

WHITE PAPER

Mitigating the Rate Increases

By Thomas Andersen

With the 2010 rate increase taking effect, here are three steps to take and some potential options to consider that can help you offset those increases, or even decrease your spend, without sacrificing on service.

REVIEW YOUR PARCEL AGREEMENTS.

Verify that the anticipated revenue qualifiers are being met and that all services are addressed. You may experience a 20% increase in cost, or more, as a result of meeting a lower revenue qualifier and/ or utilizing services that don't have discounts applied.

ANALYZE YOUR PACKAGING

Boxes that are strapped or bundled, irregularly shaped items, as well as heavy pieces, may incur additional handling fees. Those fees can often be largely offset by placing the item in a corrugated box.

Since shipping rates are based on package weight and size, as well as origin-to-destination distance, analyze the actual weight versus dimensional weight of your shipments. For Ground shipments that are less than 5,184 in cubic inches (three cubic feet), expect to pay the actual weight. Otherwise, expect to pay the greater of the two. When possible, consider redesigning packaging to fit your products. If that's not an option, discuss revising the dim divisor with your Account Manager to arrive at an agreeable solution.

For Air shipments, one can typically expect to pay the greater of the actual and dimensional weight, with some exceptions for select Carrier supplied packaging.

For those shippers with International volume, note the subtle, yet potentially impactful, changes for 2010. For UPS, the International Envelope (letter) shipments weighing more than eight ounces will now be rated by weight, rather than at the "Letter Rate." In addition to the annual rate increase, rates may increase by 30-45%, depending on the shipment's characteristics. The chart shows some examples.

REVIEW YOUR SHIPPING PROFILE AND POTENTIAL ALTERNATIVES

If you continue to ship next-day, two-day or three-day service to Zones 2-4 (or even Zone 5), consider converting those shipments to Ground service, as acceptable guaranteed delivery times may still apply, but often at a much lower cost.

For lightweight, high residential volume shippers, now may be the time to consider FedEx Smartpost or UPS Basic services. The carrier still performs the pickup, sort and linehaul before handing it off to the post office for final delivery. One can often expect to add a few days to delivery times, but the reduction in costs may make it worthwhile. As of Q4-2009, the carriers are now much more flexible in offering these services to smaller shippers than they had been historically. The revenue from these services can also be included when establishing the revenue tier. Note that USPS and DHL Global Mail also offer discount programs in this arena.

Review shipping software to determine the best options. Some improvements include: improved efficiencies, rate-shopping amongst multiple carriers or to restrict usage based on time sensitivity (cost), to target a few.

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Consider centralizing shipment distribution to more effectively manage costs and controls. There are various costs associated with the pickup and servicing of an account that when it's applied at a shipment level, the impact can be substantial. As the carriers utilize cost models in their analysis, their improved margins may provide greater flexibility during your negotiations.

Beyond discounts, there are many areas that can be improved upon in order to improve service levels while maximizing savings.

Zone	481	401	406	409	412
Sample Country (ies)	CAN	UK/FR/DE	S.AMER	HK/JP	CN
2010 Letter Rate	\$30.70	\$42.50	\$62.70	\$41.30	\$48.80
2010 1lb. Rate	\$53.00	\$64.70	\$85.10	\$62.60	\$71.30
% Increase*	42.1%	34.3%	26.3%	34.0%	31.6%

* % Increase for a 1lb letter rate versus one that weights 8oz. of less.

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