



NEGOTIATING TERMS

It could make or break your budget

By Timothy Sailor

On December 31, 2007, UPS, FedEx and DHL all passed along the highest general rate increases in eight years. This 6.9% raise came on the heels of record setting increases in 2007.

For many shippers, the story in 2007 wasn't about the historically high tariff increases; it was the changes that the carriers made to their terms and conditions. For the first time, UPS, FedEx and DHL no longer discounted the residential add-on fee. They also eliminated the Oversize 1 and 2 rules and implemented a 194 dim factor for ground shipments. These changes were not revenue neutral, and they increased costs for a significant number of large shippers. The impact of these fees affected many shippers more than the general rate increases.

Many miss the days when you could look at a carrier rate sheet and know the exact cost of your shipment. It is especially difficult for shippers trying to accurately charge back or recoup shipping costs.

Today's shipment charges are made up of many different components, including list rates, discounts, accessorial charges and many other re-rating vehicles. There is no longer any rate transparency when auditing shipments for accuracy. The carriers' terms and conditions continue to contribute a larger portion of shipping costs than any tariff increases.

The Importance of Terms

It is increasingly vital that shippers focus more time negotiating contract terms as well as rates. Most carrier contracts are written by the carriers to benefit the carriers. Contracts have become highly conditional, and shippers don't always know what applies to their shipping costs.

For too long, shippers have focused their negotiations on tariff discounts and incentives. This should be just the starting point in your carrier negotiations. Once you have obtained the best up-front discounts, move on to contract concessions, as up to 30% of total shipment costs are due to add-on fees. Shippers who fail to concentrate on these expenditures miss out on substantial savings.

Most of these add-on charges are derived from the carrier service guide. The way to exempt or reduce these charges is through negotiating contract terms that are more beneficial than the standard terms.

Another **effective** way to restore incentives is through a **rebate**. Some carriers will offer rebates on a monthly, quarterly or annual basis, and rebates can be **written into contracts** and based on either net or gross expenditures.

Despite what your carrier reps may tell you, most accessorial charges are no longer off limits during negotiations. The key to obtaining some relief is to quantify the financial impact of each of these add-ons. Drill down with your carrier reps to get to a hard cost for all your add-ons. Once you have established the most costly of these fees, prioritize reductions with your carriers. One of the biggest costs is fuel surcharges. Although the carriers reduced their fuel surcharges by two percent, these reductions didn't benefit shippers for long. In 2007, the two percent reduction in fuel only extended through June and then went right back up to historical highs. Meanwhile, shippers felt the entire annual tariff increase for 12 full months.

There are several strategies to minimize the additional fuel surcharge. Ask your carriers to put a fuel surcharge cap in your contract so that it won't ever exceed a certain percentage. It is also possible to ask for a flat fuel surcharge that would be fixed for the life of your contract. Remember that the fuel surcharges vary between the carriers and that the USPS still does not apply one.

Other Factors to Consider

Minimum shipment charges is another cost that can also be controlled through contract terms. Many shippers don't realize that the Zone 2, one-pound minimum shipment charge effectively negates their negotiated incentives. With this rule, the carrier can apply higher undiscounted rates to a large number of lower weight shipments. And ironically, the higher you have negotiated your discounts, the more shipments are impacted by this exclusion.

Contract language can be written to offset these terms. It is possible to negotiate a lower minimum charge with some carriers offering flat minimums or a percentage off the minimum charge.

Another effective way to restore incentives is through a rebate. Some carriers will offer rebates on a monthly, quarterly or annual basis. Rebates can be written into contracts and

based on either net or gross expenditures. Most importantly, these rebates apply to all shipments, including packages affected by minimum charges.

Contract terms can also help shippers avoid taking the general rate increase each year. Some shippers have negotiated net rates that aren't tied to the carriers' published list rates. This allows them to write into their contracts different, lower annual increases. And, as with fuel surcharges, it is possible to negotiate a cap to general rate increases. Shippers with fixed caps probably will take much lower increases than the 2008 general increase of 6.9%.

Another important factor to consider when negotiating contracts is annual expenditures. All the carriers tie their proposed rates to minimum revenue levels and commitments. If you can accurately project your expenditures, you can use these monthly commitments to increase incentives and discounts. Negotiate rolling averages and other revenue thresholds to maximize incentives, rebates and other discount terms.

Many shippers were negatively impacted by the 2007 Oversize rule changes. By some estimates, the carriers realized hundreds of millions of dollars in higher rates for dimensional shipments. According to PARCEL's Trends Survey, those shippers affected will experience a 10% increase in their parcel spend.

Not all shippers had to accept the new 194 rule. By customizing contract terms, some shippers were able to grandfather the old Oversize rules. Others were able to negotiate higher unique dim factors and/or cubic inch thresholds. These specialized dim factors can often narrow or eliminate the differences between actual package weight and the new dimensional weight.

As with all negotiations, negotiating terms is a two-way street. Knowing what to ask for is important. You may have operational, service or automation requirements that increase the carriers' "cost to serve" model and prevent you from fully maximizing these savings.

On the carrier side, the keys to negotiating contract terms are to be reasonable, flexible and open. There are some accessorial fees that are political and practically sacred to the carriers. These areas tend to be the most difficult for shippers to negotiate. Keep in mind that while your primary carrier may not be able to offer concessions, it is possible that one of the non-incumbent carriers would be willing to negotiate various terms to compete for your business.

While negotiating contract terms may seem more difficult than negotiating rates, it will pay off in the long run. Rates will change on an annual basis, but your contract will impact you for several years and will influence daily shipping expenditures.

Tim Sailor is the founder of Navigo Consulting Group, which specializes in contract benchmarking, distribution analysis and carrier negotiations. Since 1995, Navigo has reduced its clients' shipping costs by more than 30%. Tim was recently recognized as a Distinguished Logistics Professional by the American Society of Transportation and Logistics, Inc. He can be reached at 562-432-2299 or Tsailor@NavigoInc.com. ■