

Turning Less into More: Reducing Costs and Increasing Efficiency through Effective Management of Less-Than-Truckload Shipping

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The old saying which claims that “less is more” ought to have been a great deal more specific. It is obvious that lessening costs will bring in more profits and increasing efficiency will lessen customer service complaints. When it comes to handling less-than-truckload quantities of freight, however, many businesses find themselves with more complications than answers, more problems than solutions. Less-than-truckload (LTL) freight is a unique aspect of a company’s supply chain, which when effectively (or ineffectively) managed, will have a significant influence on the overall efficiency of a company.

LTL freight is [defined](#) as “a quantity of freight less than that required for the application of a truckload rate. The historical definition for LTL freight is shipments under 10,000 pounds.” Today it is more costly than ever for businesses to treat LTL freight the same as full truckload freight. The ever increasing price of diesel fuel as well as the strict Hours-of-Service regulations for drivers has made the profit margin for shipments paper thin. When dealing with an LTL shipment where the costs are all the same but the returns on the freight are less, this profit margin can all but disappear.

It is essential for a company, therefore, to treat their LTL shipments as unique from their full truckload shipments and to approach them with a clear strategy. These strategies can quickly become complicated. While midmarket companies are faced with the challenge of smaller orders and a greater need for LTL strategy, larger companies deal with the factors that arise from frequent acquisitions and overseas shipping. For companies of any size, LTL shipping can cut into profits when poorly managed.

As a result of the ever increasing complexity of the issue of LTL shipping, many companies are choosing to rely on a third-party logistics firm (3PL) to ensure that they are maximizing their profits and efficiency by streamlining their supply chain. The [Center for Virtual Organization and Commerce at LSU](#) defines a third-party logistics as “the function by which the owner of goods outsources various elements of the supply chain to one company that can perform the management function of the clients inbound freight, customs, warehousing, order fulfillment, distribution, and outbound freight to the clients customers.” Outsourcing supply chain management frequently leads to increased profits; a [2007 study](#) produced by C. John Langley Jr., Ph.D., of the Georgia Institute of Technology, with a team of industry experts from Capgemini, DHL, and SAP, reports that companies choosing to outsource to a 3PL provider report an average of cost savings of 13%. Use of a 3PL allows companies to spend less time concentrating on the minute details which can often make or break a supply chain and more time focusing on their core competencies. By shifting the focus towards these competencies and away from the shipping concerns LTL freight can create, companies ensure their customers get the best possible products while letting a 3PL worry about how the product gets there.

The proper management of LTL freight that a 3PL provides ensures that less truly can become more. A good LTL strategy can serve to increase a company’s efficiency, therefore widening the profit margin on LTL freight and providing stronger customer service. One option available to companies and their 3PL’s is using a specific LTL shipper to handle the delivery and distribution of the LTL freight. These carriers generally collect freight from multiple locations, then combine and redistribute it, thus ensuring fewer trucks are traveling at less than maximum capacity.

There is some risk assumed in hiring an LTL carrier, however. While a company's freight generally remains on one truck on a full truckload shipment, it is necessary for LTL carriers to move and reload freight from different trucks and at their distribution centers, adding to the risk of freight being lost or damaged en route. Similarly, while a full truckload may go from a supplier directly to a customer, the transit time for an LTL shipment may be considerably longer depending on the number of times freight must be reloaded and rerouted. For accepting these risks, however, a company is rewarded with a shipping method that is a mere fraction of the cost of sending out partial freight loads while paying for a full truck. If a company chooses to outsource their supply chain logistics to a 3PL, these risks can be greatly minimized as a 3PL will often have a relationship with one or more LTL carriers, ensuring a company's freight travels only with the most reliable providers. 3PLs also address every area of the supply chain to guarantee the fewest number of reloads and reroutes, thus allowing for the shortest transit time. While the use of an LTL carrier is a solution for many companies, trusting a 3PL to find the right carrier allows for the greatest increase in efficiency without an unnecessary amount of risk.

Recently, the trucking industry has struggled, making it more vital than ever to find the right professional to address LTL shipping. Less-than-truckload motor carrier [YRC Worldwide saw a thirty percent drop in fourth quarter earnings in 2006](#). In his news release on these numbers, YRC Worldwide Chairman, President and CEO Bill Zollars reported that he expected these trends to continue into 2007 and indeed they have. When commenting on the results of [Conway Inc.'s third quarter 2007](#) results, Con-way President and CEO Douglas W. Stotlar said that due to low customer shipping volumes for the less-than-truckload (LTL) market "yields remain under pressure, a market dynamic that we expect will continue to dampen profit growth in LTL freight through the remainder of the year." The hardship facing the trucking industry is significant to businesses looking to update their handling of their LTL freight, as it means dealing with the volatility that comes from a weakened industry.

It would be unwise to assume, however, that the current trend in the trucking industry means desperation on the side of carriers will easily serve as leverage for customers. Depending on how the LTL carrier decides to handle its profit growth struggles, companies may actually find themselves being charged greater amounts. Small to midmarket businesses are particularly at risk, since LTL carriers often rely on the combination of freight from many smaller businesses to make a supply chain effective and worthwhile. If an LTL carrier decides to focus on its larger, more profitable customers, midmarket businesses may find their LTL supply chains being disrupted and their costs increasing. Market analysts Bear Stearns said in a research note that "there is another shoe to drop in pricing during [the first half of 2008] leading to pricing weakness likely until 2009, particularly for the LTL providers." Since this trend is likely to continue through 2008, the necessity and difficulty of developing truly effective LTL shipping continues to increase, making it more sensible than ever to rely on a third-party logistics firm. A company connected to a successful 3PL has much smaller chance of being viewed by a struggling LTL carrier as a dispensable client, and therefore may have the opportunity to take advantage of the current trucking market rather than be hurt by it.

There are many other specific benefits to LTL shipping which a 3PL can provide. A 3PL can strive to minimize the potential for damaged and lost freight due to multiple reloading by an LTL carrier by implementing new packaging techniques and specialized training for employees. If possible, a 3PL may also initiate the use of cross docking, a system which may altogether eliminate the necessity of the traditional warehouse in shipping. 3PLs also have the advantage of having many relationships with LTL carriers and with midmarket companies. By taking advantage of these relationships, 3PLs can combine the freight of midmarket companies to qualify for volume and other bonuses available from some LTL carriers which individual

companies would otherwise be unable to get. In the case of allowing a 3PL to handle your LTL concerns, less may indeed be more; according to [Dr. Langley's study of third-party logistics in 2007](#), 85% of businesses engaged in outsourcing reported it to be successful. The less time you spend on supply chain matters, the more time available to concentrate on core competencies and the more benefits available from the efficiency of your supply chain.

The most important thing to keep in mind when handling LTL freight shipping is to view complications as opportunities. To treat less-than-full truckloads the same as your full truckloads is to miss valuable chances to increase the overall efficiency of your business. While there are always risks in implementing new and sometimes extensive supply chain solutions, with the proper strategy, the right LTL carrier, and a bit of help from a third party logistics firm, the challenge of handling less-than-truckload freight can bring more benefits than harm.

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