Carrier Agreements: The Fine Print Says What?!

By: Shaun Rothwell

When it comes to negotiating carrier agreements, carriers have a way of making shippers feel great about their discounts. However, more often than not, "fine print" gets in the way of an optimal agreement. Negotiating carrier agreements is not simply about the shiny, front-end discounts. It's about the below-the-surface impact that language and structure has on your agreement.

Arguably**,** the most impactful part of the fine print relates to minimum package charges, which tends to get overshadowed by the sexiness of discount percentages. Not surprisingly, a large majority of shippers do not understand the minimum charge, how it affects them or where to even *find* the language in the agreement. Of particular impact is the minimum for Ground services.

Where to Find in Your Agreement

- **UPS Ground Commercial and Ground Residential:** Section labeled "Minimum Net Charge" towards the end of entire agreement. Minimums typically listed for every service level toward the bottom of agreement.
- **FedEx Ground and FedEx Home Delivery:** Two places in agreement—at the end of the FedEx Ground section and again at the end of the Home Delivery section labeled "Minimum Package Charge."

The "Minimum" Affect

To highlight the impact of minimum package charges, imagine a 35% discount on 1-5 lb ground shipments that includes an "earned discount" provision with FedEx, (or "tiered discount" in UPS speak). The provision states that if the shipper spends X amount then they receive an extra 5% discount on ground shipments. Shippers understandably assume that they're getting 35% plus an additional 5% for a total discount of 40%. Yet, in the fine print, there's a provision that sets a "minimum charge" as being equal to a Zone 2, 1-lb package *published rate.* Since $6.94 is the published rate for 2016, any amount of the 40% that yields a lower rate will be bumped back up to the minimum $6.94 rate.

Thus, large-volume shippers of light-weight packages think they are getting 40% off, but their effective discount is closer to an average of 24% (based on 2016 rates). Even if shippers push for more and get an additional 5% to the top-line discount (thus 45%), they later discover that this 5% is, on average, an effective additional discount of .1% because of the minimum. Below is a visual representation of this example (picking on UPS):

		2016 UPS Ground Rates (1 to 5-lb Packages)						
		Zones						
		2	3	4	5	6	7	8
Weight (Lbs)	1	6.94	7.58	7.79	8.13	8.42	8.53	8.66
	2	7.66	8.25	8.91	9.10	9.49	9.69	9.96
	3	7.78	8.60	9.40	9.68	10.08	10.42	11.01
	4	8.03	8.81	9.85	10.29	10.59	11.09	11.80
	5	8.07	8.88	10.21	10.68	10.93	11.50	12.38

Below is the adjusted rate table with 40% discount applied (Shaded red for rates below UPS's minimum package charge).

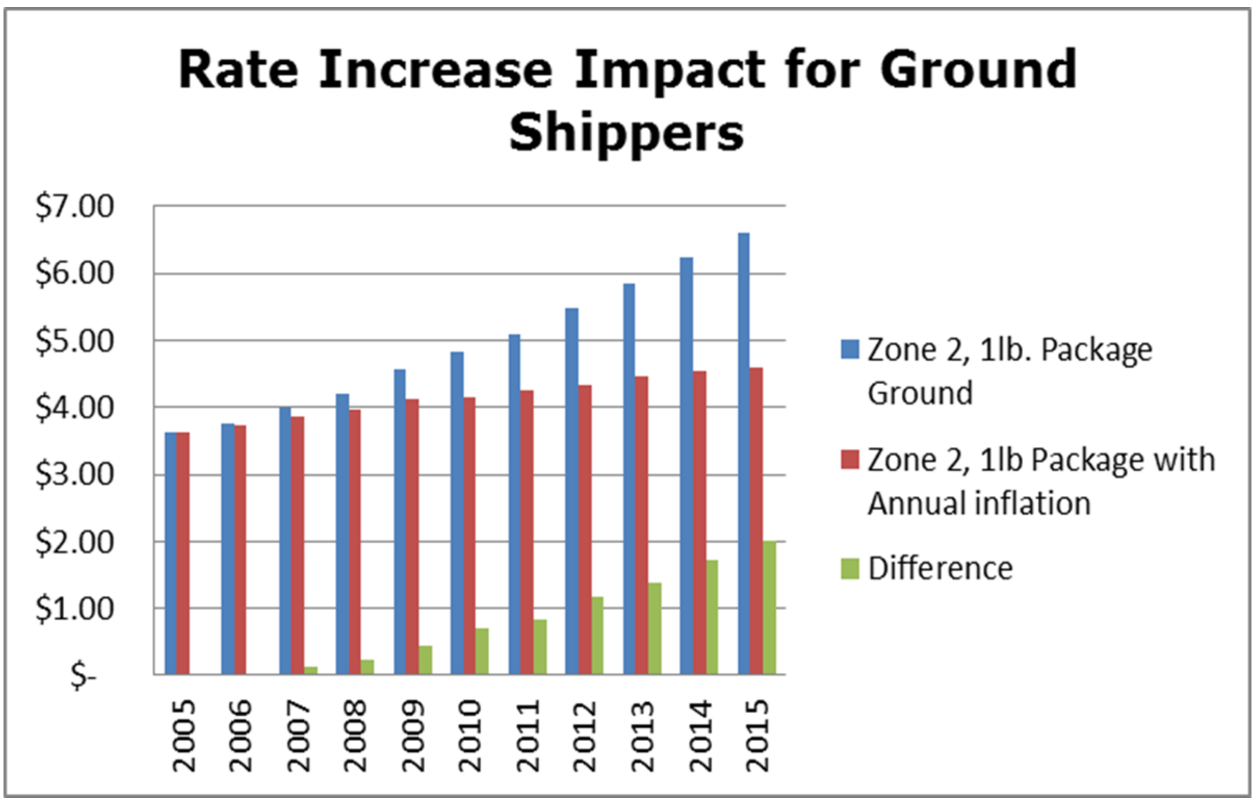
		Zones						
		2	3	4	5	6	7	8
Weight (Lbs)	1	4.16	4.55	4.67	4.88	5.05	5.12	5.20
	2	4.60	4.95	5.35	5.46	5.69	5.81	5.98
	3	4.67	5.16	5.64	5.81	6.05	6.25	6.61
	4	4.82	5.29	5.91	6.17	6.35	6.65	7.08
	5	4.84	5.33	6.13	6.41	6.56	6.90	7.43

Rates that fall below the minimum package charge of $6.94 (red shaded cells) are readjusted to reflect the minimum charge. Suddenly, the 40% package discount is exposed as a 24.6% effective discount averaged across all cells.

What is the solution?

Negotiate the minimum package charge. Over the past 5-6 years, minimum charges have increased at a much faster rate than the carriers' announced rate increases meaning effective discounts have declined. The decline will continue unless you negotiate minimum charges.

The chart below illustrates the difference between the increases in ground minimum charges as compared to the rate of inflation.



The Devil is in the Details

Despite its obvious impact, the minimum package charge is not the only fine print provision to keep an eye on. Carriers employ several yield management tactics to tip the scale in their favor during negotiations, many of which are buried in fine print. Only a full understanding of the language and structure of your agreement will better prepare you to negotiate the little things that have a big impact on your shipping costs.

Shaun Rothwell is Founder and CEO of iDrive Logistics, a supply chain management company that helps small parcel shippers optimize their transportation practices and reduce shipping costs. Shaun is a frequent guest speaker at supply chain forums and was recently featured in Forbes Magazine. Visit his profile at www.idrivelogistics.com. To learn more about the fine print of carrier agreements and how to position your company during negotiations, be sure to register for the upcoming webinar, "Carrier Agreements: Understanding the Fine Print" scheduled for April 14th at 2pm EDT. Register by clicking here.