



Freight Train

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Shippers are shelling out a lot more for freight services these days. While that may be telling Noah about the flood, it's important to understand what goes into shipping costs to know why they're increasing — and what you can do about it.

So why are freight costs rising? The demand for domestic express package and less-than-truckload (LTL) freight services continues to decline. Rather than adjust revenue targets, carriers are forcing shippers to make up the difference by charging more for services.

Consider the facts. The general rate increase for each of the past two years has been the highest in more than a decade. Ground rates for both rates went up 4.9%, while express rates in 2007 increased 5.9%, and 6.9% this year.

A rule change to the dimensionalization policy is another factor. The carriers changed the ground "oversize" policy to match the air "dimensional" policy, which boosted annual costs for shippers by an estimated \$1 billion.

Accessorial charges are increased and new ones are added every year. While these surcharges for additional, supplemental or special services are designed to address the carriers' cost to serve model, they now account for up to 40% of your overall freight costs.

Fuel surcharges — perhaps the most substantial of all accessorial charges — have reached an all-time high. As of May, the fuel surcharge at FedEx and United Parcel Service for express service was a whopping 25%, while DHL's was up 27%. The ground service fuel surcharge at FedEx and UPS was 7.75%, and for DHL, 7.8%

Along with the passenger airlines, parcel carriers are disproportionately affected by rising fuel costs. FedEx recently reported fuel costs of more than \$3.2 billion in the past nine months, and up 42% just in the past three months.

Imagine the impact of fuel to the U.S. Postal Service and its 220,000 vehicles: For every penny that fuel increases, the USPS incurs \$8 million in additional overhead. And the Postal Service does not apply a fuel surcharge and cannot recapture these costs.

Most industry analysts predict higher freight costs for years to come as the carriers continue to face a challenging economic environment.

So what's a shipper to do? Quite a lot, actually. The following strategies can help you reduce shipping costs 10% or more.

Negotiate, negotiate, negotiate

Carrier sales representatives are partially paid on profit margin. Their job is to sell your account at the highest rates possible. As a result, three out of four carrier agreements could be improved by 10% or more.

Many shippers do a good job negotiating upfront discounts off list rates. But they often fail to negotiate accessorial charges, fuel surcharges, general rate increases and other fees. Despite what your carrier representative may tell you, all fees and terms are negotiable.

If it's been more than a year since you have reviewed competitive proposals, your loyalty to your incumbent carrier may be costing you. Increase competition by auditing invoices for overcharges and late shipments, conducting annual bids, splitting your business, and having frequent meetings with non-incumbent carriers.

Mitigate fuel surcharges

Large shippers may be able to negotiate a variety of discounts on the fuel surcharge, including rate caps, a few points off the index, fixed fuel surcharges, or even “all in” pricing, inclusive of fuel and fixed for the term of your carrier agreement. You may even be able to negotiate a quarterly rebate with the carriers to offset rising fuel surcharges.

You can also reduce the impact of fuel surcharges by negotiating better upfront discounts and accessorial concessions. Discounts are applied to fuel surcharges, so if you negotiate an additional 10% discount on your base rates, you'll realize a 10% discount on your fuel surcharge as well.

The same concept applies to add-on charges. Take delivery area surcharges (DAS) fees for residential delivery as an example. Apply the 25% fuel surcharge to the \$2.30 DAS fee, and you're paying another \$.58 in fuel surcharges. But if you negotiate a 50% DAS fee reduction, your fuel surcharge cost goes down to \$.29, a 50% improvement.

Many carriers offer prepaid shipping products, which can be used like a postage stamp to ship in the future. Because fuel surcharges are applied at the time of purchase, you can use this strategy to hedge the price of fuel in the future. If you think fuel costs will continue to rise, you can essentially “lock in” today's fuel rate.

And consider the advantages of ground over express services. Ground base rates are 30% to 70% less than premium expedited services, and fuel surcharges are a third the cost (7.75% vs. 25%).

Analyze your carrier invoices

Each week the carriers provide one of the most effective tools to reduce shipping costs: your invoice. If you don't thoroughly analyze your carrier invoices, I can almost guarantee you are overspending.

First, establish electronic billing with your carrier. Each of the carriers offers several electronic invoicing options.

UPS offers a free weekly file called Billing Data. Multiple accounts can be combined into a single data file for a comprehensive view of your company's global shipping costs, including domestic and import charges and LTL charges.

The billing data file can be integrated to streamline internal business processes, such as bill reconciliation, cost allocation and accounts payable. Use Billing Data in conjunction with UPS's Billing Analysis tool to develop insightful reports to analyze your shipment activity.

Simple sorts of key columns can reveal significant opportunities for savings:

Service description

Separate freight charges and accessorial charges. Identify charges like residential fees, delivery area surcharges, declared value, weekly service fees and other handling charges. Quantify which accessorial charges have the greatest effect on your costs, and target those charges for waivers or reductions during negotiations.

Discounts/incentives applied

By sorting these columns, you can quickly identify the actual discount received. You may be surprised to discover that many shipments receive partial or no discounts.

Unless your carrier agreement specifically covers *all* services, many shipments may be undiscounted, including offshore, third party and collect billed, certain service levels, and shipments affected by minimum shipment charges. Identify where you're losing out on discounts, and meet with your carrier rep to address.

Billed weight vs. actual weight

Compare these columns to identify instances in which the billed weight is higher than the actual weight. It's likely these shipments were affected by dimensional (DIM) charges or reweighs. If so, evaluate your packaging and/or negotiate a higher dimensional factor with your carrier.

Container type/packaging _____

Identify 1-lb. shipments that could have received the letter rate at savings of up to 45%. Both UPS and FedEx offer unlimited weight envelopes that extend the 8-oz. letter rate regardless of actual weight.

Zone _____

Sort expedited packages by zone to identify opportunities to reduce costs through modal optimization. Consider replacing next-day, two-day and three-day air products with ground service. Ground service is delivered next day to Zone 2, within two days to Zone 3 and within three days to Zone 4.

Account number/bill options _____

Sort by account number and/or bill option code to ensure authorized use of your carrier account. Pay careful attention to shipments billed collect and third party.

Get help if you need it _____

Carrier contracts today are more complex and conditional than ever. Some of the challenges to transportation procurement include lack of adequate staff resources and experience, and difficulty in collecting internal data to create and analyze bids. You also need sufficient technology for bidding and analytics tools.

Many consulting firms specialize in carrier contract procurement, and several will work on a gain-share basis, thereby guaranteeing cost savings.

Curbing rising transportation costs is an ongoing struggle, but it's well worth the time and effort. Even small changes to your carrier agreement can generate significant savings.

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