

April 14th 2011

**WEARING APPAREL
SHIPPERS BEWARE!**



It took a while, but the effects are now being felt throughout the country by shippers of all types of wearing apparel. What are we talking about; the tremendous increase in freight rates that went into effect on, (believe it or not), Christmas Day, 2010! Many wearing apparel shippers were caught by surprise and many are still unaware that these increases have taken effect. Others will retort that their carriers did not implement any rate increases, so how is it possible for their rates to go up.

The answer is the LTL motor carriers changed how wearing apparel is classified in the National Motor Freight Classification, that's why. These new freight classification ratings have a direct and immediate impact on the freight rates wearing apparel shippers will be paying now and into the future.

Prior to December 25TH the classification ratings for wearing apparel were broken down into three broad categories:

1. Shipments of garments hanging on hangers or racks, in boxes – Class 175
2. Shipments not on hangers, with a density of less than

- 12 pounds per cubic foot, or where the actual value exceeded \$13.30 per pound – Class 100
3. Shipments not on hangers where the density exceeded 12 pounds per cubic foot and where the actual value did not exceed \$13.30 per pound – Class 77.5

To put this into layman's terms, Class 100 represents "First Class". Let's assume that the class 100 rate from point A to point B for a 500 pound shipment is \$10.00 per 100 pounds, which is how LTL rates are structured. The class 175 rate would produce a charge of approximately \$17.50 per 100 pounds, and the class 77.5 rating would equate to a net rate of approximately \$7.75 per 100 pounds. Got that? Pretty simple!

However, on Christmas Day, 2010, the National Motor Freight Traffic Association changed the classification ratings for wearing apparel to a strictly density based item. Meaning regardless of how the goods are packaged, and their actual value, the product's density, (pounds per cubic foot) now dictates what a wearing apparel shipper will pay for freight. There is no good news in this change for wearing apparel shippers nor for their retail customers, if they are paying the freight charges. Depending on the density of the products being shipped, rates have gone up significantly as the following examples indicate.

- For those wearing apparel shippers whose products have a density of 2 to 4 pounds per cubic feet, their classification rating will now be class 250. In the example above, this would equate to an increase of 150% over the former ratings. The rate per 100 pounds would now be \$25.00 per 100 pounds, instead of the former \$10.00 per 100 pounds.
- If the product being shipped has a density of 1-2 pounds per cubic foot, the classification is now class 400. Again using our example of the first class rate above, the cost would now be \$40.00, instead of \$10.00 per 100 pounds.

Add to this the current rising fuel costs which have increased Fuel Surcharges for all LTL carriers and you can see why the wearing apparel shippers are in big trouble, unless of course they take action to correct the situation. But how can they change the density of their products. Sure, they could put rocks in the boxes to improve the density and pounds per cubic foot ratio, but that would be impractical, and illegal. We know of at least one shipper that artificially increased the weight of their shipments to make the density look greater than it actually was. But to their surprise, the carrier re-weighed all of their shipments and issued balance due freight bills to collect the proper charges based on the actual density of the shipments. LTL freight carriers have very comprehensive weighing and inspection programs to protect their revenue yields and shippers will see more activity of this type, even from smaller carriers in the future.

Another extremely interesting fact is that the major LTL carriers have for quite some time been looking into a new classification rating system that would primarily be based on density. So guess what, shippers of all other products.....you're next! More and more products are now classified based solely on density and more will be in the very near future. Look for this change to take effect real soon by some of the major LTL carriers.

So what's a shipper to do? There is a solution and that is the negotiation of Freight All Kinds (FAK) Ratings with the LTL motor carriers. This process involves grouping different classes of products into specific groups and using a single, or multiple tiered FAK rating for a company's products. In order to ensure that a shipper does not shoot itself in the foot, an analysis must be done to assess the density and classification of all of the products a company ships. Based on the results of this analysis a shipper can then request that their LTL carrier provide FAK ratings that best suit the company's shipping characteristics.

In addition, shippers should look at how they package products and make sure that the packages they use are "right sized" for the products being shipped to attain the best pounds per cubic foot ratio. Inner packing material should also be looked at to see if improvements to density can be accomplished with different inner packaging materials.

Controlling transportation costs must be one of the top priorities for all companies, especially in this economy. Yet this function is often left up to individuals that do not have a complete knowledge of freight rates and how they are structured. Many shippers rely on the status quo assuming that everything will remain the same.....It won't. The reality is that if you don't have the expertise in a specific area of your business you should seek advice from industry experts that do have the knowledge and can provide their expertise usually at a fraction of the cost to obtain the expertise internally.

Anyone interested in finding out more about how to negotiate Freight All Kinds Ratings and other options to keep freight costs under control are urged to contact Tony Nuzio, President of ICC Logistics Services, Inc at 516 822-1183, ext. 312 or at tnuzio@icclogistics.com

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