
THE PERFECT STORM



As the curtain rises on 2015

many parcel shippers are unaware of the storm awaiting them in their small package invoices.

The high pressure system of the annual GRI, the strong winds of new DIM calculations and the powerful waves of new accessorial and fuel surcharge levels are sure to wreak havoc on transportation and logistics budgets in 2015.

How UPS & FedEx General Rate Increases, DIM Weight Adjustments, and Fuel & Accessorial changes combine to create the Perfect Storm of destructive cost increases for parcel shippers in 2015

Parcel shippers are conditioned to the annual UPS & FedEx General Rate Increases each January. Indeed, they seem as predictable as the sunrise no matter what the current business climate may be. This January however, the convergence of three powerful fronts of rate changes have combined to make this years effective rate increase quite possibly one of the largest in history. Now that many shippers have received their first few 2015 invoices which reflect the effects of these changes, shippers accustomed to the traditional 6% to 9% effective increase are seeing increases in the 10% to 30% range, a level which is causing considerable consternation as the reality of the gathering storm clouds is made real. Let's review these forces in turn.

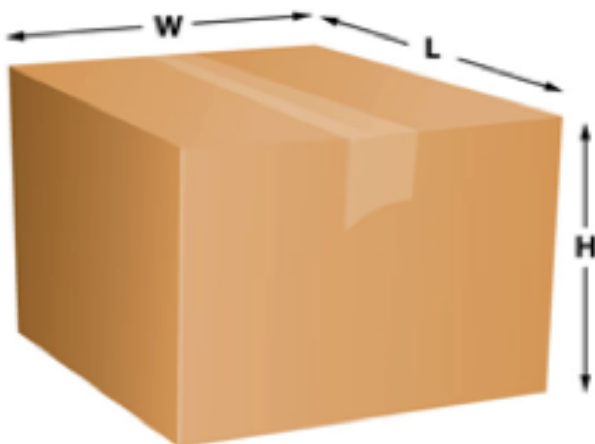
When is 4.9% not 4.9%?

The published rate increase for both UPS and FedEx for 2015 is stated at 4.9%. Many shippers will assume if they simply add 4.9% to their 2014 shipping spend, this will accurately predict their 2015 expense. Unfortunately, to take this approach will leave you in the rain without an umbrella. The rate increase is non-linear, meaning it is not a flat 4.9% increase across all weights, zones and service levels. For example; a FedEx 1 pound Ground package shipping to zone 3 went from \$6.68 in 2014 to \$7.15 in 2015, an increase of slightly more than 7%. Rates for many zone and weight combinations will increase significantly more than the published 4.9% increase.



When is a 1 pound box not a 1 pound box?

Perhaps the most difficult change in the wind to predict has been the DIM Weight application change implemented by both carriers for 2015. Previously, UPS & FedEx had exempted Ground packages under 3 cubic feet (5184 cubic inches) from the practice of charging DIM weight, or adjusting a packages billed weight based on it's dimensions. This exemption has been removed, meaning all packages are now subject to DIM weight. Let's look at an example.



Shipment Example using the prior Standard Dim Divisor Rules								
Service Type	Actual Weight Amount	Dim Length	Dim Width	Dim Height	Dim Divisor	Rated Weight Amount	Zone Code	Transportation Charge Amount
Ground	16	23	19	10	None	16	8	\$18.86

* The L x W x H = 4,370 which is below the Threshold (5,184), therefore Dim Weight is not applicable

Shipment Example using the New 2015 Standard Dim Divisor Rules								
Service Type	Actual Weight Amount	Dim Length	Dim Width	Dim Height	Dim Divisor	Rated Weight Amount	Zone Code	Transportation Charge Amount
Ground	16	23	19	10	166	27	8	\$30.87

* No more Threshold...The L x W x H = 4,370 cubic inches. Dividing the 4,370 cubic inches by the standard dim divisor of 166 equals the new billable weight of 27 lbs.

Cost Increase of \$12.01 or 64% for 1 Package

The shippers who will bear the brunt of this storm element will be light weight ground shippers; e-retailers, apparel and replacement part shippers, etc.. Unfortunately sandbags alone will not be enough to stem this tide. It will take a multifaceted approach of revisions in; contract provisions, packaging procedures, and procurement practices to protect your valuable beach front property from this coming high tide.

The flooding basement of accessorial charges.

The final front is changes to package accessorial charges for both carriers and the Fuel Surcharge calculation for FedEx. Both carriers have implemented increases to multiple accessorial charges. A few examples from UPS:

- Additional Handling Surcharge increased \$0.25
- Address Correction Surcharge increased \$0.15
- Delivery Confirmation Signature required increased \$0.13
- Large Package Surcharge increased \$0.90

This is but a sampling of the bevy of accessorial charge increases with which shippers will have to contend in 2015.

FedEx has also adjusted its fuel surcharge calculation effective February 2nd, 2015, it seems the falling cost of fuel necessitated a new calculation to prevent an erosion of FedEx revenue. FedEx Express and International Fuel Surcharges will increase between 1% and 4% depending upon the price of fuel, and FedEx Ground will increase between 0% and 3.5%. The current increase, should the price of fuel remain the same, would be 2% and 1% respectively. This will reduce the FedEx Fuel Surcharge advantage over UPS, an advantage they have leveraged widely in their sales activities, to within about 0.5% of the UPS Fuel Matrix.

Where is your umbrella?

As the storm clouds of cost increases gather overhead, there are indeed a few rays of sunshine in the darkness. There are a number of effective shelters from the storm. Carrier audits, contract renegotiations, packaging practices reviews and supply chain analysis can all yield ways to mitigate the 2015 rate increases. A robust audit can protect against erroneous charges and ensure all refunds or credits due are applied for and collected. Packaging practices and supply chain analysis can align operational procedures with best-in-class methods for containing shipping costs and squeezing optimal efficiency from shipping operations. Lastly, a professional, comprehensive contract review and negotiation can provide the most effective bulwark against carrier increases. The carriers employ trained and knowledgeable pricing professionals to construct and negotiate your contract on their behalf, shippers should employ the same tools in their defense. The carriers have introduced new charges and calculations to all shippers, even those under contract. This provides the impetus for shippers to open their contract negotiations to defend themselves against these increases. So take heart, there is indeed a shelter from the storm.

-Kenneth Moyer serves as Vice President of Supply Chain Strategies with LJM consultants. He brings over 23 years of industry experience, including a 16-year multidisciplinary tenure at UPS. Kenneth spent almost 10 years in the UPS Sales & Pricing Groups; developing, analyzing, and implementing UPS Pricing and Costing Models. He has spent the last 9 years directing audit and contract negotiation activities to maximize client value in every transportation dollar.

