

## Winning Strategies For Transportation Procurement and Payment

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The challenges presented to transportation professionals to perpetually reduce costs and improve service have become standard operating procedure today. That is why Data2Logistics sponsored a study by Aberdeen Group entitled “Winning Strategies For Transportation Procurement and Payment” –How Leaders Are Taking Advantage Of Market Conditions To Lower Freight Costs.

The study indicates that surveyed companies believe they can reduce their overall freight budget by 8.8 % with more sophisticated procurement and payment technology. Furthermore, over 57% believe 2007 is the right time to improve procurement practices.

Some key areas of interest brought out by the study include the need to consolidate transportation procurement into a global sourcing team to improve negotiating leverage and reduce costs.

The study also points out that cost alone does not make for an ideal negotiating result. The selected vendor must be flexible and reliable. Best in class companies, represented by just over a quarter of the participants, had a closed loop spend management program in place. These participants negotiated freight rates including fuel and accessorial charges that have declined since 2004.

The companies:

- **Centralized freight procurement**
- **Encouraged carriers to be innovative in their bids**
- **Used a procurement (specialized application) tool**

The respondents overwhelmingly agreed that the saving realized came from the data they were able to prepare and access during negotiations. This includes knowing the true total cost of transportation including accessorial and fuel charges for shipping patterns.

The study clearly defines the transportation procurement and payment competitive framework for: organization, tactics and technology of companies that are best in class, average or laggards. It also provides recommended actions for improvement.

You can access this study for a limited time from our home page [www.data2logistics.com](http://www.data2logistics.com) or by pasting the following address into your browser <http://www.aberdeen.com/link/sponsor.asp?spid=30410644&cid=3913>.

## Rail Fuel Surcharge Changes

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Unlike motor carriers, parcel carriers and others, railroads have been in a unique situation in the manner that they assess fuel surcharges. Up until now that is. Rail surcharge programs must be based on attributes of a movement that directly affect the amount of fuel consumed (i.e., miles or miles plus weight).

The Surface Transportation Board (STB) concluded that computing rail fuel surcharges as a percentage of a base rate is unreasonable. They directed carriers to change this practice. They also mandated an end to the practice of “double dipping,” i.e., applying to the same shipment both a fuel surcharge and a rate increase that is based on a cost index that includes a fuel cost component. In particular they cited as unreasonable carriers that apply

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## Rail Fuel Surcharge Changes *continued*

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both the Railroad Cost Adjustment Factor (RCAF) and a fuel surcharge assessment. The STB imposed mandatory reporting requirements for all Class I railroads regarding their fuel surcharges. They will not, however, prescribe the index to be used for measuring increases in fuel costs, nor require application to exempt traffic.

If you ship under contract or if your traffic is exempt from regulation, carefully review the terms of your contract or exempt circular to see whether and how the decision will apply to you. If you ship under a tariff, you should consider whether the tariff rate includes both a fuel surcharge and an escalation index (i.e., the RCAF). If so, your rail carrier may be improperly “double-dipping.” You should also carefully monitor the carrier’s revisions to its fuel surcharge methodology, to be sure that the carrier is correctly implementing the Board’s decision.

This decision will require railroads to submit a monthly report containing the following information: total monthly fuel cost; gallons of fuel consumed during the month; increased or decreased cost of fuel over the previous month and total monthly revenue from fuel surcharges. Comments are due by April 2, 2007.

Four of the major rail carriers announced their plans for implementing their STB compliant fuel surcharge programs to be effective in the last week of April.

The key points are as follows:

- CN – Will use rail miles provided by ALK’s PC\*Miler/ Rail version 13. Monthly calculation based on the second prior month’s average cost as indexed in the U.S. No 2 Diesel Retail Sales by all Sellers On-Highway Diesel. There will be two calculations based on type of commodity shipped (CN bulk commodities and all other carload commodities). This will apply to both single line and joint line moves.
- BNSF – Will use short line miles as provided on their web site. Monthly calculation based on the second prior month’s average cost as indexed in the U.S. Average Price of Retail On-Highway Diesel Fuel. The mileage based fuel surcharge will only apply on BNSF single line, junction settled short line, and Rule junction settlement moves. Joint line moves will remain percentage based until interline carriers agree to a mileage table to use.
- CSXT – Will use short line miles as provided on their web site. Monthly calculation based on the second prior month’s average cost as indexed in the U.S. Average Price of Retail On-Highway Diesel Fuel. The mileage based fuel surcharge will only apply on CSXT public rates which are single line, junction settled short line, and rule junction settlement moves. CSXT will be rebasing all public rates as the new mileage base fuel surcharges are applied. All net charges will retain the current market level.
- UP – Will use rail miles provided by ALK’s PC\*Miler/ Rail version 13. Monthly calculation based on the second prior month’s average cost as indexed in the U.S. Average Price of Retail On-Highway Diesel Fuel. This will apply to both single line and joint line publicly published rates.

None of these carriers have released their actual surcharge document at this time so the actual application is subject to change.

For more information regarding the implications of these announcements please contact Steven L. Hufford of Data2Logistics Rail Services at 816.483.9000 Ext. 311 or via e-mail [steve.hufford@data2logistics.com](mailto:steve.hufford@data2logistics.com).

## Changes Made To Harmonized Tariff System

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The World Customs Organization has proposed extensive changes to the International Convention on the Harmonized Commodity Description and Coding System. The proposed changes, which have been adopted by the United States, will impact the way certain commodities are classified and recorded. Exporters should be certain to check the harmonized codes for the destination country goods are being shipped to, as they may now be different in 2007.

For importers changes became effective February 3, 2007. U.S. Customs and Border Protection allowed an additional 17-day grace period ending at the close of business

February 20, 2007. Effective February 21, 2007, entries must be made with the appropriate Harmonized Tariff Schedule of the United States (HTSUS) code changes, or import shipments could be delayed by U.S. Customs.

In order to ensure the accuracy of your shipping paperwork, you can visit the United States International Trade Commission's Tariff Information Center, which has a set of HTSUS Tools.

## Postal Rates Rise

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The Governors of the Postal Service voted to implement the Postal Regulatory Commission's (PRC) recommended rates under protest. What that really means is that they plan to allow implementation of the rates that the PRC approved but asked the PRC to re-examine specific rates. The Board set May 14th as the effective date for the new rates.

There are three issues being considered for further review: Standard Mail Flats, Non-machinable Surcharge for First Class Mail letters and Priority Mail Flat Rate Box. There is no set time for their response.

## DHL Announces Benchmark Results On Their Performance

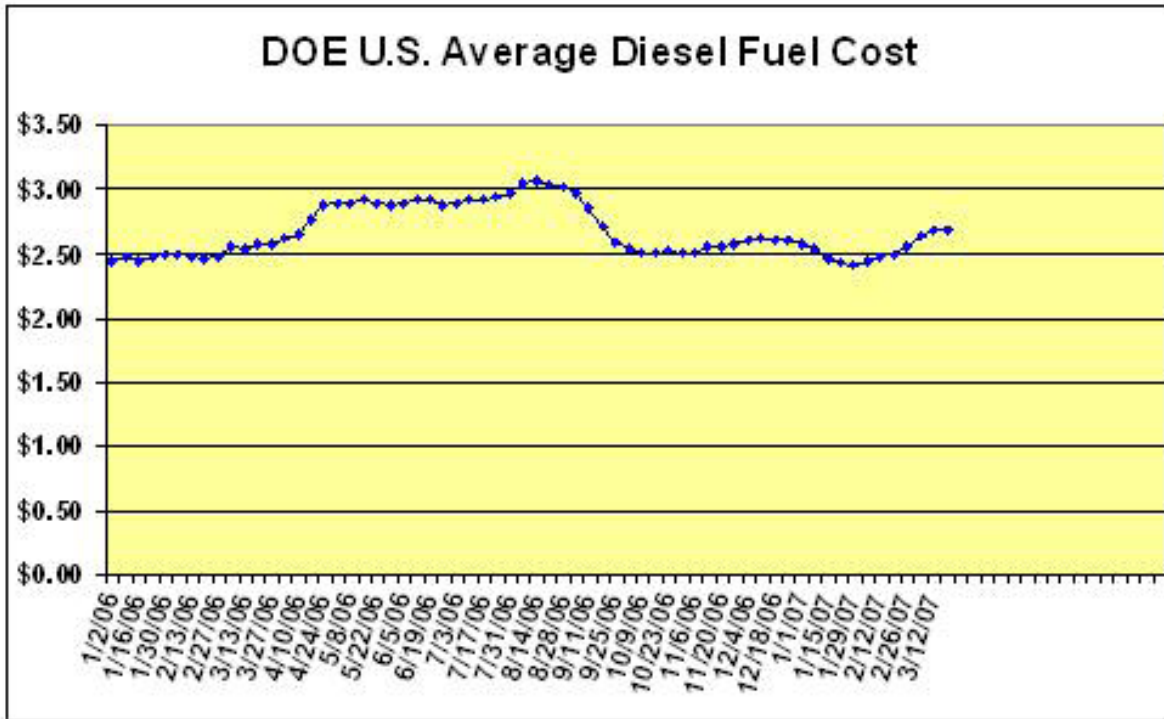
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DHL recently hired The PA Consulting Group to design a research study that would accurately and objectively monitor the performance of DHL against key competitors. The study provides some very interesting results for major integrated carrier performance on a nationwide basis for 10:30 AM delivery. It also identifies which carrier provides the fastest delivery performance for 10:30 AM service on a nationwide basis and on-time performance percentages.

However, the study claims that there is not a strong correlation between delivery reliability and actual transit time. In effect the study indicates that carrier performance reliability is not increased by delivering faster or slower.

To access the study results go to <http://www.dhl-usa.com/proof/GTBrochure.pdf>.

# Fuel



## Contact Us

If you have any questions, comments or concerns, please go to our web site at [www.data2logistics.com](http://www.data2logistics.com) or contact Harold Friedman at 609-683-3917 or via e-mail at [harold.friedman@data2logistics.com](mailto:harold.friedman@data2logistics.com).

