



MAKING A RATE CASE

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When your shipping costs go up, it would be nice if you could just pass that increase along to your customers. But you can't: Multiple studies show that shipping charges play an important role in consumer behavior. For instance, many online shopping carts are abandoned due to high shipping costs.

Through the creative use of free, discounted, and other shipping offers, some leading merchants have made shipping a competitive advantage. But these campaigns tend to come at the expense of profitability, and turn shipping into a loss leader.

You can, however, reduce shipping costs by 10% or more through carrier contract negotiations and other strategies. Improved carrier contracts ensure greater profitability and marketplace competitiveness.

How do you negotiate best-in-class parcel contracts with FedEx, UPS, DHL, and the U.S. Postal Service? These five steps can help you.

1. COLLECT AND ANALYZE SHIPMENT DATA

Before stepping up to the negotiating table, shippers need to collect and analyze usage, expenditures, accessorial charges, and other variables. Obtain data from any of the following sources: carrier's electronic invoice, shipping system manifest reports, carrier management reports, ERP and order management systems, and/or freight auditors.

Analyzing shipment data allows you to better understand expenditures, and it is critical information for carrier negotiations. Develop reports to understand service usage, seasonality, weight ranges, zonal distribution, accessorial costs, cost per shipment, residential/commercial delivery mix, and other factors.

This detailed analysis gives shippers a framework to request the discounts and pricing concessions with the most cost savings impact.

For example, identify the impact of accessorial charges such as residential surcharges, delivery area surcharges (DAS), fuel surcharges, weekly service fees, and other handling charges. There are more than 100 of these "add on" charges that make up about 30% of your overall shipping costs.

Quantify which accessorial charges affect your company the most and target these charges for waivers or reductions during negotiations. Regardless of what your carrier representatives tell you, accessorial fees are negotiable.

The parcel carriers also use shipment level data to determine package characteristics to propose pricing for your business. The lower the cost of servicing your account, the better discounts you can expect. (We'll discuss how the carriers view specific package characteristics another time.)

Prior to carrier bids or negotiations, share your analyses and shipping sample, especially with non-incumbent carriers. The data sample enables the carriers to propose pricing with a "cost to serve" model and thereby extend their deepest discounts.

2. DEVELOP RATE BENCHMARKS

Rather than simply asking the carrier to propose the best pricing possible, it is more effective to target specific discounts and concessions. If possible, conduct internal and external benchmarks to determine the range of discounts available.

Through rate benchmarking, you improve your negotiating position by knowing how your carrier rates compare with best-in-class programs. If you lack the ability to benchmark internally, a number of companies can assist you on this front.

3. CREATE A COMPETITIVE BIDDING ENVIRONMENT

The best carrier pricing programs are often obtained through competition. If you haven't changed carriers for some time, chances are you're spending too much. Carrier sales representatives are commissioned in part on profit margin. Therefore, most reps are not willing to offer extensive discounts unless forced to compete for your business.

Use leverage in your negotiations. Increase competition by auditing invoices for overcharges and late shipments, conducting annual bids, splitting your business, and having frequent meetings with non-incumbent carriers.

4. NEGOTIATE DISCOUNTS, ACCESSORIAL CONCESSIONS, AND REBATES

Whenever possible, initiate contract discussions. Begin by telling the carrier you want to lower transportation costs as part of broader corporate cost savings goals. Let them know you will be bidding your business aggressively, and that you expect to realize savings of 10% to 20%. Make the focus your company's bottom line and not the carrier's margins.

Small changes to your carrier agreement can have a large impact on overall savings. If your discounts are tied to rolling averages and revenue thresholds, make sure your distribution patterns do not adversely affect discounts. Seasonal shippers should negotiate 52-week rolling averages instead of the more common 13-week program.

Make certain your contract includes discounts for all services. For example, unless your contract specifically extends your prepaid discounts to third-party shipments, you may be losing discounts.

Minimum shipment charges can also negate savings. Understand the impact of these charges to your distribution. Volume shippers have successfully negotiated, reduced, or waived minimum shipment charges.

Don't overlook accessorial charges, as even small concessions can have a major impact on your overall costs. Depending on your overall package characteristics and profitability to the carrier, many accessorial charges could be negotiated, including address correction fees, Saturday pickup and delivery, weekly service fees, and many other charges.

Large shippers may be able to negotiate waivers or caps to the general rate increase (GRI) that occurs in January. While the carriers prefer to offer discounts as a percentage off list rates, many large shippers have successfully negotiated maximum annual increases as a percentage above net rates.

Each of the carriers offers a variety of vehicles to improve base discounts and drive savings. Request quarterly rebates, earned discounts, and other incentive programs.

Finally, pursue long-term contracts. While you reserve the right to negotiate your contract at any time, fixed term contracts offer shippers rate stability and cost predictability.

5. IDENTIFY OTHER COST SAVING STRATEGIES

Review your shipment analysis to identify opportunities to shift from costly premium services to time-definite but less costly deferred services.

For example, are you shipping next-day, two-day, or three-day service to Zone 2? If so, you may want to convert these shipments to ground as they are guaranteed to be delivered the next business day at a much lower cost.

Centralize shipment distribution to maximize discounts with your preferred carrier. While that might not be possible in decentralized office environments, you can still maintain routing compliance by controlling desktop shipping.

Each of the carriers offers desktop shipping software. The software allows an administrator to control access to shipping and restrict service usage. For example, an administrator could set the system to allow the executive department to ship via premium services, while restricting the marketing department to deferred services.

With surcharges, higher list rates, and lower discounts, shipping costs for delivery to residential addresses are significantly more for commercial addresses. So your order entry instructions for all sales channels should request business addresses whenever possible.

Analyze carrier invoices to identify parcels subject to dimensional-weight (dim-weight) pricing. Dim-weight reflects package density, which is the amount of space a package occupies in relation to its actual weight. Because you are charged the greater of the actual weight or dim-weight, these charges can significantly increase your costs.

There are several strategies to decrease dim-weight costs. Redesign packaging to maximize density, consolidate multiple-piece shipments when possible, and/or negotiate a higher dim-weight factor with your carrier.

Avoid address correction fees by making sure your receiver database is accurate. Instruct accounts payable to look for address correction fees on carrier invoices, and forward corrections as well as customer address changes to the shipping department. Address verification software can clean up a shipping list prior to distribution.

If your organization is resource constrained or lacks the expertise to effectively negotiate best-in-class carrier agreements, seek outside help. Many consultants are willing to work on a gain-share basis, thereby guaranteeing cost savings.

If you use these tips and techniques, you will be able to significantly reduce your shipping costs. These bottom-line savings will increase your profitability. You can even pass on these savings to your customers to increase online orders and provide a competitive advantage.

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