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FREIGHT RATES - A NIGHTMARE TO MANAGE?

Several years ago, shippers were involved in hundreds of lawsuits with motor carriers that promised huge discounts to shippers, but never actually filed those discount rates with federal regulators. The problem began when those same motor carriers went out of business, which was a common occurrence in the early days of deregulation. The bankruptcy trustees would then file lawsuits against the shippers to collect the difference between the discounted rates offered, (but never properly published and filed), and the higher rates they said should be applicable. To add insult to injury, the bankruptcy trustees sought these balance due charges going back a minimum of three years. The sad fact is that shippers paid back hundreds of millions of dollars to motor carrier bankruptcy trustees over the years.

Well, the good news today is that there is no longer a requirement for most motor carriers to file their rates, charges and discounts with federal or state regulators. The bad news however is that many shippers still believe the Federal Government sets motor carrier rate levels, (especially fuel surcharges), and that all motor carrier rates are standard. That's why shippers will usually select a motor carrier to transport their shipments based solely on the discounts the carriers offer. We are here to tell you there is no such thing as a "standard" when it comes to motor carrier rates and charges.

Today we have a proliferation of independently published freight rate structures. These rates and charges vary carrier by carrier and so do their charges for accessorial fees, (including fuel surcharges) as well as their discount percentages. In addition, many motor carriers limit their liability for claims when merchandise is lost or damaged. But, those limitations usually are not known until the shipper has to file a claim. At that point it's too late to do anything about it.

These factors place a great burden on shippers as they must have a complete understanding of the carriers' rates, rules, regulations and liability limitations BEFORE they tender any freight to the carriers; Perhaps its time for a "truth in rates" document to be offered by the freight carriers. Don't hold your breath!

It is not our intention to imply that freight carriers are trying to deceive shippers about their rates and liability standards, but rather that it's the responsibility of the SHIPPER to have a complete understanding of the carriers rates and liability limitations BEFORE they tender any freight to the carriers.

To show the potential negative impact shippers can be subject to, the following is an actual case study and points out the pitfalls that can financially harm a company if it is working in the dark.

One of our clients negotiated discounts with five different motor carriers transporting its products from their Midwest distribution center in Chicago. It was their intention to enter into contract agreements with all five carriers since the discount percentages offered by the carriers were within a few percentage

points of each other. Our advice to our client.... Allow us to perform a Benchmark Analysis of all of the carriers' "net" freight charges to see how they really stack up before signing any long term carrier contracts.

Needless to say our client was extremely happy with our advice and here's why. Our Benchmark Analysis was quite revealing, (as we knew it would be). Once we created the benchmark rates we believed the client should be paying based on their shipping activity, we measured each carrier's proposed rates, discounts and fuel surcharges to see just how close, or far apart they would be in comparison to the benchmark. The results of our analysis indicated the following variances:

Carrier #1	20% higher than the benchmark
Carrier #2	42% higher than the benchmark
Carrier #3	1% higher than the benchmark
Carrier #4	10% higher than the benchmark
Carrier #5	3% <u>LOWER</u> than the benchmark

The analysis proved our suspicions that the proposed rates, discounts and fuel surcharges offered by the five different motor carriers were meaningless unless they were properly evaluated. The shipper and certainly the motor carriers had not clearly established where the shipper's rates should be set based on our clients shipping characteristics, lanes of traffic, volume and regularity of shipments, loading and unloading requirements, freight claims susceptibility, freight payment timeframes, etc.

So while shippers have a wide range of motor carriers to choose from these days, it is quite clear that many shippers will be lulled into a false sense of security if they merely select carriers based on the discounts being offered. As anyone can see, true savings are possible when the transportation to be offered is properly analyzed, benchmarked and properly presented to the carriers. These benchmark analyses by the way, are heavily valued by the motor carriers as they tell the true story of a shippers business. They provide the necessary tools the carriers need to clearly establish the level of rates they can and should offer.

By the way, the same circumstances apply for parcel carriers, as well as ocean and air carriers. No company should go into any carrier rate negotiation process with blinders on. Seek the advice of "experts" to help you better understand where your freight rates should be set, rather than blindly accepting freight rate levels offered by the freight carriers.

Please take a moment to check out ICC's Blog @ <http://www.logisticsstrategies.com> to check out previous articles.

SURVEY SAYS: SUSTAINABILITY BENEFITS ARE ON THE RISE!

The results of a recent study commissioned by KPMG International, reveals that many companies are beginning to embrace a variety of sustainability strategies now and for the future. The early results from this study of 378 large and medium sized companies in 61 countries, reveals that 62% of these companies already have an "active" sustainability program in place.

The study which was carried out by the Economist Intelligence Unit (EIU) reveals a clear increase in the number of companies with active sustainability programs over a 2008 report which indicated that just over half of the respondents at that time had a sustainability strategy in place.

The survey results indicated that sustainability benefits clearly outweighed any perceived drawbacks. This comment was strongly endorsed by larger companies with annual revenues over \$5 Billion. So it is clear that the “big boys” are into sustainability for the long term, a fact that we have been echoing for a quite some time now. Some of those benefits included significant reductions in energy costs, improved relationships with customers and suppliers, and more efficient use of resources, especially water.

Some companies even reported stimulated innovation within their companies, leading to new product lines and the opening of new markets. One respondent with a long-running sustainability program reported a payback of between \$1.50 and \$2.00 for every dollar spent. Where can a company get an investment like that these days? So what is your company waiting for? Jump on the “Green” bandwagon NOW!

NEW HOMELAND AIR SECURITY RULES ON THE HORIZON

The Department of Homeland Security is raising the bar for airline security in the wake of recent reports of plastic explosives onboard aircrafts entering the US. DHS says it will issue new rules requiring airlines that carry cargo into the US to transmit shipping manifests PRIOR to departure of aircraft from foreign airports.

DHS has acknowledged that the data it now receives when the aircraft is already in the air is totally useless towards thwarting a mid-air attack. We have to question DHS' initial rules. Didn't anyone think this through? Didn't anyone see this coming? We suspect not!

But let's not simplify the matter too much as there are many issues to be resolved going forward. These complex issues include, but are not limited to the following:

- What data will DHS require and how will the airlines gather and report it?
- How early in the loading process will this information be available?
- Who has the data and can they be trusted to report the “real” facts?
- How will DHS notify the originating carrier not to load the shipment?
- How can DHS work with foreign countries to seek out and stop the “bad guys”?

We are sure that more issues will arise that have not yet been thought about. The terrorists are devoting a great deal of time, effort and resources to “beat” the system. We are going to have to do everything in our power to stay one step ahead of them. Let's hope we can.