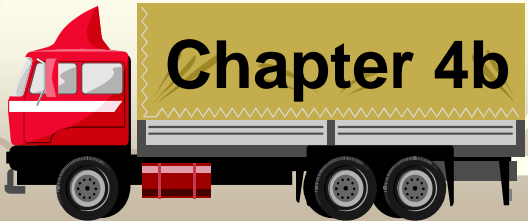
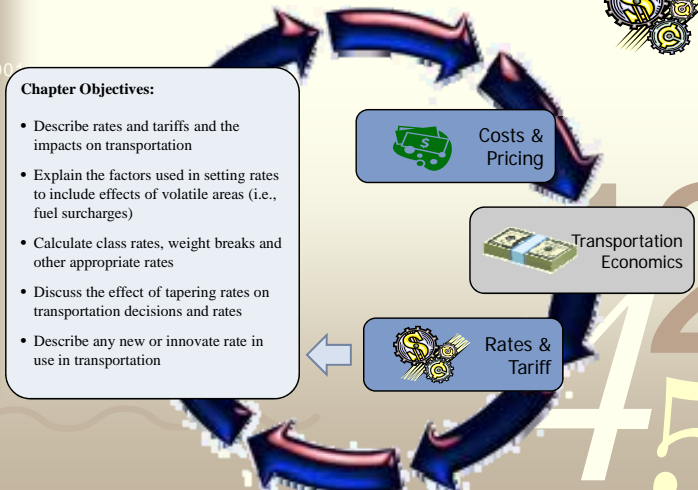


Transportation Ratemaking



Chapter 4b

Road Map to Success



Chapter Objectives:

- Describe rates and tariffs and the impacts on transportation
- Explain the factors used in setting rates to include effects of volatile areas (i.e., fuel surcharges)
- Calculate class rates, weight breaks and other appropriate rates
- Discuss the effect of tapering rates on transportation decisions and rates
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Costs & Pricing

Transportation Economics

Rates & Tariff

Key Definitions

- - the carrier charge for the transportation and handling of goods; a.k.a. prices
- - a publication of freight rates and other fees for the movement of freight, as well as the rules, regulations, and information applying to the freight, carriers, and shippers

Who Sets Rates?

- Rate Bureaus
 - collective ratemaking by groups of common carriers within a particular region
 - tariffs prescribe standardized rates
- - can develop discounted rates based on freight bureau rates
 - can develop rate structures independently
 - can negotiate rates with individual shippers

Factors in Rate Determination



- – origin to destination mileage
- – weight or space used
- **Situation**
 - speed required
 - accessorial services needed
- **Route**
 - specific lanes used
 - local, intrastate, interstate destinations

Types of Rates



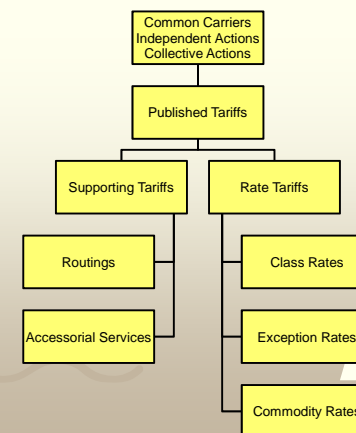
- **rate**
 - simplified rate constructed from uniform distances and commodity categorizations
 - **and exception rates**
 - modified class rates which allows specific products to move at lower rates
- **rate**
 - rate negotiated between shipper and carrier

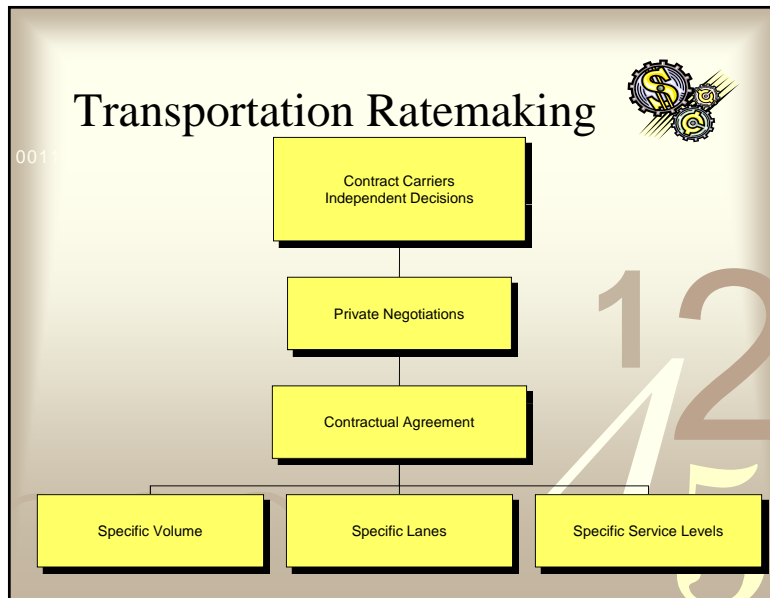
Specialized Rates



- **FAK rates**
 - treat all commodities as a single class
- **Released rates**
 - lowers carrier liability for loss/damage in exchange for lower rates
- **Allowances**
 - transfer of carrier responsibilities to shipper in exchange for lower rates

Transportation Ratemaking





Components of Class Rates

- Rate basis point
 - the major shipping point in an area that represents all points within the area
- Rate basis number
 - distance between two rate basis points
- Classification
 - categorization of commodities based on
 - density
 - stowability & handling requirements
 - risk of loss or damage

Components of Class Rates

- Class
 - the categories created in the classification process, also known as rating
 - Class 100 is the base point
 - classes range from 13 to 500
 - the higher the class, the higher the rate
- Class rate
 - transportation charges based on
 - freight characteristics (class)
 - origin to destination distance (RBN)
 - shipment weight

Class Rate Example

- Shipment highlights
 - personal effects (released value \$0.25 / lb)
 - 500 boxes weighing 50 pounds each
 - originating in Clement, Ohio
 - destined for Crossvillage, Michigan
- Key Data



RBN	_____
Class	_____
Weight	_____
Class Rate	_____
- Total Cost \$

Class Rate Example

0011

- Shipment highlights
 - personal effects (released value \$0.80 / lb)
 - 210 boxes weighing 50 pounds each
 - originating in Columbus, Ohio
 - destined for Columbiaville, Michigan
- Key Data

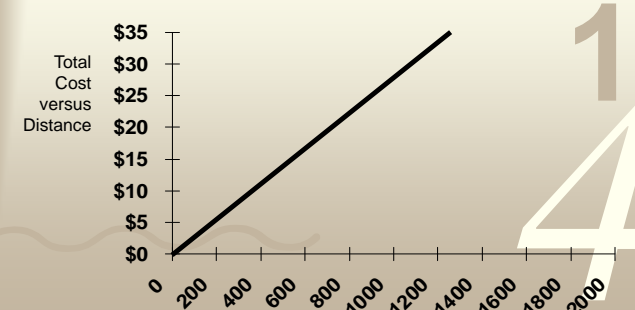
RBN	_____
Class	_____
Weight	_____
Class Rate	_____
- Total Cost \$ _____

Other Class Rate Issues

0011

- Tapering effect of rates
 - as distance increase = freight rates increase at a decreasing rate



Fundamental Principles of Transportation

0011

KNOW THESE!!!

ECONOMY OF DISTANCE

The cost per unit of **distance** (e.g., miles) decreases as distance increases.

↓

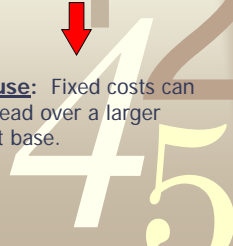
Because: The **tapering principle** spreads fixed costs over a larger distance base.

ECONOMY OF SCALE

The cost per unit of **weight** (e.g., lb.) decreases as the size of the shipment increases.


↓

Because: Fixed costs can be spread over a larger weight base.

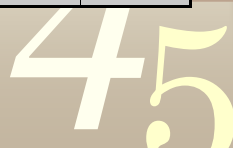


Tapering Principle

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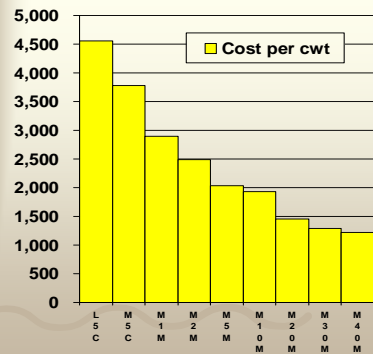
Distance in Miles (Round Trip)	\$ per Mile
15,696	.04351
11,008	.0615
3,974	.07



Other Class Rate Issues



0011



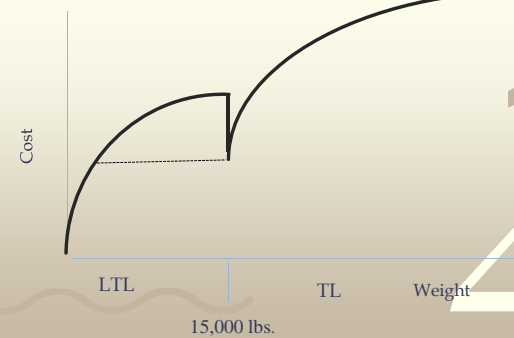
- Weight breaks
 - discounting creates price discrepancies where shippers can be charged more for shipping smaller volumes
 - higher weight is claimed to get the discount
 - $\text{break point} = \frac{(\text{discounted rate})(\text{weight break})}{(\text{original rate})}$

Transportation Cost Theory



0011

Reality with Weight Break



Contractual Rates



0011

- Growing in popularity
 - more effective than other rating methods
 - services are tailored to shipper needs
- **Information** is the key
 - adversarial tactics hinder negotiations
 - information sharing improves performance
- Benefits of contracting
 - **Service** levels can be improved
 - **Cost** and rates can be reduced
 - **Guaranteed** service and volume



Innovative New Rates

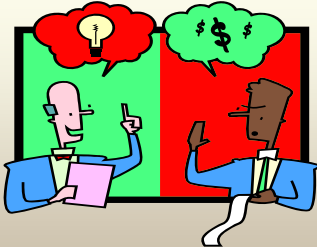


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- Multiple-Vehicle Rates
- Incentive Rates
- Density-based rating
- Specific description
- Loading and unloading allowance
- Unit train rate
- Mileage rate
- Contract rate



Conclusion



- Rates are Changing!
- Deregulation has created innovation!
- NOBODY pays the published rates
 - Negotiate, negotiate, negotiate, negotiate
- Fuel Surcharges
 - Have to be flexible and Fair

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