HOW TO NEGOTIATE GRI AND LTL RATE REDUCTIONS

A BRIEF GUIDE TO AVOID GENERAL RATE INCREASES IN LTL TRANSPORTATION

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At the end of every year, LTL motor freight carriers apply general rate increases (GRIs) to keep profits steady, and every year, shippers try to avoid paying the additional cost. The industry faces numerous problems, so LTL carrier's operating costs continue to rise and GRIs happen at least once a year. Carriers currently have the leverage in rate negotiations, however, there are some things shippers can do to mitigate future cost increases.

Preferred Shipper Phenomenon

A preferred shipper is a company that a carrier chooses to work with because they help a carrier improve overall efficiency. There are certain characteristics a trucking company looks for in a shipper. Typically an LTL carrier wants you to:

- **Help improve carrier network utilization**
- **Have easy-to-reach origin and destination points**
- **Optimize dock procedures to reduce dwell time**
- **Treat truck drivers with respect**
- **Provide multiple shipments on the same day**
- **Be connected, share data, and collaborate on new solutions**

Understanding the State of the Industry

Why are there GRIs every year? Why do shippers have to accommodate a carrier's needs? Basically, LTL carriers have had razor-thin margins for years and expect operating costs to continue to climb in the foreseeable future. The industry is short 48,000 drivers as of the end of 2015, but this number will rise exponentially, as the average age of a truck driver is 49 and many will start retiring soon. Drivers are a scarce commodity, and therefore more expensive to recruit and retain; this raises operating costs for carriers, and shipping costs for shippers. LTL carriers implement GRIs every year to keep profit margins steady, in order to combat rising operating costs. More importantly, these industry trends make truck capacity a scarce commodity, and shippers must compete to secure capacity, giving carriers the opportunity to choose who they work with.

4 Tips for LTL Contract Negotiations

A motor carrier's pricing system is immensely complex and it can be difficult to find cost saving opportunities. Follow one or all of these tips during contract negotiations and discover significant savings on transportation spend or even the reduction or elimination of a GRI.

1 USE THE CZARLITE BENCHMARK BASE RATE

The current-version CzarLite tariff is independent of any trucking company and is considered the transportation industry standard. It is the most up-to-date base rate and most accurately reflects the current market. Most carriers develop their own tariff and encourage you to use it because it is specific to their network but that's done to convince you to pay more than you should. For example, a carrier may offer you an 85% discount if you use their base rate, which sounds great, but their base rate may be inflated which could translate into higher overall transportation costs. Carriers usually reserve the right to automatically update the rates to their own tariffs, sometimes without your knowledge or permission. Using a current-version CzarLite base rate facilitates a negotiation between shipper and carrier, allowing you to confirm long-term rates. The CzarLite tariff levels the negotiating playing field by giving you more visibility into true costs and the ability to easily compare carrier proposals.

2 PAY FOR THE ACCESSORIALS YOU'LL USE THE MOST

Many shippers approach a carrier and request to waive many types of accessorial charges, and these shippers are happy to hear when the carrier agrees to swing these accessorials. The fact is accessorials are never truly free. Carriers have complex rating systems, which allow them to recoup costs in other ways. It seems counter-intuitive, but the best thing to do is to assess which accessorials are the most frequent. By focusing efforts on the most frequently used accessorials, you'll likely net better overall transportation costs. Alternatively, you could pay their desired price for the accessorials you choose to pay and then negotiate a lower base rate or decreased GRI.

3 UTILIZE GUARANTEED SERVICE LEVELS FOR LTL FREIGHT

Using guaranteed freight services is a great way to negotiate lower base rates or GRIs. Guaranteed freight is when a carrier makes a commitment to an agreed upon service level. This service initially costs more for the shipper and is rarely used for all freight, but carriers prefer to operate these services due to the opportunity for increased revenue.

With guaranteed freight, a shipper immediately spends less time on administrative track and trace function. By paying for a service that carriers want to perform, you gain preference and can then leverage lower rates on standard shipments, fuel surcharges or GRIs.

4 HIGHLIGHT ATTRACTIVE FREIGHT BUT DON'T HIDE UNATTRACTIVE FREIGHT

You want to highlight attractive freight during rate negotiations. Carrier-friendly freight, in general, is something that allows carriers to utilize their truck space effectively. Dense, small, and stackable freight that fits properly on a pallet will be easy and efficient for a carrier to haul. Highlighting attractive freight increases the likelihood that a carrier will want to work with you and extend discounts in exchange for the gained efficiency. What's just as important, however, is disclosing information ahead of time about freight that will be difficult or inefficient to haul. This would include light, fragile or over-dimensional items that don't allow trailer space to be used effectively or require specialized equipment. By revealing this information, carriers can better understand their risk and liability. This is important because risk and liability play a part in how they value and price their services. Eliminate any surprise charges in the future and keep the carrier compliant with all state and safety regulations. Carriers are rated by a Compliance, Safety, and Accountability (CSA) system by the Department of Transportation. Losing rank in CSA due to compliance issues the carrier was not notified about can hurt their chances of getting new business. You can be sure a carrier will not want to work with you, and certainly won't give you a discount, if you cause their CSA score to drop.

4 Tips for Negotiation Leverage

As mentioned earlier, carriers have more leverage than shippers in negotiations because their commodities are so scarce yet in extreme demand. However, there are things you can do before negotiating a contract to make yourself appeal to carriers and make them want to move your freight.

1 LEVERAGE ALL LTL FREIGHT SPEND

When performing bid events, consolidate multiple freight divisions under one umbrella. LTL carriers aren't as interested in hauling freight for someone who ships 3 times a week, compared to someone who ships 10 times a day. Centralizing LTL freight spend provides leverage. Larger freight spend opportunities can make your LTL freight more attractive to carriers, which can lead to reduced transportation costs. When carriers have larger freight spend at risk, you will receive better overall service, which translates into better service for your customers – an added bonus of leveraging large freight volumes.

2 LIMIT LTL CARRIER BASE

When deciding which carriers you want for an RFP, keep the awarded carrier base small. Conventional wisdom states that you should establish contract rates with as many carriers as possible and use the lowest prices to determine which carrier to select. This is not necessarily the most effective tactic for improving transportation spend. If you limit your carrier base, each will be more likely to provide more competitive rates and service. Then you will be able to negotiate low base rates, fuel surcharges, and accessorials or mitigate future GRIs.

3 GATHER ACCURATE DATA

Before you try to negotiate rates with a carrier, you'll need to gather detailed and accurate data to convince them you deserve lower rates. Information about your product packaging will be crucial. You can show a carrier photos of your freight and packaging, along with the exact weight and dimensions. Trucking companies need to protect themselves against any financial risks. It is also useful to provide data on average dwell times at your facilities, average time in transit for routine routes, and your average incidence of claims. To go the extra mile, show a documented process that directs drivers around your facility to reduce their waiting time. Carriers appreciate this transparency and see that you are eager to help them increase efficiency and reduce operating costs. This will lead a carrier to be more collaborative with rate negotiations because they know they will be able to save money and keep their drivers happy working with your business.

4 USE A 3PL AND TMS

Using a 3PL with a proper transportation management system (TMS) is like hitting the 'easy' button. A 3PL can run any and all of your transportation functions, leaving you to focus on core business competencies. A powerful, cloud-based TMS connects you directly to carriers. Most trucking companies prefer to work with a shipper who is technologically-connected because it makes communication faster and the data is more accurate. Carrier connectivity allows instant load tendering, automatic bill of lading completion and automated payment and invoicing. Most of all, trucking companies want to work with connected shippers because data is shared between companies, and this shared data allows carriers to optimize the use of their fleet network. If you're using a cloud-based TMS, carriers will want to work with you and will extend offers for more competitive rates today and in the future.

Conclusion

Due to a variety of industry trends, carriers have the upper-hand in negotiations and have been increasing rates for years. Most of the rate increases are due to the driver shortage, which raises costs and severely limits available truck capacity. To reduce, eliminate or mitigate the effects of GRIs, you have to be prepared to accommodate a carrier's business needs. There's not an opportunity to strong-arm a carrier into giving you better rates, you must make your freight profile attractive so they lower rates because they want to work with you.

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