



Negotiating Small Parcel Shipment Rates

ISM Annual Services Conference

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Events Influencing the Parcel Industry



- **Fuel cost**
- **Global economy**
- **DHL's exit from the US domestic Air/Ground market**
- **What alternatives are available?**
- **What you can do NOW!**

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Information Opportunities



- **Knowledge is power**
- **Carriers have the best information on what you ship**
- **It's critical to receive historical information to manage your carrier contracts**

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FedEx Provided Data



- **Current Distance-based Customer Analysis (for the previous month)**
- **Summary by paying or shipping location**
- **National Accounts Activity Report by individual account number (only pertains to national accounts)**
- **Customer Trend Report**
- **EDI or CSV Electronic Shipping Files**
- **FedEx 2-Year History Report, payer based**
- **Online Data (example, Extended Detail Report)**

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UPS Provided Data



- Service Delivery Reports
- Zone Data Report
- Delivery Density Report
- Geo-type Report
- Monthly Comparison Report
- Monthly Volume and Charges Report
- Copy of current UPS contract(s)
- File Types
 - Billing Analysis Tool (BAT) File
 - EDI

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Carrier Technology – Billing



- UPS Billing Center, Billing Analysis Tool
- EDI, Flat File



- FedEx Online Billing
- EDI, Direct Link



- EDI, Online Billing
- Emailed Billing



- Pay as you go, Electronic Verification Service (EVS)
- Email aggregated corrections once per month

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FedEx Billing Options



Billing options offer different levels of detail. Better detail gives you access to better data for planning and management.

- **Billing Online**
 - CSV Format
 - All Accessorial Charges listed alongside fees.
 - Some information necessary for auditing missing.

- **Proprietary 250 Byte Format**
 - Fixed Width EDI file format.
 - Full detail into all charges and fees.
 - Harder to implement without special software.

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UPS Billing Options



UPS offers different tools to work with both these file types for customer analysis of data.

- **Ebill**
 - CSV format.
 - Limited detail into Accessorial Charges.
 - Flags for fees, but no backup detail.

- **UPS Billing Data File (BAT File)**
 - CSV Format.
 - Each fee listed on its own line.
 - Each charge listed with full detail.
 - Able to audit more accurately.

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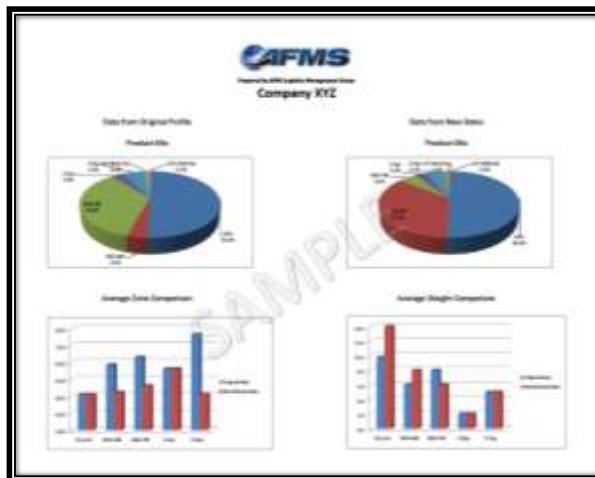
Company History



SERVICE	SVC TYPE	TRANSPORTATION	SURCHARGES	DISCOUNT	NET CHARGES	AVG COST	PIECES	SHIPMENTS	WEIGHT	AVG WGT
EXPRESS										
PO		\$ 93,588.89	\$ 3,024.43	\$ (5,322.79)	\$ 8,890.53	\$ 38.57	137	136	2,085	23.2
EP		\$ 3,193.41	\$ 866.88	\$ (5,358.35)	\$ 2,781.94	\$ 35.17	77	77	1,267	17.8
SO		\$ 2,232.39	\$ 305.32	\$ (5,429.80)	\$ 3,887.91	\$ 29.07	59	59	707	13.5
ESP		\$ 797.86	\$ 110.88	\$ (377.88)	\$ 529.79	\$ 27.61	21	21	408	21.8
FF		\$ 487.73	\$ 19.44	\$ (77.48)	\$ 489.69	\$ 484.68	1	1	101	111.8
POL		\$ 499.05	\$ 05.73	\$ (714.28)	\$ 293.48	\$ 18.81	24	24	8	9.8
SOI		\$ 233.85	\$ 22.38	\$ (122.86)	\$ 133.47	\$ 8.34	16	16	8	9.8
PO		\$ 42.88	\$ 6.77	\$ -	\$ 49.65	\$ 48.72	1	1	1	1.0
EXPRESS Total		\$ 18,409.38	\$ 4,849.34	\$ (9,066.31)	\$ 13,992.41	\$ 41.74	334	333	5,644	16.9
GROUND										
GR		\$ 49,517.19	\$ 5,993.56	\$ (5,813.88)	\$ 49,696.87	\$ 7.16	5,966	5,966	101,596	18.0
MMWT		\$ 5,608.03	\$ 303.45	\$ -	\$ 6,262.14	\$ 8.37	724	724	26,074	28.8
CTAG		\$ 176.88	\$ 18.00	\$ -	\$ 194.88	\$ 15.13	21	21	408	19.4
Cont'd		\$ -	\$ -	\$ -	\$ 99.88	\$ 8	8	8	8	8
RD		\$ 26.52	\$ 16.33	\$ (1.48)	\$ 37.37	\$ 7.15	5	5	37	7.4
GROUND Total		\$ 55,789.47	\$ 6,411.34	\$ (15,813.08)	\$ 46,508.83	\$ 7.34	6,326	6,326	124,915	19.7
INTERNATIONAL										
PO		\$ 6,424.58	\$ 702.95	\$ (3,562.47)	\$ 3,565.06	\$ 77.71	62	62	305	19.2
HEZ		\$ 1,499.47	\$ 526.96	\$ (5,309.88)	\$ 2,817.55	\$ 43.88	12	12	525	16.3
INTERNATIONAL Total		\$ 8,211.85	\$ 1,243.93	\$ (8,863.08)	\$ 6,412.52	\$ 71.86	109	109	1,440	18.8
GRAND TOTAL		\$ 84,071.10	\$ 12,305.21	\$ (26,474.46)	\$ 68,017.37	\$ 9.79	6,779	6,747	131,999	19.6

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Zone/Weight Reports by Service



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Understanding Your Agreement Structure



- **Must understand components of the agreement**
 - Terms & Conditions
 - Contract Renewal Dates
 - Impact of General Rate Increases (GRI)
 - Annual carrier changes in *surcharges*

- **Must manage your agreement *and* your data to get the best possible solutions/rates for your company**

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Carrier Agreements



Important Contract Terms:

- Tiers (revenue or volume based)
- Rolling Averages
- Cell by Cell
- Net Minimums
- Portfolio Pricing
- Ramp-up Period
- Bonus Discounts (kicker)
- Flat Incentives



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2011 General Rate Increase



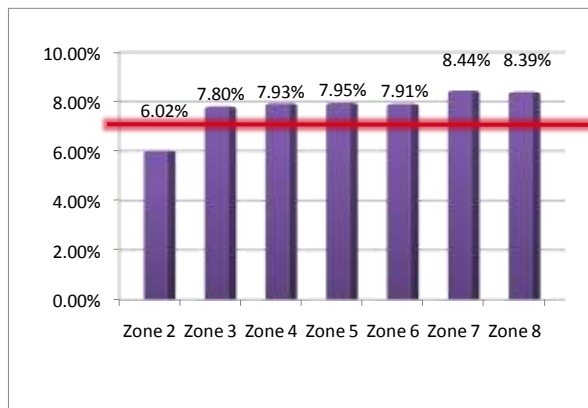
On Sept. 29th, FedEx announced their rate increase for Express that will go into effect on January 3, 2011.

- 5.9% increase, partially offset with 2% FSC reduction
- Residential and Delivery Area Surcharge increases
- Other accessorial increases
- Drastic changes to the DIM factors

How will the above changes impacted your bottom-line profits?

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Pricing Trends – UPS Next Day Air



Announced 5.9%

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Ground Minimums



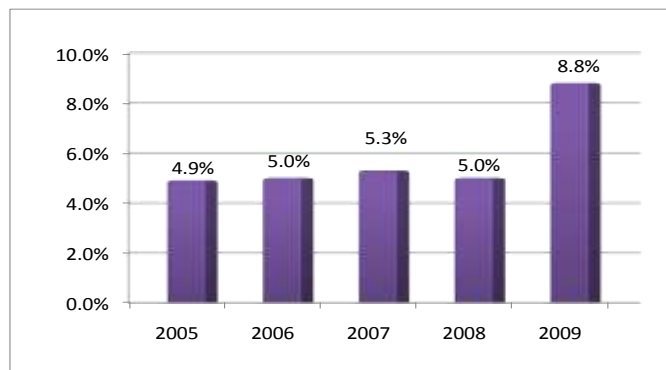
Contracts are set so that no discounts drop below rate of package shipped at Zone 2, 1 lb. charge

Example: Given a 30% discount, the shaded cells below would not receive the entire discount level

Lbs./Zone	2	3	4	5	6	7	8
1	4.57	4.70	4.82	5.01	5.27	5.36	5.48
2	4.65	4.94	5.38	5.49	5.88	6.02	6.31
3	4.69	5.17	5.65	5.84	6.27	6.47	6.99
4	4.82	5.36	5.93	6.23	6.62	6.84	7.45
5	5.06	5.44	6.22	6.50	6.92	7.20	7.89
6	5.21	5.61	6.32	6.67	7.05	7.40	8.11
7	5.48	5.78	6.45	6.86	7.26	7.62	8.40
8	5.70	5.97	6.62	6.99	7.50	7.97	8.93
9	5.86	6.15	6.74	7.17	7.68	8.40	9.51
10	6.06	6.19	6.87	7.37	8.01	9.00	10.15
11	6.27	6.48	7.00	7.53	8.33	9.63	10.86
12	6.45	6.69	7.16	7.70	8.71	10.27	11.65
13	6.67	6.91	7.28	7.88	9.13	10.93	12.44
14	6.81	7.13	7.43	8.06	9.64	11.56	13.24
15	6.95	7.35	7.55	8.25	10.15	12.21	14.03

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Ground Minimums – Annual Increases



Announced Increase:	2.9%	3.9%	4.9%	4.9%	5.9%
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Common Add-On Charges



- Fuel Surcharge
- Delivery Area Surcharge
- Residential Delivery
- Address Corrections
- Oversize Charges
- Dimensional Charges
- Saturday Delivery
- Declared Value (insurance)



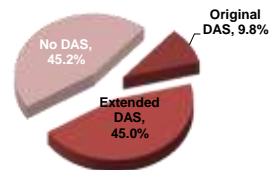
USPS has none of these “extra charges”

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DAS Surcharges (Rural)



- 42,728 zip codes in U.S.
- 55% are considered DAS
- Commercial surcharges: UPS & FedEx \$1.70
- Residential surcharges: UPS & FedEx \$2.50 (max \$8.50 FedEx)
- UPS introduces “Extended DAS”
- 2010– Over 82% of DAS zip codes are now considered Extended DAS which incurs an additional \$0.25
- DAS files available on carrier websites
- AFMS can provide you with the current DAS zip code file



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Accessorial Increases



▪ Air Residential Delivery Charge:	10%	+\$0.25 to \$2.75
▪ Delivery Area Surcharge Com:	8.8%	+\$0.15 to \$1.85
▪ Delivery Area Surcharge Res:	10%	+\$ 0.25 to \$2.75
▪ Extended DAS Res:	9.1%	+\$ 0.25 to \$3.00
▪ Additional Handling Charge:	6.7%	+\$0.50 to \$8.00
▪ Declared Value Charge:	7.1%	+\$0.05 to \$0.75
Minimum	7.1%	to \$2.25
▪ Delivery Signature Options:	All three options +\$0.25	

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Dimensional Weight Factors



Domestic Factor Changed from 194 to 166*
Int'l Factor Changed from 166 to 139

Examples:

Priority Overnight: Zone 8, Scale Weight 12 lbs., 50% Discount
 Dimensions: 22 x 16 x 14

194 DIM Weight: 26 lbs.

2010 Net Cost:

\$73.10 x 8% FSC = \$78.95

2011 Net Cost @ 194:

\$78.58 x 6% FSC = \$83.30

Increase @ 194 DIM:

5.5%

166 DIM Weight: 30 lbs.

2011 Net Cost @ 166:

\$84.05 x 6% FSC = \$89.09

Increase @ 166 DIM:

12.8%

The majority of the increase is due to the DIM change, not the rate increase

*Includes ground packages over 3 cubic feet

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Rate Increase Example



Example: You are in the middle of your 3-year agreement and January 1st approaches ... you are impacted by the following changes:

- Ground 1-10 lbs. increase
- Ground Residential/Home Delivery Surcharge increase
- UPS Rebate calculation change
- FedEx Extended Delivery Area Surcharge
- Ground Fuel Index Change
- UPS Returns Program change

How will the above changes impact your bottom-line profits?

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Fuel Surcharges



October 2010

- FedEx and UPS Ground: 5.5%
- FedEx, UPS and DHL Air: 8.5%
- USPS – No surcharge

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Today's Marketplace - 1



- Corporations are struggling for profits, due to a down economy and fierce competition.
- Carriers not immune. They are reducing cost and fiercely protecting their margin.
- Opportunities to reduce transportation cost is more difficult...but not impossible



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Today's Marketplace - 2

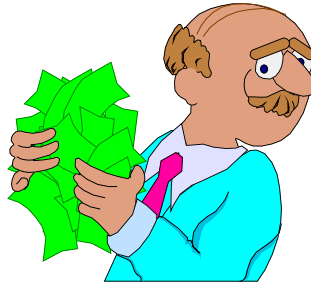


- Standard RFP not enough
- Identify cost-saving opportunities
- Utilize technology to perform transportation analyses
 - Reduce cost internally
 - Prepare for contract negotiation



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When is the right time to negotiate with your carriers?



Pricing is Driven by Two Things:

- **Market Conditions**
 - Stay Informed
 - Understand the changing competitive environment
 - Understand the Carrier's pricing perspectives
 - Excess capacity exists within all networks today
 - Now would be an excellent time to "test the water"
- **Shipment Characteristics**
 - Do you know what characteristics drive pricing?
 - Do you know how the Carriers view your business?
 - Do Carriers know more about your business than You?
 - Do you know how profitable your freight is to the Carriers?

Before you start: Ask the Questions!



What do you Ask?

- *How is today's climate affecting my distribution cost?*
- *How do the carriers view my business...today?*
- *How profitable is my freight to the carriers...today?*
- *Do I understand my own costing characteristics?*
- *Are my discounts and incentives appropriate?*
- *Do I know what surcharges/accessorial are negotiable?*
- *What contract structure is best for me?*
- *How do I leverage my transportation spend today?*

The Answers to these Questions will Help Answer Your Pricing Objectives

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Contract Negotiation



- **Understand your package characteristics**
- **Review each service component**
- **Analyze all accessorial fees**
- **Study profile for cost reduction strategy**



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How Carriers View Your Business?



- ***Retention***
- ***Penetration***
- ***Conversion***

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Retention Selling



- **Relationships – Carriers are your friend**
- **Preferred Status Account**
- **Average to low discounts**
- **“Free” Systems – ties you in to them**
- **Services – What’s available to you is available to everyone, i.e. loaders, trailers...**
- **Supplies**

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Penetration Selling



- They have some of your business and are pursuing more.

-- OR

- Have lost some and want it back!
- Ground, Air, International

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Conversion Selling



- They have little or none of your business
- Expect much better discounts
- Make sure all service concerns are covered while negotiating. They will be more flexible on a conversion account.
- Expect your incumbent carrier to return in a few months with a “new conversion” contract.
- Conversion accounts get extra perks!

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Freight Characteristics



	<u>Unfavorable</u>	<u>Favorable</u>
Number of Shipments	Low	High
Weight	Low	High
Pickup Density	Low	High
Commercial v. Residential	Residential	Commercial
Delivery Density	Low	High
Packaging/Product Value	High Claims	Low Claims
Seasonality	Seasonal	Non-Seasonal
Pickup Location(s)	Many	One
Ground Carrier Distance	Short	Long
Multiple Box Shipments	Many	Many
Air Carrier Shipments	Long	Short
Air Carrier Distance	Long	Short
Geo Code	Super Rural	Suburban/Urban
Automation	Airbills	Electronic Manifest
Payment Method	Invoice/Check	EDI/EFT

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Ground Commercial



Carrier will apply the following incentives to the service rates in effect at the time of shipment. Each eligible package will receive an incentive per the following schedule based on a 52 week rolling average of eligible packages (plus the additional products listed below) tendered to Carrier.

Zone	Amount	Based	Based Determination	Incentive	
ALL	\$0.00	0.50%	Gross Charges per week	0.0%	Off list rate
	\$10,000.00	75%	Gross Charges per week	2.2%	Off list rate
	\$11,000.00	80%	Gross Charges per week	10.0%	Off list rate
	\$11,500.00	90%	Gross Charges per week	14.2%	Off list rate
	\$13,200.00	100%	Gross Charges per week	15.0%	Off list rate
	\$16,000.00	100%	Gross Charges per week	10.4%	Off list rate
	\$19,000.00	100% +	Gross Charges per week		
	\$20,000.00				

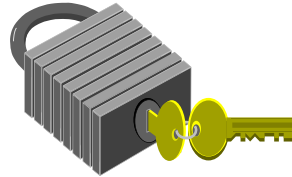
The following additional products will be used to determine the tier level of the customer:
 Next Day Air Package Service
 Next Day Air Package Service
 2 Day Air Package Service
 and

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Know your Profile: Unlock the Mystery



- *Area Density*
- *Delivery Density*
- *Type of Stops*
- *Cube and Dimensional Considerations*
- *Fees and Surcharge Profile*



All These (and more) impact the Carriers "Delivery Cost"

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Primary Cost Drivers



Impact of Area Density
More stops per mile reduces carrier costs

5 Geo Types	# of Stops per Mile	Average Delivery Cost *	Pct of Total Stops
1 – Super Urban	Greater than 4 Stops	\$2.60	5%
2 - Urban	4 greater than 2 stops	\$2.55	15%
3 - Suburban	2 greater than 1 stop	\$2.80	40%
4 - Rural	1 greater than .75 stops	\$3.50	30%
5 – Super Rural	Less than 0.75 stops	\$4.50	10%
			100.00%

**All numbers for illustrative purposes only*

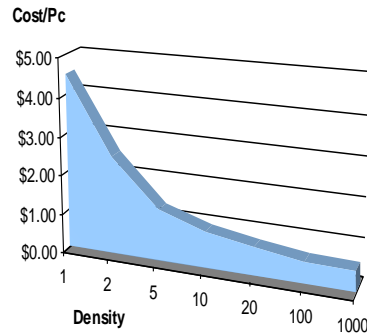
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Identifying Primary Cost Drivers Impact of Delivery Density



Number of Packages Delivered At EACH Delivery Stop

<u>Delivery Density</u>	<u>Average Delivery Cost/Piece</u>
1	\$4.50
2	\$2.50
5	\$1.30
10	\$.90
20	\$.70
100	\$.54
1,000	\$.50



**All numbers for illustrative purposes only*

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Time to Negotiate



Morgan Stanley and PARCEL magazine reader survey

- 11% of respondents use consultants to negotiate rates
- Consultants negotiate more favorable rates; driving discounts 49% lower than if the company negotiates.

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Carrier Technology



- Carriers compete in value-adds as well as price and service
- Technology solutions provide benefits to shippers
 - Save money and time
 - Improve quality
 - Enhance visibility
 - Provide the data to transcend the tactical and focus on the strategic
- These technology solutions:
 - Benefit the carriers as much as shippers
 - Create an potential imbalance of information
 - Opportunities exist to level the playing field

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Non-Carrier Technology



- Benefits of Audit and Freight Payment
 - Eliminate paper billing
 - Receive freight invoices
 - Audit for:
 - ✓ Correct charges (Incentives/Surcharges)
 - ✓ Service performance
 - ✓ Duplicate Billing
- Coding & Chargeback
 - Make disbursements to each carrier
 - Allocate & code transactions for transfer to general ledger
 - Manage cash flow

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Questions?



THANK YOU!

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