S&P Journal of Commerce

US LTL carriers laying groundwork for higher pricing in 2025

US LTL companies look to drive revenue through rate increases and accessorial charges as they anticipate stronger growth in 2025. Photo credit: Wirestock Creators / Shutterstock.com.

William B. Cassidy, Senior Editor | Nov 21, 2024, 2:08 PM EST

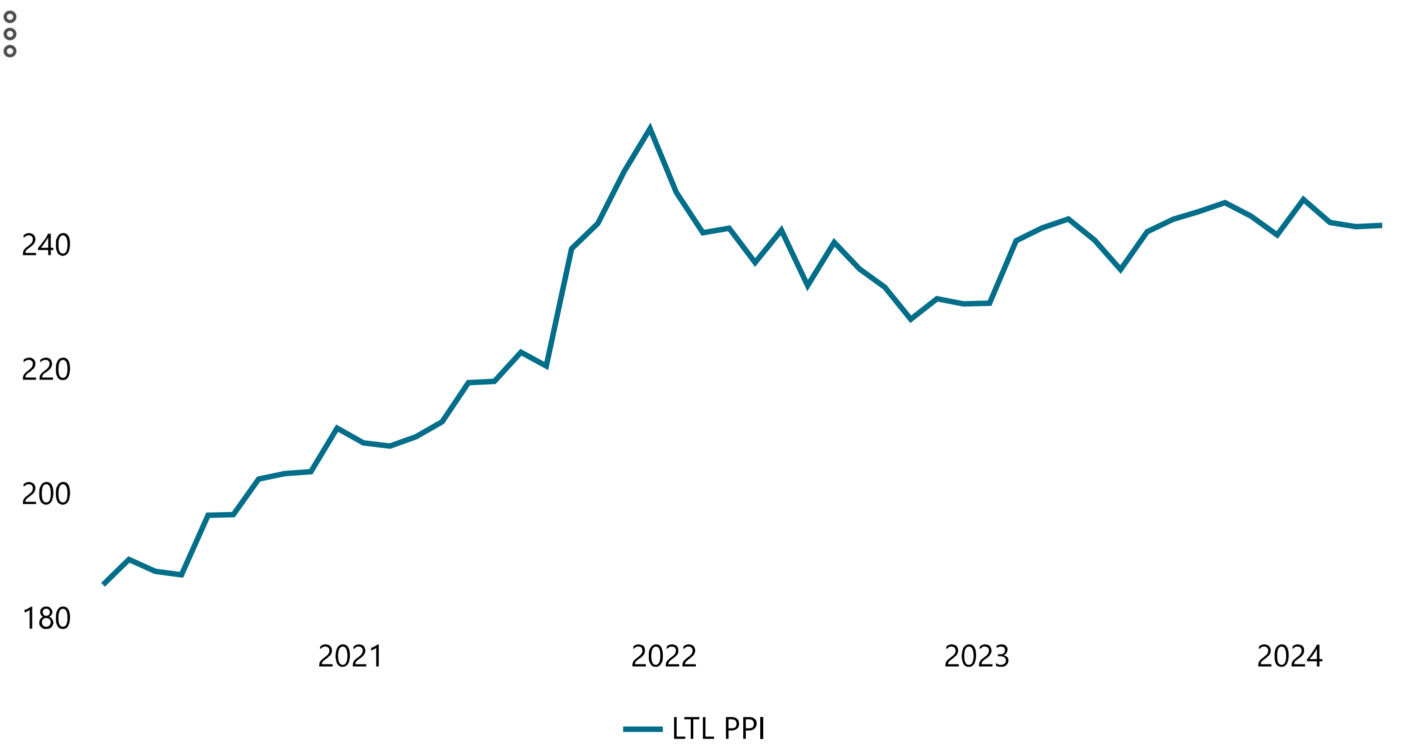
US less-than-truckload (LTL) carriers are laying the groundwork for higher pricing in 2025, well before higher freight volumes hit their docks.

Several of the largest LTL carriers in recent weeks have released average general rate increases (GRIs) for 2025 ranging from the mid- to upper single digits. The GRIs are for non-contract business, but they set expectations for contract pricing in 2025.

Old Dominion Freight Line set the base with a 4.9% GRI announced Monday that will take effect Dec. 2. FedEx Freight earlier announced a 5.9% GRI effective Jan. 6, while TForce Freight, the former UPS Freight, raised its LTL rates 5.9% on average in October.

US LTL PPI flattens year over year but still up 5.2% post-Yellow

US long-haul LTL producer price index



Source: US Bureau of Labor Statistics data, Journal of Commerce analysis

6M 1Y 2Y 3Y YTD MAX

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The biggest GRI came from Saia, which raised rates 7.9% on average in October. That GRI matched the average rate increase Saia claims it is getting in contract renewals.

"We've got to really continue to focus on pricing," Saia President and CEO Frederick J. Holzgrefe told Wall Street analysts during Saia's third-quarter earnings call last month. "The rates have got to go up across the board in all elements of the business."

Higher rates and revenue are needed to support the ongoing expansion of terminal networks and to keep pace with operating costs, carrier executives say. Saia, for example, will spend $1 billion this year on real estate, employees, equipment and technology.

Shippers have told the *Journal of Commerce* they expect LTL costs to rise in 2025, but not as steeply as some carriers anticipate. But shippers may be surprised.

Costing, pricing discipline

Before the 2008-2009 Great Recession, GRIs often were whittled down in contract negotiations, especially in years when the market was soft. That's less likely to happen today.

"Now it's all about measuring profitability, not just putting freight on trucks" to gain market share, said Dean Jones, chief commercial officer of AFS Logistics, a third-party logistics company that offers LTL cost management and other services.

LTL carriers are not only disciplined when it comes to pricing, resisting rate discounting, but they're also more disciplined in their approach to costing, Jones said in an interview.

"The carrier pricing teams are way more sophisticated than they've ever been," he said. "All their costing models for every contractual customer will be run with their GRIs. They know exactly what they need to make the margins they want lane by lane."

The GRIs, he pointed out, are averages, which means some shippers will pay less and others more. "They know who's a good client and who's a bad client, who delays shipments and who expedites them," Jones said.

In many ways, LTL carriers are taking pages from the playbook of Old Dominion, which pioneered a cost- and profitability-based approach to LTL pricing.

Companies that didn't adopt some version of that approach and relied on lower rates to draw shippers and freight have failed, from Yellow to Central Freight Lines.

Looking beyond rates

But LTL trucking companies aren't relying on higher rates alone to grow revenue. They're expanding their use of accessorial charges, tinkering with fuel surcharges, adding premium-priced services and using technology to reach new customers.

They're also using dimensioning equipment on docks and forklifts to check and double-check shipment dimensions to ensure freight is correctly classified and priced.

The LTL sector is cribbing pages from the playbook used by parcel companies, Jones said.

"We never used to see remote delivery charges in LTL, and now LTL carriers are doing that," he said. "Like the parcel carriers, if it costs them more to deliver, they're going to charge more."

Accessorial charges are also being used to change shipper behavior. During the COVID-19 pandemic, LTL carriers with congested terminals introduced higher surcharges for shipments that exceeded length limits; those surcharges remain in place.

FedEx Freight, for example, has an extreme length surcharge that runs from $672 to $1,430 per shipment depending on the length of the shipment. “At first people thought it was a fad, but today every LTL carrier doesn’t want anything over 8 feet in length,” Jones said.

What they do want is palletized, stackable freight that will efficiently fill trailers. Shippers have told the *Journal of Commerce* that LTL carriers are increasingly willing to turn away freight that doesn’t match their requirements — or charge much higher rates to haul it.

The cumulative result of all these strategies will be higher LTL costs to shippers, but also pricing that is more closely based on the actual cost to move freight.

And while accessorial fees may be added or raised, “the place to move the needle the most is the base rates,” Jones said. “The carriers that are more focused on the larger picture are going to go after the line-haul rates.”

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