

Sample LTL Lane Analysis

Including

Sample Segment Cost and Profitability Reports

Analyzing

Individual LTL Rates of a Customer by Lane,
Total LTL & Truckload Shipments,
and
Total Shipments of a Customer by Lane

LTL Cost and Profitability Analysis

This document contains several samples LTL cost and profitability reports. These reports measure the total costs and profitability of LTL shipments and rates (segments). Profitability of a segment is determined by comparing total segment revenues with fully allocated expenses, including all operating expenses and general and administrative expenses. Various types of LTL segments can be isolated and evaluated using this methodology including specific rates, customers, lanes, areas, and others. Detailed profit and loss statements, similar to those shown in the attached reports, are generated for each segment. The reports show revenues, total costs, bottom line profitability, operating ratios, and other relevant data. These analyses are based on the actual expenses, operating characteristics and productivity of the carrier and segments being analyzed. The expenses shown are NOT arbitrary assignments of estimated expenses. The expenses are accurate measurements of real operating costs and the answers produced are precise and reliable. The enclosed sample reports show operating ratios ranging from 92% to 113%. It is not unusual to find LTL operating ratios for individual lanes ranging from 70% to over 160%.

Step By Step Analysis

When segments are analyzed with this methodology, each step of the LTL transportation process is analyzed separately based on the unique characteristics of each step. These steps include activities such as pickup, docking the freight at the origin terminal, linehaul, docking at the destination terminal, delivery and sometimes others. Once each step is analyzed, the total costs for all relevant steps are added together to produce the total costs and profitability of the segment. This procedure is used because different shipments may go through different steps as they move through the carrier's system. For example, some shipments are picked up by a local pickup and delivery (PUD) truck, docked at the origin terminal, linehauled to a destination terminal, docked at the destination terminal and delivered by a local PUD truck. Other shipments may only go through some of these steps, or may experience additional steps. For example, they might by-pass a dock, receive no linehaul or be linehauled twice. Also, each PUD route and each linehaul is unique in terms of costs, miles, hours, load factors, stops and other elements. Each terminal and dock is unique, including costs and productivity. Segments shown in the attached reports are analyzed based on the specific costs, operating characteristics and productivity of the PUD routes, docks, linehauls, and other characteristics involved in each segment analyzed. This process produces accurate, reliable information.

A Process For Solving Profitability Issues

This method of analyzing costs and profitability is an economical, cost effective way of solving profitability issues. It is not necessary to analyze every shipment every day. In fact, the data collection process for daily analysis of every shipment is unnecessarily overwhelming and carrier personnel do not have time to study every individual shipment in an LTL system every day. Also, daily variations in shipment handling can confuse the real issues of rate adequacy and segment profitability.

This methodology goes beyond *just* measuring shipment profitability. This methodology is designed to *solve profitability issues*. This is done by analyzing significant segments one at a time. Significant segments could include each customer, particularly larger repeat customers, and each individual lane of each customer's traffic. Segments could also include other possibilities, such as territories, cities, routes, etc. Frequently, the most practical approach is to analyze the profitability of *each rate in each weight bracket for a particular customer or area* based on the actual characteristics of these segments. This approach is very affective and easier than analyzing large groups of shipments. This approach will disclose which specific rate are profitable and which ones are not profitable. Once the initial analysis is done, you will know if the customer, area, etc. is profitable for your company. If it is not profitable, the specific cause for the lack of profitability can be identified and the "what if" capabilities of the methodology can be used to determine a solution to make the segment profitable. Solutions could include many possibilities. Adjusting rates is only one of the them. Once the solution is identified, it should be implemented promptly to make the segment profitable. Once that issue is resolved, proceed with the next significant segment and continue this process throughout the trucking operations.

Why Some Segments Are Unprofitable

This methodology also discusses why some shipments are profitable and other are not. For example, if a segment is unprofitable because the pickup route has poor productivity, the analytical process will disclose that fact. A "what if" analysis can also be generated showing the profitability of the segment if the productivity of the pickup route is improved. If rates are the problem, the program will tell you what rates you should charge to operate profitably. Operational problems, rate problems, productivity problems and others that affect profitability can be identified in a segment. Once problems are identified, the "what if" capability can be used to test solutions. This "what if" capability is very extensive and can be used to evaluate almost any "what if"

scenario including changes in rates, costs, productivity, PUD routes, linehauls, docking frequency, stop times, volume and others.

Cost Allocations

Total costs are allocated among the segments with more than 20,000 integrated algebraic formulae contained in the customized software. The allocation formulae were developed and tested during the past 30 years. These allocation methodologies have been applied by the developer in numerous projects involving approximately 1,400 trucking firms over a period of many years.

The cost allocation methodology includes reconciliation of all carrier data both financially and statistically. All segments are allocated consistently using the same types of formulae and data. Differences in segment profitability are caused by differences in the actual segment data such as rate levels, routes, productivity, load factors, cost levels, etc.

Custom Software

Every trucking company is unique. Therefore, the software, chart of accounts, cost allocation formulae, etc. are all custom designed to meet the needs of each individual carrier.

Base Period Data

The cost information shown in the reports is developed from profit and loss statements and operating statistics covering operations conducted by the carrier during a recent accounting period.

Traffic Study Data

The segment information that serves as the basis for the individual segment analyses includes statistics, rates and revenues relating to the specific customer, land, routes, etc., being analyzed. The information also includes descriptions of the traffic being analyzed and the specific procedural steps of the traffic as it moves through a carrier system.

The Enclosed Reports

The enclosed cost and profitability reports show just a few samples of the various types of segments that can be analyzed with this methodology. The first set of reports (Pages 6 & 7) show the profitability of six rates for six sample shipment weights applying from a

specific origin (Point A) to a specific destination (Point B) for one particular customer (Customer Jones). The second set of reports (Pages 8 & 9) show the profitability of rates applying for the same customer from the same origin to a different destination.

The reports show the following information for each segment: revenues, fully allocated expenses, profit or loss, profit percentage, operating ratio, revenue and fully allocated costs per hour, revenue and fully allocated costs per mile, revenue and fully allocated cost per hundredweight, revenue and fully allocated cost per shipment, empty miles percent of total miles, pounds per shipment, hours per shipment, miles per shipment and other data described in the reports.

The data described above are contained in two styles of reports for each group of segments. Each report shows six segments side by side. One style of report is designated as Screen C and is titled "Segment Revs and Expenses." It shows segment revenues, detailed expenses, total expenses, profit or loss, profit percentage and operating ratio. The profitability of each segment is shown at the bottom of the report and the total of all six segments on each report is shown in the column to the right. The headings for each column include descriptions of each segment.

The line item descriptions of expenses shown along the left side of each detailed expense report (Screen C, Segment Revs & Expenses), are custom designed for each carrier based on the carrier's unique operating practices, methods of compensation to its employees, categories of equipment and other factors. The expense descriptions are designed so that each type of activity performed by the carrier, such as pickup, linehaul, delivery, docking of freight, etc. can be analyzed and viewed on separate line items. This format allows the report reader to audit and better understand individual expense items of a segment. It also allows line items to be altered to reflect unique or "what if" expenses associated with the segment.

The second style of report is designated as Screen D and is titled "Summary Price & Cost Data." These Summary Reports summarize the profitability data from the Segment Revenues and Expense Reports for each segment in separate columns. The summary reports include the same segments as the Segment Revenues and

Expenses Reports but they show unit prices and unit costs along with other data which helps explain the differences in the profitability of the various segments. The Summary Reports restate the summarized data into revenues, costs and profits per mile, per hour, per hundredweight and per shipment. *The Summary Reports also show the revenue and rates required to produce a target profit percentage selected by the carrier along with the percentage of rate change necessary to achieve the goal.* This analysis is based on *actual* costs, productivity, operating characteristics and other influencing factors. In this set of reports, the target profit percentage is show as 7 percent. It is

also possible to analyze these same segments based on *projected* costs, productivity operating characteristics, etc.

The third set of reports (Pages 10 & 11) analyze two major segments of the carrier's operations. This carrier conducts both truckload and LTL operations which are integrated throughout its system. The carrier does NOT use separate equipment, drivers and facilities for the truckload and LTL operations and does NOT have separate accounting systems for the two operations. Nonetheless, this analytical methodology provides accurate cost and profitability analyses of each activity.

The fourth set of reports (Pages 12 & 13) show the profitability of all shipments handled by the carrier for a particular customer (Customer Smith) during a selected time period from one origin point to all destination points in an area. The profitability is broken down into weight groups to match the different rates applicable to each weight group. The column on the right shows the overall profitability of the carrier on this customer's traffic.

Additional Information

For additional information regarding the services and software described herein, contact the party named on the front of this document.