



Picking a Parcel Consultant

The right partner can help you reduce rates

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A down economy is always a good time to renegotiate vendor contracts, and your parcel carrier is no exception. For extra leverage, many large shippers have turned to third-party consultants to support them in their carrier contract negotiations.

According to Morgan Stanley's Annual Best Practices Survey, 11% of the top-400 parcel shippers in the U.S. have hired consultants to negotiate their FedEx, UPS, DHL and other transportation contracts. What's more, these shippers report that parcel consultants reduced their shipping costs as much as 49% lower than if the company had negotiated on its own.

As an outside consultant who negotiates parcel contracts, I agree with these findings. If you haven't had a parcel consulting firm review your distribution expenditures and negotiate your carrier agreements, you are most likely spending more than you should.

I'd say that nine out of 10 parcel contracts — regardless of size — can be improved by 10% or more. This is based on direct experience having worked with hundreds of large shippers.

Why? Many shippers lack the staff resources, category expertise and analytical tools to effectively negotiate world-class parcel contracts. Moreover, the carriers are focused on yield management and margin improvement. Their goal is to sell your business at the highest rates possible while still retaining you as a customer.

Parcel consultants offer not only category proficiency and dedicated resources, but also the leverage needed to negotiate with uncompromising carriers. In deciding whether to use an outside consulting firm, you should understand the scope and value a consultant would bring to the table, as well as the criteria you will need to select the best parcel consultant for your objectives.

EXPERTISE AT YOUR SERVICE

Many companies lack sufficient staff expertise to deal with the complexity of transportation rate structures, accessorial fees, fuel surcharges and modal combinations. For most shippers, the experience of negotiating parcel agreements is limited to one or two contracts every one to three years.

Parcel consulting firms, on the other hand, negotiate dozens of programs annually as a core competency. Many consultants have extensive carrier backgrounds and offer unique “insider” insight to carrier pricing practices and guidelines.

For instance, consultants can benchmark carrier pricing against a peer group of other shippers with similar shipment characteristics and expenditures, often within your same industry. The result of the benchmark study is a comparison of your carrier contract ranked against best-in-class programs.

Consultants can help you benchmark all areas of your contract, including terms and conditions; base, matrix, threshold and portfolio incentives; earned discounts, rebates and automation credits; rolling averages, revenue thresholds and summary level deferred tiers; performance thresholds; accessorial concessions; minimum shipment charges; dimensional weight and shape-based adjustments; non-standard general rate increases; fuel surcharge discounts; and many other areas.

There are, in fact, hundreds of pricing programs the carriers could offer you. Most shippers don't have the best rate programs simply because they don't know these programs exist.

DEDICATED RESOURCES

Many distribution professionals are occupied with running the operation and simply don't have the hundreds of hours to dedicate to comprehensive distribution analysis and carrier negotiations.

A recent Aberdeen Group survey polled hundreds of large parcel shippers on the subject of challenges to transportation procurement. The number-one challenge? A lack of adequate staff resources.

As a dedicated resource, the consultant will act on your behalf to collect and analyze data, meet with incumbent and potential carriers, document your requirements, prepare a procurement strategy, develop RFPs, evaluate bid responses, and negotiate and implement contracts. Apart from their expertise, this is the biggest advantage a consultant provides.

Moreover, parcel consultants can provide general advisement and ongoing support, including trend and usage analysis, reporting, freight auditing, modal optimization analysis, rate modeling, sourcing expertise, and a host of other benefits to improve service while reducing your transportation expenditures.

ACCESS TO INFORMATION AND ANALYSIS

Knowledge is essential in negotiations. As a rule, you should know more about your business than the carriers. But when it comes to shipping, the carriers have the upper

hand because they capture detailed information through package characteristics. These include what you ship, recipient information, box sizes and weights, service levels, zones, commercial/residential mix, and hundreds of other shipping metrics.

Most shippers do not have enough access to this information or don't know how to evaluate it properly. Assuming you gain access to the data, the next challenge is filtering through distribution data to prepare for contract negotiations. Which fields are important? How do you use the information to know what to ask for in a negotiation? The results of the Aberdeen research confirm that these skills evade many shippers.

The next three challenges to transportation procurement reported in the survey were all related to analytics:

- Difficulty collecting internal data to create and analyze bids
- Lack sufficient technology for bidding and analytics
- Carrier responses are not standardized

Most parcel consulting companies are equipped with sophisticated technologies for collecting and standardizing data, as well as methodologies for comprehensive distribution analysis and bid evaluation.

Consultants can quickly sift through endless fields of shipping data to identify areas of opportunity for contract optimization and overall savings. And they can apply carrier pricing to a data sample to model the cost impact of each proposal to your actual distribution.

CARRIER MOTIVATIONS

Another challenge to negotiating parcel agreements is that carriers are focused on margin improvement. Your carrier rep's job is to sell your business at the highest rates possible. Commissions, evaluations, promotions and peer rankings are based in part on achievement of profit objectives.

As a result, most carrier account managers do not or cannot extend their company's best pricing. How can a parcel consultant help? For starters, carrier reps understand that consultants are privy to hundreds of negotiation outcomes, and are therefore aware of the range of discounts available to shippers.

And most consultants enjoy high-level relationships within the corporate offices of each of the carriers. Should the carrier's local, district or regional sales resources not provide the responsiveness and pricing flexibility a shipper deserves, consultants can escalate the issue to corporate management for prompt and satisfactory resolution.

Parcel consultants provide the category expertise, dedicated resources and analytical know-how to produce significant cost savings. And many parcel consulting firms work on a gain share basis, guaranteeing savings or their services are free.

Are parcel consultants right for everybody? Of course not. But if you're curious as to what one could do for you, most consultants offer a complimentary assessment of your current carrier agreements. They will provide you with benchmarking information and an estimate of potential savings.

PICKING YOUR PARTNER

Industry reputation and tenure are important in selecting the right partner. Look for firms that specialize in parcel consulting as a core competency rather than auditing services — most companies are not good at both.

Seek consultants who emphasize carrier collaboration and relationships. Conduct a comprehensive evaluation by interviewing several firms and checking client references.

Specify what services are to be performed for the duration of the consulting term, especially after new rates have been implemented. You should require that ongoing support, reporting and auditing are included at no additional cost as part of the agreement. Ask for a performance guarantee and demand an “out” clause as part of your consulting services agreement.

Make sure you are able to audit the consulting firm's savings calculations, and that they do not take credit for savings generated by changing premium air services to deferred services. And remember, consulting fees and terms — just as with parcel carrier contracts — are negotiable.

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