

Understanding LTL carrier class rates

Our esteemed Pricing columnist enlightens shippers to the seven factors that need to be understood before routing shipments this fall.

By Ray Bohman, LM Columnist -- Logistics Management, 10/1/2008

All for-hire, less-than-truckload (LTL) carriers of general commodities maintain a schedule of base rates commonly called “class rates.” These rates apply to all points a carrier serves, and those carriers that are participants in the National Motor Freight Classification (NMFC)—about one thousand—are subject to classes (ratings) published therein.

For many years prior to December 27, 2007, many LTL carriers participated in class rate tariffs published by regional motor carrier rate bureaus such as the Southern Motor Carriers Rate Conference, the Middlewest Motor Freight Bureau, Rocky Mountain Motor Tariff Bureau, etc. Those rates were collectively established by participating carriers through anti-trust immunity granted by the Surface Transportation Board (STB), successor to the former Interstate Commerce Commission (ICC).

On December 27 of last year, however, the STB revoked anti-trust immunity for motor carrier rate bureaus and the National Classification Committee (NCC), requiring all collectively established class rate tariffs to be cancelled. Now, individual LTL carriers wishing to maintain class rates must establish their own class rate tariffs. It should be noted here that for a number of years before December 27, many of the nation's largest LTL carriers established and maintained their own individual class rate tariffs.

There remain a very small number of class rate tariffs that were not collectively established and to which a number of individual LTL carriers are participants.

Probably the most notable is SMC3's CzarLite tariff, which has nationwide application. And in place of the former National Classification Committee, comprised of 100 carrier representatives, a non-carrier Commodity Classification Standards Board (CCSB) composed of staff classification specialists employed by the National Motor Freight Traffic Association (NMFTA) has been formed to keep the NMFC current.

7 Things To Keep In Mind

To get a better idea of what a class rate scale is structured like, we suggest you keep these seven elements in mind:

1. For the most part, rates vary from carrier to carrier. Because each carrier must establish its class rates on its own, you should not expect to find uniformity in class rates from carrier to carrier, particularly to off-line points.

On major lanes where competition is strong, you may find that many rates are quite competitive between carriers serving those lanes; however, to get to off-line points we've seen differences in rates among carriers of 30 percent, 50 percent, and even higher. Be sure to make rate comparisons among your carriers before routing your shipments. You may find significant differences.

2. Every class rated LTL shipment you make is not only subject to a standard minimum charge, but may be subject to as many as three minimums. Between every two points moving under for-hire LTL general commodity motor carrier class rates a per-shipment minimum charge applies. As the distance of an LTL shipment increases, the minimum charge increases, just as the LTL rates do.

But don't overlook the fact that many LTL carriers maintain as many as two other minimum charges that may well come into play. One is called a single shipment minimum charge, or "SSMC." This charge, higher than the normal per shipment minimum charge, applies when the carrier picks up a single shipment unaccompanied by any other shipment. Obviously, to avoid such charges, you should tender a carrier at least two or more shipments any time it makes a pick-up.

Another minimum charge that can come into play is called an "absolute minimum charge." This is the charge below which a carrier simply will not go. The current absolute minimum for the carrier used in the Exhibit 1 example is \$99.00; however, to congested cities such as Manhattan (zip 100-104, 111-114, and 116) that absolute minimum is \$187.00. In a few states, particularly in the West, this carrier has an absolute minimums below \$99.00. These absolute minimums are not usually found in a carrier's class rate tables but in a carrier's rules tariff. Keep in mind that most carriers add their fuel surcharge to these minimums.

3. As the weight of LTL shipments go up, rates per 100 pounds go down as your shipments reach certain weight thresholds. Most LTL class rates have five or six weight breaks, plus a minimum charge per shipment. For example:

- Minimum charge per shipment
- Less than 500 lbs.
- 500 lbs. but less than 1,000 lbs.
- 1,000 lbs. but less than 2,000 lbs.
- 2,000 lbs. but less than 5,000 lbs.
- 5,000 lbs. but less than 10,000 lbs.
- 10,000 lbs. but less than 20,000 lbs.

Figure 1 offers an example of the percentage reduction LTL rates fall as shipment weights increase. As you can see, every LTL shipment you make that falls into the next heaviest weight group reduced the rate by anywhere from 7.79 percent to 9.20 percent; and if you make a shipment weighing 5,000 to 9,999 pounds, versus a shipment weighing about 400 pounds, your cumulative saving would be a significant 38.66 percent using the example we chose of freight rated class 70 moving from Atlanta to Memphis, Tenn.

4. Class rates are not uniform for any given distance. Any time you make an LTL shipment from any given point, don't expect that the rate per 100 pounds will be the same for any point of the same distance.

For example, if you make a shipment from Atlanta to Memphis, a major lane of about 383 miles, you'll get a very competitive price, but if you go out that same distance to other points north, south, or west, you may find other points, particularly off-line points, where rates are much higher.

Almost every time LTL carriers go forward with a general rate increase, they do some “tweaking” of their rates. It's not uncommon to find some rates to certain off-line points going up by 20 percent to 30 percent or more, even though the carrier announces its general rate increase may “average” 5.9 percent.

5. LTL class rates do not increase uniformly as distances increase. If you make an LTL shipment of 1,000 miles, for example, the rate won't be double the rate for a 500-mile shipment. Rates increase as distance increases, but at a decreasing rate of increase. To give you an example, in Figure 2 we checked out the Class 70 rates on LTL shipments weighing between 500 and 999 pounds moving via a major LTL carrier from Atlanta to various points. Figure 3 shows how these rates trend as the distance increases to these four cities.

6. Class rate tables covering shipments weighing 20,000 pounds or more are considered to be truckload shipments. As you can see from the class rate scale shown in Figure 4, beside the two per shipment minimum charges there are nine weight breaks ranging from 0 to 499 pounds to shipments weighing 40,000 pounds or greater.

For most carriers, rates for weight breaks up to 19,999 pounds are considered to be LTL rates while those rates on shipments weighing 20,000 pounds or more are considered to be truckload rates and would be subject to considerably higher truckload fuel surcharges.

When shippers make truckload shipments they generally find the truckload class rates are higher than they can get from truckload carriers such as J. B. Hunt Transport Services, Schneider National, Swift Transportation, Landstar Systems, etc., or through brokers. It pays to get several quotes.

7. As the weight of your LTL shipment approaches the lowest weight in the next heaviest weight group, it will be rated at the rate and lowest weight in that weight group. In other words, at some point, as the weight of your shipment gets closer to the lowest weight in the next heaviest weight group, it becomes less expensive to rate the shipment at the rate in the next heaviest weight group times the lowest weight in that weight group. Using the rate table of the carrier we selected in Figure 4, you'll find the weights at which it is cheaper to ship at the rate and lowest weight in the next heavier weight group.

As you see, on shipments weighing up to 499 pounds, once the weight hits 461 pounds or greater it's actually cheaper to rate the shipment as 500 pounds at the 500–999 pound rate per 100 pounds. And by the time you ship an LTL shipment weighing 8,410 pounds or more, the 10,000 pound rate is less expensive. That's 1,590 pounds you avoid paying.

For many years now, LTL carriers have given discounts off their class rates. These are usually negotiated between individual shippers and individual carriers and are kept confidential between the two parties through a letter of agreement prepared by the carrier. Just about every LTL carrier maintains a minimum discount open to every shipper without any negotiation. One of the best deals around is a 70 percent discount offered by Southeastern Freight Line on every LTL shipment it hauls. Of course, fuel surcharges are normally added to every LTL shipment.

Class	L5C	M5C	M1M	M2M	M5M	M10M	M20M	M30M	M40M
500	476.49	438.47	343.02	281.18	219.06	156.58	156.58	156.58	156.58
400	382.22	351.72	275.16	225.56	175.73	126.98	126.98	126.98	126.98
300	287.95	264.98	207.30	169.93	132.39	96.79	96.79	96.79	96.79
250	240.82	221.61	173.36	142.11	110.71	80.85	80.85	80.85	80.85
200	193.69	178.23	139.44	114.30	89.05	65.76	65.76	65.76	65.76
175	169.39	155.88	121.94	99.95	77.88	57.51	57.51	57.51	57.51
150	145.82	134.19	104.98	86.05	67.04	50.10	50.10	50.10	50.10
125	122.26	112.50	88.01	72.14	56.20	42.13	42.13	42.13	42.13
110	108.26	99.62	77.93	63.88	49.77	39.85	39.85	39.85	39.85
100	99.42	91.49	71.57	58.67	45.71	38.44	38.44	38.44	38.44
92	92.79	85.40	66.80	54.76	42.66	35.87	35.87	35.87	35.87
85	86.16	79.29	62.04	50.85	39.61	33.31	33.31	33.31	33.31
77	79.54	73.19	57.26	46.94	36.57	30.75	30.75	30.75	30.75
70	73.65	67.77	53.02	43.46	33.86	28.47	28.47	28.47	28.47
65	69.23	63.71	49.83	40.86	31.83	26.76	26.76	26.76	26.76
60	65.55	60.32	47.19	38.67	30.13	25.34	25.34	25.34	25.34
55	61.86	56.93	44.54	36.50	28.44	23.91	23.91	23.91	23.91
50	57.45	52.87	41.35	33.90	26.41	22.20	22.20	22.20	22.20

0 – 499 pounds	9.20 percent
500 - 999 pounds	7.82 percent
1,000 – 1,999 pounds	8.20 percent
2,000 – 4,999 pounds	7.79 percent
5,000 – 9, 999 pounds	8.41 percent

City	Rate CWT
Memphis, TN	\$67.77
Omaha, NB	\$130.82
Denver, CO	\$154.79
San Francisco, CA	\$193.49

Weight group	Rate per CWT	Weight break
0 – 499 lbs	\$73.65	461 lbs
500 – 999 lbs	\$67.77	783 lbs
1,000 – 1,999 lbs	\$53.02	1,640 lbs

Weight group	Rate per CWT	Weight break
2,000 – 4,999 lbs	\$43.46	3,900 lbs
5,000 – 9,999 lbs	\$33.86	8,410 lbs
10,000 – 19,000 lbs	\$28.47	-

Author Information

Ray Bohman is a columnist for Logistics Management