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WHITE PAPER

With the 2011 Rate Increase, Now's a Great Time to Renegotiate Your Parcel Contract

By Thomas Andersen

INTRODUCTION

Were you one of the many companies to assume a 4.9% increase in your small parcel shipping budget sufficiently covered the carriers' "net" 2011 rate increase of 4.9% (5.9% increase on rates and 1% reduction on the fuel surcharge) on Ground shipments and UPS and FedEx's respective "net" 4.9% / 3.9% increase on Air services (6.9% / 5.9% increase on rates and 2% reduction on the fuel surcharge)? If that's the case, odds are high that you'll be exceeding your budget next year. The reality is that the average shipper will experience an increase of 8% to 9% when the General Rate Increase (GRI) is applied on January 3rd 2011. The world of Small Parcel Shipping is not a one-size-fits-all industry, but with the GRI taking effect, the impact is likely to be substantial. Now is the time to analyze and determine what the impact will be and to renegotiate your shipping contract, in order to negate some of these lofty increases.

UPS, FedEx, and DHL, the three major carriers, apply the increase, but the percentage increase varies by product type, weight, and zone. For instance, a carrier will apply a more aggressive increase in one area, while minimizing the increase in another, thereby resulting in an "average increase" of 4.9% on Ground (both Carriers) and 4.9% on Air (UPS) / 3.9% on Air (FedEx).

The following is an example of the % increase for the stated zones and weights for FedEx 2011 increase on Priority Service:

Wgt/Zone	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	Intra-HI
1-5	4.3%	5.2%	7.2%	7.2%	7.2%	7.4%	7.5%	7.5%	7.5%	7.5%	7.5%	5.0%	5.0%	5.0%	5.0%	0.0%
6-10	4.5%	5.4%	7.2%	7.2%	6.1%	6.3%	6.8%	7.5%	7.5%	6.4%	6.4%	5.0%	5.0%	5.0%	5.0%	0.0%
11-25	4.8%	5.3%	7.2%	7.2%	6.9%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	5.2%	5.2%	5.2%	5.2%	0.0%
26-50	4.8%	5.4%	7.2%	7.1%	7.0%	7.4%	7.5%	7.5%	7.5%	7.3%	7.3%	5.3%	5.3%	5.3%	5.3%	0.0%
51-150	4.6%	5.2%	7.0%	6.7%	6.8%	7.0%	7.3%	7.3%	7.3%	7.0%	7.0%	6.4%	6.4%	6.4%	6.4%	0.0%

By averaging all of these zones and weights, the average is 6.0% (in line with the stated 5.9%), but between zones 4 and 8 (the most common zones where Priority services are utilized), the average exceeds 7%. This is consistent with other services as well, with Ground service being the only service with higher increases in zones 2-5. This is expected, of course, as most shippers utilize Ground to zones 2-5, while utilizing a mix of Ground and Air to further zones.

The average increase is not specific to each customer, so one could experience increases that are closer to the stated GRI. The large majority will realize increases that are higher, often significantly more than the suggested increase, however.

IMPROVED SERVICE LEADS TO HEALTHY COMPETITION

Whether it's convenience, reliability, on time performance, controlling damages, or any other criteria, we all want to work with a reli-

2011 Rate Increase – By Thomas Andersen

able carrier that meets our expectations. Although FedEx and UPS claim to protect margins and yield, they are competing for your business. As a result, there's flexibility from the carriers that's consistent with what we have seen in the past.

From a carrier's perspective, there is a tremendous investment in facilities, fleet/transportation costs, and personnel at the regional hub, as well as local levels. These are fixed costs that remain relatively unchanged, whether utilization is at 90% or at 60%. For example, $90,000 in fixed costs that's applied to 45,000 shipments results in a $2.00 cost per shipment. At 60% utilization, the same fixed cost of $90,000 would be applied to 30,000 shipments, which increases the allocated cost/shipment to $3.00. When applied at a shipment level, the impact is certainly substantial. The need to maintain sufficient utilization levels becomes critical, to maintain overall positive margins. From a local perspective, this generates pressure to take unusual steps to protect existing business, as margins may be impacted for that specific customer, but helps protect the overall financial strategy of each carrier.

DISCOUNTS & FEE FLEXIBILITY

The most obvious opportunity for savings often lies within the rates. The minimum charges on ground shipments may be negotiable and flexibility exists on discounts. Competitive pressure, as well as one's shipment profile is a key component to what options may exist. Key variables include, but are not limited to dimensions of packaging; convey-ability; pickup and delivery density; single versus multi-piece; commodity type; need for special handling; perishability; hazardous materials; weights; services and products; and zone distributions.

The following are some of the primary fees (including increases) that will be applied to domestic UPS shipments, effective along with the annual rate increase on January 3rd – historical costs are included (FedEx is identical in most cases):

UPS Fees	2008	2009	2010	2011
Additional Handling	$6.50	$8.00	$8.00	$8.00
Address Corr - Air	$10.00	$10.00	$11.00	$11.00
Address Corr - Ground	$6.00	$8.00	$10.00	$11.00
C.O.D.	$9.00	$9.00	$10.00	$10.50
Chargeback	$10.00	$10.00	$10.00	$11.00
Declared Value	$0.60	$0.60	$0.70	$0.75
Declared Value Min. Charge	$1.80	$1.95	$2.10	$2.25
Delivery Area Surch. - Com	$1.50	$1.60	$1.70	$1.85
Delivery Area Surch. - Res	$2.30	$2.40	$2.50	$2.75
Delivery Area Surch. Ext- Res	$2.30	$2.65	$2.75	$3.00
Delivery Conf.	$1.50	$1.75	$2.00	$2.00
Delivery Conf. - Sig Req	$2.50	$2.75	$3.00	$3.25
Delivery Conf. - Adult Sig.	$3.50	$3.75	$4.00	$4.25
Residential Surch. - Air	$2.30	$2.40	$2.50	$2.75
Residential Surch. Ground	$1.95	$2.05	$2.20	$2.45
Saturday Delivery	$12.50	$15.00	$15.00	$15.00
Saturday Pickup	$12.50	$15.00	$15.00	$15.00

2011 Rate Increase – By Thomas Andersen

UPS Fees	2008	2009	2010	2011
Service Charge	$8.00	$9.00	$10.00	$10.00
Dim Divisor - Domestic Air	194	194	194	194
Dim Divisor - Domestic Ground	194	194	194	166
Dim Divisor - Domestic Ground	166	166	166	139
Dim Divisor - Intl Ground	166	166	166	139

For many shippers, the fee having the greatest financial impact is typically the Fuel Surcharge, as it can account for ten percent of the transportation cost, or more, depending on the % in the fuel index that's in effect at the time of the shipment, as well as the fees that are being impacted by the fuel surcharge. Many are not aware that the fuel surcharge not only applies to the base rate, but also to select fees, including the following:

- **Residential Delivery Charges**
- **Delivery Charges**
- **Pickup Charges**
- **Return Services Charges**
- **A.M. Charges**
- **International Extended Area Charges**
- **Saturday Delivery and Pickup**
- **Large Package Surcharge**

It is applied in a similar fashion by both carriers, but the slight differences could have a meaningful impact, based on your shipment trends.

Considering that a much higher percentage of Air shipments to zones two through four are moved via ground and rail transport today than in the past, a significant portion of this revenue should now be profit, some which should be available to you through negotiations. The cost of transporting packages via ground sources, rather than by plane is of course significant.

SUMMARY

Each carrier has specific discounts, fees, rebates, and incentives that are negotiable. Taking the time to analyze your shipment profile and assess your needs versus the costs, will allow you to negotiate discounts and fees that fit your company, not the "average". Most importantly, a current contract with any of the carriers does not mean you must continue to overpay. Note that having another year or two left on your current contract does not limit your ability to negotiate any components of your contract, as a 30 day out clause exists, for you, as well as the carrier. Bottom-line is that the flexibility to negotiate your small parcel typically exists, as long as you 1) understand your business, 2) recognize what flexibility exists with each of the carriers, and 3) know how and when to ask for it.

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