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A Slant on Carrier Rates for 2008

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It is that time of year again where the small parcel carriers outline the new rates and charges for the coming year. The rate increase/surcharge and accessorial increases are detailed in the links below that go directly to the carrier web sites.

The increase to the base rates did not come as a shock to us, although the carriers seem to be enjoying increased profit margins on their deferred service products. Particularly the double-digit margins in GDS (ground) services. Your small parcel carrier performs an outstanding and invaluable service to your business; premium services at premium pricing with premium standards. The largest impact of these increases will fall on the small to medium size customer.

We will continue to provide you increased visibility solutions, monitor and hold your carriers to their service standards in this environment of higher pricing and increased profitability. The increases in surcharges and accessorial concern us a bit more.

Our 3 main areas of concern are:

Address Corrections-

We are currently programming address correction reconciliation software that works with the USPS to verify your ADC charges and their USPS validity

Delivery Area Surcharges

Fifty seven percent of US zip codes fall into the category of a "beyond delivery area." DAS (delivery area surcharge) ZIP codes account for approximately 20% of carrier daily volume. With over 20

million parcels making their way through the small parcel carrier systems daily, the \$\$\$ add up. Twenty percent of these packages carry these fees, this equates to 4,000,000 packages per day times .10 per package equates to an additional \$400,000.00 per day in carrier revenue. At 260 working days per year, \$104,000,000 in additional carrier revenue per year is added. One hundred and four million dollars and it's only a dime! It sure does not seem like a lot at first but these are certain considerations for your corporate budgeting.

Residential Surcharges

In the last two years as more and more business moves directly to the customer, we have seen the percentages of residential deliveries soar from 20% to 30%; as such, we have seen and continue to see increased costs for such services. We have been told that the increase in "base package" rates fund a revenue stream to advance technology; technology designed to increase cost efficiencies and cost controls due to this new advent of delivery densities. The more packages moving residential should translate to lower unit costs of delivery, right? I do agree there is a degree of cost added to the carrier system when residential deliveries are required but certainly the densities are rising (30%) and as such, the technology promised by the carrier on our "dime" (pun intended) should be yielding those shipper cost benefits by now. We continue to pay for the carrier system inefficiencies. As the trend continues to move "direct" to the customer, and residential deliveries approach 50% density, what happens when it hits 51%? Are we now subject to a commercial surcharge? (Please forgive my sarcasm).

Way back in 2000, RPS proved that significant operating ratios could be achieved with lower package counts and shipment densities. In 2000 RPS achieved an operating ratio of 88.89% with an average of 1,442,187 daily packages; while at the same time UPS operating ratio stood at 84.84% with an average of 13,624,000 packages. With package and delivery densities rising for residential deliveries, carrier technology improving and network optimization, why is it that at 30% residential delivery density our delivery costs continue to rise? Financial success for UPS is less and less due to an integrated network of ground and air shipments; amongst the primary reasons for these double digit margins are the almost 300% increase in

accessorial charges since 2001. Can we conclude that as delivery densities for residential packages increase and the surcharges for these deliveries increase in kind that the carrier delivery efficiencies are declining? At a time where most shippers and retailers are struggling to digest the entire shipping costs to retain and obtain their customer base, it becomes ever more crucial to evaluate and eliminate these additional fees. Understanding and identifying them is the first step.

Example of Cost Impact

2007 rates

Base rate zone 2, one pound ground package residential = \$4.00 + \$1.85 (residential surcharge) = \$5.85

2008 rates

Base rate zone 2, one pound ground package residential = \$4.20 + \$1.95 (residential surcharge) = \$6.15. The one pound ground residential package cost will increase .30 per package, a customer sending 1000 GDS residential packages per week will see a \$300.00 per week in shipping spend, approximately 15k per year.

Offsetting the Impact

1. Use our software and visibility solutions to understand and diagnose your shipping characteristics and parcel distribution. Utilizing these solutions and reporting insights can help drill down and isolate unwarranted and preventable costs moving forward.
2. Negotiate your parcel contracts
3. Analyze your use of deferred air services (next day standard, second day, 3 day air), are you shipping to zones where a ground commit would have been the same or better at a fraction of the cost?
4. As a customer you are paying for technology advances and carrier infrastructure as part of the shipping charges. Take advantage of service guarantees and commitments. Paying a premium for shipping services demands a premium of service level standards and excellence. Your customers will appreciate the service standards you demand from your parcel vendors.
5. Offer a value add proposition to your customer base (minus

\$1.00 for deliveries to their workplace), Internet retailers primarily.

6. Each and every shipper has a different profile; the carrier has such contract incentives for each shipper profile. Knowing where you fit in is crucial.

Our Big Four domestic parcel carriers (UPS, FedEx, DHL, USPS) provide us with the legs for the delivery of our business products and services. An extraordinary opportunity exists because of them, however, because it is often the largest corporate expense of your business; its assessment for reduction is always warranted without sacrificing customer service.

We will always be committing new resources and developing new applications to assist you in deciphering your shipping expenditures, making it more manageable and understandable.

The links below detail the UPS and FedEx rate increases for 2008, DHL is sure to follow shortly.

<http://www.ups.com/rates/>

<http://www.ups.com/rates/surcharges.html>

<http://fedex.com/us/rates2008/ratechanges.html>

<http://fedex.com/us/rates2008/surcharges/index.html>

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