



**OPERATIONS SUMMIT**  
▶ **THE ONLY** Conference Exclusively About  
Direct-To-Customer Operations & Fulfillment



## Advanced Parcel Negotiation Strategies



*Presented by:*

Rob Martinez, *President & CEO*



# Agenda

- ▶ The free shipping conundrum
- ▶ Challenges to negotiating parcel agreements
- ▶ Data analysis
- ▶ Understanding carrier pricing agreements
- ▶ Contract “gotchas”
- ▶ Procurement strategies
- ▶ Gaining leverage
- ▶ Benchmarks





# Free Shipping Conundrum



**FREE SHIPPING**  
ON ALL DOMESTIC ORDERS OVER \$50





## Free Shipping Facts

- ▶ Shipping costs #1 reason for shopping cart abandonment (Forrester Research)
- ▶ 61% of consumers will cancel entire purchase if free shipping isn't offered (comScore)
- ▶ 62% of all online retailers offer some sort of free shipping (Parcel magazine)
- ▶ 49% of all ecommerce transactions in 2010 included free shipping (comScore)
- ▶ Free Shipping Day (12/16/11) generated more sales online than any Friday in US history (FreeShipping.org)
  - ⚙ >\$1 billion
  - ⚙ Lowest shopping cart abandonment in history







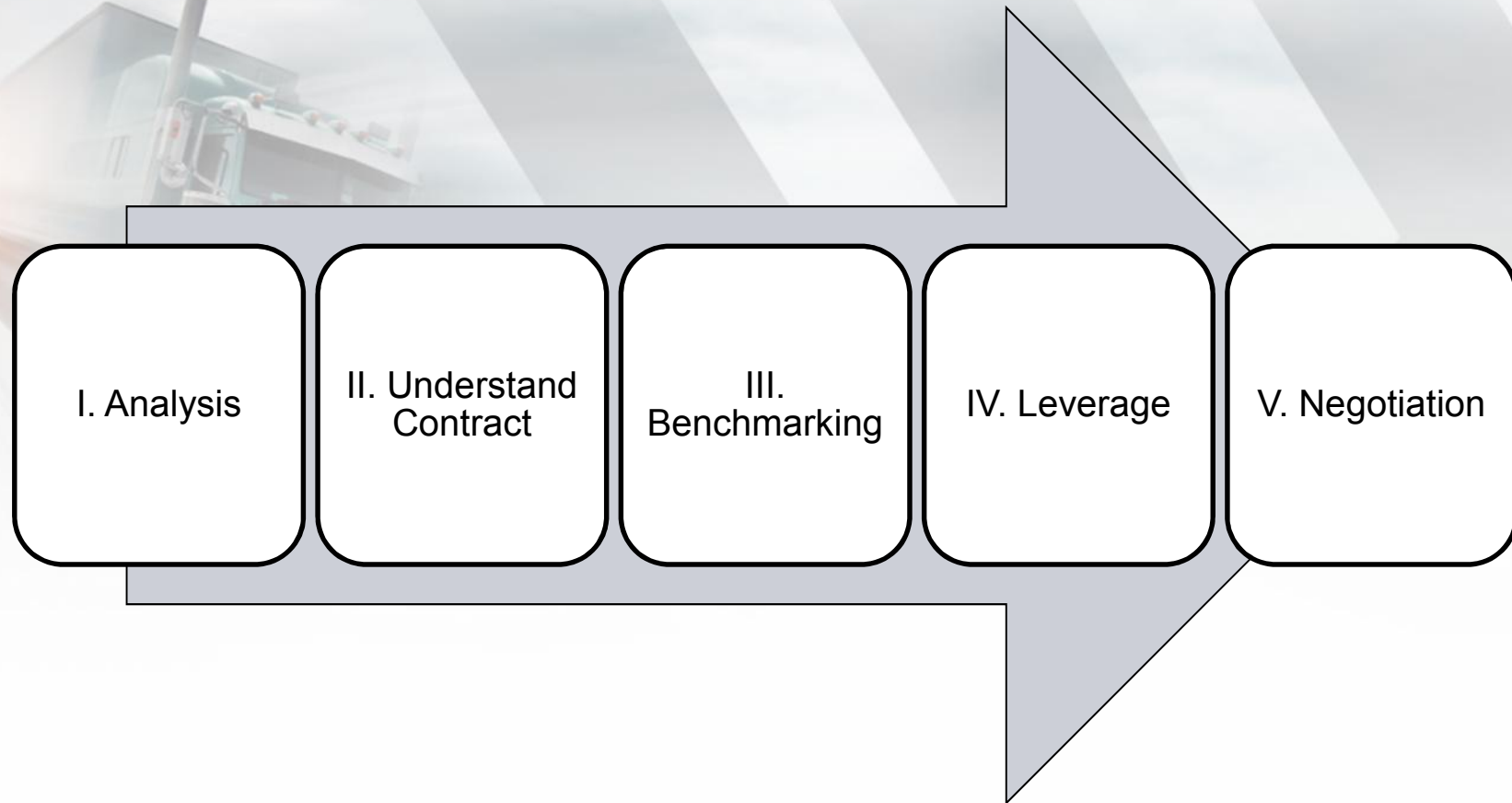
# Types of Free Shipping Offers



Source: Breakdown of Free Shipping Offers by the Top 100 E-tailers, [eShippingNews.org](http://eShippingNews.org)



# Effective Negotiation Process



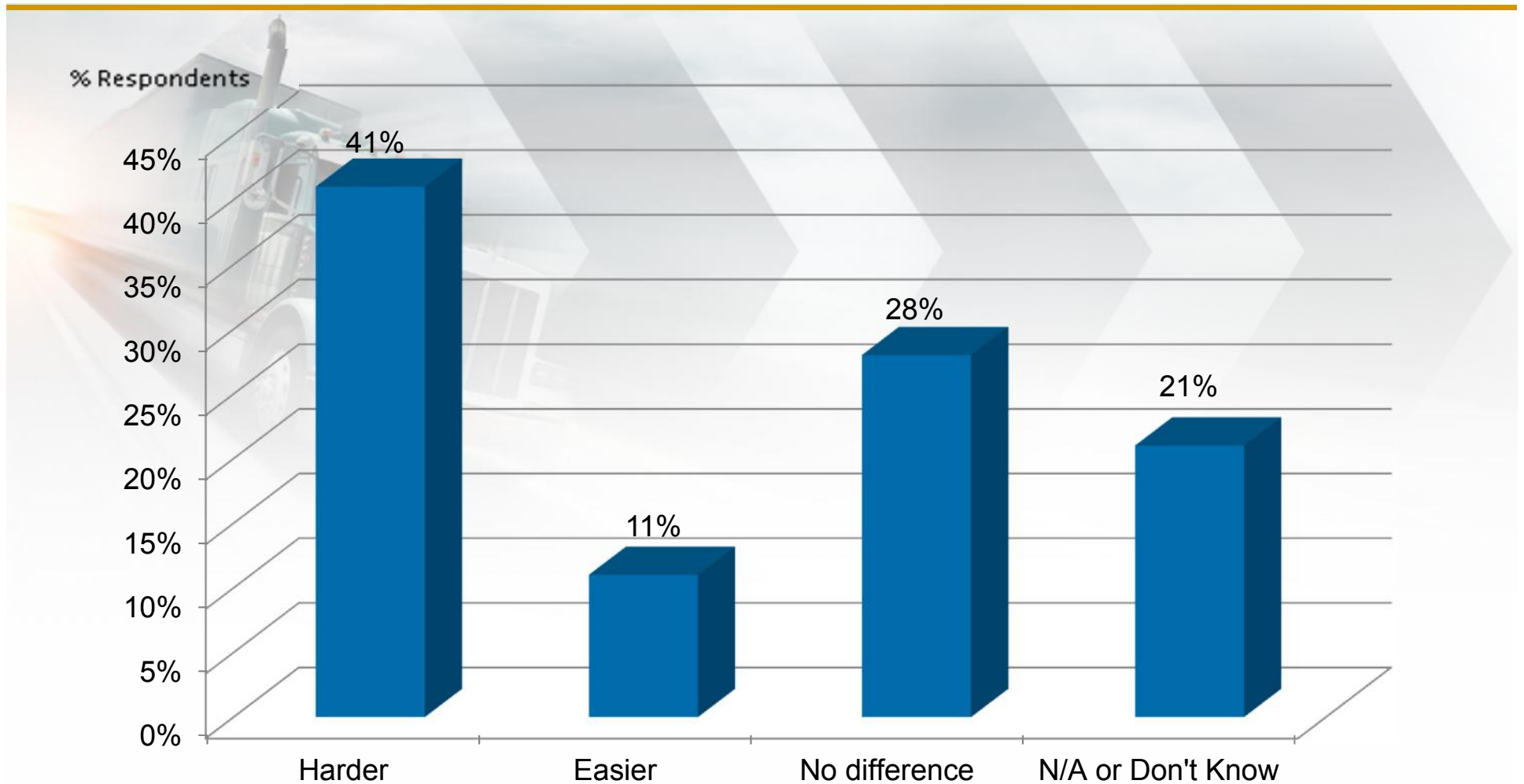


# Challenges of Negotiating Parcel Agreements





## Negotiating With Carriers Now:



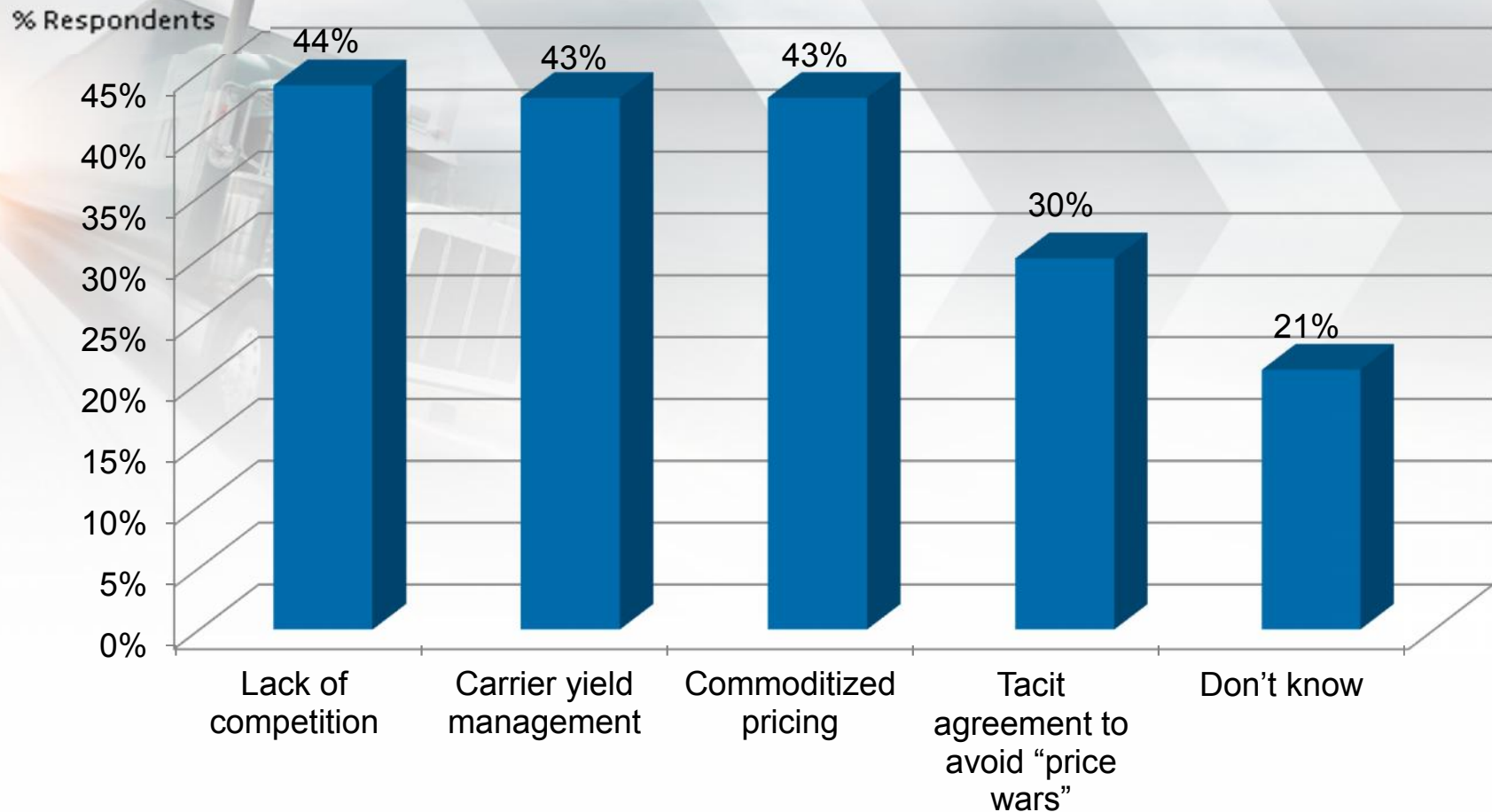
Source: Parcel Pricing Survey, *Parcel Magazine*







## If Answered “Harder”, Why? (Check all that apply)

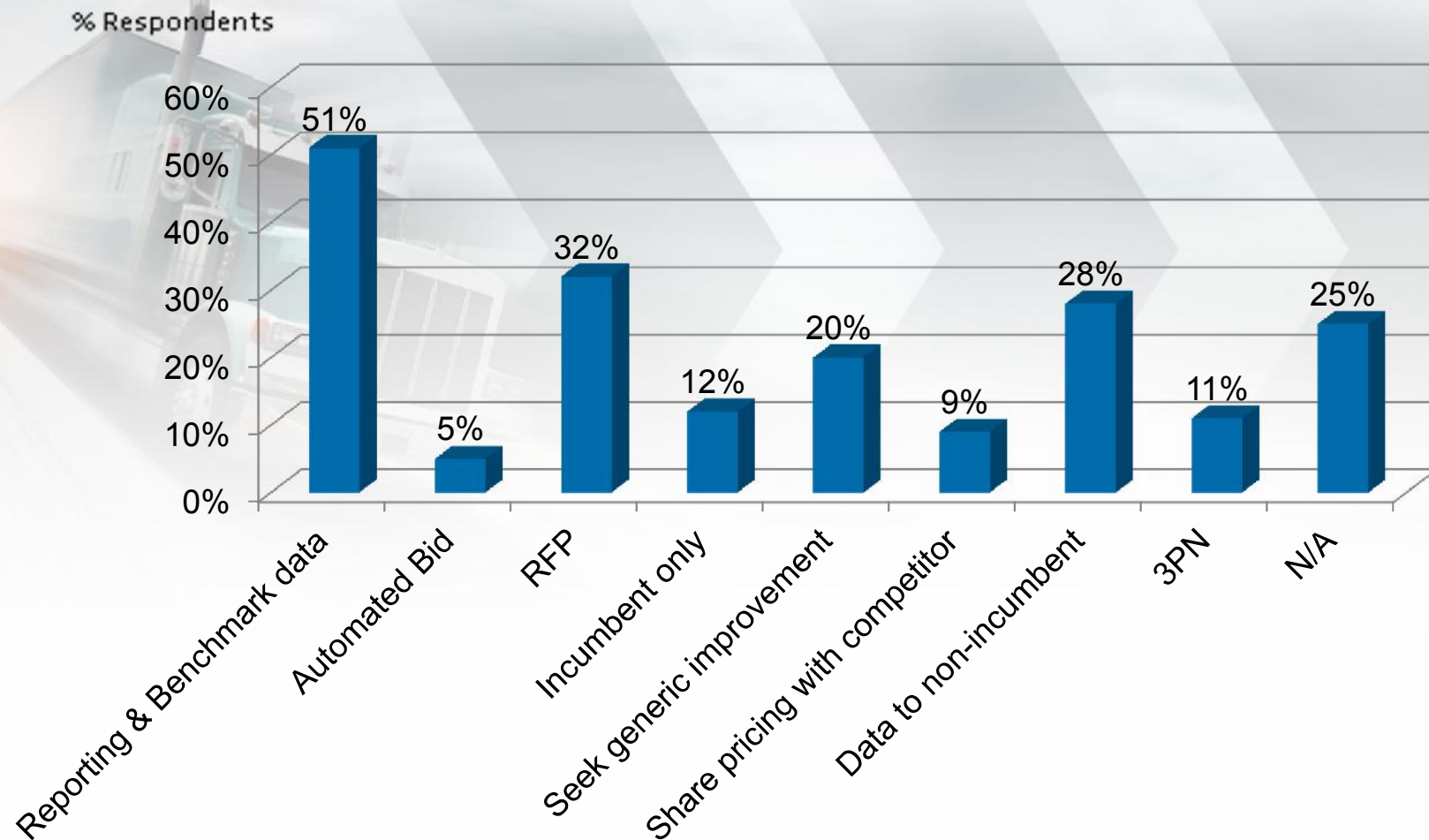


Source: Parcel Pricing Survey, *Parcel Magazine*





# When Renegotiating Parcel Pricing Agreement: (Check all that apply)

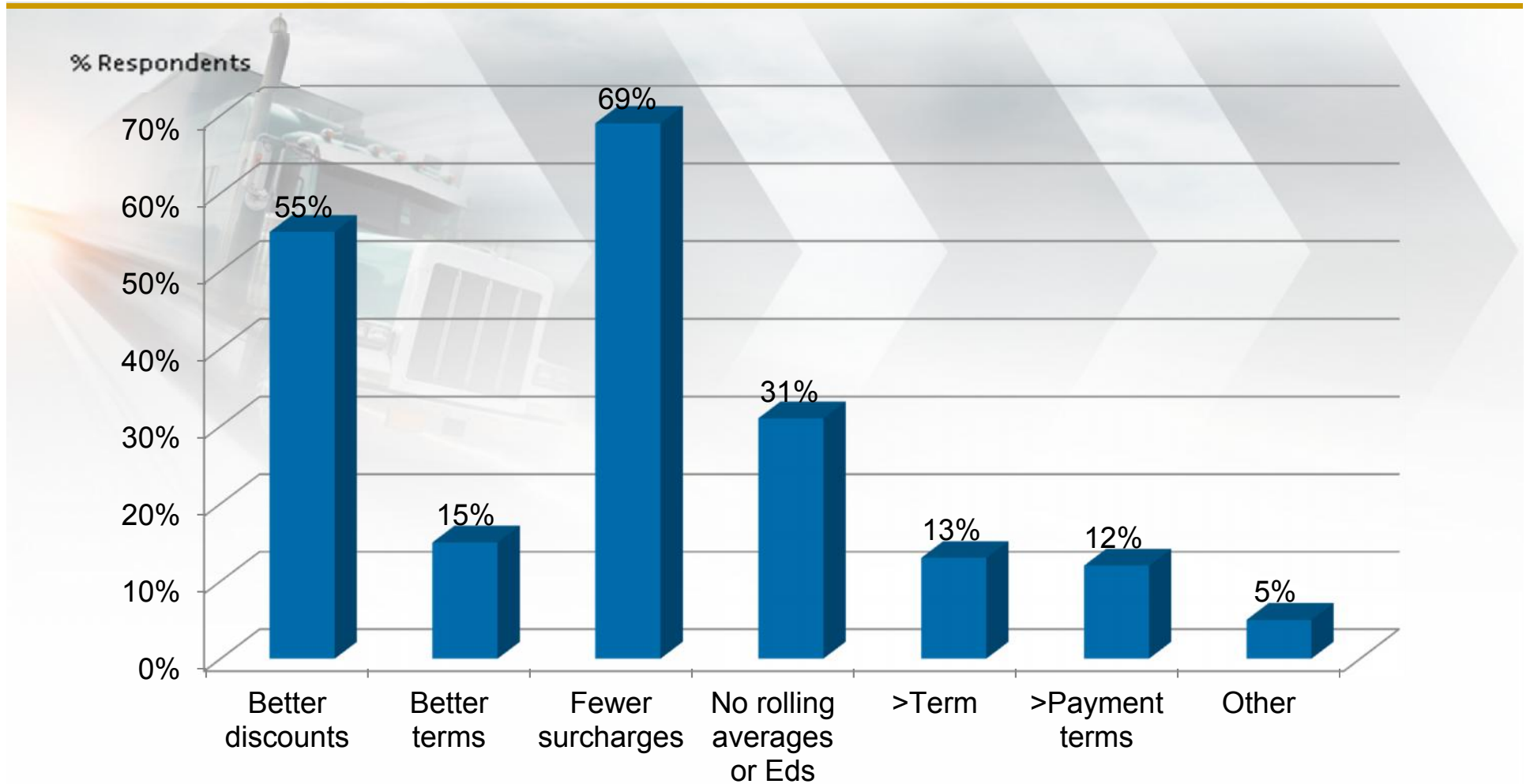


Source: Parcel Pricing Survey, *Parcel Magazine*





## If You Could Change Your Pricing Agreement (Check all that apply)

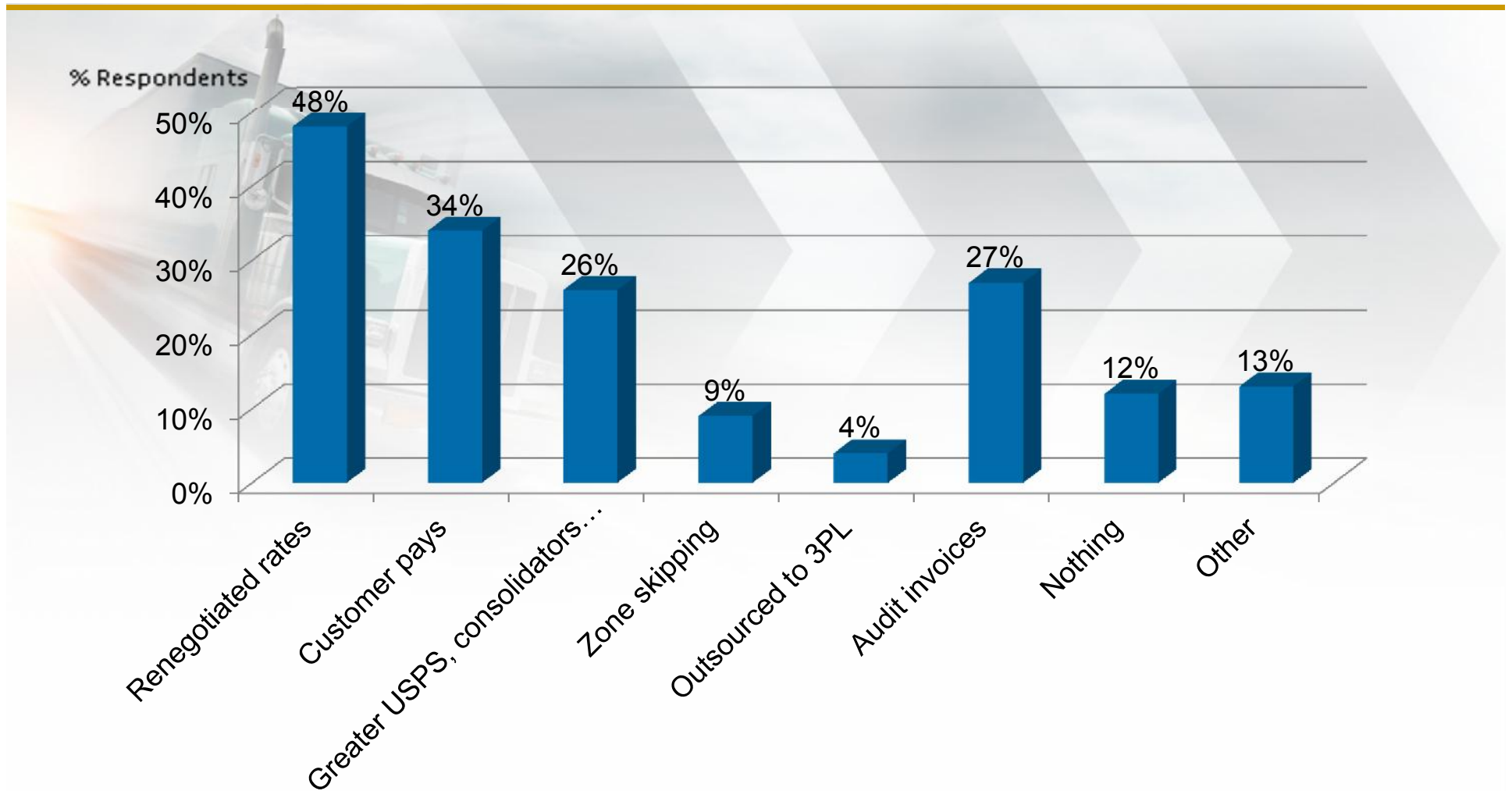


Source: Parcel Pricing Survey, *Parcel Magazine*





## Steps Taken Past 12 Months to Reduce Parcel Costs? (Check all that apply)

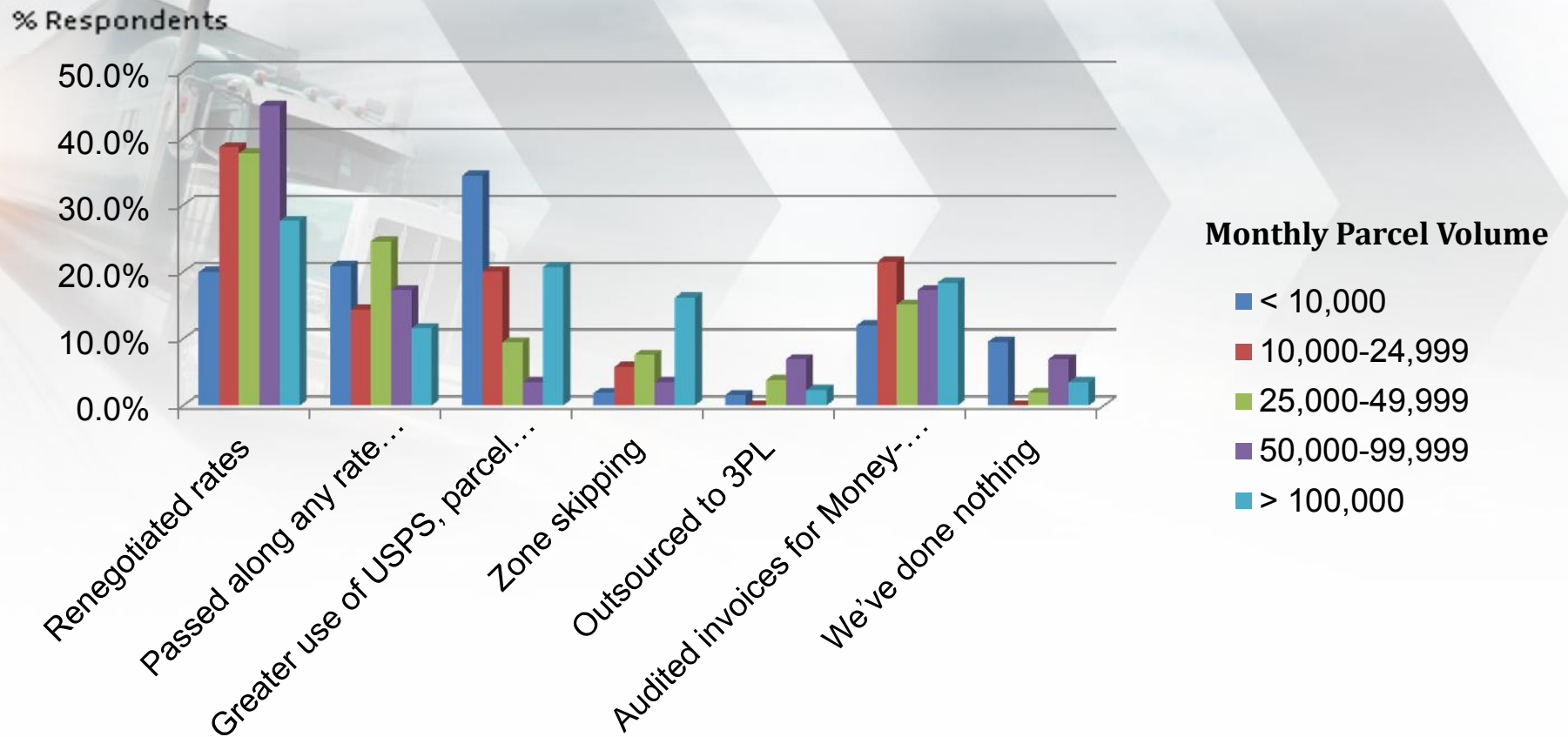


Source: Parcel Pricing Survey, *Parcel Magazine*





# Strategies to Reduce Parcel Costs by Volume



Source: Parcel Pricing Survey, *Parcel Magazine*





# Data Analysis



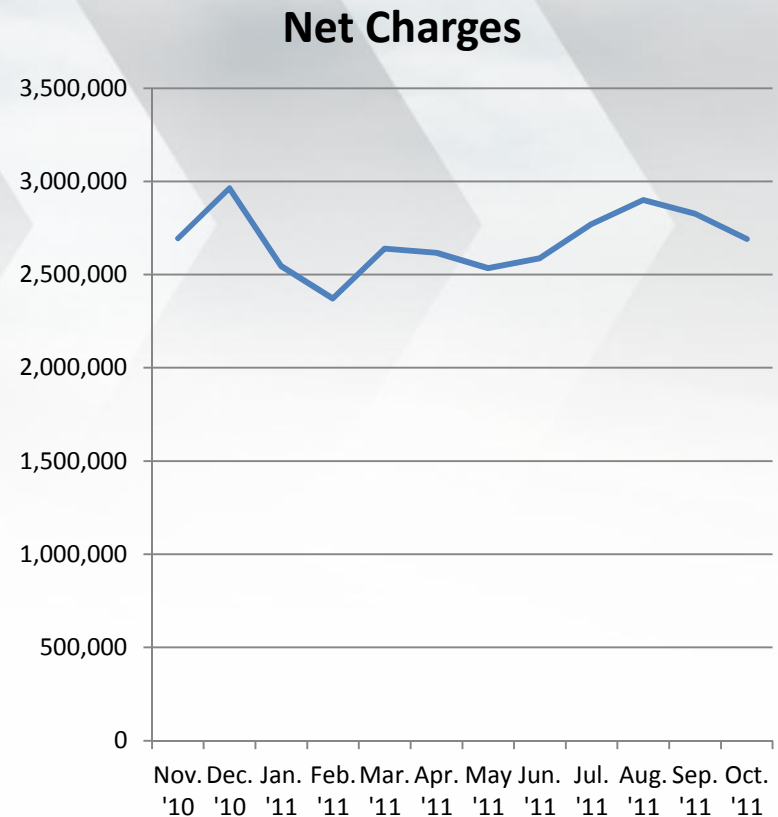
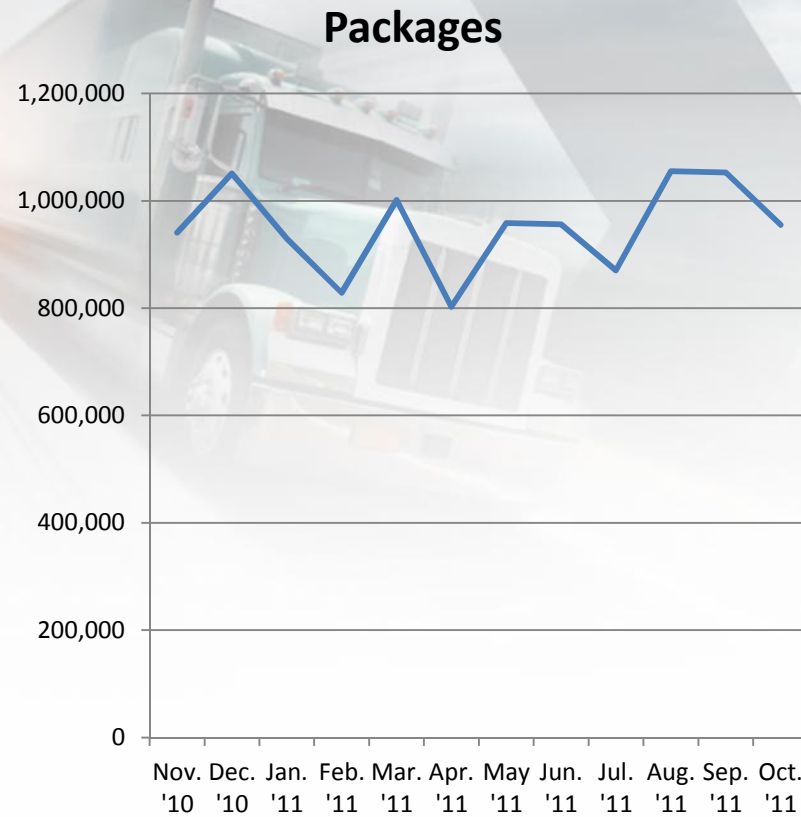


## Why Start with Data?

- ▶ Negotiation value
  - ⚙ Know as much or more about your business than carrier
  - ⚙ Establish credibility
- ▶ Becomes the basis for RFP
- ▶ Provides non-incumbent carrier important information
- ▶ PLD database permits accurate modeling of proposed carrier pricing



## Packages/Charges by Month

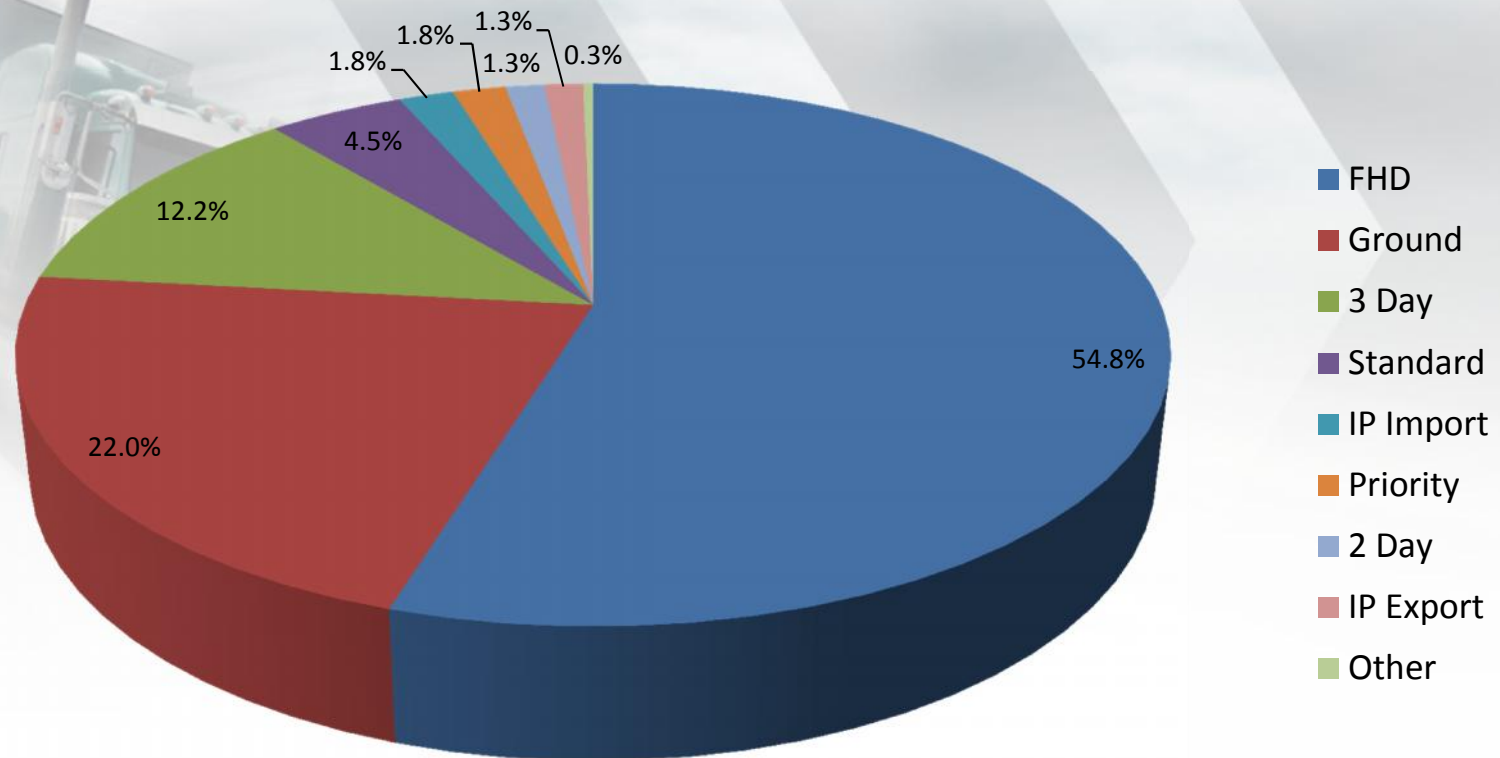


Average 950,238 packages at \$2,678,504/month





## Shipments by Service Type

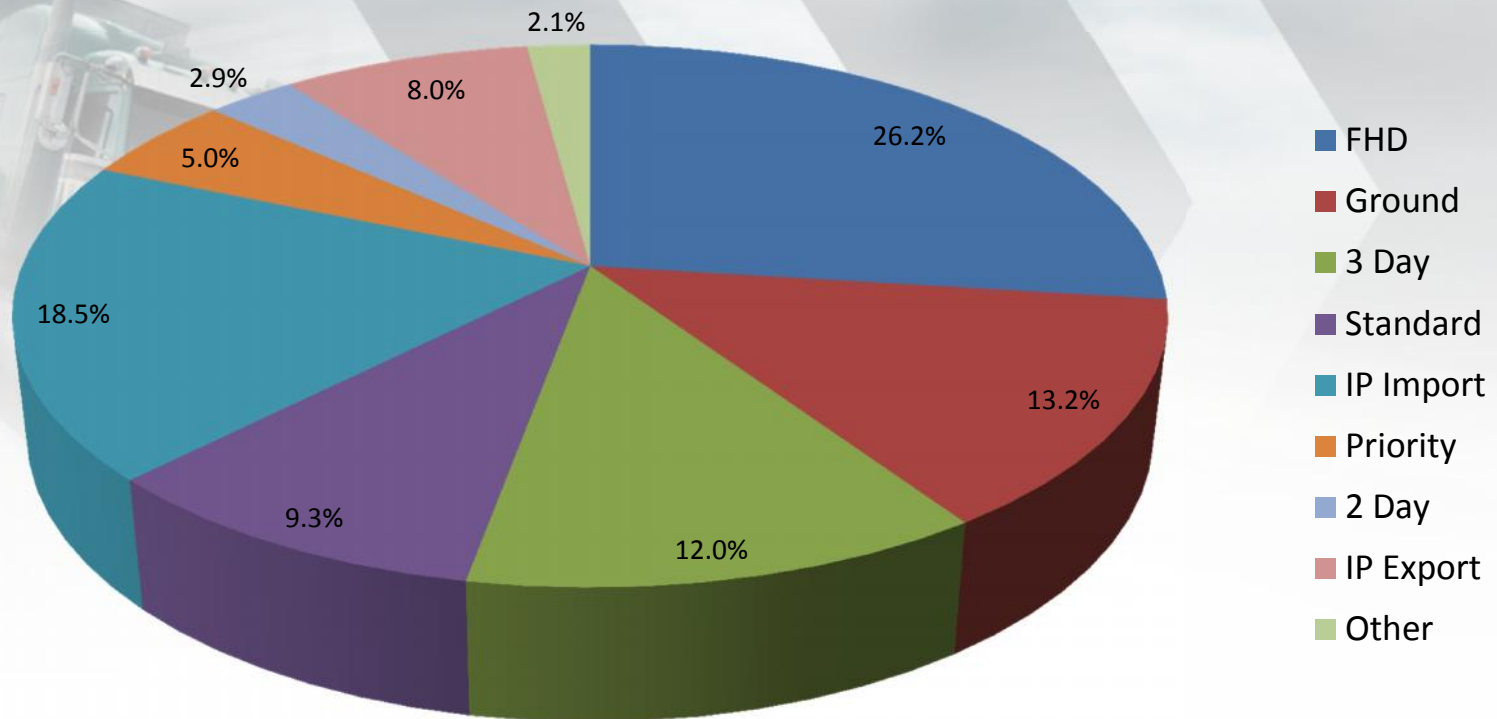


Ground/FHD = 76.7% of shipments  
International = 3.4% of shipments





## Net Charges by Service Type

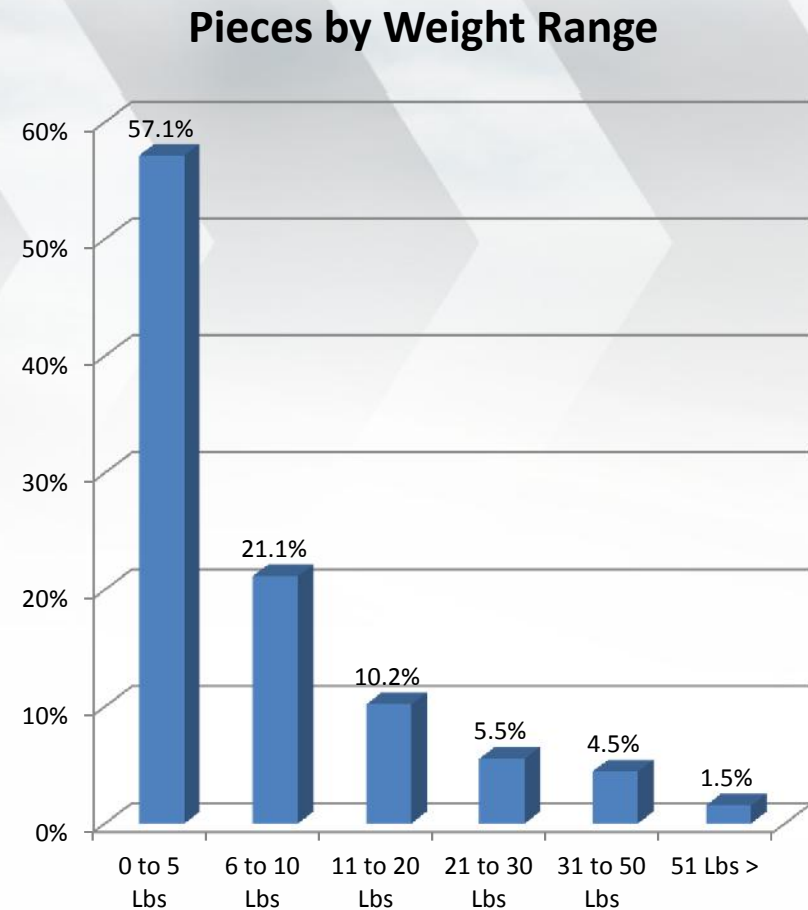
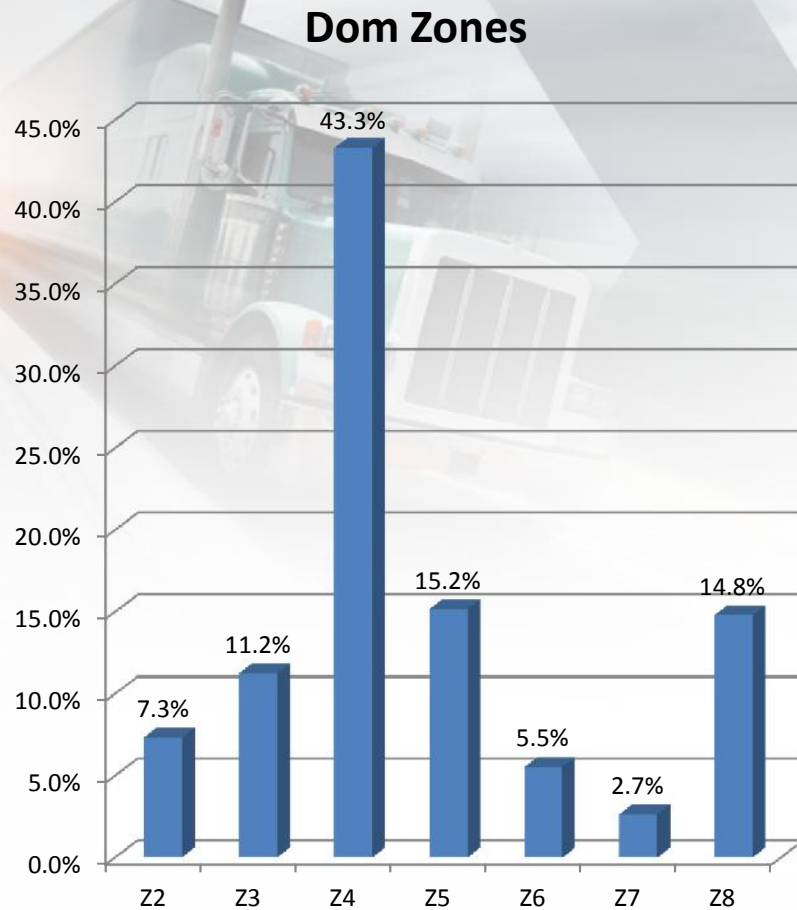


Ground/FHD = 39.4% spend  
International = 30.1% spend





# Review of Zones & Weights



88% under 20 lbs & 77% zones 2-5





## Billed vs Actual Weight

Service Type	Shipments	%	Pieces	Original Weight	Billed Weight	Net Charges	%
First Overnight	2,654	0.0%	2,702	28,366	38,655	\$125,766	0.4%
Priority	200,695	1.8%	201,612	2,021,444	3,338,894	\$1,616,697	5.0%
Standard	514,847	4.5%	515,426	3,108,049	5,283,660	\$2,984,040	9.3%
2 Day	147,868	1.3%	148,838	1,513,371	2,445,276	\$931,072	2.9%
3 Day	1,382,992	12.2%	1,384,414	8,042,783	13,911,603	\$3,842,963	12.0%
Ground	2,494,125	22.0%	2,480,664	32,383,809	36,499,626	\$4,240,943	13.2%
FHD	6,219,323	54.8%	6,218,091	28,191,589	31,662,089	\$8,418,127	26.2%
FedEx Intl First	1,658	0.0%	1,780	10,717	16,730	\$102,276	0.3%
IE Export	31,026	0.3%	40,219	396,894	596,443	\$659,951	2.1%
IP Export	146,019	1.3%	156,800	1,005,517	1,526,027	\$2,587,147	8.0%
IE Import	1,444	0.0%	7,495	117,173	168,127	\$120,981	0.4%
IP Import	208,338	1.8%	243,440	2,127,225	3,451,149	\$5,930,764	18.5%
Dom Freight	210	0.0%	223	79,174	130,667	\$90,444	0.3%
Intl Freight	763	0.0%	1,081	273,569	545,680	\$483,269	1.5%
Other	1,448	0.0%	69	4,423	4,602	\$7,611	0.0%
TOTAL	11,353,410	100.0%	11,402,854	79,304,102	99,619,228	\$32,142,052	100.0%

25.6% difference between billed weight  
and actual weight





# Accessorial Detail

Charge Description	Count Total	Net Charge	Aver \$/Package
AHS	3,953	\$33,750	\$8.54
Address Corr Ground	9,751	\$105,555	\$10.83
Adult Signature	14,092	\$58,544	\$4.15
Advancement Fee	12,061	\$103,543	\$8.58
Declared Value	15,981	\$174,397	\$10.91
DAS	271,453	\$541,156	\$1.99
Direct Signature	32,839	\$102,476	\$3.12
Fuel Surcharges	2,532,134	\$2,239,396	\$0.88
Home Delivery Residential Delivery Service	1,214,830	\$2,200,615	\$1.81
Indirect Signature	23,913	\$45,865	\$1.92
Next Day On Call Pickup Fees	15,378	\$49,201	\$3.20
Original Customs Duty	10,396	\$1,508,289	\$145.08
Original VAT (Value Added Tax)	2,555	\$354,004	\$138.55
Out of Delivery Area	475	\$11,720	\$24.67
Oversize Extra Service Fee	1,100	\$55,000	\$50.00
Oversize Package	594	\$29,700	\$50.00
Rebill	305	\$81,964	\$268.73
Recipient Address Correction Charge	5,604	\$58,355	\$10.41
Residential Delivery (Ground)	42,600	\$112,032	\$2.63
Residential Delivery Surcharge	334,038	\$442,092	\$1.32
Saturday Delivery Charge	4,405	\$59,411	\$13.49
Saturday Pickup Charge	31,723	\$474,205	\$14.95
Weekly Service Charge	6,529	\$82,579	\$12.65
Other	16,751	\$104,574	\$6.24
<b>TOTAL</b>	<b>4,603,460</b>	<b>\$9,028,424</b>	<b>\$1.96</b>

28% of Charges



# Net Incentives Achieved

FHD –  
Average 5 Lbs

Weight	2	3	4	5	6	7	8
1	11.0%	14.8%	16.5%	20.0%	23.8%	24.8%	26.0%
2	11.0%	14.8%	16.5%	20.0%	23.8%	24.8%	26.0%
3	14.3%	19.6%	26.0%	27.4%	31.9%	33.2%	35.5%
4	15.6%	22.9%	29.6%	31.6%	35.7%	37.5%	41.6%
5	17.6%	25.3%	32.9%	35.8%	38.9%	41.4%	45.5%
6	20.6%	26.4%	35.7%	38.3%	41.3%	43.9%	48.4%
7	22.8%	28.6%	36.7%	39.9%	42.3%	45.5%	49.5%
8	26.5%	30.6%	37.9%	41.4%	43.9%	46.9%	51.1%
9	29.3%	32.6%	39.6%	42.5%	45.6%	49.1%	53.8%
10	30.8%	34.4%	40.5%	43.7%	46.7%	51.6%	56.5%
11	32.9%	34.8%	41.6%	45.2%	48.9%	54.8%	58.0%
12	35.2%	37.3%	42.4%	46.3%	50.6%	57.4%	57.9%
13	37.0%	39.1%	43.4%	47.1%	52.7%	58.1%	57.9%
14	38.7%	40.6%	44.1%	48.3%	54.8%	58.5%	58.2%
15	39.9%	42.3%	45.1%	49.5%	57.2%	58.5%	58.3%
16	41.0%	44.0%	46.0%	50.6%	59.0%	59.0%	58.8%
17	41.9%	44.8%	46.8%	51.6%	58.4%	58.4%	58.4%
18	42.5%	46.5%	48.5%	53.5%	58.6%	58.8%	58.5%
19	43.3%	47.8%	50.1%	55.8%	58.7%	58.8%	58.6%
20	44.2%	49.6%	51.9%	57.7%	58.8%	58.8%	58.7%
21	45.2%	51.2%	53.5%	58.8%	58.9%	58.9%	58.8%
22	46.2%	52.6%	54.9%	59.0%	58.9%	59.0%	58.8%
23	47.4%	54.0%	56.5%	59.0%	59.0%	59.1%	58.9%
24	48.5%	55.4%	57.9%	59.2%	59.0%	59.1%	59.0%
25	49.6%	56.5%	59.1%	59.3%	59.1%	59.2%	59.1%
26	50.8%	57.6%	59.3%	59.2%	59.0%	59.2%	59.1%
27	52.1%	58.6%	59.6%	59.3%	59.2%	59.2%	59.1%
28	53.1%	59.5%	59.3%	59.3%	59.3%	59.3%	59.1%
29	54.0%	59.7%	59.3%	59.5%	59.3%	59.5%	59.3%
30	54.9%	59.6%	59.3%	59.4%	59.3%	59.3%	59.2%
31	56.0%	59.7%	59.6%	59.4%	59.4%	59.4%	59.3%
32	56.8%	59.6%	59.4%	59.3%	59.4%	59.4%	59.3%
33	57.2%	59.6%	59.5%	59.4%	59.5%	59.5%	59.4%
34	58.0%	59.6%	59.7%	59.5%	59.4%	59.5%	59.4%
35	58.4%	59.6%	59.6%	59.5%	59.5%	59.5%	59.5%
36	59.1%	60.0%	59.6%	59.5%	59.5%	59.5%	59.6%
37	59.8%	59.6%	59.7%	59.5%	59.6%	59.6%	59.7%



## Hundredweight vs LTL

- ▶ Run deficit weight analysis at 200 & 150
- ▶ Model LTL pricing (and vice versa)
- ▶ Negotiate commodity tier





# Understanding Pricing Agreements





## “Cost to Serve” Pricing

▶ Based on package characteristics

▶ Favorable/unfavorable

- ⚙ Pickup density
- ⚙ Delivery density
- ⚙ Commercial v Residential
- ⚙ Zonality
- ⚙ Seasonality
- ⚙ Weights/Dimensions
- ⚙ Recipient location designation
- ⚙ Claims
- ⚙ Special handling



[illegible][illegible]





## FedEx Earned Discount

Service(s)	Annualized Base Transportation Charges			Earned Discount
FedEx Priority Overnight Envelope				
FedEx Priority Overnight Paks and Packages				
FedEx Standard Overnight Envelope	\$0.00	To	\$899,999.99	0.00%
FedEx Standard Overnight Paks and Packages	\$900,000.00	To	\$999,999.99	20.00%
FedEx 2Day Paks and Packages	\$1,000,000.00	To	\$1,299,999.99	40.00%
FedEx Express Saver Paks and Packages	\$1,300,000.00	Plus		46.00%
FedEx 1Day Freight				
FedEx 2Day Freight				
FedEx 3Day Freight				





## Portfolio Incentives (UPS)

Service(s)	Gross Weekly Revenue Bands					
	\$0.01 - \$13,569.99	\$13,570.00 - \$29,399.99	\$29,400.00 - \$60,309.99	\$60,310.00 - \$75,384.99	\$75,385.00 - \$90,459.99	\$90,460.00 and up
UPS Next Day Air Letter Service <sup>FC TP</sup>	0.00%	45.00%	60.00%	60.30%	60.60%	60.90%
UPS Next Day Air Package Service <sup>FC TP</sup>	0.00%	48.80%	62.00%	62.30%	62.60%	62.90%
UPS Next Day Air Saver Letter Service <sup>FC TP</sup>	0.00%	45.00%	60.00%	60.30%	60.60%	60.90%
UPS Next Day Air Saver Package Service <sup>FC TP</sup>	0.00%	48.80%	62.00%	62.30%	62.60%	62.90%
UPS 2nd Day Air A.M. Letter Commercial <sup>FC TP</sup>	0.00%	29.30%	39.00%	40.00%	41.00%	42.00%
UPS 2nd Day Air Letter Service <sup>FC TP</sup>	0.00%	41.30%	55.00%	55.30%	55.60%	55.90%
UPS 2nd Day Air Package Service <sup>FC TP</sup>	0.00%	43.50%	58.00%	58.30%	58.60%	58.90%
UPS 3 Day Select Package Service <sup>FC TP UP</sup>	0.00%	33.80%	45.00%	45.30%	45.60%	45.90%
UPS Ground Commercial <sup>FC TP UP</sup>	0.00%	4.50%	6.00%	6.60%	7.20%	7.80%
UPS Ground Residential <sup>FC TP</sup>	0.00%	5.30%	7.00%	7.70%	8.40%	9.10%

- Portfolio incentives are tied to Rolling Averages
- Most agreements have 6 tiers
- Need to structure tiers to maximize incentives
- Beware of tiers with little or no incentives
- Set achievable revenue thresholds
- Include revenue from other services & accessorial



# Contract “Gotchas” & Strategies for Shippers





# Discount Off of What?

UPS Rate and Service Guide



2012 Daily Rates



For freight information  
see pages [131-157](#)

UPS Rate and Service Guide



2012 Standard List Rates



For freight information  
see pages [131-157](#)



# Contract Exclusions

## ▶ Common Exclusions

- ⚙ Early AM
- ⚙ Returns
- ⚙ AK / HI / PR
- ⚙ Packaging (Letter, your box versus carrier pack)
- ⚙ Third Party & Collect
- ⚙ Import
- ⚙ CWT/Freight

## ▶ Revenue Band 1 (UPS)

- ▶ Locations/account numbers not on contract
- ▶ No services should be undiscounted





## Gross/Net Charges

Service Type	Count	Net Charges	Gross Charges	Incentive
Early AM	879	\$59,720.18	\$59,720.18	0.00%
Ground - Returns	3,498	\$41,148.04	\$41,148.04	0.00%
Ground MWT	271	\$3,675.06	\$3,675.06	0.00%
1 Day Freight	42	\$59,634.59	\$59,634.59	0.00%
2 Day Freight	20	\$17,518.94	\$17,518.94	0.00%
3 Day Freight	68	\$47,311.35	\$47,311.35	0.00%
Subtotal	4,778	\$229,008.16	\$229,008.16	0.00%





## Minimum Billable Weight

- ▶ A minimum billable weight of 2 lbs. applies to the FedEx® Small Box, FedEx® Medium Box and FedEx® Large Box for U.S. and U.S. export shipments
- ▶ A minimum billable weight of 6 lbs. applies to the FedEx® Tube for U.S. shipments
- ▶ A minimum billable weight of 7 lbs. applies to the FedEx Tube for U.S. export shipments





# General Rate Increase History

GRI History	UPS Air	FedEx Air	UPS Ground	FedEx Ground
1998	3.30%	3.50%	3.60%	3.70%
1999	2.50%	2.80%	2.50%	2.30%
2000	3.50%	0.00%	3.10%	3.10%
2001	3.70%	4.90%	3.10%	3.10%
2002	4.00%	3.50%	3.50%	3.50%
2003	3.20%	3.50%	3.90%	3.90%
2004	2.90%	2.50%	1.90%	1.90%
2005	2.90%	4.60%	2.90%	2.90%
2006	5.50%	5.50%	3.90%	3.90%
2007	6.90%	6.90%	4.90%	4.90%
2008	6.90%	6.90%	4.90%	4.90%
2009	6.90%	6.90%	5.90%	5.90%
2010	6.90%	5.90%	4.90%	4.90%
2011	6.90%	5.90%	5.90%	5.90%
2012	6.90%	5.90%	5.90%	5.90%
Average 1998-2005	3.25%	3.16%	3.06%	3.05%
Average 2006-2012	6.70%	6.27%	5.19%	5.07%

Introduced Fuel  
Reduction (Air)



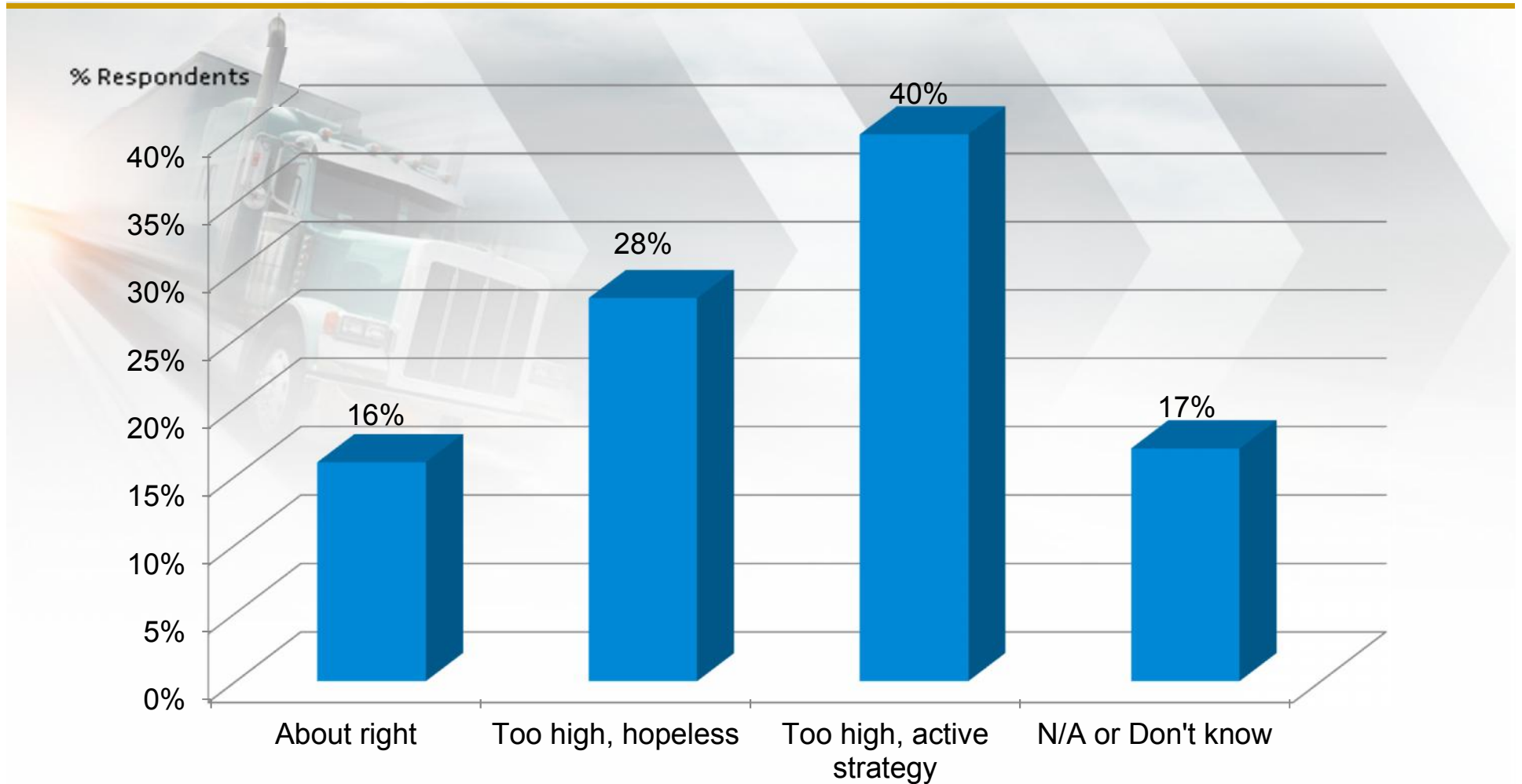
## 2012 Ground Increases by Weight Range

Weight	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Total
1 to 30 Lbs	7.14%	7.37%	7.30%	7.69%	6.49%	6.79%	6.66%	<b>7.07%</b>
31 to 50 Lbs	5.39%	5.49%	5.39%	6.22%	6.03%	6.12%	5.44%	<b>5.73%</b>
51 to 150 Lbs	3.41%	2.77%	2.29%	3.03%	3.06%	3.05%	2.79%	<b>2.91%</b>





## UPS & FedEx GRIs, have been:



Source: Parcel Pricing Survey, *Parcel Magazine*



## Strategies for GRI

- ▶ Fix incentives to previous year's tariffs
- ▶ Cap increases
  - ⚙ Maximum
  - ⚙ % below general
- ▶ Rebate



## Group Poll – Shipper Scenario:

- ▶ Packages are 1 – 5 pounds (average 2 pounds)
- ▶ Ship UPS Ground to all zones
- ▶ Spends \$10,000,000/year on Ground services
- ▶ Negotiates 35% Ground discount
- ▶ *How much should they save with 35% discount?*

**Answer:** \_\_\_\_\_





## UPS Ground 2012 “Daily” Rates

Weight	2	3	4	5	6	7	8
1	\$5.49	\$5.83	\$5.94	\$6.20	\$6.49	\$6.58	\$6.69
2	\$5.84	\$6.22	\$6.74	\$6.88	\$7.26	\$7.41	\$7.66
3	\$5.93	\$6.49	\$7.08	\$7.30	\$7.69	\$7.90	\$8.46
4	\$6.07	\$6.68	\$7.44	\$7.78	\$8.07	\$8.42	\$9.06
5	\$6.25	\$6.77	\$7.75	\$8.09	\$8.39	\$8.78	\$9.54
6	\$6.42	\$6.97	\$7.87	\$8.28	\$8.52	\$9.04	\$9.76
7	\$6.73	\$7.17	\$8.02	\$8.49	\$8.77	\$9.27	\$10.07
8	\$7.00	\$7.36	\$8.23	\$8.65	\$9.04	\$9.68	\$10.65
9	\$7.14	\$7.55	\$8.36	\$8.83	\$9.22	\$10.19	\$11.31
10	\$7.37	\$7.58	\$8.51	\$9.08	\$9.61	\$10.89	\$12.06
11	\$7.62	\$7.89	\$8.62	\$9.24	\$9.95	\$11.58	\$12.79
12	\$7.83	\$8.12	\$8.77	\$9.38	\$10.39	\$12.27	\$13.65
13	\$8.04	\$8.33	\$8.88	\$9.60	\$10.86	\$13.02	\$14.53
14	\$8.20	\$8.57	\$9.04	\$9.82	\$11.47	\$13.69	\$15.36
15	\$8.36	\$8.84	\$9.19	\$10.05	\$12.05	\$14.39	\$16.20
16	\$8.49	\$8.97	\$9.25	\$10.23	\$12.51	\$14.91	\$16.87





# UPS Ground 2012 “Daily” Rates

## 35% Discount

Weight	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
1	\$3.57	\$3.79	\$3.86	\$4.03	\$4.22	\$4.28	\$4.35
2	\$3.80	\$4.04	\$4.38	\$4.47	\$4.72	\$4.82	\$4.98
3	\$3.85	\$4.22	\$4.60	\$4.75	\$5.00	\$5.14	\$5.50
4	\$3.95	\$4.34	\$4.84	\$5.06	\$5.25	\$5.47	\$5.89
5	\$4.06	\$4.40	\$5.04	\$5.26	\$5.45	\$5.71	\$6.20
6	\$4.17	\$4.53	\$5.12	\$5.38	\$5.54	\$5.88	\$6.34
7	\$4.37	\$4.66	\$5.21	\$5.52	\$5.70	\$6.03	\$6.55
8	\$4.55	\$4.78	\$5.35	\$5.62	\$5.88	\$6.29	\$6.92
9	\$4.64	\$4.91	\$5.43	\$5.74	\$5.99	\$6.62	\$7.35
10	\$4.79	\$4.93	\$5.53	\$5.90	\$6.25	\$7.08	\$7.84
11	\$4.95	\$5.13	\$5.60	\$6.01	\$6.47	\$7.53	\$8.31
12	\$5.09	\$5.28	\$5.70	\$6.10	\$6.75	\$7.98	\$8.87
13	\$5.23	\$5.41	\$5.77	\$6.24	\$7.06	\$8.46	\$9.44
14	\$5.33	\$5.57	\$5.88	\$6.38	\$7.46	\$8.90	\$9.98
15	\$5.43	\$5.75	\$5.97	\$6.53	\$7.83	\$9.35	\$10.53
16	\$5.52	\$5.83	\$6.01	\$6.65	\$8.13	\$9.69	\$10.97



# UPS Ground 2012 “Daily” Rates

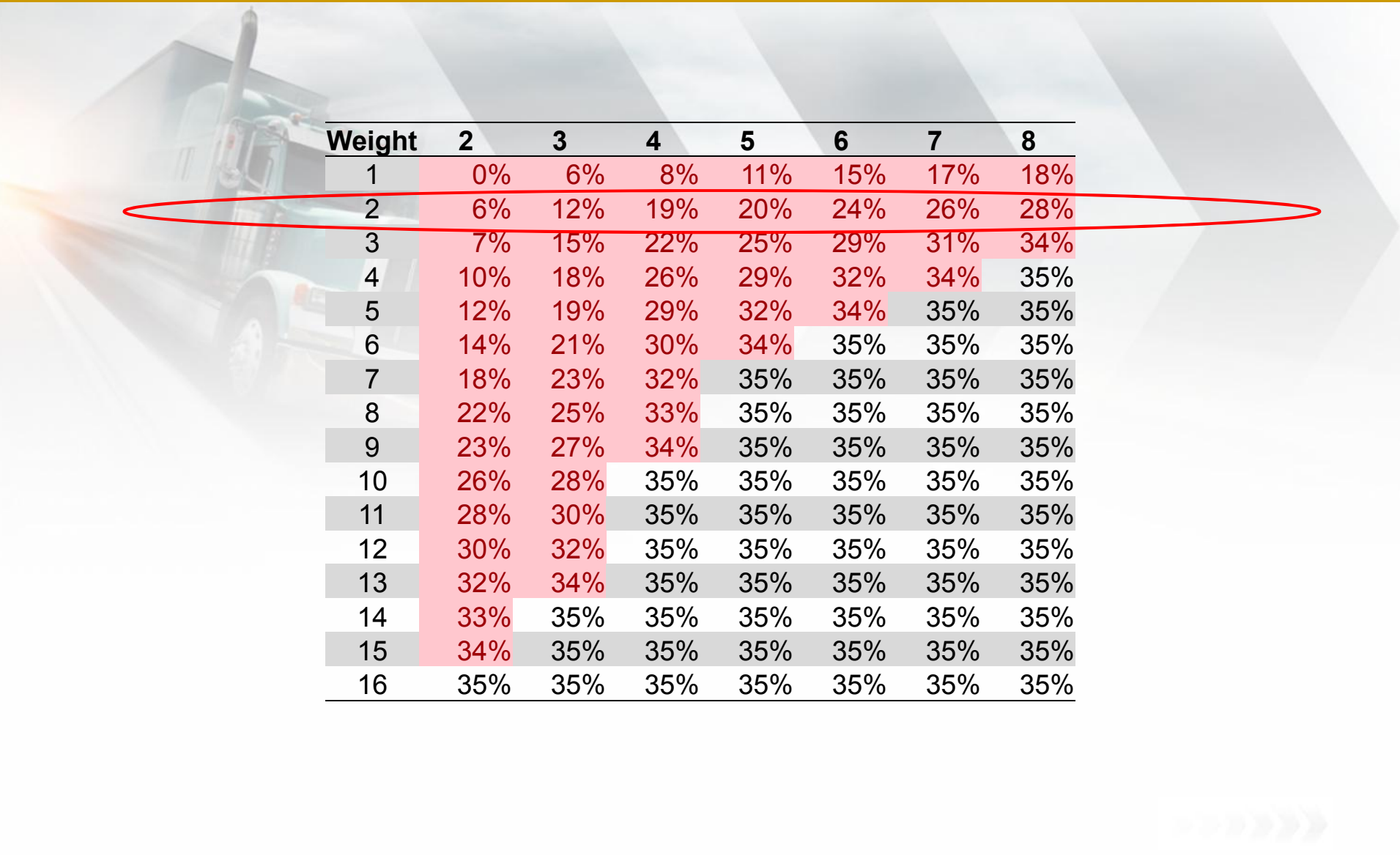
35% Discount – Minimum Charge Applied

Weight	2	3	4	5	6	7	8
1	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49
2	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49
3	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49	\$5.50
4	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49	\$5.89
5	\$5.49	\$5.49	\$5.49	\$5.49	\$5.49	\$5.71	\$6.20
6	\$5.49	\$5.49	\$5.49	\$5.49	\$5.54	\$5.88	\$6.34
7	\$5.49	\$5.49	\$5.49	\$5.52	\$5.70	\$6.03	\$6.55
8	\$5.49	\$5.49	\$5.49	\$5.62	\$5.88	\$6.29	\$6.92
9	\$5.49	\$5.49	\$5.49	\$5.74	\$5.99	\$6.62	\$7.35
10	\$5.49	\$5.49	\$5.53	\$5.90	\$6.25	\$7.08	\$7.84
11	\$5.49	\$5.49	\$5.60	\$6.01	\$6.47	\$7.53	\$8.31
12	\$5.49	\$5.49	\$5.70	\$6.10	\$6.75	\$7.98	\$8.87
13	\$5.49	\$5.49	\$5.77	\$6.24	\$7.06	\$8.46	\$9.44
14	\$5.49	\$5.57	\$5.88	\$6.38	\$7.46	\$8.90	\$9.98
15	\$5.49	\$5.75	\$5.97	\$6.53	\$7.83	\$9.35	\$10.53
16	\$5.52	\$5.83	\$6.01	\$6.65	\$8.13	\$9.69	\$10.97



# UPS Ground 2012 “Daily” Rates

35% Discount – Minimum Charge Applied

A faded background image of a UPS truck driving on a road, with a large red oval highlighting the second row of the table.

Weight	2	3	4	5	6	7	8
1	0%	6%	8%	11%	15%	17%	18%
2	6%	12%	19%	20%	24%	26%	28%
3	7%	15%	22%	25%	29%	31%	34%
4	10%	18%	26%	29%	32%	34%	35%
5	12%	19%	29%	32%	34%	35%	35%
6	14%	21%	30%	34%	35%	35%	35%
7	18%	23%	32%	35%	35%	35%	35%
8	22%	25%	33%	35%	35%	35%	35%
9	23%	27%	34%	35%	35%	35%	35%
10	26%	28%	35%	35%	35%	35%	35%
11	28%	30%	35%	35%	35%	35%	35%
12	30%	32%	35%	35%	35%	35%	35%
13	32%	34%	35%	35%	35%	35%	35%
14	33%	35%	35%	35%	35%	35%	35%
15	34%	35%	35%	35%	35%	35%	35%
16	35%	35%	35%	35%	35%	35%	35%



## History of Ground Minimum Shipment Charge

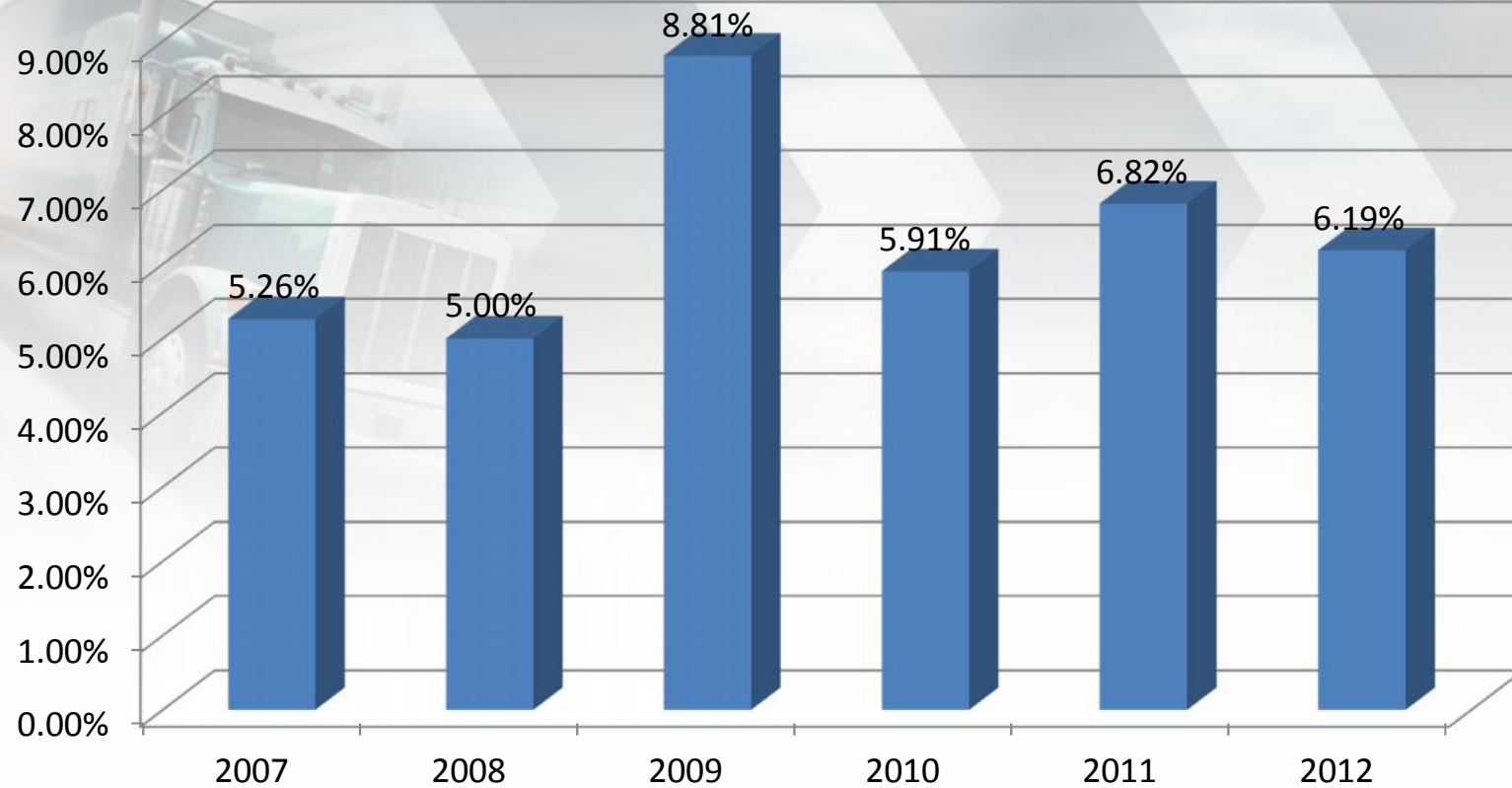


Up 44.5% since 2006!





# Ground Minimum Charge % Increase



**Announced**    **4.9% Net**    **4.9% Net**    **5.9% Net**    **4.9% Net**    **5.9% Net**    **5.9% Net**





# Minimum Charge Strategies

- ▶ Negotiate Minimum Shipment Charge
  - ⚙ Percent off
  - ⚙ Dollar off
- ▶ Tie to previous year's minimum
- ▶ Quarterly UPS rebate contributes savings to minimum charge\*
- ▶ Explore per ounce rating (USPS, SmartPost, etc.)





## Accessorial Charges

(Partial List – FedEx 2012)

<u>ITEM</u>	<u>CHARGE</u>
Delivery Area (DAS)	\$2.00 - \$3.25
Residential Surcharge	\$2.55 - \$3.00
Address Correction	\$11
Missing/Invalid Account #	\$11
Oversize Charge	\$55
Weekly Service Fee	\$10-\$20
Additional Handling	\$8.50
Saturday Pickup/Delivery	\$15.00

***Accessorial charges make up to one third of total shipment costs!***







# Example

2012 UPS Ground, 1 Lbs, Zone 2





## 2012 GRI – FedEx Accessorial

2012 FedEx Accessorial Changes	2012	2011	% Change
Additional Handling	\$8.50	\$8.00	6.25%
COD- Multiweight	\$60.00	\$55.00	9.09%
COD- Package	\$11.00	\$10.00	10.00%
Dangerous Goods - Accessible	\$75.00	\$70.00	7.14%
Dangerous Goods - Inaccessible	\$37.50	\$35.00	7.14%
Declared Value	\$0.80 per \$100	\$0.75 per \$100	6.67%
Declared Value- Minimum	\$2.40	\$2.25	6.67%
Delivery Area Surcharge- Commercial	\$2.00	\$1.85	8.11%
Delivery Area Surcharge- Extended	\$3.25	\$3.00	8.33%
Delivery Area Surcharge- Multiweight	\$10.00	\$9.25	8.11%
Delivery Area Surcharge- Residential	\$3.00	\$2.75	9.09%
Delivery Reattempt	\$48.00	\$45.00	6.67%
Delivery Signature Option- Adult Signature Required	\$4.50	\$4.25	5.88%
Delivery Signature Option- Adult Signature Required (MWT)	\$24.50	\$22.75	7.69%
Delivery Signature Option- Signature Required	\$3.50	\$3.25	7.69%
Delivery Signature Option- Signature Required (MWT)	\$31.50	\$29.75	5.88%
Express Residential Delivery Charge	\$3.00	\$2.75	9.09%
Ground Minimum Charge	\$5.49	\$5.17	6.19%
International Out-of-Delivery-Area	\$26.00	\$24.00	8.33%
International Out-of-Pickup-Area	\$26.00	\$24.00	8.33%
Oversize Charge	\$55.00	\$50.00	10.00%
Residential Delivery Charge - Express	\$3.00	\$2.75	9.09%
Residential Delivery Charge - Ground	\$2.55	\$2.45	4.08%
Residential Delivery Charge - Multiweight	\$26.00	\$24.00	8.33%

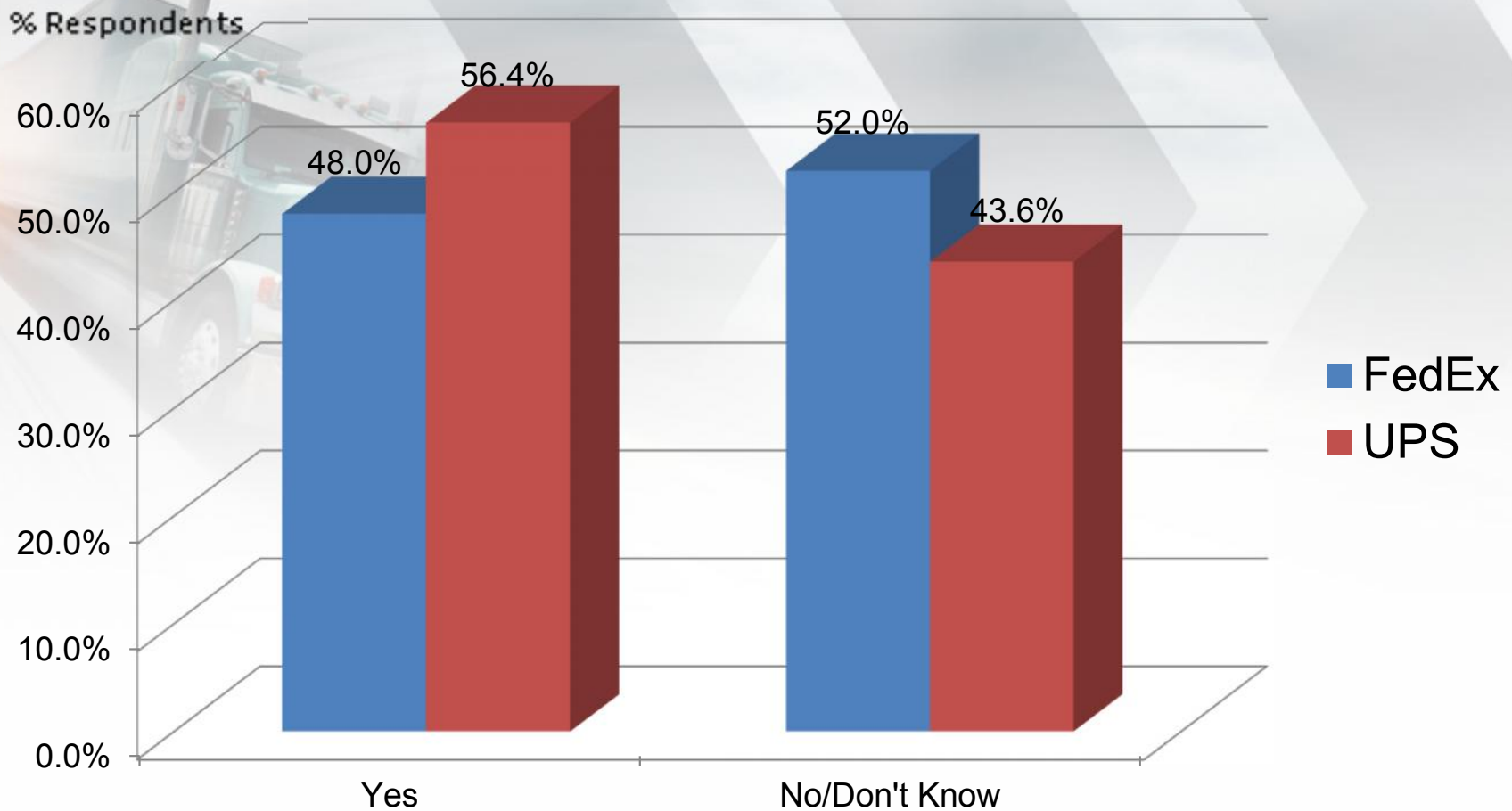


# Accessorial Charges Solutions

- ▶ Understand impact
- ▶ Negotiate concessions
  - ⚙ All accessorial charges are negotiable!
  - ⚙ Percent or \$ off
  - ⚙ Range from 0-100%
- ▶ Software solutions (mitigate and/or charge back)
  - ⚙ Residential surcharge
  - ⚙ Address Correction
- ▶ Scan based billing
- ▶ USPS and Regional Carrier options



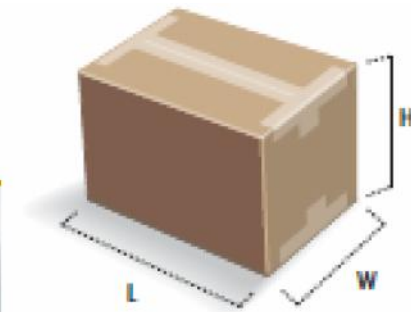
## Surcharges Negotiated?



Source: Parcel Pricing Survey, *Parcel Magazine*



# Dimensional Weight



## 2010

### Domestic

$$\left[ \begin{array}{c} \text{Dimensional Weight} \\ \text{in Pounds} \end{array} \right] = \frac{L \times W \times H}{194}$$

L = Length in inches

W = Width in inches

H = Height in inches

### U.S. Export

$$\left[ \begin{array}{c} \text{Dimensional Weight} \\ \text{in Pounds} \end{array} \right] = \frac{L \times W \times H}{166}$$

L = Length in inches

W = Width in inches

H = Height in inches

### U.S. Import

$$\left[ \begin{array}{c} \text{Dimensional Weight} \\ \text{in Pounds} \end{array} \right] = \frac{L \times W \times H}{139}$$

L = Length in inches

W = Width in inches

H = Height in inches

## 2011-2012

### Domestic

$$\left[ \begin{array}{c} \text{Dimensional Weight} \\ \text{in Pounds} \end{array} \right] = \frac{L \times W \times H}{194}$$

L = Length in inches

W = Width in inches

H = Height in inches

### U.S. Export

$$\left[ \begin{array}{c} \text{Dimensional Weight} \\ \text{in Pounds} \end{array} \right] = \frac{L \times W \times H}{139}$$

L = Length in inches

W = Width in inches

H = Height in inches

### U.S. Import

$$\left[ \begin{array}{c} \text{Dimensional Weight} \\ \text{in Pounds} \end{array} \right] = \frac{L \times W \times H}{139}$$

L = Length in inches

W = Width in inches

H = Height in inches





## New DIM Impact

- FedEx, Economy, Zone 6
- 18" x 12" x 12"
- Actual weight 6 Lbs (\$29.50)
- 194 Dims to 14 Lbs (\$55.90) } 89.5%
- 166 Dims to 16 Lbs (\$65.40) } 17%
- 121.7% overall increase!



# Dimensional Change

Package Dimensions				Domestic			International		
L	W	H	Cubic Inches	194 rule	166 rule	New Increment	166 rule	139 rule	New Increment
4	4	4	64	0	0	0	0	0	0
5	5	5	125	1	1	0	1	1	0
6	6	4	144	1	1	0	1	1	0
6	6	6	216	1	1	0	1	2	0
8	6	4	192	1	1	0	1	1	0
8	8	8	512	3	3	0	3	4	1
10	8	6	480	2	3	1	3	3	1
10	10	10	1000	5	6	1	6	7	1
12	6	6	432	2	3	1	3	3	1
12	12	4	576	3	3	1	3	4	1
12	12	6	864	4	5	1	5	6	1
12	12	8	1152	6	7	1	7	8	1
12	12	12	1728	9	10	1	10	12	2
14	14	14	2744	14	17	3	17	20	3
16	12	12	2304	12	14	2	14	17	3
16	16	16	4096	21	25	4	25	29	5
18	12	12	2592	13	16	3	16	19	3
18	18	16	5184	27	31	4	31	37	6
18	18	18	<b>5832</b>	30	35	5	35	42	7
18	18	24	<b>7776</b>	40	47	7	47	56	9
20	20	20	<b>8000</b>	41	48	7	48	58	9
22	22	22	<b>10648</b>	55	64	9	64	77	12
24	12	12	<b>3456</b>	18	21	3	21	25	4
24	18	18	<b>7776</b>	40	47	7	47	56	9
24	24	24	<b>13824</b>	71	83	12	83	99	16

- No Change
- Air Only
- Ground & Air

Source: Hempstead Consulting







## DIM Increases

*Domestic Air zone 5 priority 2010 with 8.5 % fuel and 50% off 2011 with 6.5% fuel and 50% off*

length	width	height	cu. inches	194 rule	166 rule	\$ @ 194	\$ @ 166	Increase
10	8	6	480	2	3	\$22.70	\$26.47	16.61%
10	10	10	1000	5	6	\$30.11	\$34.16	13.45%
12	6	6	432	2	3	\$22.70	\$26.47	16.61%
12	12	6	864	4	5	\$27.53	\$31.68	15.07%
12	12	8	1152	6	7	\$32.47	\$36.69	13.00%
12	12	12	1728	9	10	\$39.49	\$43.74	10.76%
14	14	14	2744	14	17	\$49.96	\$58.52	17.13%
16	12	12	2304	12	14	\$45.84	\$52.58	14.70%
16	16	16	4096	21	25	\$60.92	\$70.29	15.38%
18	12	12	2592	13	16	\$47.93	\$56.74	18.38%
18	18	16	5184	27	31	\$70.39	\$81.42	15.67%
18	18	18	5832	30	35	\$75.62	\$88.63	17.20%
18	18	24	7776	40	47	\$92.58	\$109.91	18.72%
20	20	20	8000	41	48	\$94.31	\$111.72	18.46%
22	22	22	10648	55	64	\$117.94	\$142.20	20.57%
24	12	12	3456	18	21	\$56.80	\$64.11	12.87%
24	18	18	7776	40	47	\$92.58	\$109.91	18.72%
24	24	24	13824	71	83	\$151.33	\$185.47	22.56%

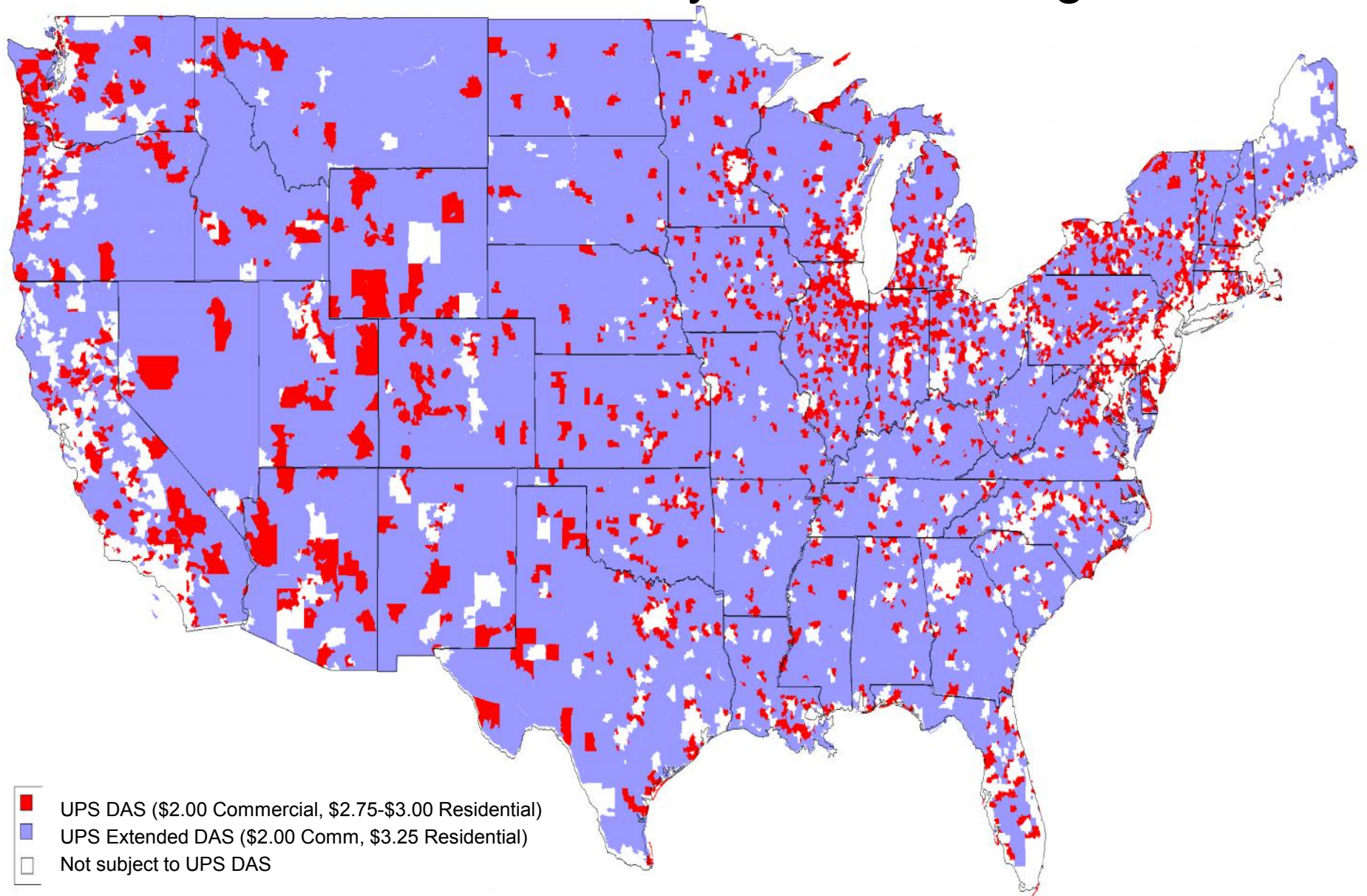
Source: Hempstead Consulting

## DIM Strategies

- ▶ Do nothing; contract already above the standard 166
- ▶ Negotiate the new factor to something greater than 166
- ▶ “Grandfather” the 2010 dim factor of 194
- ▶ Redesign corrugated packaging and packing configurations
- ▶ Switch carriers



## 2012 UPS Delivery Area Surcharges





## 2012 Delivery Area Surcharges

DAS in addition to Residential Surcharge (\$2.55 - \$3.00)

DAS is \$2.00 to businesses & \$2.75-\$3.00 to residences

Extended Residential DAS = \$3.25

42,728 zip codes in US. 55% considered DAS

Over 82% of DAS ZIPs have Extended DAS

Over 25% of US population lives in a DAS

DAS charge is also subject to fuel surcharge





## DAS Case Study

19% of total shipments (164,890)

### Carrier A

- \$0.50 per shipment reduction
- **Total Savings = \$82,445**

### Carrier B

- ▶ 50% reduction
  - ⚙ Commercial = \$1.00
  - ⚙ Residential = \$1.50
  - ⚙ Hundredweight = \$5.00
- ▶ (C) 116,262 = \$116,262
- ▶ (R) 29,066 = \$43,599
- ▶ (CWT)19,562 = \$98,810
- ▶ **Total Savings = \$257,671**







## Residential Surcharges

- \$2.55-\$3.00
- Additional fuel surcharge applied
- Association with DAS and Extended DAS
- Smaller incentives
- Signature fees
- Claims



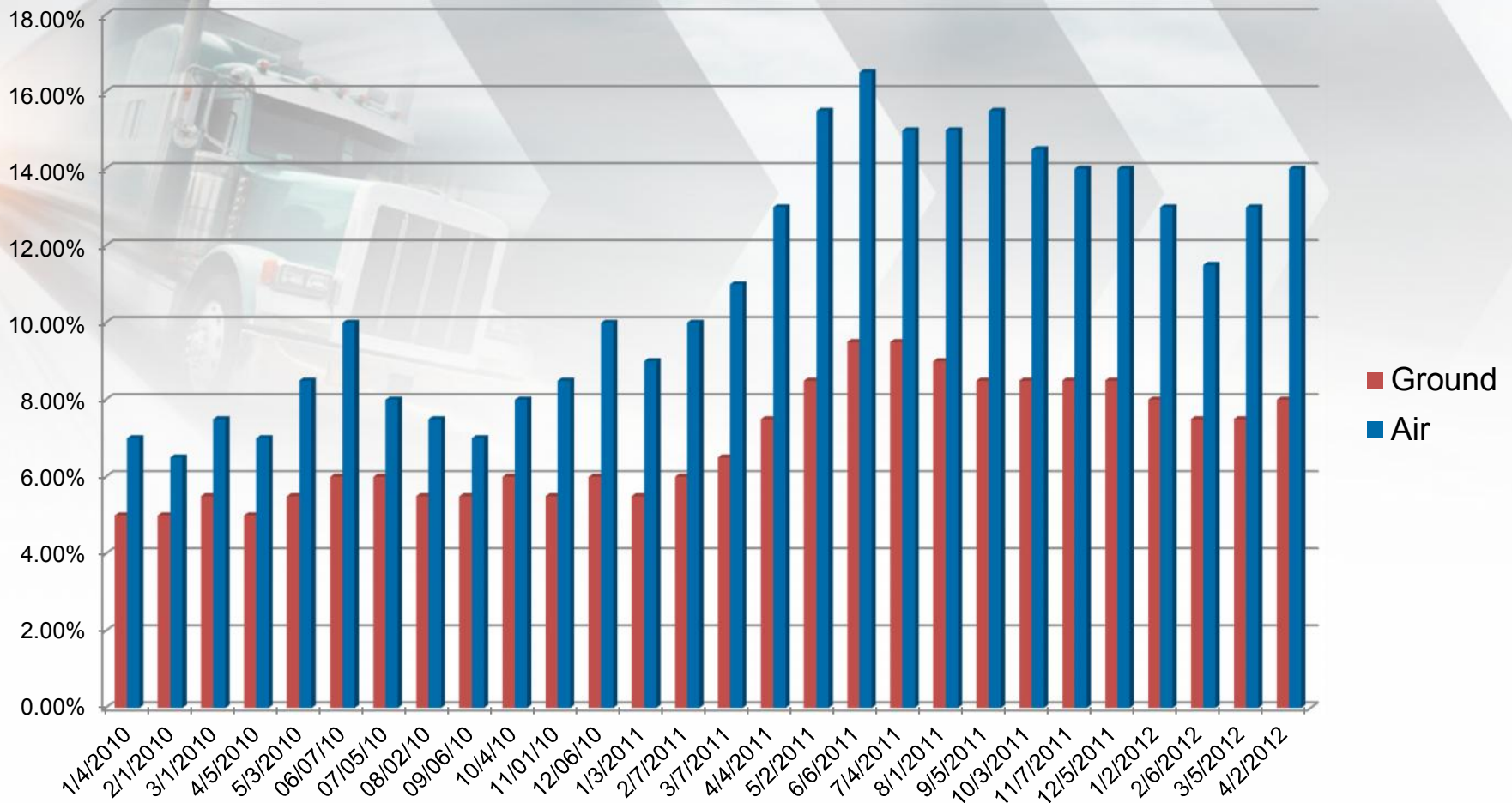
## Solutions for Res & DAS

- Negotiate concessions
- Identify charges in advance
- Download DAS ZIP table
- RDI
- Sourcing alternatives
- Ask for commercial address
- Rebate





## 2010-2012 Fuel Surcharges



Source: Shipware, LLC

# Fuel Surcharge Strategies

- ▶ Negotiate additional discounts
  - ◉ % off
  - ◉ Points below
- ▶ Cap fuel s/c
- ▶ Flat fuel s/c
- ▶ “All in”
- ▶ Ground vs. Air



## Additional Handling Service

▶ \$8.50 assessed for any package that requires special handling, as determined by UPS in its sole discretion, including, but not limited to:

- ⚙ Any article that is encased in an outside shipping container made of metal or wood.
- ⚙ Any cylindrical-like item, such as a barrel, drum, pail or tire, that is not fully encased in a corrugated cardboard shipping container.
- ⚙ Any package with the longest side exceeding 60 inches or its second-longest side exceeding 30 inches.
- ⚙ Any package with an actual weight of more than 70 pounds.
  - » Will not be assessed when a Large Package Surcharge is applied.





## Case Study: Additional Handling Service (45,012 Shipments)

### Carrier A

▶ \$0.50 per shipment reduction

▶ **Total Savings = \$22,506**

### Carrier B

▶ 50% per shipment reduction  
(\$4.25)

▶ **Total Savings = \$191,301**





# Gaining Leverage





## Don't Get Locked Into Incumbent Carrier

- Keep an open mind
- Incumbent carriers are not motivated to help you lower transportation costs
- May not be maximizing new services and opportunities
- Just because the incumbent carrier is customizing services doesn't mean non-incumbent can't





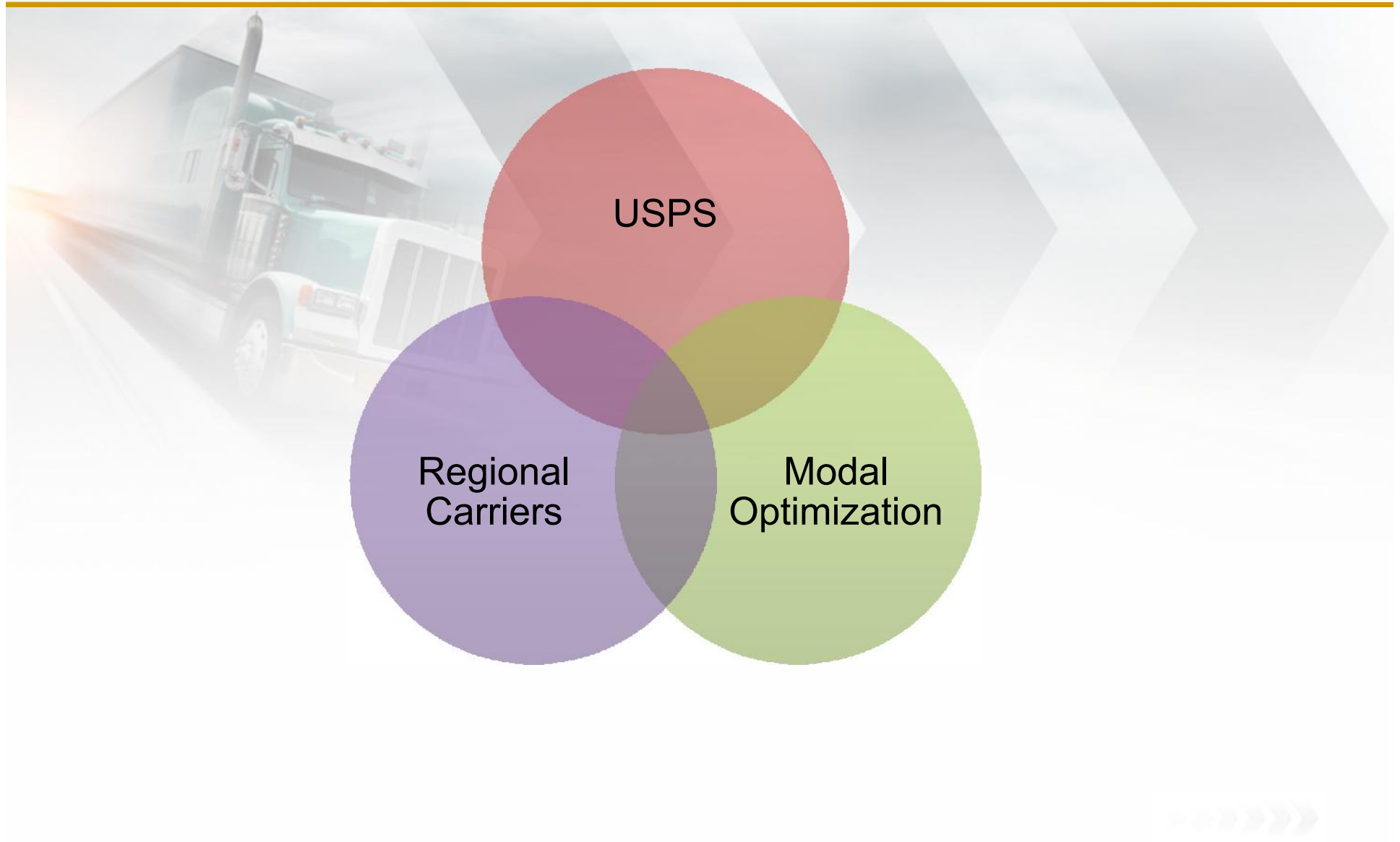
## Increase the Pie

- ▶ Consider Single Sourcing
  - ⚙ Include Supply Chain/Freight/Ocean
  - ⚙ LTL
  - ⚙ International
  - ⚙ Returns
  - ⚙ Mail products
- ▶ Tie new business to incremental pricing improvement





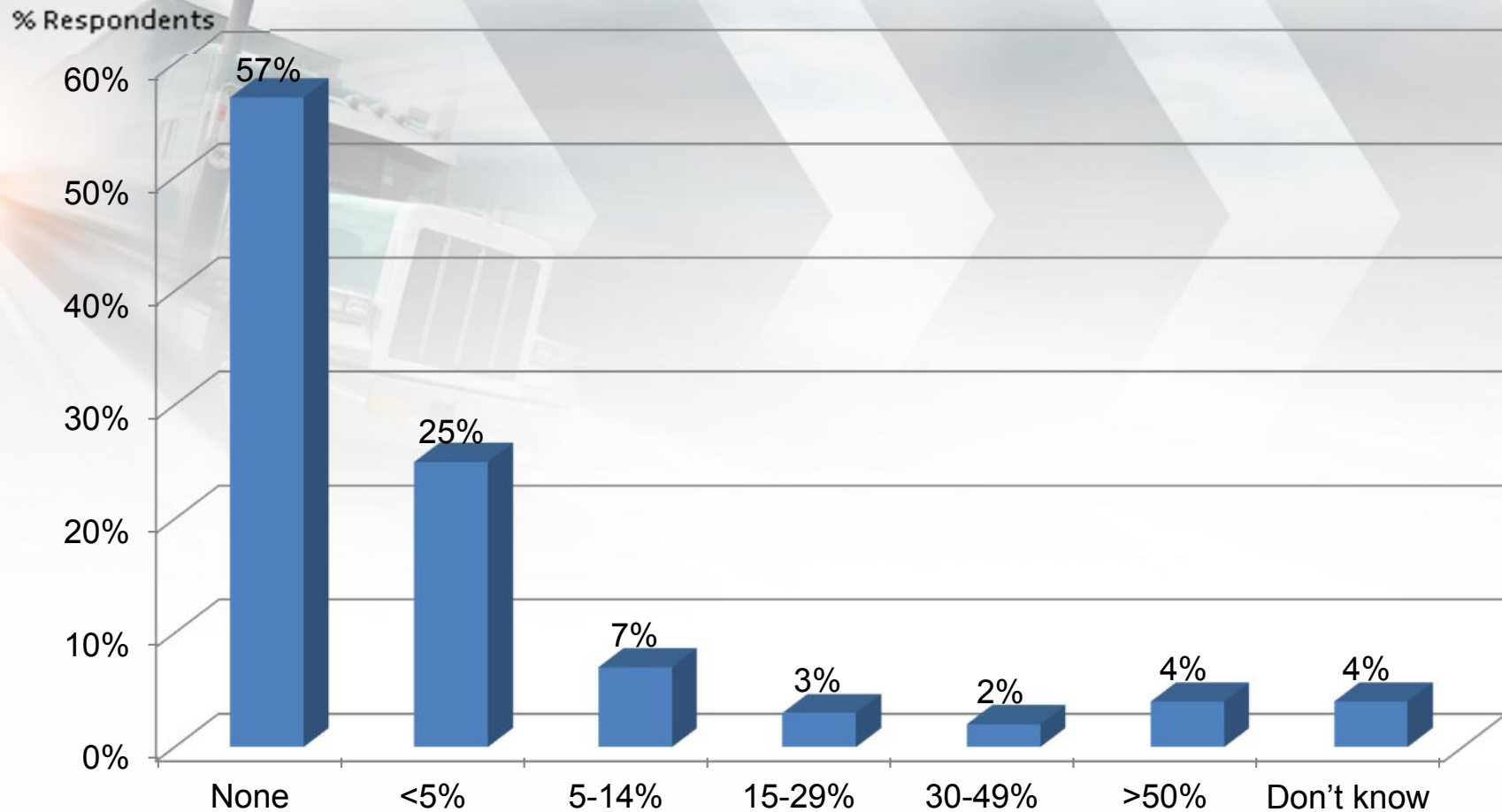
# Understand Sourcing Alternatives







## Regional Carrier Usage (% of Total)



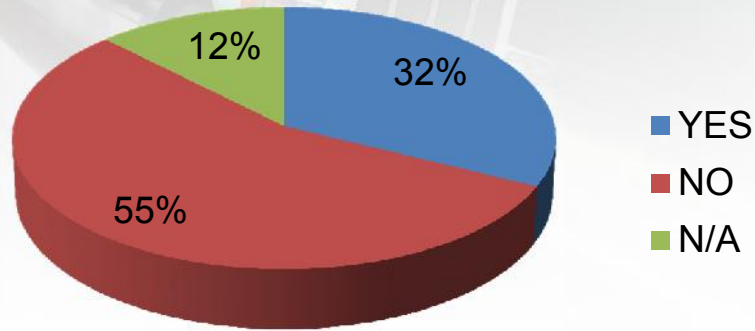
Source: Parcel Pricing Survey, *Parcel Magazine*



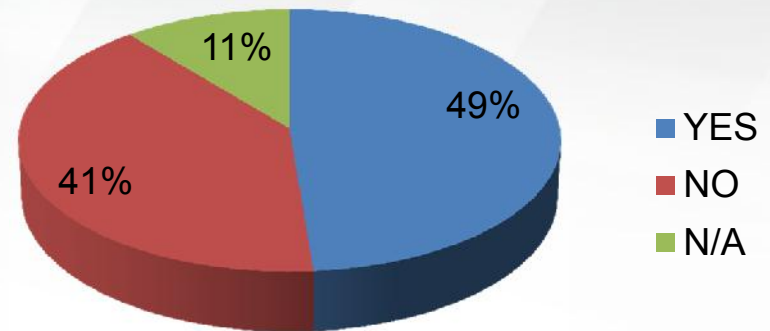


## Do You Think the USPS is a Viable Alternative to UPS and FedEx for:

### Air/Express



### Ground



Source: Parcel Pricing Survey, *Parcel Magazine*





## Start Trial with Non-Incumbent

- ▶ Shows that you are serious
- ▶ Allows you to establish service track record
- ▶ Makes conversion easier by slowly integrating
- ▶ Identifies cost of change and other obstacles
- ▶ Quantifies potential cost savings



## Change Carriers

- ▶ Loyalty unrewarded?
  - ⚙ Retention
  - ⚙ Conversion
  - ⚙ Penetration
- ▶ Eliminates complacency
- ▶ Better opportunity to implement value added services
- ▶ Fresh set of eyes and resources



## Seek Help

***"11% of shippers use consultants to negotiate freight contracts. Consultants negotiate more favorable rates, driving discounts 49% lower than if the company negotiates."***

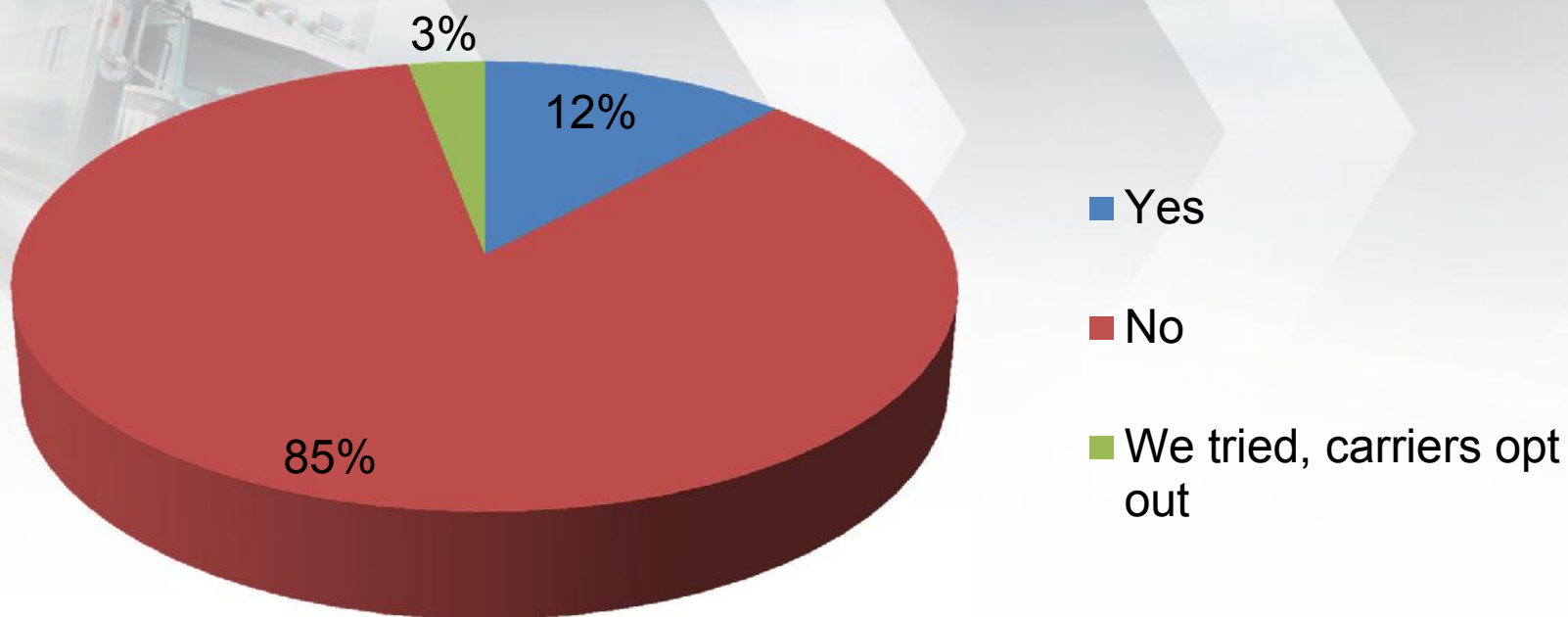
Morgan Stanley/Parcel Magazine  
*"Annual Best Practices Survey"*





shipware

## Outside Consulting Firm to Negotiate Your Carrier Contract w/in Last 12 Months



Source: Parcel Pricing Survey, *Parcel Magazine*





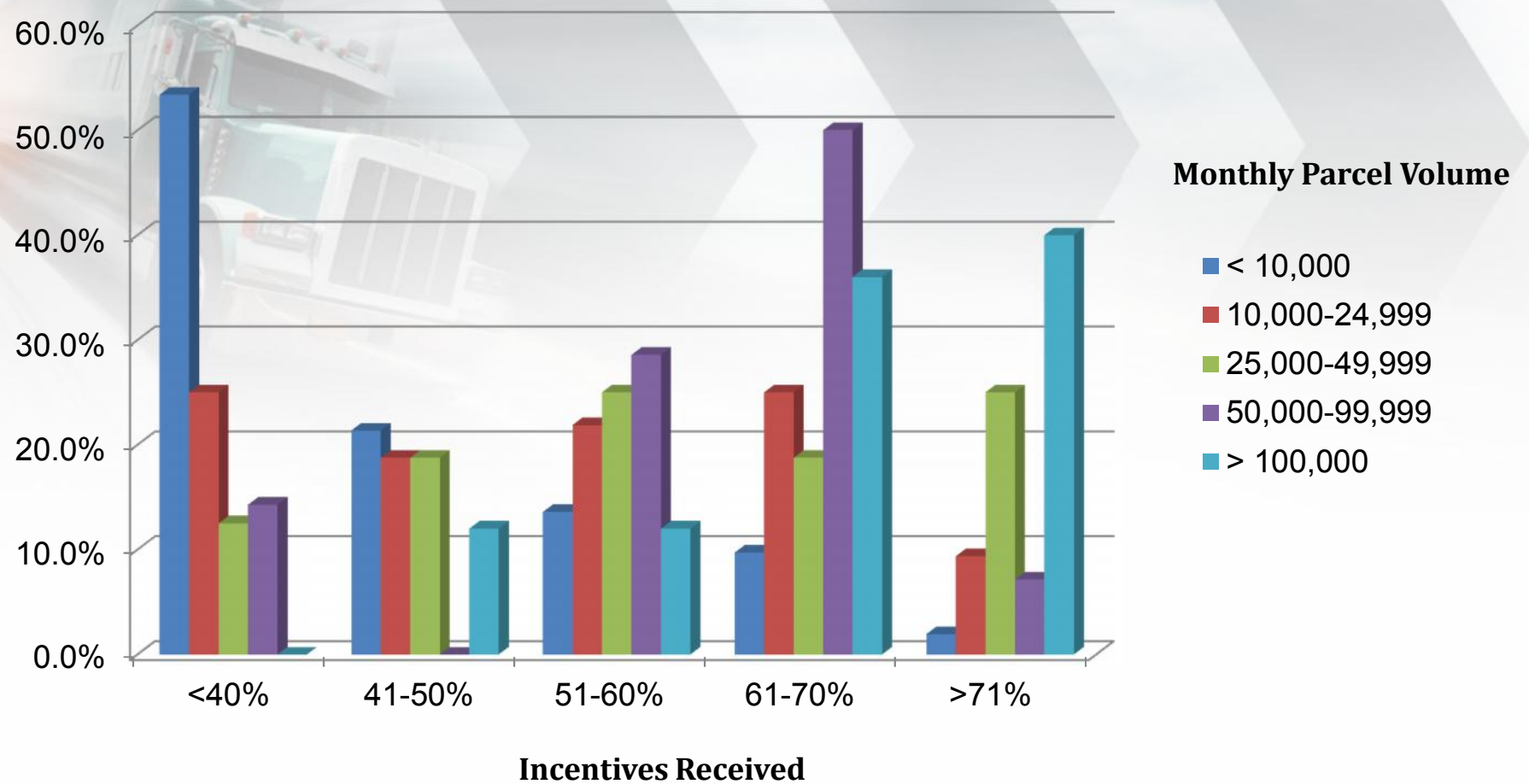
# Benchmarking





## Correlation of Monthly Parcel Volume and Overnight Incentives Received

% Respondents

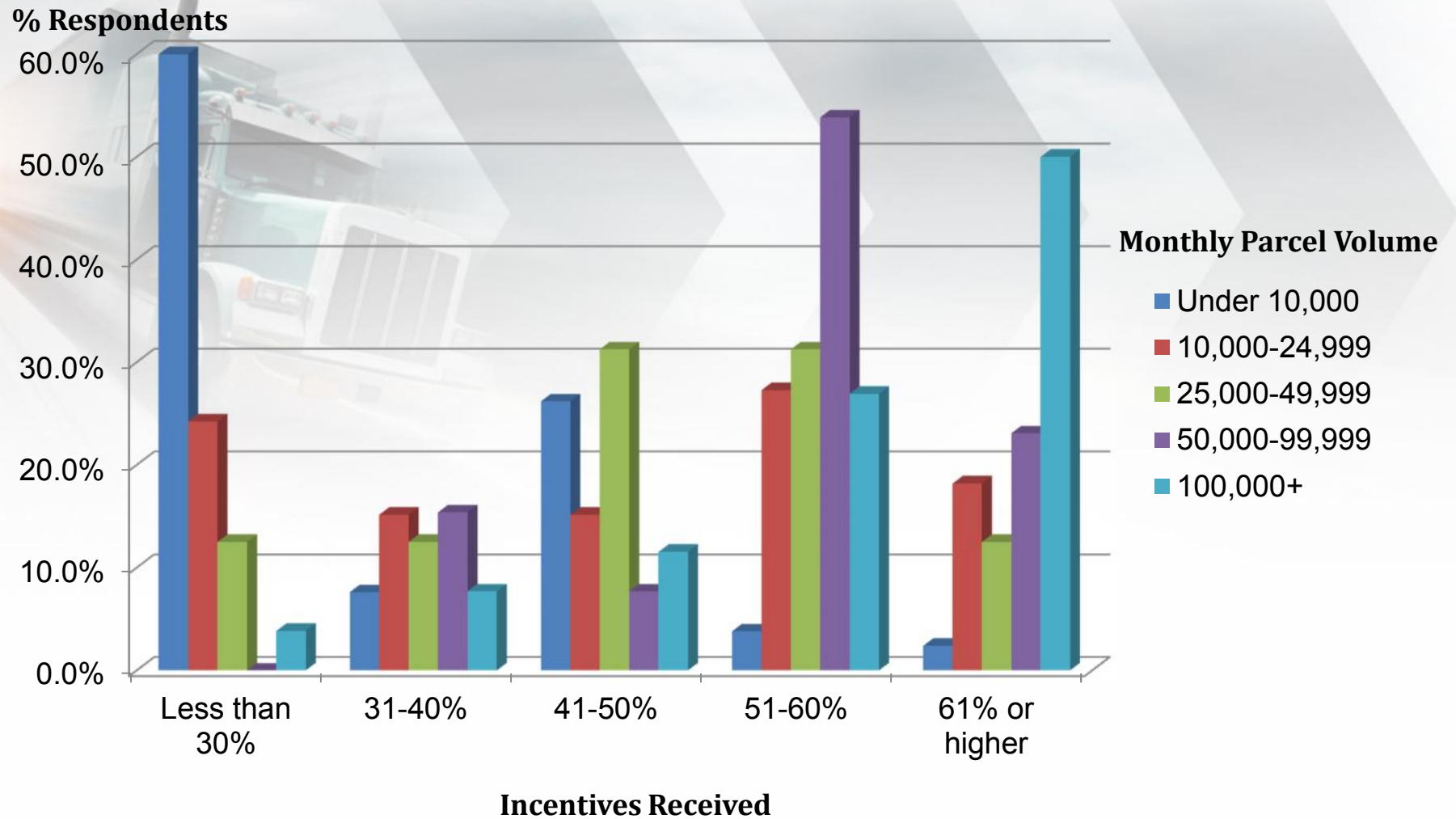


Source: Parcel Pricing Survey, *Parcel Magazine*





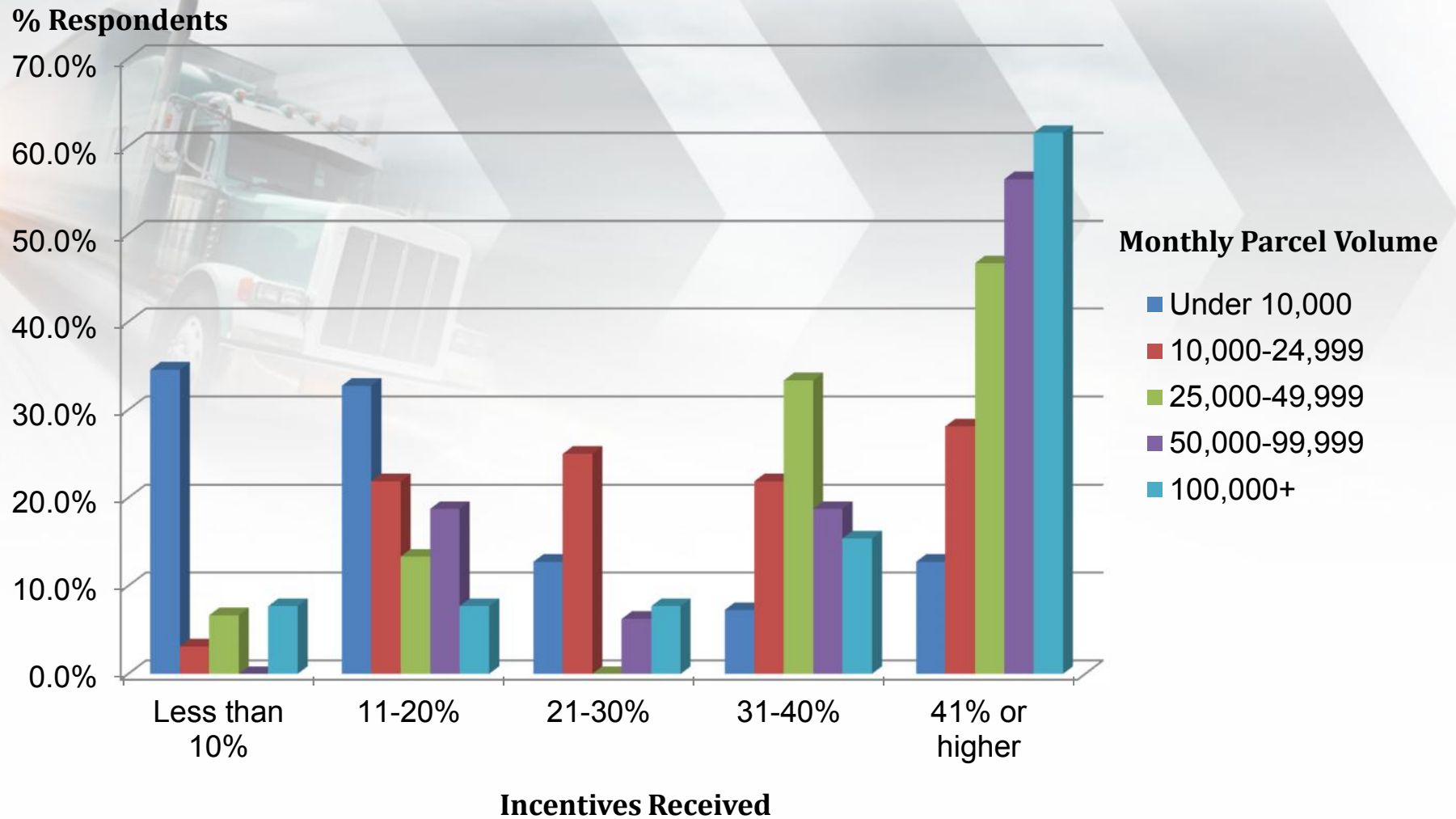
## Correlation of Monthly Parcel Volume and 2 Day Incentives Received



Source: Parcel Pricing Survey, *Parcel Magazine*



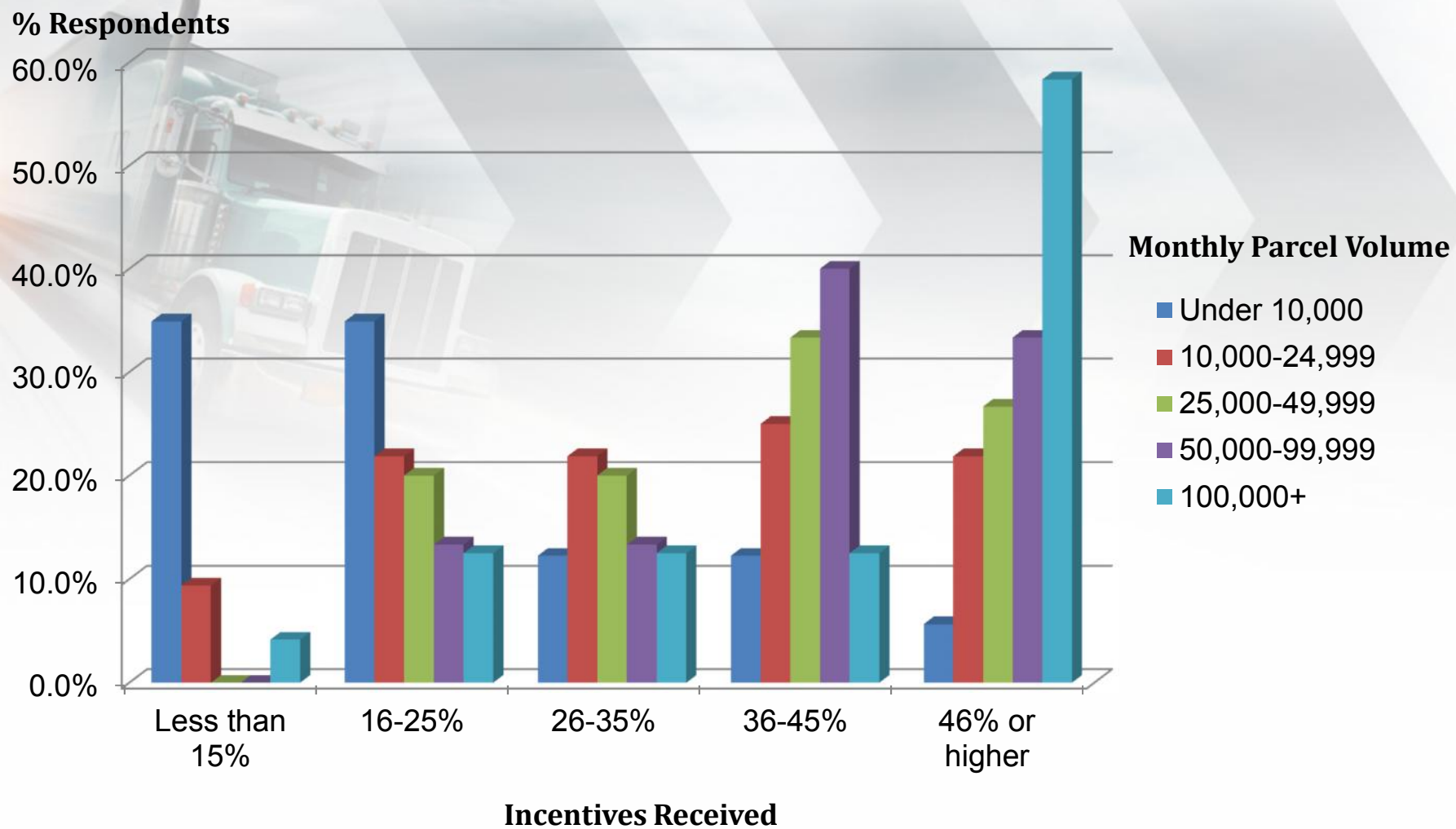
## Correlation of Monthly Parcel Volume and Ground 1-10 Lbs Incentives Rec'd



Source: Parcel Pricing Survey, *Parcel Magazine*



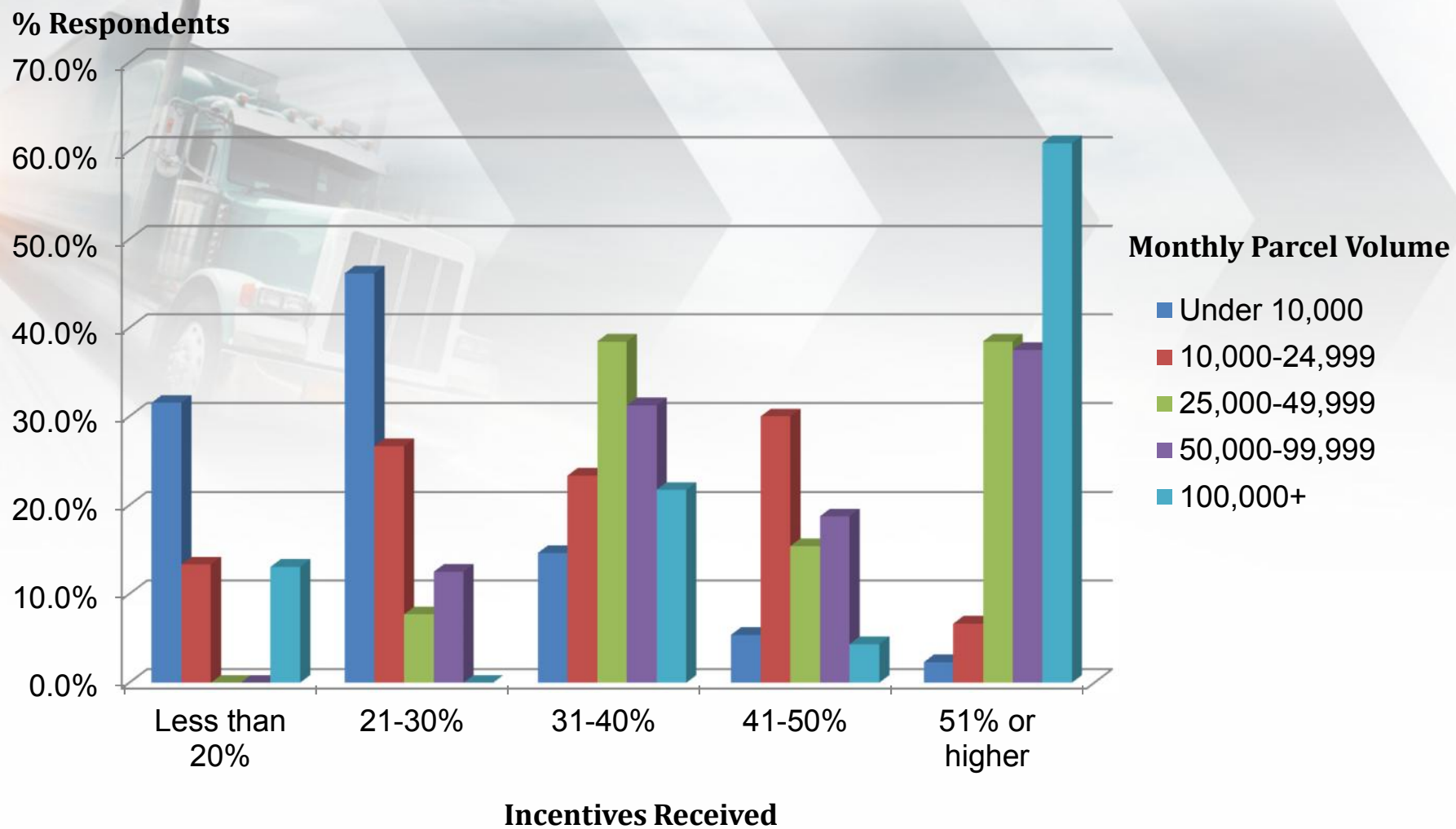
## Correlation of Monthly Parcel Volume and Ground 11-30 Lbs Incentives Rec'd



Source: Parcel Pricing Survey, *Parcel Magazine*



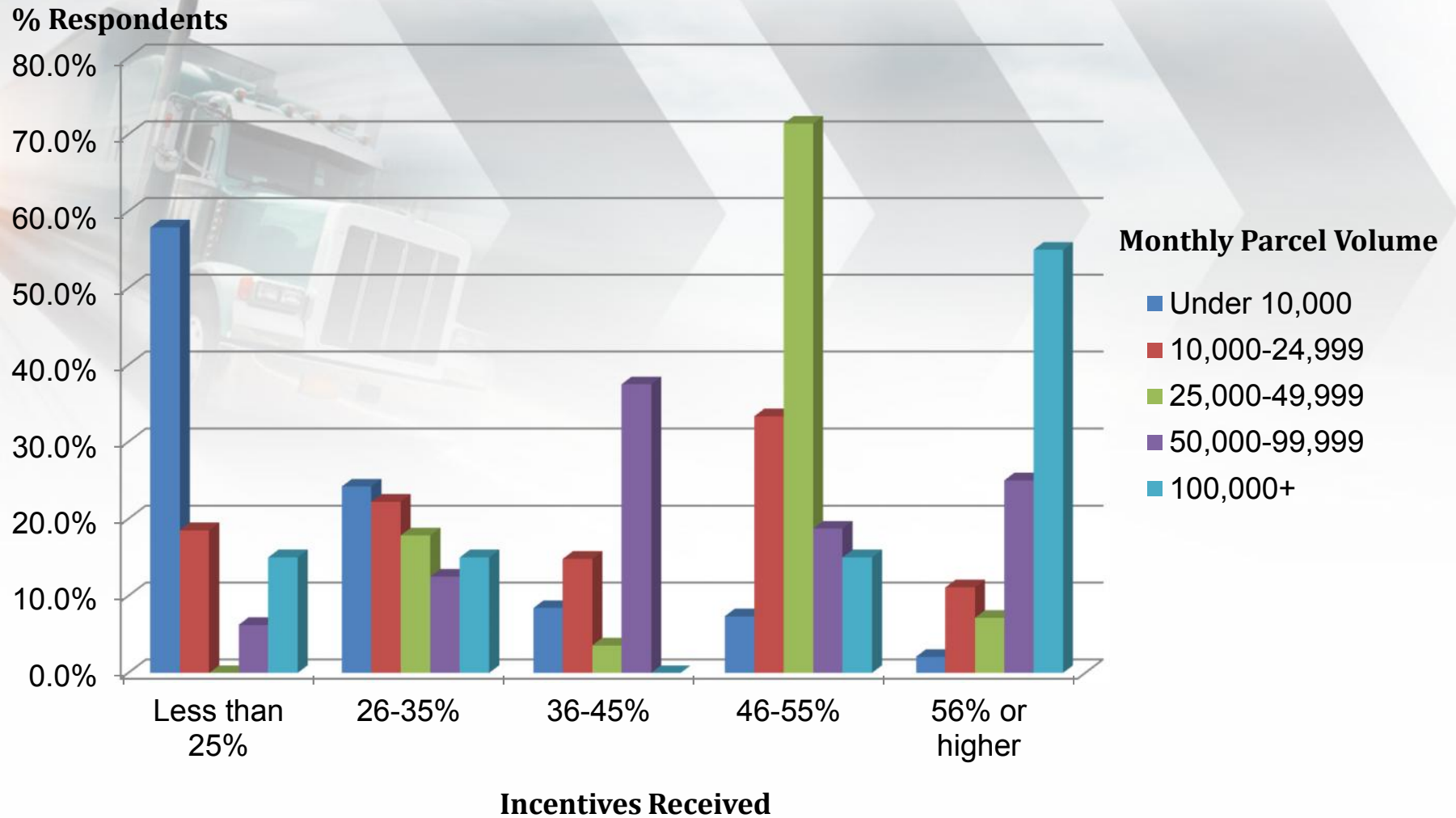
## Correlation of Monthly Parcel Volume and Ground 31-50 Lbs Incentives Rec'd



Source: Parcel Pricing Survey, *Parcel Magazine*



## Correlation of Monthly Parcel Volume and Ground 51 Lbs > Incentives Rec'd



Source: Parcel Pricing Survey, *Parcel Magazine*



# Summary





# General Contract Areas For Review & Negotiation

- Incentives
- Minimum Shipment Charges
- All Services Discounted
- Accessorial Charges & Term
- Revenue Qualifiers/Bands
- Payment Terms
- Contract Length
- Volume Increase/Decrease Clauses
- GRI
- Special Considerations





## UPS® Contract Summary

- ▶ “Standard v Daily” Rates
- ▶ Ensure discounts for all revenue bands
- ▶ Seek long term contract (156 week)
- ▶ 52-week rolling average (versus 13-week)
- ▶ Seek achievable revenue thresholds
- ▶ “Grace” period important depending on contract timing and seasonality
- ▶ Quarterly rebate (deferred tier threshold)
- ▶ Performance threshold incentive
- ▶ Tie in other services
- ▶ Technology partner program
- ▶ GRI







## FedEx® Contract Summary

- Fixed term incentives versus evergreen, especially accessorial
- Earned Revenue incentive (including FHD)
- Bonus Weight addendum
- Base and matrix incentives
- Service waiver incentive
- Fast pay incentive
- Automation credit





Thank you!

Visit us in Exhibit Hall

 @shipware



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