

INTERNATIONAL BUSINESS

PART 4: FREIGHT FORWARDING

TABLE OF CONTENTS

	PAGE
INTRODUCTION TO FREIGHT HANDLING AND FORWARDING.....	2
CATEGORIES OF FREIGHT	3
HOW FREIGHT PRICING IS DETERMINED	4
CARGO INSURANCE	5
FREIGHT PACKAGING	5
FREIGHT HANDLING SUMMARY	6
WHAT IS A FREIGHT FORWARDER?.....	7
WHAT IS A CUSTOMS BROKER?	8
SELECTING A CUSTOMS BROKER	9
CUSTOMS BROKER –VS– FREIGHT FORWARDER	10

INTRODUCTION TO FREIGHT HANDLING AND FORWARDING

What is freight?

Freight is a term used to describe the transfer of commodities and is usually a commercial process.

How is freight categorized?

Items are typically listed into various shipment categories before they are sent. Loads are typically marked as household goods, express, parcel, or freight Consignments. This is dependent on several factors:

- The type of item being carried, i.e. a kettle may be put into the category 'household goods'.
- How large the object is, both in terms of item size and quantity.
- How long the item for transportation will be in transit.

Articles of furniture, fine art, or similar Items are always sorted as household goods.

Very small business or personal things like envelopes are viewed as overnight express or express letter shipments. These shipments are seldom over a few pounds, and nearly always journey in the carriers own packaging.

Larger things like small boxes are viewed as parcel or ground cargos. These items are seldom over 100 pounds, with no single piece of the payload weighing more than about 70 pounds.

Service levels are variable, based on the shippers choice.

- Express dispatches almost always journey some of the way by air travel.
- An envelope can go coast to coast through the night or it could take numerous days, depending on the service choices and prices paid.
- Shipments are always packaged, sometimes in the shippers packaging and typically in carrier-provided packaging.

Service degrees are again varying; but nearly all ground items will move nearly 500-700 miles per day, going seashore to coast in more or less four days depending on origin.

Parcel goods not usually go by air, and normally move thru road and rail. Parcels represent the bulk of business-to-consumer (B2C) payloads.

Other than household goods (HHG), express, and parcel shipments, movements are called freight shipments.

CATEGORIES OF FREIGHT

Less-than-truckload (LTL) freight:

The first category of freight is less than truckload (LTL). LTL shipments range from 100 pounds to about 15,000 pounds, and the containers are always much less than 28' long. However, air freight shipments typically need to move at much faster speeds than 500 miles per day. Air shipments may be booked directly with the carriers or through brokers or online marketplace services.

Express, parcel, and LTL shipments are always intermingled with other shipments on a single piece of equipment and are typically reloaded across multiple pieces of equipment during their transport. Under the current U.S. truck pricing model, adding more to a load costs nothing more.

Truckload (TL) freight:

In the United States of America cargos larger than around 15,000 pounds are usually classified as **truckload** (TL) in that it is more economical to only use a truck rather than share it in an LTL environment.

A full truck is limited to the amount of weight that a unit can legally carry by the difference between 80,000 pounds and the weight of the tractor trailer. Increasing shipment size has proven to be a significant opportunity for many companies - particularly large consumer product companies.

Programs for increasing load size include: reducing truck equipment weights for example, by "light weighting" the equipment. This may involve extensive use of lighter-weight materials such as aluminum.

Other ways to increase load size include: consolidating orders onto the truck using a Transportation Management System. Here the optimal combination of orders and stops can be used to fill out the truck.

When transporting freight, it is especially crucial to understand pricing, claims, and insurance.

HOW FREIGHT PRICING IS DETERMINED

Less-than-truckload (LTL) carriers typically charge by freight class.

- Each item has a class assigned to it based on the items density, load-ability or mix-ability, value, and other factors. Freight classes range from 50 to 500, and generally indicate the percentage of the base rate that should apply. So theoretically, class 85 freight should be charged 85% of the full rate between points A and B.
- **Common accessorial charges include liftgate service.** Liftgate service is almost always billed on residential pickups or deliveries and in commercial pickup and deliveries where loading docks or forklifts are not available. The trailer is equipped with a hydraulic ramp that lowers to the ground. The liftgate assists the driver in loading or unloading his truck. Only a small percentage of most trucking companies' trailers are equipped with liftgates so movements requiring liftgates must be communicated to the carrier in advance.
- **Inside pickup or delivery:** requiring the truck driver to pickup or deliver inside a building takes longer to complete a route. The carrier will charge an additional fee for this service.
- Another cost-saving method is **facilitating pickups or deliveries at the carriers terminals.** By doing this, shippers avoid any accessorial fees that might normally be charged for liftgate, residential pickup/delivery, inside pickup/delivery or notifications/appointments. Carriers or intermediaries can provide shippers with the address and phone number for the closest shipping terminal to the origin and/or destination.
- **Also, charges for additional insurance or literally hundreds of other possibilities may be added to the final freight bill.** It is extremely important that the LTL shipper works with the carrier or intermediary to completely understand all of the requirements of a shipment in order to quote an accurate price.

Truckload (TL) carriers usually charge a rate per mile.

- The rate varies depending on the distance, geographic location of the delivery, items being shipped, equipment type required, and service times required. TL shipments usually receive a variety of **surcharges** very similar to those described for LTL shipments above. In the TL market, there are thousands more small carriers than in the LTL market; so the use of transportation intermediaries or brokers is extremely common.

CARGO INSURANCE

About 10% of all freight shipments will experience some significant loss or damage. It is a common misconception that a freight rate includes full coverage insurance, when in fact a base freight rate typically includes only a bare minimum of cargo insurance. A shipper should always ask their carrier or intermediary what the insurance coverage is for every specific shipment.

LTL shipments will often be insured for less than 25 cents per pound, and TL shipments will often be insured for only slightly more than LTL shipments. Most TL carriers have maximum cargo insurance of \$100,000 for the entire load; but for a 40,000 load, insurance may only be about \$2.50 per pound.

Whether a shipper deals directly with a carrier or uses an intermediary, the amount of cargo insurance coverage the carrier will be providing on the shipment must cover the cargo value. Shippers do not assume that full-coverage insurance is provided, as it almost never is. Shippers typically ask the carrier or intermediary about the procedure in place regarding freight loss or damage claims. Responsible carriers and intermediaries will always have additional insurance available for purchase and will have fast and easy ways to manage claims.

FREIGHT PACKAGING

All shipments should be palletized and wrapped in plastic to protect from damage. Most shipments should be fully crated in order to ensure a damage-free delivery. A good rule is to ask the carrier or intermediary for the specific packaging requirements for each shipment then exceed those requirements. Also, since shipments may be reloaded several times, it is important that the packaging has all the shipper and consignee info clearly noted on at least two sides of the shipment.

Filing claims with freight companies is a cumbersome and time consuming process, so shippers should take extra care in packaging to avoid freight claims.

FREIGHT HANDLING SUMMARY

Railcars can ship any bulk commodities to many locations. Shippers usually first determine that they are utilizing the correct type of carrier for their particular type of load: using an LTL carrier for an LTL shipment, for example. While parcel carriers will accept LTL consignments, and LTL carriers will accept TL dispatches, shippers will typically see lower quality service at higher rates when carriers service cargo that is "non-standard" for their particular company.

If the shipper has chosen the correct kind of carrier, the shipper then shops several carriers in order to find the most appropriate service and price for their consignment. Shippers search out all-inclusive quotes that include all surcharges and accessorial fees.

After the shipper has chosen the mode and carrier and is prepared to ship, they normally over-package their freight cargo and verify insurance coverage, to minimize damage & claims.

Inexperienced shippers typically use the services of a freight intermediary or consultant to help them find the most effective carrier, service, and price for their consignments.

What is a Freight Forwarder?

The general definition of a freight forwarder is "**one who forwards freight from one point to another point.**"

The freight forwarder is the party whose role is essential to the smooth flow of international trade, to ensure that internationally traded goods move from point of origin to point of destination to arrive at the right place, at the right time, in good order and condition, at the most economic cost.

And also to secure the following :

- competitive air / sea / land rates with dependable international carriers and other transportation vendors
- timely scheduling of delivery of cargo to meet schedules of air / sea carriers
- extensive knowledge of requirements of customs of countries throughout the world
- air cargo charters and part charter services 24 hours - 7 days on a worldwide basis
- assistance in preparing commercial invoices and packing lists and other documentation
- destination tracking of air and sea shipments
- assistance in filing cargo claims
- prompt responses to your requests for quotations
- direct access to discount rates due to volume contracts

To accomplish this, expertise is required in a number of different areas.

Close cooperation is required with transporters in every mode - road, rail, sea and air transportation. Freight forwarders are constantly negotiating freight rates with transport providers, comparing the costs of moving cargo along different routes via different modes and then designing logistics infrastructures which provide the best compromise between cost, speed and reliability.

Those involved in this aspect derive continuous interest and motivation from the fact that no two operations are the same, given the diversity of the nature of cargoes that are traded and the increasing numbers of doors being opened through the globalization of world trade.

Once a forwarder's recommendations with regard to cargo routing have been accepted it becomes the responsibility of the forwarder to ensure that the goods concerned are transported and delivered as planned.

WHAT IS A CUSTOMS BROKER?

Customs brokers bring together critical business information that allows importers to clear their goods safely, securely and quickly through Customs. They manage your business data to ensure your goods meet Customs' requirements.

If you are involved in international trade, you benefit from using a customs broker.

For every trade transaction, reams of critical business data must be generated, about everything from country of origin and destinations, to suppliers, tariff classifications, routings, and intended use.

Traditionally, customs brokers pull that information together and clear the goods through customs. But many traders are learning that it is only part of the story. Customs brokers are now helping leverage that information into a strategic advantage, turning information into critical business intelligence. They are offering a growing range of specialized services to help traders develop new product lines, explore new markets, evaluate the impact of global change, and cut costs.

SELECTING A CUSTOMS BROKER

When selecting a customs broker, it is important to ask the following questions:

1. Does your firm have a specific area of expertise? How do you let your clients know of regulatory changes that affect the goods they import or export?
2. Do you have experience with and current knowledge of the goods that will be imported by my business? Can you provide me with some references from clients who import the same or similar items? What do you require from me to begin development of my database records or profile?
3. How will we work together to develop a compliance plan to clarify our responsibilities and minimize our potential exposure to penalties and shipment delays?
4. In countries where customs is a highly automated process, you should ask if the customs broker can communicate electronically with me, my vendors, carriers, customs and other government departments and agencies? How can you help me prepare and comply with advance electronic information requirements?
5. How will you manage payments of duties and taxes on my shipments?
6. What are your fees based upon? How do you define any “consulting” that may be required? What are my billing options?
7. What information do you have concerning exporting that I can provide to my suppliers and other supply chain partners?
8. Are you affiliated with any foreign customs brokers? Carriers? Freight Forwarders?
9. Can you provide me with a regular report that details my import and export history?

Some additional information you should provide to your customs broker as a first step.

Details about the goods you import and export, including: who manufactures the goods, where the goods are manufactured, the end-use and/or user of the goods, and the value of the goods.

CUSTOMS BROKER -VS- FREIGHT FORWARDER

What is the difference between a customs broker and a freight forwarder? Do I need both?

A customs broker specializes in the importation and exportation of goods across international borders. Most countries require customs brokers to be licensed or affiliated with a professional organization to be able to offer customs brokerage services.

A freight forwarder specializes in shipping goods. Some freight forwarders will specialize in local pickup and deliveries and some will specialize in shipping to or from certain countries.

A true freight forwarder is a “non-asset-based” company, meaning they do not own their own planes or trucks. This makes them more flexible in that they can move any goods of any size to and from anywhere. They can also move goods at different speeds — ocean or air — giving them flexibility in rates.

Some customs brokers are also freight forwarders, meaning you don't need to hire two companies. Remember, however, that companies specialize in certain types of business and certain countries. So while one may do well shipping to India, it may not be proficient with the customs.

In all cases, ensure your freight forwarder and customs broker understand the nature of your business.