



Inside real-life carrier negotiations July 2009

By Rob Martinez



“That’s the best pricing we can offer you. We’re basically making no margin here.” Really? If only I had a dollar for every time a carrier rep fed me that line ...

As a parcel consultant for the past 10 years, I help volume shippers negotiate better incentives with package carriers. I also managed a nine-figure sales division for one of the major carriers for a decade, so I’ve been on both sides of the negotiating table.

And I’m not here to bash the carriers — the services they offer are innovative and customer focused, and fulfill an important part of the supply chain. That said, here are some real-life examples from an insider’s perspective. Some of these concepts may help you improve your hand at your next carrier negotiation.

CONCEPT # 1: EVERYTHING IS NEGOTIABLE

Ever ask your carrier rep to waive the weekly service fee, reduce DAS, residential or address correction fees? The likely response is, “We never discount those fees.”

Despite what your rep might tell you, everything’s negotiable. That includes “non-negotiable” items, such as minimum shipment charges, fuel surcharges, accessorial fees, annual rate increases — even zone-based pricing!

With declining earnings and a pointed retraction in market demand, the carriers are more willing than ever to compete for your business. Take advantage of the current market conditions to improve your carrier agreements now.

CONCEPT # 2: UNDERSTAND CARRIER NEGOTIATION TACTICS

Carrier reps are trained to tell shippers they have the best rate program in the marketplace. “I can't believe pricing gave me this!” “You have the lowest rates in the district.”

I'm always amazed when transportation managers tell me they can't use our services because they have the best deal out there. In reality, I've found that nine of 10 carrier agreements can be improved by 10% or more.

Another tactic is positioning service relative to price. Reps will say, “You get what you pay for,” or some other generality that implies low rates equal low service. But package handlers, truck drivers, dock workers, service reps and other carrier players have no visibility into the profitability of your business. They handle every package with the same urgency and consistency regardless of rate structure.

Another tactic is to offer you an attractive contract component, only to take away some other concession elsewhere. Be aware of these push/pull tactics, and insist on incremental contract improvement.

Finally, a tactic near and dear to my heart as a parcel consultant is reps telling you not to work with a third party or suggesting it would be immaterial to results. “You can hire a parcel consultant, we'll work with them. But we'll give you the same rate whether you work through them or directly with us. Why pay a consultant some of the savings we'll get for you without their involvement?”

The fact is, the carriers aggressively avoid third-party involvement because it's one of the most effective ways to reduce your costs — and their margins. Morgan Stanley and *Parcel* magazine's annual Best Practices Survey reported that consultants reduce shippers' costs as much as 49% lower than they would be had the company negotiated on its own.

CONCEPT # 3: USE LEVERAGE

During bid evaluations for a client, and faced with losing about \$1.5 million a year (on \$6.5 million in business), the incumbent rep used “loyalty” as one reason his company should retain the business. Our client replied, “Loyalty to whom? Yes, you've been our carrier for the past five years, but apparently you've overcharged us \$1.5 million a year!”

Ask your carrier rep what your business means to them. If they're willing to share the information, find out how their commission program works and how much they make (or stand to make for non-incumbents) on your business.

I like to determine key interests of the other party. What do they want to get out of this negotiation? Commission aside, you may be surprised to learn of personal motivations, such as finishing first in the rankings, or winning the President's Award — which often includes a lavish trip.

If you develop a genuine rapport, you can learn the rep's true interests and primary motivations, and then use that information as leverage points. “I really want to help you achieve the President's Award and that vacation to Costa Rica, but I need you to work with me on....”

Competition can also be used as leverage. Initiate a trial with the non-incumbent and watch what happens to your negotiations when the incumbent carrier finds out.

The most meaningful discounts and pricing concessions follow a perceptible threat. Not only will you get your incumbent carrier's attention, you will have an opportunity to establish service benchmarks with the other carriers.

Conversely, consider using positive incentives to gain leverage such as additional business awards, long-term contracts, and providing promotional opportunities. Many of our clients serve as references for prospective customers, case studies and demonstration sites for carrier automation and customized operations functions.

CONCEPT # 4: UNDERSTAND A REP'S MOTIVATION

Carrier reps' compensation is based in part on profitability of their accounts. In fact, they're evaluated, ranked, even promoted based on maintaining hefty profit margins. Their job is to sell your business at the highest margins possible without losing the deal to the competition.

While it's good to develop relationships with carrier reps, keep in mind that your incumbent rep does not always have your best interests in mind. Reps' primary loyalties are likely to their employers, and of course their own pocketbooks — and not necessarily in that order.

Also understand that a rep's motivations may be different from his or her company's. Carrier reps have complex commission plans with quotas by service type, margin, automation compliance and other factors. Many plans renew quarterly, but also include annual objectives. Depending on how your business fits within a rep's quota or calendar, it may be seen as attractive or unattractive.

Similarly, a carrier's motivation will vary throughout the year and also depends on the region. When the carriers are focused on market share gain, they price to gain new business. When focused on margin improvement, the pricing environment tightens.

Finally, keep in mind human motivations. I've found that most sales reps are motivated and fulfilled by feeling their efforts are well received and acknowledged. We all want to make a difference in the lives of those with whom we interact. Sincere appreciation goes a long way.

If your carrier rep is doing a great job, acknowledge the effort regularly. Praise the rep in front of his or her boss or write letters of commendation. It's a great way to gain leverage, and a good, underused business philosophy.

Keep an open mind knowing that carrier service reliability, pricing and representatives change over time. If it's been a while since you looked at the non-incumbent carrier, review their current pricing and capabilities.

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