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## Who's the Best LTL Carrier of All?

By: Kevin Smith - Supply Chain Analyst, Optimum-SCO



That was a trick question; there is no single LTL carrier that will fit all of your needs.

The world of trucking seems simple. You pay someone to pick up your stuff and take it somewhere else. Even the breakdown of trucking services is relatively easy to grasp with brokers and intermediaries who can help you choose the right service. With so many factors affecting price and service, how can you determine which carrier is the best for your needs, strategies, and costs?

A common trade-off you hear in the Logistics industry is cost vs. service. For example, from a service perspective, a national carrier like FedEx has the capacity to service the whole country based on zone pricing; but on average, at a higher cost. Then you ask yourself, if I'm consistently sending a majority of my product to certain areas, could I optimize costs with regional LTL carriers? Would those regional carriers be able to provide the same level of service as a national carrier?

Another consideration is the value of providing top-notch customer service quickly. If you knew that a mixture of regional carriers could serve all of your customer segments within 3 days and for 20% lower costs, and a national carrier could serve that same segment one day faster, what would you do? What factors are most critical to you and your business? This is where the dilemma and complexity starts.

As you look to optimize your costs and negotiate services with multiple companies, you'll notice that the "perfect mix" of costs and services never falls within one carrier. In actuality, you should be looking for the perfect mix of carriers to serve your varied business needs. This may take more legwork to manage and maintain contracts to stay proactive, but the ROI and customer satisfaction will speak volumes in the end.

Let's examine the advantages and disadvantages of regional and national carriers.

### **National:**

**Pros:** Because of their size, national carriers have the ability to scale efficiently with your business. This leads to higher level and consistency of service; they can handle all shipment types, and provide discounts based on company variables such as revenue and volume. Lastly, they typically provide more online tools to manage your accounts proactively and efficiently. This is the simplest solution for all stakeholders within your organization.

**Cons:** Because of their breadth of services and national footprint, you will typically incur higher costs and more limited bargaining power. National carriers' pricing structure has more of a linear

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cost increase as you climb zones and weight. Distribution analyses are paramount to have on hand when negotiating with national carriers.

## Regional:

**Pros:** Because there are so many regional providers out there, you'll enjoy lower costs and higher bargaining power. You also have the ability to collect multiple bids as part of the RFP process, which keeps you in the driver's seat as long as you are prepared with data to back up your negotiation inputs.

**Cons:** Your trade off here is in the reduction of service, visibility, and scalability of "in-service" vs. "out-of-service" areas. The latter is very important to consider because of interlining, which is explained in the next section. Lastly, managing regional carriers requires more administration.

## The Driving Factors of Transportation Costs:

- **Minimums** – A flat fee (AMC)
- **Distance** – The longer the haul, the higher price per-hundredweight\*
- **Freight Class** – There are 18 different classes ranging from 50 to 500\*\*
- **FAK** – Consolidates moving products with different freight classes to be negotiated to one class.
- **Base Rates** – Every LTL carrier establishes their own rates. They're quoted in \$ per 100 pounds\*\*\*
- **Weight** – Volume discounts occur every hundred pounds.
- **Pallet Rates** - Flat rate per pallet from point to point regardless of weight or class.
- **Accessorials** – Extra services performed by the carrier in addition to typical delivery structures\*\*\*\*

\*Many LTL carriers only serve a specific geographic region so you must factor in how many zip codes this carrier serves directly. If a shipment is sent to a location outside a carrier's normal service area, the carrier will transfer the shipment to another LTL carrier for final delivery. This is called *interlining*, which typically means longer transit times, higher costs, and minimums.

\*\*Calculation is based on density, stowability, handling and liability.

\*\*\*These will differ from lane to lane as well, and should be considered in negotiations.

\*\*\*\*Fuel is typically the most common. Other examples are lift gate service and residential deliveries.



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**The Magic Quadrant of Trade Offs:**

With the above drivers of cost in the logistics industry, how can you analyze the trade offs with confidence? Let's visually display some of the variables discussed to help our eyes out.

		Ability to Deal with Complexity	
		Low	High
Cost	High	NATIONAL	MULTIPLE REGIONALS
	Low	A FEW REGIONALS	MULTIPLE REGIONALS

		Transit Time	
		Short	Long
Cost	High	NATIONAL	MIXTURE OF ALL*
	Low	MIXTURE OF ALL*	MULTIPLE REGIONALS

		Variability of Destination and Order Size	
		Low	High
Ability to Deal with Complexity	High	MULTIPLE REGIONALS	MIXTURE OF ALL*
	Low	MIXTURE OF ALL*	NATIONAL

\*\*"Mixture of All" depends on a case-by-case basis where Origins, Destinations and Service Areas will affect the cost and service levels.

**Summary:**

Considering the above, you still have to somehow choose the best option(s) for the physical distribution component of your firm's customer service channel. There are software packages, 3PL's, consultants and many other options out there that can help guide you. But the beginning premise still holds true through this entire discussion: there is almost never one LTL carrier that fits every need; you can only find your perfect mix through organized analyses and savvy negotiations to best fit your company's strategic goals.

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## The Optimum Team



### **Kelan Raph – Chief Consultant**

Kelan has provided global logistics & transportation solutions to the world's leading manufacturers, distributors, and retailers. With over two decades of hands-on international logistics & transportation experience, he is able to create and implement supply chain efficiencies that get bottom line results. He loves the problem solving that goes into his practice and truly enjoys building solutions customized to his client's business strategy.



### **John Mandel – Senior Consultant**

John has nearly 20 years of experience in directing and sustaining organizational performance that drives productivity & bottom-line profit improvement in logistics, transportation, & warehouse operations. He has managed all aspects of an organization's financial and operational processes to drive best-in-class supply chain practices vital to optimizing performance, productivity, and cost containment.



### **Arun Rao – Technology Consultant**

Arun is an entrepreneur with over 20 years of experience in supply chain & enterprise software. He has worked for several successful venture-backed startups as well as large multinational companies where he managed multi-million dollar projects, implemented complex & innovative solutions, & built cross-functional, geographically diverse teams. Arun is an avid hiker, likes reading fiction, the occasional game of chess and traveling.

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**Wenting Pan – Senior Supply Chain Analyst**

Wenting received her Ph.D in Operations and Decision Technologies from the University of California, Irvine. She is currently an Assistant Professor in Operations and Quantitative Methods at Saint Mary's College and her research interests includes managing supply chain uncertainty, sourcing strategies, game theory, supply chain management, operations research, and decision analysis.



**Janel Alimboyoguen – Project Manager**

Janel is a graduate of Santa Clara University with an Accounting & Information Systems degree. She is versed in marketing, accounting, and business administration. She has had previous experience with C-level support and financial project management. She is passionate about bringing Lean concepts to all aspects of business operations. She is deeply involved with the community through the Rotaract Club of Silicon Valley, a group of young professionals dedicated to community service.



**Kevin Smith – Supply Chain Analyst**

Kevin is an Economics graduate from UC Berkeley. He is currently working towards his Masters in Global Supply Chain Management with USC. Between undergraduate & graduate school, he worked with Apple as an Operations Manager. His constant desire to improve the status quo and ask questions works in his favor as Optimum's resident data analyst. Kevin is passionate about educating people about the importance of operations & optimization.



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**Peter Bui – Operations Analyst**

With his excellent interpersonal skills, Peter is Optimum's first point of contact with new & potential clients. He has had previous operations experience with a major retailer and distribution centers. He has also assisted in change management efforts for various companies. He is passionate about creating operations that run smoothly and is deeply involved in optimizing supply chains with Optimum.



**Pedro Nguyen – Operations Analyst**

Based upon a background in business management, Pedro provides Optimum and its clients with keen insight and skills in operational management. His skills are valuably applicable to the processes of the supply chain industry - purchasing, inventory management, logistics, and integrated business process management. His experience in creating SOPs helps set businesses up for success.