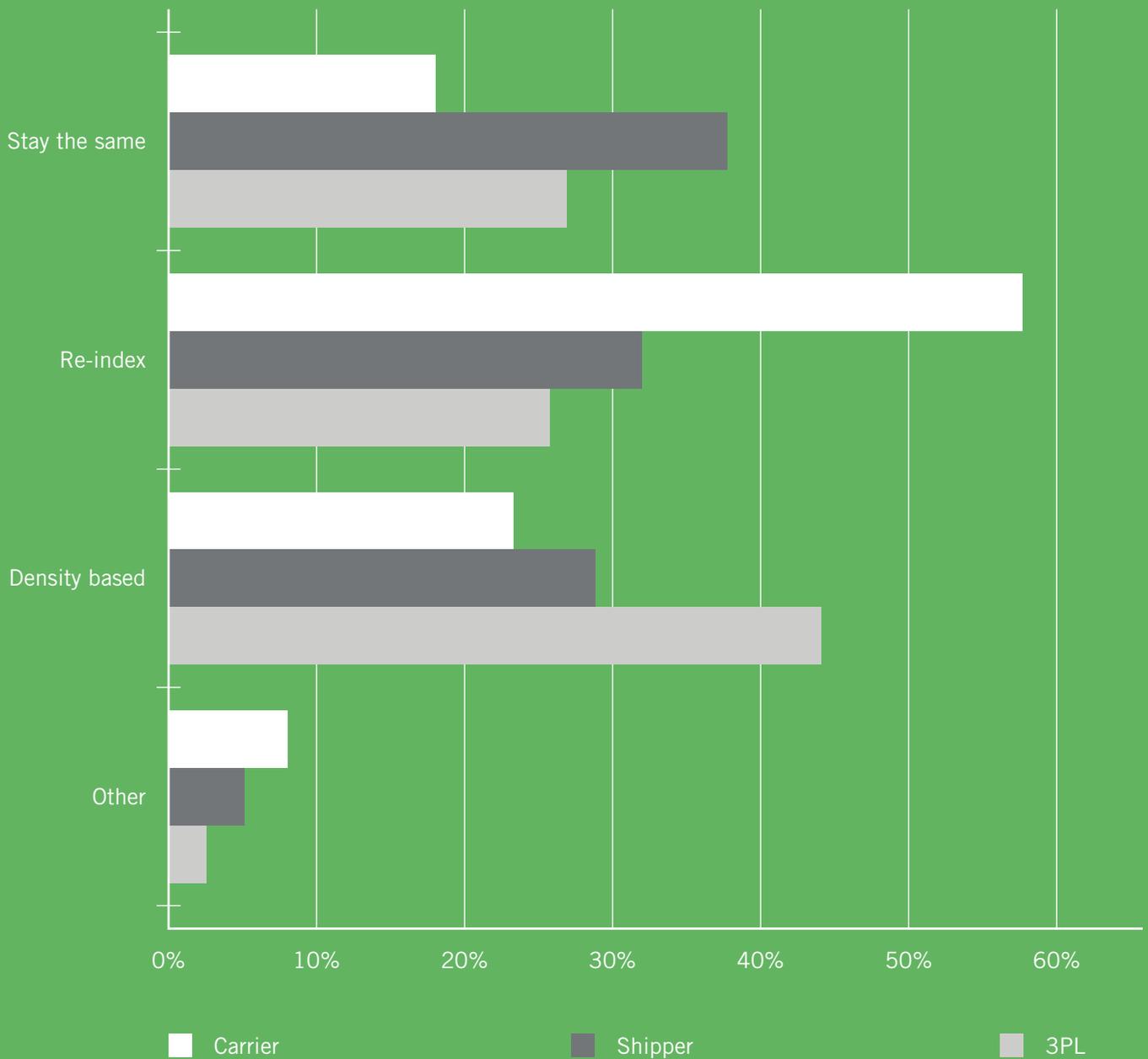
Less-than-truckload transportation in today's world is significantly different than it was even 10 years ago. As the United States economy has shifted from one based on manufacturing to centering more on services, population centers have shifted, changing the domestic flow of freight. Some manufacturing has moved from the high-cost areas of the northern states to the southeastern region. Offshore manufacturing has increased container traffic through West Coast and East Coast ports, creating a national network of distribution centers for major retailers. This freight-flow shift and a host of other factors have changed the LTL landscape.

LTL is extremely vital to the supply chain, but the shipment-rating process is awash in complexity; pricing out freight shipments that don't fill an entire trailer is inherently challenging. Freight that takes up less space than an entire truckload is most often rated using a classification metric—in a sense, providing shipments with a generalized price point based on the type of good shipped. Over time, shippers and carriers have negotiated massive discounts on top of these class-based rates, sometimes arranging discounts that reach 85 percent or more; other discounts are extremely complex and pin-point specific down to the fifth decimal place.

To make all of this a bit easier to digest, carriers, shippers and third-party logistics companies have developed discount structures; these include freight-all-kinds agreements, which allow shippers to send all of their freight under one agreed-upon class. This takes the classification guesswork out of moving freight around the country, but also creates added complexity because numerous classification ratings for each shipment have been turned into a single generalization that doesn't account for the actual costs of doing business.

One way shippers and logistics service providers should begin carrier rate negotiations is with a neutral tariff that has been re-indexed to reflect modern market conditions. This tariff, which approximates the market price of shipping, differs from carrier and shipper tariffs because it is unbiased and not skewed toward any company's transportation network. Shippers who currently use SMC<sup>3</sup>'s neutral CzarLite® base rate, and who have agreements with multiple carriers in place, might not see the need to re-index; it works for them, so they don't want to change it.

However, some in the marketplace have been demanding a re-indexed rate. In a re-indexed rate, the numbers change, but their relationship relatively stays the same. For example, a shipper or logistics service provider using base rate "A" has a contractual discount of 85.76 percent off the rate – implying that the rate is artificially high. It also may complicate how the base rate is implemented into the shipper's or LSP's transportation management system. Many shippers use TMS programs that aren't capable of calculating discounts on such a minute scale.



**Figure 1:** In the Auburn University and SMC<sup>3</sup> study, “Synergic Pricing in the LTL Industry,” industry stakeholders were presented with the options to create a re-indexed base rate, shift over to a rating system based on the density of goods shipped, stay the course, or develop an alternative.

Utilizing a benchmark base rate that has been thoroughly analyzed and re-indexed to more accurately reflect current economic factors and freight flows will end the need for steep discounting. CzarLite XL is all about reducing complexity.

## Deep-Seated Complexity

With the passage of the Motor Carrier Act of 1935, truckers suddenly needed a standard way to price their services. Classification rates that mirrored railroad classification metrics were introduced on April 1, 1936, soon evolving into the National Motor Freight Classification system. In the early 1980s, the NMFC established the density of freight, stowage, handling and liability costs as the primary factor of its classification ratings.

But since the start, it has been frustrating to get a handle on the classification system without proper immersion in the world of LTL rating. In the 2013 update to the Auburn University and SMC<sup>3</sup> study “Synergic Pricing in the LTL Industry,” nearly 75 percent of 3PLs surveyed stressed that LTL classification can only be mastered with the proper education. On the issue of re-indexing the current base rate, nearly one third of the marketplace is primed for a change, the 3PLs said. If a number of LTL experts are calling for more rating options, it’s clear that the industry needs a new tool.

Research shows that shippers and 3PLs are split on the need for a re-indexed rate (see **Figure 1**). In the Auburn study, some shippers and 3PLs said they have become frustrated with the rampant discounting of current LTL rates and the complexity of the freight-buying process. These customers are looking for an alternative to the current system.

Half of all shippers surveyed said the current rating structure is understandable with correct training, while shippers were split 50-50 on the need to re-index the base rate. This data points to an LTL rating world in need of more choices. Some shippers and third-party logistics providers are fine with the status quo, but the call for more options shows that the LTL rating world is in transition.

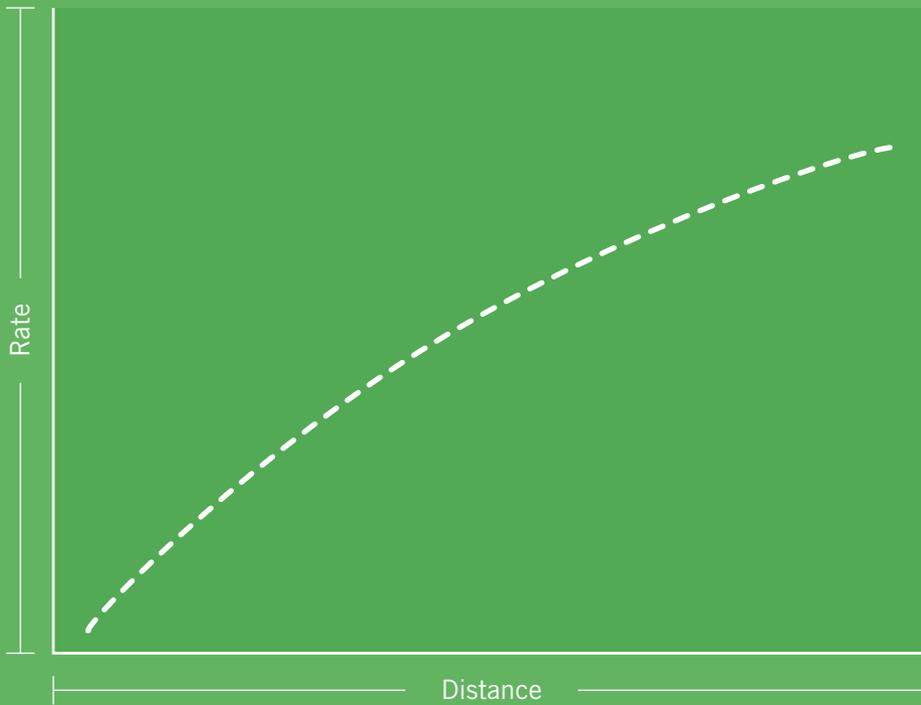
In the current market, carriers and shippers have been negotiating discounts off the base rate back and forth for decades, leading to discount percentages that span multiple decimal places. Some shippers and 3PLs use transportation management systems that can’t handle discounts winnowed down multiple decimal places. CzarLite is the industry-standard base rate and is widely used by shippers and 3PLs as a reliable, neutral rating tool, but a stakeholder with a limited TMS needs a new option. An unbiased, re-indexed base rate would solve these issues.

Adding to the discounting complexity, industry stakeholders have seen a transformation in how and where freight moves. To account for regional economic changes and a shift in directional headhaul and backhaul volumes, carriers have adjusted their pricing, leading to regional disparities. An updated base rate would allow shippers that have seen significant rating shifts to accurately plan for the cost of freight in today’s market.

Shippers currently use rating tools for benchmarking and comparing carrier rates against an industry standard. By using a neutral, reliable base metric, 3PLs and other stakeholders can see the true market-level pricing of moving freight. Carriers provide rates based on their individual transportation networks, publishing rates that balance their headhaul and backhaul lanes and account for terminal locations and operational characteristics. By using only these rates, shippers are reading a story of the LTL market from the carriers’ perspective.

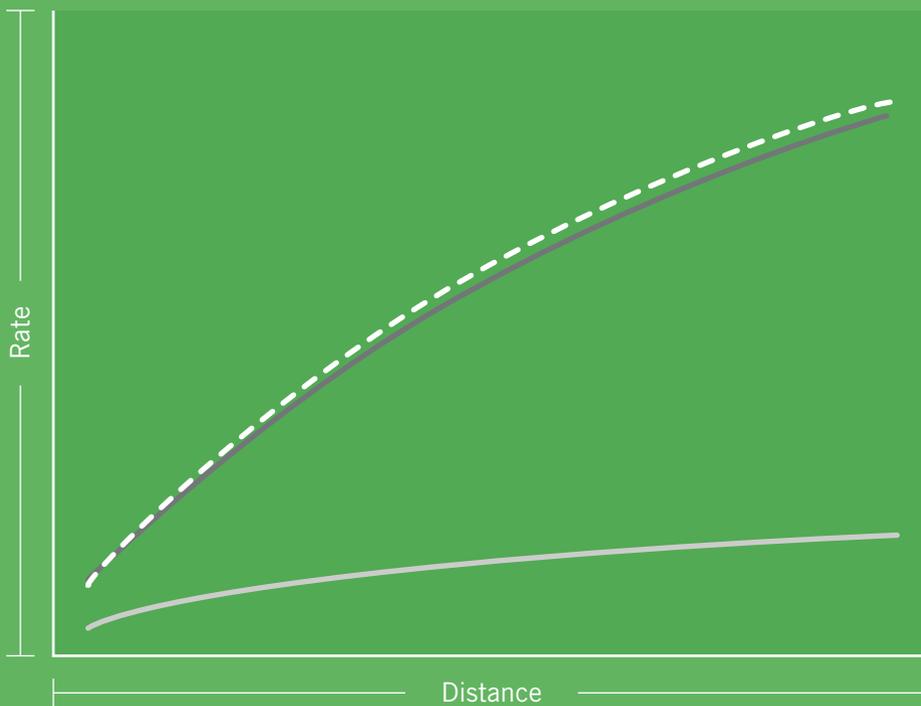
“There’s no doubt that the base rates need resetting. ... It’s getting ridiculous.”

— Response from Auburn University Study Update, 2013



--- CzarLite® XL

**Figure 2:** As a highly researched and analyzed benchmark pricing system, CzarLite XL smooths out LTL rates over mileage segments to reflect today's geographical economic factors; national, intra-regional and regional freight flow; and ZIP code arbitraries.



--- CzarLite® XL    — Market Model    — CzarLite® XL before re-index

**Figure 3:** Re-indexing of CzarLite XL rates resulted in a smooth, consistent pricing relationship across short haul, intermediate haul and long haul lanes. The rates changed, but their relationship remained the same.

Shippers looking for different options know these market changes need to be reflected in any reliable, neutral benchmark. SMC<sup>3</sup> research shows that the vast majority of an LTL carrier's customers use non-carrier price lists as a base upon which to measure and negotiate better rates. CzarLite is the most popular neutral tariff for benchmarking, but for shippers who are searching for a re-indexed base rate, CzarLite XL is here to answer the call.

## Re-Indexing Analysis

SMC<sup>3</sup> knows LTL rating. The company's experts have studied the complexities of rating freight for decades, and this vast cache of experience has made the company the true leader in LTL pricing solutions. Through its unique industry positioning, SMC<sup>3</sup> has analyzed an unprecedented amount of carrier data, as well as conducted a thorough examination of the marketplace, to create a tool that benefits the entire industry. SMC<sup>3</sup> knows the path forward.

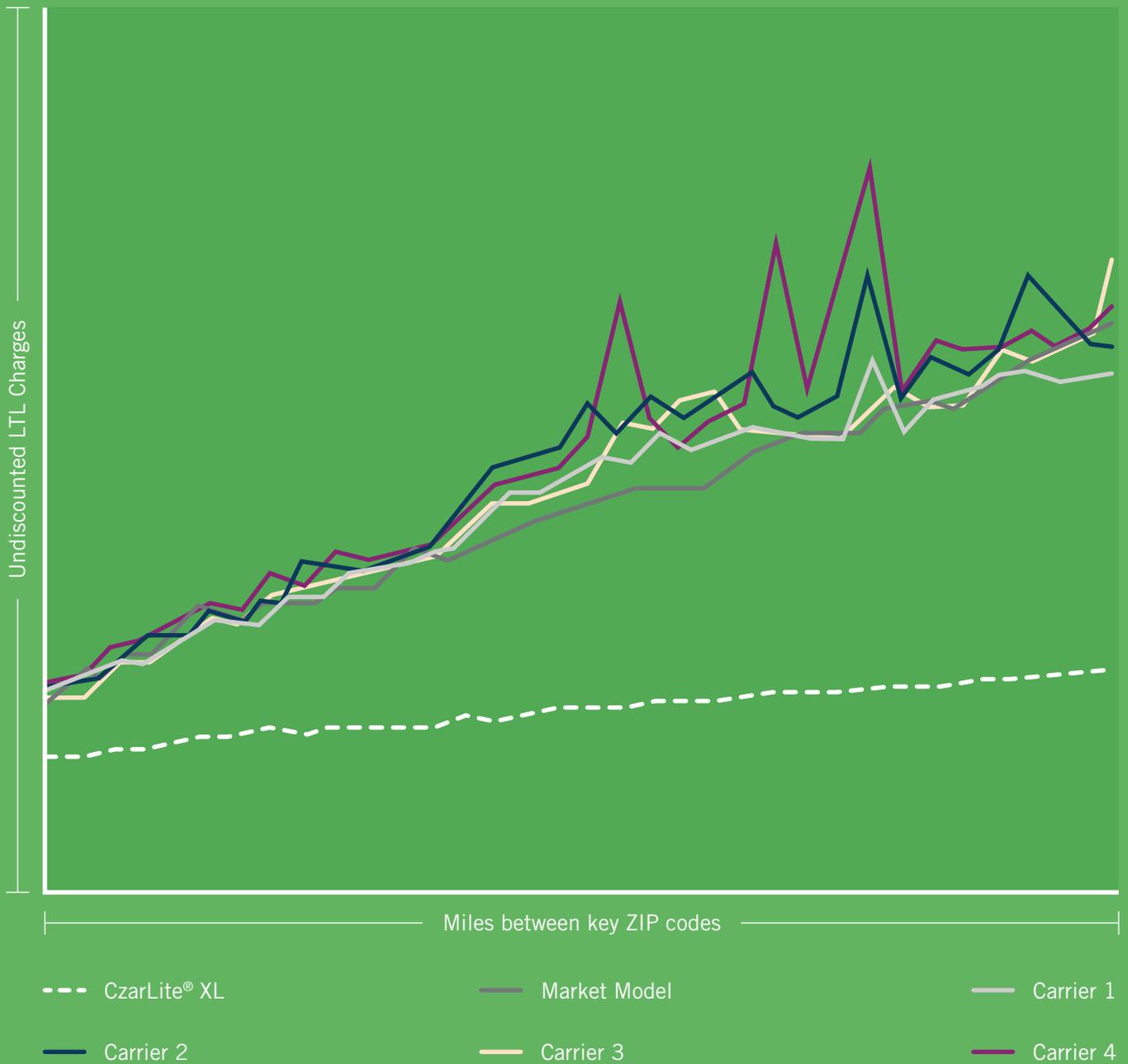
To create CzarLite XL, SMC<sup>3</sup> data scientists undertook an extraordinary analysis of 116.8 million freight bills from 33 of the largest LTL carriers to produce a holistic look at the LTL market that encompassed more than 34 million unique five-digit ZIP code combinations. This data, which spanned the entire calendar year of 2013 to account for seasonality and freight-cycle shifts, was compiled in a blind study.

Over a period of 16 months, using the SMC<sup>3</sup> comprehensive library of carrier rates, these bills were rerated at the current market level. Discounts were not considered in these rerates. Traffic lanes and economic regions were then isolated based on ZIP codes. The rerated traffic for those areas was then summarized and smoothed by the use of mathematical formulas that mapped the graphical line of market rates that best fit the underlying traffic flow data, creating a market model. The model also provides an updated, fresh look at how LTL rates trend as distance increases (see **Figure 2**).

This amount of data lets SMC<sup>3</sup> take a very detailed, specific look at freight flows across the United States. Large states, like California and Texas, have more complex rating needs; the rating ecosystems in these states are defined by their immense size and unique flow of goods. In the end, SMC<sup>3</sup> created a market model based on a thorough understanding of the LTL pricing market, current freight flows and how they impacted specific areas, and overall economic factors. This model provided an updated, fresh look at how LTL rates trended as distance increased.

This market model is the heart of CzarLite XL, and the new benchmark base rate was created to reflect the marketplace. Upon a blind study of net charges, the company re-indexed the market model, shrinking down the numbers involved in order to reduce the level of discounting required. This adjustment allows shippers to minimize their negotiated discounts while still paying relatively the same net rate (see **Figure 3**). At the same time, they get a clearer understanding of how the pricing system relates to modern economic factors and the LTL pricing market. The entire process is repeatable, so SMC<sup>3</sup> can periodically examine market freight flows, economic changes and carrier pricing, and adjust as needed.

SMC<sup>3</sup> data scientists have also identified 139 high-cost areas—such as the Outer Banks of North Carolina or Bainbridge Island, Washington—that require additional charges. These additions will lead to less volatile pricing between geographies. To further reduce complexity, SMC<sup>3</sup> has limited the number of



**Figure 4:** Four individual carriers' pricing for the same LTL shipment traveling from and to the same origin and destination fluctuates widely. With CzarLite XL as the benchmark rate, the volatility is resolved, and rating becomes much simpler and easier to understand.

minimum charges in CzarLite XL to one per shipment. This makes CzarLite XL stand out in a marketplace where tariffs can have up to nine minimum charges—far too many for most TMS systems to handle.

## What About Density?

While the debate between classification and density rating intensifies, with parties on either side clamoring to declare a rating standard, pricing tools that incorporate both pure density rating and the traditional classification system give the marketplace more choices.

There is no silver-bullet rating methodology, and results from the Auburn University study reinforce this sentiment. About half of all 3PLs surveyed think the industry is ready for a new rating system based on density, and half of the shippers surveyed also think there is demand in the marketplace for density rating. It's clear from these results that density and classification rating will likely co-exist for the foreseeable future, so LTL stakeholders should embrace both approaches.

With CzarLite XL, shippers now have an option to work in classification or density to find the best pricing for their freight.

## To the Future

The evolution of pricing morphed the LTL industry from a structured and highly regulated system to one that encompasses many of the free market concepts economists embrace. Individual carrier rates, percentage discounts, FAK agreements, net rates, spot quotes and other transportation pricing options make it difficult to determine the best price for any particular transportation service. For a transportation purchaser, it is immensely easier and more accurate to measure competitive pricing from a common point, baseline or benchmark of rates. The alternative is just too confusing and volatile (see **Figure 4**).

CzarLite XL gives customers a more streamlined rating experience. Whether utilizing the classification or density rating system, shipping out 500 pounds or 8,000 pounds of freight, CzarLite XL optimizes the rate implementation process and reduces rate negotiation complexity for all involved.

Shippers and third-party logistics providers asked for another base rate option, and SMC<sup>3</sup> has answered the call with the most sophisticated, neutral pricing system on the market. CzarLite XL is a re-calibrated rate base that brings pricing in line with current market trends. Shippers benefit from a benchmark that better reflects the current transportation world. Carriers and their customers will no longer have to debate over multi-decimal point discounts, minimum charge applications and high-cost areas, streamlining the entire LTL buying process. CzarLite XL takes the complicated equations behind LTL pricing and makes rating easier to understand.

CzarLite XL is a must for shippers and third-party logistics providers seeking to operate efficiently and effectively as the less-than-truckload market continues to evolve.

SMC<sup>3</sup> data scientists are the industry leaders in LTL pricing design and formularization. They are committed to following supply chain trends, updating SMC<sup>3</sup>'s tools and adapting to customer demand. Instead of perpetuating the current upward trend in discounts, SMC<sup>3</sup>, as an industry leader, has taken a bold step forward. Discounting, which started at very low numbers, has



escalated over the years. This may not seem to be a big concern. However, as discounts become higher, this causes system problems and programming expense for the shipper and the carrier in their enterprise systems.

SMC<sup>3</sup> is a neutral party, and it strives to create a truly unbiased rate base that serves all members of the supply chain. To leverage LTL as a strategic component of freight transportation requires the right data, technology and experience. With SMC<sup>3</sup>, data is backed by exceptional customer service and an unrivaled base of knowledge built up over the company's 80 years in the industry. Choosing SMC<sup>3</sup> as a rate-base provider is the intelligent choice.

## Simplifying Shipping Options

LTL is an industry that provides approximately \$32 billion annually in transportation services, yet it has been saddled with the most intricate rating system of all the freight movement modes. Because of its relative complexity, it's easy for a shipper to end up paying more for LTL moves. Armed with CzarLite XL, in concert with SMC<sup>3</sup>'s RateWare<sup>®</sup> XL product, shippers can ensure they are maximizing the effectiveness of this often overlooked segment.

SMC<sup>3</sup> is dedicated to decoding the dense language of LTL rating. It's possible to perform in the LTL arena without SMC<sup>3</sup>, but savvy customers know working with SMC<sup>3</sup> allows them to access the most reliable, up-to-date rating and transit time data.

## SMC<sup>3</sup>'s Family of Products

Shippers and logistics service providers can get even more value from CzarLite and CzarLite XL when using the tools with SMC<sup>3</sup>'s companion products. RateWare XL integrates seamlessly with the CzarLite base rating systems to provide customers with completely accurate and timely rating calculations. BidSense<sup>®</sup> allows shippers and 3PLs to optimize the bid process by selecting the best carrier for the job every single time. Using CzarLite as a base rate leads to true "apples to apples" bid comparisons from carriers. With CarrierConnect<sup>®</sup> XL, customers can quickly and easily find transit time and point-to-point data for more than 300 LTL carriers.

## About SMC<sup>3</sup>

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Founded in 1935, SMC<sup>3</sup> is devoted to consistently raising the level of knowledge, collaboration and technological capability in the freight transportation marketplace. We achieve this by using our internal expertise and industry connectivity to provide the best data, content, technology and educational services to our members, customers and associates. Our deep-seated core values of integrity, consistency, thought leadership and operational excellence support this mission and provide a foundation for our unique portfolio of industry solutions. Shippers, carriers and logistics service providers look to SMC<sup>3</sup> for the technology, industry data, educational services and general knowhow they need to achieve greater success in the transportation marketplace.



[www.smc3.com](http://www.smc3.com)