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FAK (Freight All Kinds) - Strategies for Your LTL Pricing Program
By BridgeNet Solutions

Freight All Kinds (FAK) agreements ship and bill multiple items under the same freight class, which can streamline the transportation process and potentially reduce administrative or operational costs for both the carrier and shipper.

However, while FAKs can deliver these benefits, some programs decline in value to a point where they may actually add rather than save cost. External industry pressures coupled with internal management issues can erode the cost-effectiveness of this type of pricing program. Moreover, shippers may or may not be aware of these shortcomings. We will examine the reasons behind under-performing FAK strategies, and explain why shippers should regularly review and update FAK programs.

There are two types of FAK pricing programs. A single FAK includes all freight under one freight class. The other type is a tiered FAK, which segments the freight into multiple categories. An analysis of the characteristics of the products-especially density-can help shippers determine the best structure for their cargo. One consideration is that a single FAK structure often comes with an increased liability risk for carriers compared to tiered strategies.

FAK pricing is a popular option for less than truckload (LTL) shippers. Recent research has found 65-70% of shippers used either a single or a tiered FAK rate structure. Given its apparent popularity, why do some shippers fail to capture the full value of an FAK pricing program?

Industry influences
Various industry changes have made FAK a more complicated transportation option.

- Growing complexity. Higher product obsolescence rates, the explosive growth, and the speed in which new products are developed make classifying items increasingly challenging.
- Sophisticated analytics. The logistics industry has more analytical power than ever before. As a result, FAK programs are now evaluated in much greater detail by carriers (but not necessarily by shippers).
- Tougher regulations. Regulatory regimes are more stringent, particularly for hazardous freight, food products, and cross border shipments. This places transportation strategies, including FAK freight flows, under additional scrutiny.

Internal flaws
Internal inefficiencies can also throw FAK programs off track and make them less cost-effective. There are four main areas of concern.

- Outdated agreements. FAK programs should be reviewed periodically, but are often left unchanged for long periods. When this happens, there is a risk that the average weighted class has changed and no longer reflects the current freight.
- Lack of feedback from carriers. Service providers may avoid adjusting the agreement if the current terms favor them. This leads to unnecessary complications and expenses for the often-unsuspecting shipper.
- Limited information. Some shippers have no system for capturing and/or tracking actual class information or have little knowledge of the classes of their shipments, making the FAK less accurate.
- Liability coverage. Carriers commonly limit their liability to match the FAK class. If the class is low, the liability may be too low to meet the shipper's coverage needs.

Strike a balance
Despite these complications, a well-executed FAK strategy, tailored based on a shippers' needs, can become a supply chain competitive advantage. Shippers that effectively manage FAK agreements can have more control over transportation procurement strategies-a serious advantage in today's competitive marketplace.

Keeping an FAK program on track is not a major problem once a process is in place to keep the terms of the agreement up to date. A proactive approach to eliminate flaws in an FAK strategy can minimize unexpected challenges in the future.

5 steps to a successful FAK strategy
Using the following steps, shippers can begin to establish and maintain successful FAK programs to simplify LTL shipments and save money.

1. Gather accurate information. Develop a system to capture, track, and store actual class and FAK information. This can be done in-house or in collaboration with a service provider.
2. Analyze product characteristics. Before committing to an FAK program, knowing the freight attributes can ensure the products are a good fit for this form of pricing structure.
3. Determine the best structure. Based on the freight being shipped, choose the best FAK structure-either a single or tiered strategy. Keep in mind; tiered FAKs have less risk for carriers.
4. Regularly reassess. Review the mix of freight being shipped under the program to avoid needless spending due to inaccurate classifications.
5. Evaluate carriers. Include FAK evaluations in carrier reviews and evaluations. This is particularly important with regard to service providers' ability to maintain agreements.