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DOMESTIC HOUSEHOLD GOODS

THE PAST, THE PRESENT, AND THE OBVIOUS

BY CLIFF CANNON, CRP, GMS

The end of last year marked the 10th anniversary of the cessation of the Household Goods Carriers Bureau's 400N tariff, which was—and still is—the dominant tariff utilized in contract carriage agreements for shipping domestic household goods. The end of the 400N tariff in 2007 was a catalyst for contract changes in the industry. Additionally, in the decade since, move partners have grappled with increasing operating costs and a dwindling driver pool. In this article, the impact of the tariff change on household goods contracts will be examined, as well as the current and future challenges faced by move partners. Examining the trends reveals some practical steps to be taken today.

For more than 15 years, I have negotiated household goods contracts and their relevant tariffs, and I have watched that process become more convoluted over time. Each successive year, movers sought price increases in line with the consumer price index (CPI) to cover their increases in labor and packing materials, while corporations tried to negotiate increases less than or equal to the CPI to keep their costs down. The result of this trend has been the deep discounting applied to the 400N tariff, and a "list price" that is often irrelevant to the shipment.

How did this happen? Ten years ago the 400 series tariff was shut down by the U.S. Surface Transportation Board to stop collective rate making in the household goods industry. The intention was to eliminate the common rate structure so

that movers would no longer communicate regarding pricing. Each mover was required to produce its own tariff, and many chose to create a renamed mirror of the 400N.

Corporate clients either were subjected to multiple contracts with multiple tariffs, or faced reverting back to a generic 400N tariff to ensure price benchmarking. Otherwise, it becomes difficult to compare whether one tariff's rates and rules resulted in better pricing than another's without analyzing a large sample of moves. Thus, many clients continued to negotiate based on a 400N contract to allow for benchmarking with the previous agreement and keep the movers' pricing and rules "on the same playing field."

As a result, the industry has largely defaulted to a 400N tariff contract with antiquated rules, frozen in time on December 31, 2007. The 400N tariff contains Item 40, a clause that allows the tariff to factor in automatic general price increases derived from standard government indices. However, for the past 10 years, the tariff has not been adjusted to meet the changes in the marketplace. Examples are California's CARB compliance, TV boxing, and the upcoming electronic logging device (ELD) requirement.

There is nothing wrong with a basic household goods RFP—it provides moving partners an opportunity to negotiate a rate that they can work with, and it offers new partners an opportunity to compete. Ultimately, it allows a resetting of market rates according to that client's needs. Of course, the deepest discount does not always translate to the best choice: It can add performance headaches, increased policy exception requests, or other creative approaches to counter the competitive terms.

Some movers now wish to eliminate the application of the 400N tariff—for good. Whatever happens, a solid system of pricing needs to be developed and maintained.

DRIVERS, ELDS, AND SMALL SHIPMENTS

To determine a way forward, pricing factors must be taken into account and weighed. Which one factor most affects the pricing and supply of readily available moving trucks? The driver shortage. This might sound like a broken record, but please do not shoot the messenger. The phenomenon has been on our radar for years, and the fact is the household goods moving industry has not yet succeeded in gaining new, young drivers to replace retiring drivers over the last two decades.

Kathy Thompson of Atlas Van Lines in Evansville, Indiana, states, "The average age of the household goods driver today is between 55 and 60 years old." And the competition is stiff—drivers are in high demand not only among household goods movers, but also with freight companies, furniture stores, courier services, and local shipping companies. Why choose to drive for five days away from family, when you can find a job transporting goods within 200 miles of your home and get back for dinner that same night?

The demands placed on drivers are likely only to increase in 2018, as the government steps in with a new law to mandate the use of ELDs and to monitor driver work times. The result will be changes that both cost the client money and place limitations upon the driver. To illustrate, let's say a driver has a 10,000-pound shipment that will take about two more hours to wrap up, but his ELD forces a stop in 30 minutes. The driver has to stop the job, leave for the night, and return the next morning to finish up, or otherwise face a fine. The jury is still out on how this restriction will affect an already short supply of drivers.

The driver shortage has an obvious impact on peak season, and military moves can at times provide an additional complication. The military may place requirements on their movers to guarantee their transferees will be moved on particular dates, further burdening the driver pool during our busiest season.

This stretch of resources at peak times makes it difficult to book smaller shipments of less than 5,000 pounds. Currently, movers are pushing for

an increase of minimum weight in their carriage contracts, from the 400N's 1,000-pound minimum to at least 2,100 pounds. That's very reasonable in light of the overall situation. But such a solution does not help the small shipment that needs to be moved at the end of June or July.

All movers have blackout (capacity) dates, regardless of the weight of the shipment. Small shipments are generally less profitable, and many movers claim they operate at a loss or break even at best. Given a choice, it's obvious that the smaller shipments will be bypassed in order to transport a larger and more profitable shipment. As the market gains complexity and discounts continue to be steep, other options are needed.

The industry has responded to this issue with a flurry of companies offering some sort of containerization approach. Containerization refers to the method used to ship the goods (that is, crated in lift vans or some other container for shipment), and it usually involves different pack-and-load and delivery crews. This approach is not dependent on the availability of long-haul drivers—in fact, because of containerization, multiple shipping options are available. The cost of containerized shipments is typically more than that of traditional household goods, and it is not based on the 400N. Some movers quote each request, while others present a pricing grid with associated rules, so that relocation and procurement know what costs are involved. Some of the benefits of containerizing shipments include: 1) faster transit times, 2) often an exact delivery date, and 3) typically reduced storage charges.

Some movers now wish to eliminate the application of the 400N tariff—for good. Whatever happens, a solid system of pricing needs to be developed and maintained. The 400N tariff is past its prime and is losing relevance yearly. Contracts continue to be modified to accommodate what the tariff is lacking.

ANOTHER PIECE OF THE PUZZLE

Corporations cannot assume that household goods shipments will continue to function as they did in the past. From my perspective, full-service moving and/or self-hauled shipments will eventually be reserved for the relocation of larger shipments and/or VIP employees—those who are willing to pay the price. So what seems to be the solution on the horizon? For smaller shipments, consider moving toward the new age in which containerization is becoming the standard of the future.

As containerization gains momentum on the smaller shipments, and as the supply of drivers dwindles, applications for faster and better moves will be handled through the containerization system, even at higher weights. In five to 10 years, we may see that traditional full-service movers will be used for shipments 10,000 pounds and up, while shipments with less weight will be containerized.

For those reading this article, it is recommended that corporate clients consider a containerization contract with a detailed pricing structure and associated rules. Yes, you may pay more than the price of a traditional move. However, that cost is offset by faster delivery times, resulting in lower costs for temporary housing, per diems, etc. In addition, when you need to move that one transferee and all of your suppliers are telling you they are unavailable, containerization is *the* fallback option that will keep the transferees moving to their new destination and happy with the timing of their goods shipment.

Containerization is an important new service to have in your relocation toolkit. Even if you have a great relationship with your mover, the mover's goal will always be to deliver quality service while making a reasonable profit. There will be times when you will need another solution, and containerization is just the puzzle piece you need.

The goal should always be to improve the relocation industry by providing for the client and their transferees. As the winds of the industry shift, the best method to service the transferee should matter to your company. Now is the time to embrace containerization contracts as a way to ensure the satisfaction of your end client—the transferee. ***M***

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