



(Published May 2005)

Service Guarantees: Are you getting the service you pay for?

By Rob Martinez ~ Executive Vice President ~ Navigo Consulting Group

Frustrated with restrictive carrier refund policies, many experienced shippers have reached the conclusion that traditional service guarantees don't work. But instead of giving up, what can you do about it?

Before proposing solutions, let's first examine the current roadblocks to service guarantees. First, carriers have developed delivery exceptions that restrict you from filing service claims on certain shipments. According to Phil Ramsdale, president of Transport Solutions, a Long Beach, California-based freight audit and payment firm, these catch-all exceptions make up about 60 percent of all service failures and aren't eligible for any refunds.

In fact, there are more than 80 delivery exceptions. Several of these exceptions include reasonable factors like delays resulting from "Acts of God" (natural disasters, severe weather, etc.). Many shippers are surprised, however, to learn of less-intuitive delivery exceptions. For example, a package may be excluded from the guarantee if the carrier driver cannot locate the delivery address, even if it's a legitimate address!

Another constraint is gaining access to the delivery information itself. While anyone can request Proof-of-Delivery (POD) information for individual packages through a carrier website or 800 number, this practice is ineffective for volume shippers. Equally ineffective is auditing POD information from paper invoices. Not only is it a time-consuming manual process, but also delivery exceptions are not listed. After squinting through pages of carrier invoices to file a claim on a shipment that appeared to have been delivered late, your claim is rejected due to one of these delivery exceptions. Not only did you fail to recapture your freight costs, but you've wasted your time too.

It is important to note that the carriers will provide electronic capture of delivery information in various formats. However, once again, the carriers have put restrictions in place. For example, FedEx's Electronic billing file includes a field that actually blocks shippers from filing claims. UPS on the other hand transmits its shipment status report (214 File) on a completely separate file from its billing file (210 File) creating a challenge for shippers to compare delivery times to shipment charges. Finally, DHL requires a waiver of claims for service performance prior to providing electronic delivery information.

Even with delivery information, many shippers are unable to file service claims due to the fact that service guarantees vary widely by service level and destination. Multiple factors such as origin and destination ZIP code, residential vs. commercial, offshore and international destinations make it virtually impossible to always know what time a shipment is guaranteed, or even if the shipment is guarantee-eligible.

Moreover, some carriers have implemented policies to limit your ability to audit delivery information for the specific purpose of filing money-back requests (especially when delivery information is shared with 3rd party auditors). Imagine a \$3 per package fee to track more than 2% of your shipments! As stated in the 2005 UPS Rate and Service Guide, the \$3 per package fee can be applied for "a quantity of package-tracing requests equal to or less than 2% of the shipper's package volume for the week."

Finally, carriers have decreased the window in which shippers can file service claims from 30 days to 15 days. FedEx further restricts money-back claims by deferring the request until the invoice has been published. Often, after the initial sting of late delivery abates, the shipper is less motivated or forgets to file these claims. Or, in large corporations where invoices are sent to Accounts Payable, the shipper may not have access to the carrier invoice.

Why do carriers put these roadblocks in place? Even though a package is delivered "late", the carriers still incur the cost to transport the package and deliver it to the consignee. Not only do they lose revenue on the shipment, but also it is costly and time-consuming for the carriers to process claims and adjust their invoicing.

Consider the volume of packages handled every day. The world's largest package delivery company, UPS processes approximately 70 million air and ground shipments every week. Even if UPS were to maintain a 98% on-time delivery performance—considering the 2004 average revenue of \$6.47 per package—if a claim was filed for each late package making up the 2% failure rate, it would cost UPS more than \$471 million a year! And that figure excludes the administrative cost of researching and processing claims, re-invoicing and issuing credits.

Given these enormous costs, it is no wonder the carriers have constructed watered-down guarantees with limited access and multiple restrictions. So then, what can shippers do to put the “money-back” in the “guarantee”?

The first recommendation is to capture delivery information electronically regardless of carrier restrictions. Each carrier can provide POD and delivery exception information electronically through a variety of methods including EDI, management reports, proprietary software, manifest reporting, and electronic invoicing. It is up to shippers to work with their carriers to determine the optimal format to accomplish objectives.

In addition, the market offers 3rd party solutions including auditing software and web-based tools. Some 3rd party freight auditing companies claim they are still able to automatically file late delivery claims with the major carriers. Moreover, freight audit and payment companies can deliver rapid ROI by facilitating accounting charge-back requirements, validating charges and providing management reporting.

Regardless of how you capture delivery information whether carrier-provided, developed in-house or through a 3rd party, use the information to manage service levels and to make more cost effective shipping decisions. By focusing on overall delivery performance—not just the failures—shippers can drive down total shipping costs through routing compliance, identifying opportunities for modal optimization, limiting accessorial costs and other important actions. The more shippers know about their freight, the better they position themselves for carrier rate negotiations which often drive the most significant savings.

The carriers themselves have offered new approaches for large customers. UPS has recently introduced a new clause in its “Customer Reliability Agreements” whereby credit refunds are automatically processed for late shipments without requiring an affirmative request by the customer. These agreements also improve visibility into service performance via weekly or monthly reports by email.

DHL also offers a unique approach to many of its largest national accounts. First, DHL and the customer agree to a satisfactory level of service performance. Rather than processing individual service claims, the shipper is rebated a percentage of overall revenue every month service performance falls below the acceptable threshold (97% for example).

Another approach is to negotiate an additional discount upfront designed to offset the refunds a shipper would receive by filing individual service claims. For example, if a shipper determines its carrier's on-time service performance has averaged 97%, why not negotiate an additional upfront discount of 3%? The carriers may ask you to waive your right to file service claims, but you are assured of maximizing the service guarantee by saving your distribution dollars upfront.

While these approaches are generally offered to large customers, it's up to shippers of all sizes to negotiate these programs in partnership with their carriers. Likewise, it is up to shippers to gain access to shipment and delivery information to manage service levels and make more cost effective shipping decisions.

Rob Martinez is partner and executive vice president of Navigo Consulting Group, procurement specialists for distribution services. With 16 years experience as both a vendor as well as outside consultant to the industry, Mr. Martinez specializes in cost reduction through data analysis, strategic sourcing, modal optimization, utilization of technology, RFP's, contract negotiation and supplier management. He can be reached at 858-538-3359 or rob@navigoconsultinggroup.com.