WHITE PAPER

How did LTL rules tariffs and accessorial charges get so complicated?

Examining the evolution of accessorial charges and rules tariffs in LTL freight, their impact on freight bills and what shippers can do to control costs

For decades, less-than-truckload (LTL) carriers have maintained rules tariffs, documents that spell out accessorial charges that may be imposed on shippers based on specific characteristics of their shipment or for extra services required to handle the freight. Years ago, a carrier's rules tariff document might have consisted of a mere one or two pages. But as the industry has evolved, with shippers, third-party logistics (3PL) providers and carriers taking a keen eye to each aspect of every shipment, such documents now regularly exceed 70 pages, with some over 200 pages long. The expansive range of accessorials within accounted for an average of 8.7% of total LTL spend in 2023, according to AFS customer data, but in extreme cases can account for as much as 20% of spend depending on the services a shipper requires and the extent to which they mitigate accessorials. In addition to representing a significant portion of a shipper's spend, modern rules tariffs warrant careful attention because accessorial charges have become a primary culprit for unpleasant surprises on freight bills. In fact, these unexpected fees can easily accumulate beyond triple digit debts if the underlying cause is not quickly understood and accounted for.

While many shippers recognize that there has been a massive expansion in rules tariffs, the complexity and continued evolution has made it challenging for businesses to get a handle on just how deeply accessorial charges are impacting their LTL shipping spend and to take steps to manage their exposure. Informed by discussions with industry experts that covered the carrier perspective, academic viewpoint and 3PL outlook, this white paper examines the evolution of rules tariffs, the impact of resulting charges and strategies shippers are taking to address them. An original analysis of the $1.2 billion dollars of annual LTL spend AFS manages is also included to provide shippers with a quantitative view of this trend.

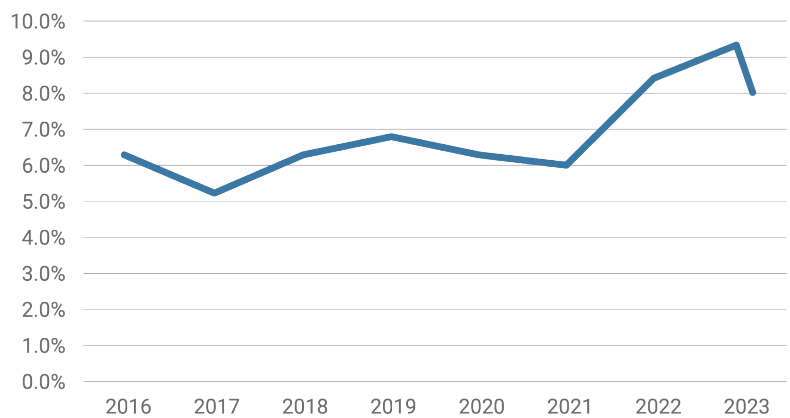
THE EVOLUTION OF RULES TARIFFS AND ACCESSORIALS

Freight bills consist of three main components, the linehaul rate, fuel surcharge and accessorial charges.

- **Linehaul rate.** The base rate for a shipment determined by origin and destination ZIP code, weight and class under the National Motor Freight Classification (NMFC), a standard for evaluating and categorizing commodities moving interstate, intrastate and as foreign commerce.
- **Fuel surcharge.** An index-linked surcharge added to the linehaul rate based on the current price of fuel, normally calculated based on the date a shipment is picked up.
- **Accessorial charges.** Extra charges for any additional services required to handle the freight aside from standard pickup and delivery.

Of these three elements, accessorials are by far the most fluid and least predictable, having evolved significantly in number, complexity and specificity. In fact, based on an analysis of AFS customer freight data from 2016 to 2021, overall LTL accessorial charges crept up over time, ranging from 5.2% to 6.8% of a customer's total LTL spend, with a six-year average of 6.1%. But in more recent years, this number has jumped much higher, reaching 8.0% by the end of 2023.

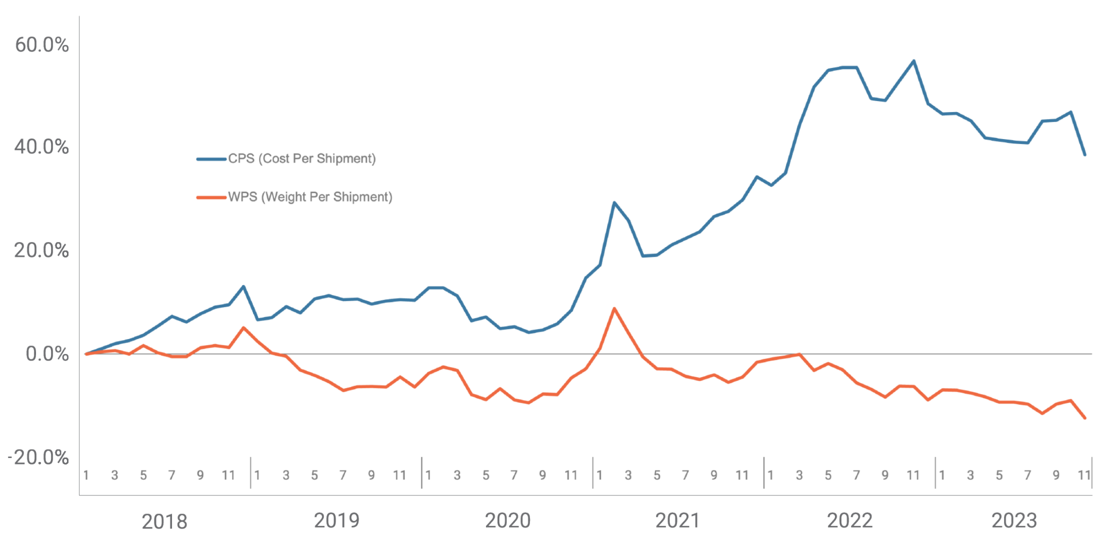
Accessorial charges as a percent of total LTL spend



Data from the TD Cowen/AFS Freight Index provides another view of this trend. Looking at the relationship between LTL cost per shipment and weight per shipment in 2018, the two were closely correlated, but in the years since, the gap has widened significantly. The wedge between weight and cost includes other factors, such as the average length of haul per shipment and fuel surcharge, but rising accessorials can be counted among the forces that have produced this expanded divergence.

LTL cost per shipment & weight per shipment

Jan. 2018 as base



What's behind the uptick in accessorial charges? Michael Redden, Vice President of National Accounts, Southeastern Freight Lines and an LTL representative for the Council of Supply Chain Management Professionals (CSCMP) transportation mode committee, points to an effort by carriers to refine their pricing model. Redden describes the shift as a move from an all-encompassing price structure where certain lanes operated as loss leaders subsidized by others, to a system where services are carefully isolated and shippers are more precisely charged according to the attributes of each delivery. "If we had a perfect world, every shipment would pay for itself," Redden said. "That way, when there are fluctuations in lanes or accessorials that the shipper uses over time, both the shipper and the carrier are still in a fair position. The charges reflect the specific services that are being provided, each time they are provided, without some cross-subsidizing others."

While accessorials are a common cause of unexpected costs for shippers, for carriers, they have a reversed role. "It's important to note that everyone wants predictability, even carriers," said Jeff Trombly, Clinical Assistant Professor of Supply Chain Management for the University of Tennessee and a career transportation analyst, planner and researcher. "In fact, carriers in particular want to know what to expect. Unpleasant surprises cut both ways."

Clete Cordero, Vice President of Pricing and Traffic at Southeastern Freight Lines, concurs. "Years ago, it was a lot more common to have a 'one-price-fits-all' scenario with shippers and each year, any given customer's volumes by lane would change and so would the 'extra' or non-standard services that they used. Building all of those different characteristics into one pricing model didn't work, and so we needed accessorials to properly account for each variable."

Cordero also cites two other changes as drivers for growth in accessorials – the rise of home delivery in the age of e-commerce and increased sophistication in LTL shipping stemming from transportation management systems (TMS) and 3PLs. "Going back 10 years, it was pretty rare that you would have a shipment dropped outside your house. Now, residential delivery and liftgate services for locations that don't have docks are among the most common accessorials," said Cordero. "And shippers are now leveraging technology and relationships with 3PLs to hand pick the carrier for each shipment. As carriers, we do not have the same predictability of freight mix that we used to, so it has become more important that every single shipment pays for itself."

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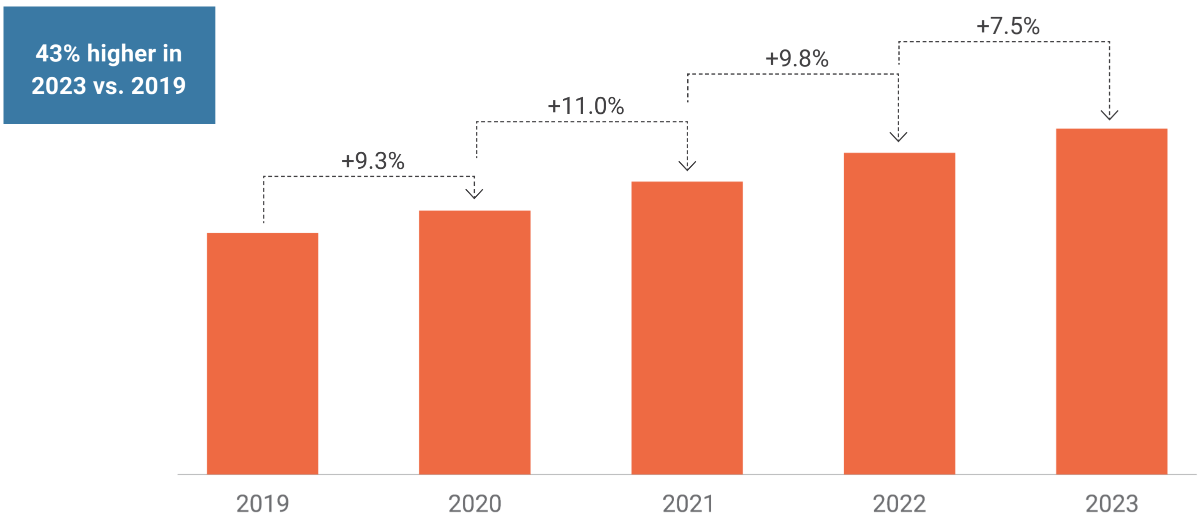
Vice President of National Accounts
Southeastern Freight Lines

Trombly notes that many companies have imposed additional rules tariffs as the nature of their business gets more complicated in light of regulatory, environmental and labor-related issues. One such example is the California compliance surcharge, an accessorial that many carriers have implemented for all shipments originating from and/or destined to the state, due to state labor laws that result in higher operating costs for trucking operations. This surcharge is one of several that have seen significant cost increases in recent years – in fact, SAIA announced an increase to its California compliance surcharge of more than 20% in December 2023. While there are actions that shippers can and should pursue to blunt the impact of accessorials, this trend represents an industry-wide shift by carriers, and given the underlying regulatory pressures driving this particular surcharge, shippers face headwinds mitigating the effect.

Year-over-year increases in California compliance accessorial charges

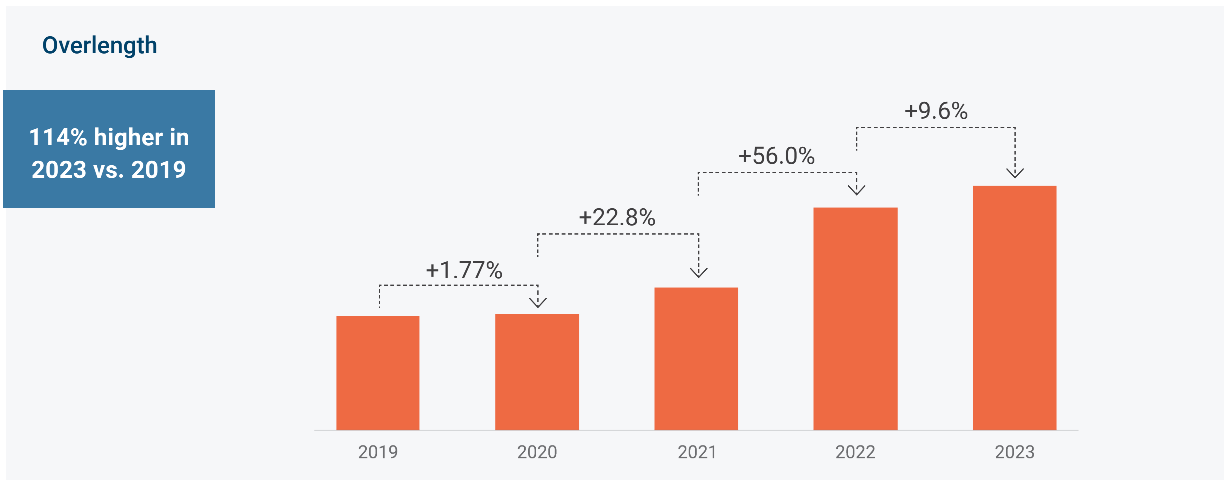


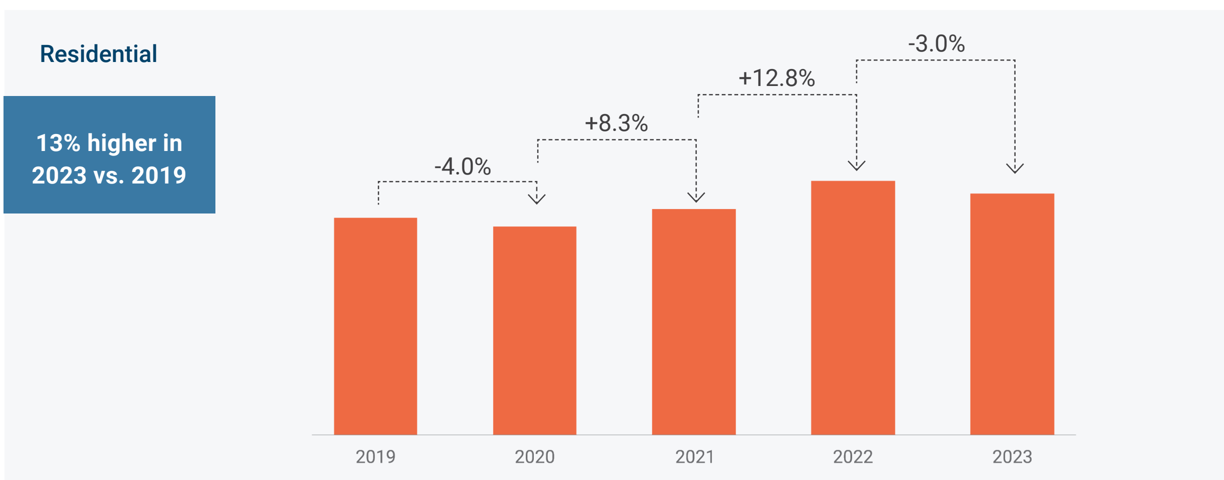
What other surcharges are responsible for the greatest growth in accessorials? The surcharge for excessive or over-length freight, which is applied to shipments that are 8 feet or longer, is the single greatest driver among AFS freight spend data.

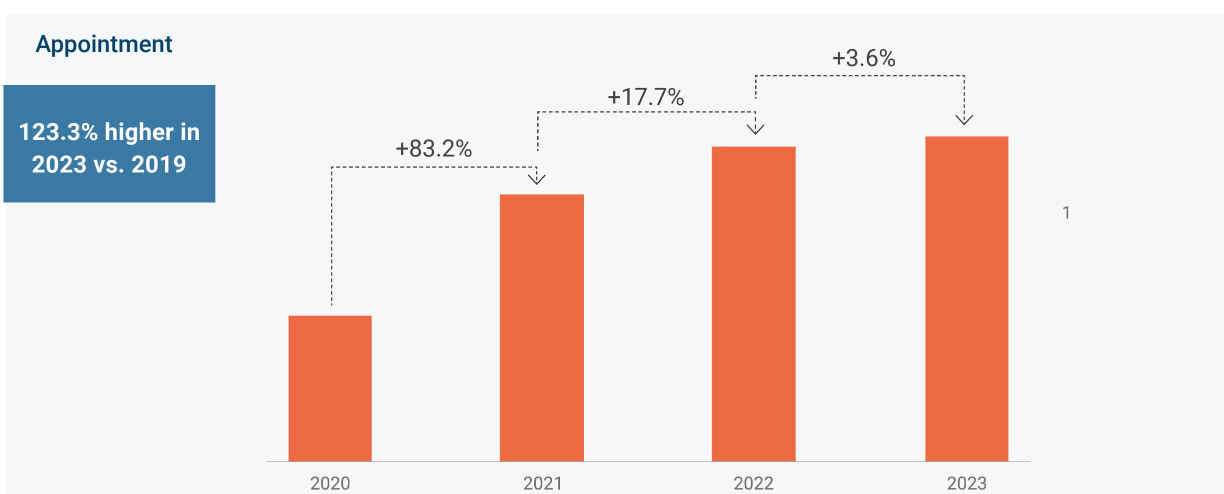
As for the reason behind the growing fee, Cordero explains that it again goes back to carriers getting better at assigning costs to the work that's required for the nature of the shipment. "In the LTL world, overlength freight impacts every other shipment on the trailer. The standard in our industry is to use 28-foot trailers, and if we run as efficiently as we can, they're filled front to back, two skids wide. But if you have a 12- or 16-foot pole that takes up the left side, you've lost three to six pallet spaces," Cordero said. "Although the shipping public may think it's excessive, that space has to be paid for, and handling that type of freight is much more expensive for us, too – most overlength shipments cannot be handled with a forklift. That means moving employees away from standard, efficient workflows and engaging in physically demanding, manual processes to handle these edge cases."

As the regulatory environment changes and LTL freight evolves to include an increased share of complex shipments like bulky items or home deliveries, accessorials are the tool that carriers use to respond. Industry-wide, the consequence is that these charges are more prevalent, even for those shippers that diligently strategize to curb accessorial spend, but particularly for those that *do not*.

Leading accessorial charges, year-over-year trends







In practical terms, accessorials can be a mechanism for carriers to incentivize certain behaviors from shippers to keep networks moving efficiently. A good example of an accessorial that has long been used to encourage desirable behavior can be seen in detention time fees, charges applied when the carrier's driver has to spend excessive time waiting at the shipper or consignee's facility. As carriers pick up shipments, naturally they want to minimize the amount of time the process takes and avoid delays that could have a ripple effect, compromising their subsequent pickups and deliveries. To incentivize timeliness among shippers, and because LTL drivers are paid by the hour, carriers allocate time for pickup and delivery based on the size of the shipment. Shippers are penalized for overages with a prorated hourly rate for the driver's time.

Carriers also use accessorials to protect themselves from becoming a magnet for undesirable cargo. If one carrier offers a more lenient overlength policy, shippers will naturally gravitate to that carrier as a lower-cost solution for cumbersome shipments. For this reason, carriers will typically strive for a certain level of parity between their rules tariffs and those of other carriers, and are fast to react with updates of their own when another carrier begins applying a fee on a certain kind of freight, or increases the amount charged for a previously established accessorial. That said, the details of when particular accessorials apply and how they are calculated varies between charges and carriers. Some accessorials involve simple binary determinations, such as whether a shipment contains hazardous or overlength materials. Others are contextually dependent fees based on, for example, what type of facility is receiving the delivery and in what zip code. While carriers try to avoid substantial deviations in their rules tariffs that would make them a refuge for undesirable freight, another complication is that not all carriers use the same calculations to determine if shipments meet thresholds for accessorial charges. For example, cubic volume is sometimes calculated from the floor of the trailer to the top of the packed pallet—which has a standard height of 48 inches, including the pallet itself—but other carriers may calculate it to the ceiling, for which the standard is approximately 100 inches.

UNEXPECTED SURPRISES FOR SHIPPERS

On top of keeping track of sprawling documents and nuances among carriers, accessorials can keep a shipper up at night because carriers can modify or add to them at the drop of a hat. And unless otherwise contractually required, carriers are under no obligation to inform shippers of these changes in advance.

According to Trombly, difficulty nailing down costs and continually evolving models are challenges endemic to the practice of cost estimation across industries. "The idea of price estimating for services is fraught with uncertainty. Residential construction is a particularly notorious example," he says. "Even the most sophisticated cost estimating operations that build in simulation, risk factors, cost elements and variability still struggle to accurately forecast. Add in a competitive environment with changing requirements, and it's not surprising purchasers face shifting targets."

Given these conditions, shippers can be slow to recognize a potential issue, often initially thinking that higher freight bills indicate a mistake and thereby failing to address accessorial updates until significant charges have already accrued. Below are several examples of subtle rules tariff revisions that can leave shippers on the hook for significant cost increases.

Sudden shifts whiplash freight bills.
After Old Dominion announced it would begin charging $1,000 for shipments in excess of 8 feet in length, all other major carriers adopted this policy in less than six weeks to avoid inadvertently welcoming over-length cargo by way of a much smaller fee. Failure to recognize and adapt quickly to such shifts can be extremely costly, as demonstrated by the case of a shipper that continued to rely on its historical knowledge. The change happened so quickly, and the increase from the original fee of only $75 was so dramatic that the shipper had racked up $120,000 in additional costs by the time that they realized their sizeable bills were not the result of a carrier error.

Light, bulky freight is a red flag for reclassification.
A business ships enclosures for water valves, bulky items designed to prevent plumbing from freezing in cold climates. Fully assembled, the large enclosures would meet thresholds for overlength surcharges and other accessorials that penalize bulky freight, so the company ships individual components and panels for assembly on-site to keep freight costs down. But light, bulky freight is a common target for reclassification by carriers, and the carrier invokes its right as outlined in the rules tariff to reinspect and reassess the shipment. They reclassify it, and before the shipper realized it, $70,000 in newly assessed fees accumulated in just a few months.

Limited access isn't so limited.
Charges and what constitutes limited access will vary based on carrier, but historically the surcharge has been applied for commercial and non-commercial delivery sites where pickup or delivery may take longer or require additional effort due to the location. Some of the most common examples of eligible locations are camps, carnivals, fairs, churches, mosques, synagogues or temples, but some carriers have been expanding the number of sites defined as limited access. One carrier, for instance, now identifies 38 types of limited access sites, up from 33 only two years ago, and some carriers are even expanding the definition of 'limited access' to mean anywhere without a dock. These actions expand the pool of eligible shipments and can catch shippers off guard when they receive invoices with surcharges they've never encountered before for the same pickup or delivery locations they've always had.

- **Alternate rates obscure quote accuracy.**
  A shipment consisting of pillows takes up significant trailer space without triggering the same charges related to weight as more dense, standard cargo. Extremely light freight can also negatively impact truck stability, making it more difficult for a driver to keep the trailer steady on the road. To compensate, a carrier may apply a cubic capacity minimum charge, an alternate rate schedule that can result in a bill far higher than a standard calculation that uses the weight of light, fluffy shipments like pillows would indicate. The carrier will always charge whichever is higher — the amount based on a standard calculation or the cubic capacity minimum. This confusion can result in shippers booking based on artificially low quotes.

- **Carriers use rule changes to push away less desirable shipments.**
  The summer 2023 collapse of Yellow, the third-largest LTL carrier in the U.S. at the time, set off a major reshuffling of freight. Aside from the supply-side pricing shock to rates, carriers also evaluated the freight in their network. If new cargo from former Yellow customers offered a better, more profitable fit for the carrier's network than existing freight, they used out-of-cycle pricing actions to purge less-desirable freight, whether over-length, lightweight or otherwise suboptimal for their network. An example is changing the rules tariff on lightweight shipments. After the Yellow bankruptcy, some carriers made shipments as small as three pallets eligible for the cubic capacity minimum, down from the previous threshold of six pallets. If a shipper is not quick to adapt to this change by shifting to alternative carriers or transportation options, they can face surging costs to ship the same freight they always have.

Even if a shipper does manage to stay on top of a carrier's accessorial changes, the difficult matter of parsing these adjustments and determining which shipments they will and will not affect remains. Trombly emphasizes the importance of shippers having a clear understanding of their shipment and requirements – a prerequisite that sounds simple enough in theory but becomes more challenging in execution. "Maybe you thought there would be a dock, but there wasn't. Surprise!" he says. "But aside from properly capturing simple details, the broader mandate is for shippers to combine their experience and an understanding of carrier offerings, because without that, they cannot specify their own requirements."

A key part of that experience is understanding the potential disconnect between how shippers and carriers view certain shipments. "The way that the shipper describes the shipment might accurately reflect how they're looking at it in the warehouse, but that might not be an exact match for how it fits on the trailer," Cordero said. For instance, two pallets that are each 52 inches tall might stack just fine in the warehouse, but they'll need to be unstacked in trailers that are limited to a 102-inch clearance to allow the trailer door to roll back above the freight when opened.

While a TMS is designed to provide a predictive rate, even a robust system can fail to accurately account for the full impact of costly rules tariffs. If the shipper knows all of their shipment and location attributes, the TMS should in theory be able to give them a reasonable expectation of what a carrier will charge, but the complexity of today's rules tariffs can render the TMS an unreliable source for quoting prices. Overlooked or misunderstood accessorials can result in major discrepancies between TMS quotes and actual bills, such as a shipment with a $250 quote culminating in an $800 bill. To further complicate matters, the varied standards and shipment attributes that carriers use to determine and calculate accessorials can outstrip the capabilities of a TMS. If the platform cannot accommodate multiple calculations to match the nuances of each carrier and the shipper relies on the TMS for quotes from several carriers, the result is inaccurate quotes, sub-optimal decisions and surprise freight bills.

THE COMPLEXITY TRIPS UP CARRIERS, TOO

Shippers that encounter an issue requiring further clarification must shoulder the burden of reaching out to the carrier themselves for a rate disclaimer, a step that many shippers do not take until they receive significant, unexpected charges. But the complexity of rules tariffs can make getting a straight answer far from straightforward – shippers have even reported difficulty getting an accurate quote when interfacing directly with a carrier's own customer service representatives.

But the complexity of accessorials is just one challenge — many carriers still use manual processes to record data involving shipping status, pick-up and delivery that can dictate whether accessorial charges apply. Going back to the detention process, technology has evolved to the point that carriers can know exactly when their drivers arrive and leave, yet many carriers still merely instruct drivers to manually check a box to record these times, which when misapplied can trigger unwarranted accessorial charges.

MANAGING AND MITIGATING THE IMPACT OF COMPLEX RULES TARIFFS

Given the complexity of rules tariffs and opportunity for human error when recording relevant data, accessorial charges deserve critical examination in freight audits to identify inaccurate or improperly levied surcharges and reclaim those costs. Accessorials can sometimes end up in an opaque "miscellaneous" category on invoices, so during an audit, data forensics should first match up unidentified charges with the respective rules tariffs that may be responsible for an accessorial charge of that amount. For instance, repeated charges of $85 might indicate surcharges for residential delivery. Once the relevant accessorials have been established, they must be carefully assessed to validate that each charge is applicable, complies with the agreed-upon terms and is correctly calculated. If duplicate charges or discrepancies are uncovered, the shipper or their logistics provider needs to work with the carrier to provide the information or supporting documentation required to dispute and resolve the claim.

A comprehensive audit is an important step, but there are also proactive strategies shippers can pursue to better anticipate and budget for accessorial charges and minimize unexpected ones. "Shippers want to understand how accessorials will affect them, but there's no magic formula. They must go through a consistent, deliberate process to keep up with rules and how they change," Trombly said. While carriers can typically change their rules tariffs without negotiation, some 3PL providers who work with many, even hundreds, of carriers devise a singular, consistent rules tariff. To qualify as one of the 3PL's vetted carriers, each company must agree to notify the 3PL in advance if they intend to change the rules tariff. Such an agreement can help shippers mitigate risk and complexity, but they can be rare to find today, so it's something a shipper should inquire about when considering working with or evaluating a logistics provider. A provider with extensive data, analytics capabilities and experience working with carriers can also help shippers to analyze their shipment profile and make carrier selection, contract negotiation and even mode and network optimization decisions to reduce the impact of accessorial charges and transportation costs more broadly.

To learn more about addressing accessorial charges, contact an LTL expert online at afs.net/ltl.