

## Trust & Freight Rates

*“Why are my freight rates always changing?” “Why can’t you just give me one rate for a year?” “I used to pay less on that lane. Why is it more now?” “These ship points are in the same area, why aren’t they the same price?”*

The answer(s): TRUST US.

In the 3PL (third party logistics) business it is our responsibility to our clients to procure the best possible freight rates for their requirements. That doesn’t sound like rocket science. However, there are so many considerations that make it just that.

It’s not unreasonable to question how your freight budget is being handled or to have doubts, and ask these types of questions. You need to ask yourself a couple of questions first though. Why did you partner with a 3PL in the first place? Chances are it is because you don’t have the time or expertise to wade through all of the variables and be sure that you are being treated fairly, let alone beating the market in any way. For that reason, you have either gone with or are considering using a 3PL.

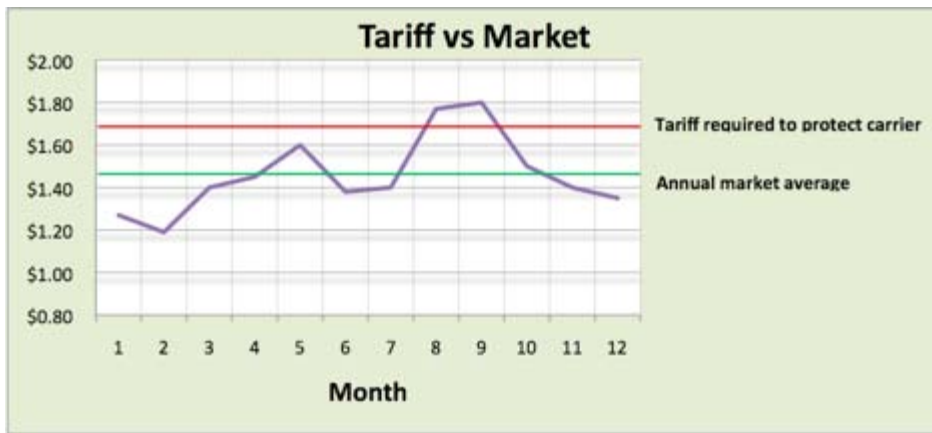
Depending on how the buying process took place, you could have one of two types of relationships with your logistics partner. With the first type, a tariff was put in place whereby the provider has committed to rates on everything that could possibly happen. You know in advance what you are going to pay, therefore what your budget is going to be. In this process, you calculated that you would save X amount of dollars over another provider. All that’s left is to spend the next year monitoring bills and reactively pouncing on the deviations.

Under this tariff scenario, the logistics provider runs the risk of being replaced if they don’t measure up to what was agreed upon, namely the tariff rates. In order to guarantee your rates over a specified time period the provider must protect themselves against all eventualities. The more turbulent the markets are, the higher their base rates need to be to ensure this. And these are very turbulent times so don’t expect any tariff to err on your side!

Tariffs don’t just apply to line haul rates either. What if you need it quicker than usual and it requires a team? What if it is a last minute request, or needs to be picked up or delivered on a weekend? Since the objective was to know all of your costs in advance, rates for these scenarios need to be predetermined. These also will never err on the side of the shipper. Others include driver assisted loading, hazardous goods, fuel surcharges..... The list is endless and once they are in writing you (the shipper) end up paying for them whether there was actually a carrier charge or not. With this in mind the logistics provider can afford to publish very enticing line haul rates, knowing they will be supplemented by incidentals. Having audited carrier freight bills for 33 years in order to protect our clients against tariff overcharges, we understand this scenario better than anyone.

The other possible type of 3PL relationship is the one where, throughout the courtship, both parties took the time to understand each other’s needs, priorities, cultures, and visions. A level of mutual respect for and trust of each other was developed, with the resulting agreement being *“Do your job as one of us, and look out for our best interests”*. In order to enjoy the full advantage of having a professional logistics partner, YOU NEED TO TRUST... it’s as simple as that. This is not easy for some and perhaps why they have chosen tariffs in the past. If however, the relationship has been established and developed based on a solid foundation of mutual understanding, then your 3PL will be able to truly act on your behalf. The trust factor really comes into play when you consider that you won’t be able to measure success until after the fact. On-going communication and sharing of information becomes the lifeblood of the relationship.

This chart highlights the cost of that “need to know”.



As with a variable rate mortgage, it has been proven that over time you will come out ahead by paying market rates for transportation rather than artificial tariff rates. It is important to remember that your overriding goal was to reduce your freight budget. Sometimes this has nothing whatsoever to do with rates. But that's another story. You should also not expect to pay less than you did before on each and every move. It is simply not realistic. You might normally pay \$X for a particular move but it's the Friday of a long weekend and there is limited equipment at the time. Your logistics partner will consider all of the options and make the best choice. It might cost more this time but they will explain why and next time when there are several carriers vying for the same load you will be the benefactor.

If you have made the commitment to let a partner manage your logistics, LET THEM DO IT. Replacing the time you used to spend moving freight with time spent micro managing and second guessing your logistics company, is counterproductive. Remember why the decision was made in the first place and go about doing what you do best. Mastering the art of trust can be liberating, empowering, and PROFITABLE. This applies to every area of business but is especially poignant as it applies to the relationship between shipper and 3PL.