Finding Common Ground

UPS ANNOUNCES RATE HIKES THAT COULD COMPLICATE SHIPPERS' 2015 PLANS

Remember college?

Specifically, do you remember getting those assignments that you just looked at and thought, "Huh?"

We've all been there.

And after reminding you that Happy Hour was not a major, your parents may have added: "This isn't rocket science!"

Well, not technically, no.

But after UPS announced its customary price hikes Tuesday, which will send Ground, Air and International rates 4.9 percent higher, on average, effective December 29, you might be hard pressed to convince many shippers otherwise.

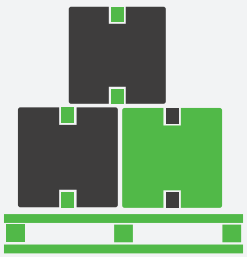
The world's largest shipping company and FedEx, its prime competitor, announced they will apply dimensional weight pricing to all shipments beginning around the start of 2015, leaving shippers scrambling to understand the implications. The rate increases UPS will roll out at the end of the year have only added to the confusion. Due to the complexity of general rate increases, combined with dimensional changes, getting a firm grasp on how significant the impact will be to the bottom line will not be easy for some companies; especially high-volume ground shippers with the dreaded large, lightweight box.

Residential and delivery area surcharges for air services, for instance, will increase by an average of 4.4 percent. The same accessorials for ground services will go up 5.9 percent, compared to hikes of 4.6 percent and 3.5 percent, respectively, for the year prior.

Then there are the rates for ground shipments as they relate to air services. At face value, the published rate increases seem to be levied more heavily on 3 Day Select and 2 Day services – UPS's cheapest air delivery options and popular "trade downs" – than ground or Next Day Air and Next Day Air Saver.

The Zone 2, 1-pound minimum charge will rise 5.9 percent to $6.61. Ground rates will go up an average of 2.3 percent; 3 Day Select, 7.4 percent; 2 Day Air, 6.5 percent; 2 Day Air AM, 6.6 percent; Next Day Air Saver, 5.5 percent; Next Day Air, 5.9 percent; and Next Day Air Early AM, 5.4 percent.

Increases by service level



GROUND	2.26%*
3 DAY	7.41%
2 DAY	6.54%
2 DAY AM	6.59%
SAVER	5.50%
NEXT DAY	5.88%
NEXT DAY AM	5.40%

Figures indicate 2014-2015 YoY percent change across Zones 2-8 for 1- to 150-pound shipments

*Average base percentage increase. Dimensional weight pricing not factored.

Paul Harvey couldn't tell you the rest of this story.

And upon factoring in the dimensional weight changes that will go into effect in conjunction with the 2015 rate increases, that story is one that will leave shippers scratching their heads.

The steepest ground increases, 6.3 percent on average, will hit 1- to 5-pound shipments. The same weight break will increase by an average of 7.9 percent for 3 Day Select, 6.7

percent for 2 Day and 2 Day AM, 6.1 percent for Next Day Saver, 4.5 percent for Next Day Air and 2.9 percent Next Day Air AM. When the dimensional weight pricing formula is factored in, however, the rates for ground packages in the 1 to 5 range (and potentially all others up to the 32-pound cutoff) could be exponentially higher.

To clarify, shipments with dimensions below 5,184 cubic inches are not subject to dimensional weight pricing until each carrier implements the changes. In order to calculate dimensional weight, the length, width and height of the package (in inches) are multiplied together and divided by a published factor of 166. The quotient you're left with represents the billable weight for that package. A 5,184 cubic-inch package will be billed as a 32-pound package, unless its actual weight is greater, and thus only packages below that weight threshold will be impacted by the general rate increase differently than in years prior. Simply put, 2014 and 2015 rates for packages weighing more than 32 pounds is an "apples to apples" comparison. Those same rates for packages weighing 32 pounds or less is "apples to oranges."

To illustrate, use a 24-count box of hats with an actual weight of five pounds measuring 23 x 8 x 7 (1,288 cubic inches) as an example. It will be immune to dimensional weight pricing for the remainder of 2014 and ship to a Zone 4 destination at a rate of $9.79 before any surcharges or accessorial costs. After December 29, though, that same package will receive a billable weight of eight pounds. The dimensional weight application, combined with the general rate increase, will bump its rate to $11.10 – a 13.4 percent increase.

If that seems significant, imagine how ecommerce shippers feel. They are typically more inclined to move single items directly to consumers at residential destinations. A residential surcharge of $3.10, which is 6.9 percent higher than last year and represents the second-highest markup of any surcharge, will be slapped onto already compounded rate increases for those shipments.

To the right are hypothetical examples designed to illustrate by how much various lightweight packages could be impacted.

Of course, shippers have been aware of the dimensional weight changes for months now, and it has been no secret that each carrier would unveil its respective general rate increases beginning around this time. But now that all of the information is available, shippers face a familiar predicament of rushing to base the new rates against their own internal analyses of shipping and package characteristics and thus assess the impact of the changes.

Still, you don't have to be Einstein to understand that ground shippers will be hit the hardest.

It safely can be assumed that part of the driving force behind the layout of the pricing changes for 2015 are the "trade downs" each carrier has acknowledged as having a negative impact on revenue. With companies in every industry looking to cut costs and keep up with consumer demand, sacrificing the quick turnaround of more premium carrier services for slower options has been a popular course of action. Such substantial increases to ground pricing likely will beg the question for many shippers of whether it now makes sense to move some volume in the other direction – back into faster shipping modes.

Unfortunately, that answer does not seem quite so clear.

Not to be taken lightly

24-Count Hats

Actual Weight	5 lbs
Dimesions	23x8x7 (1,288 in^3)
Billable Weight	8 lbs
Zone	6
2014 Rate	$9.79*
2015 Rate	$11.10*
% change	**13.4%**

Lampshade

Actual Weight	3 lbs
Dimesions	15x11x11 (1,815 in^3)
Billable Weight	11 lbs
Zone	4
2014 Rate	$8.31*
2015 Rate	$10.5*
% change	**26.4%**

50-Count Koozies

Actual Weight	5 lbs
Dimesions	15x15x10 (2,250 in^3)
Billable Weight	14 lbs
Zone	5
2014 Rate	$9.47*
2015 Rate	$11.83*
% change	**24.9%**

Lightweight shipments (1-32 pounds) may be subject to dimensional pricing in 2015. Depending on the package, the net impact could be much greater than the 4.9 percent average increase.

*Published rate. Custom discount not factored.

Intentional grounding

Average Increase	1–5 lbs.	6–10 lbs.	11–15 lbs.	16–20 lbs.	21–32 lbs.
Ground	6.34%*	5.93%*	5.86%*	5.45%*	4.97%*
3 Day	7.86%	7.88%	7.70%	7.51%	7.48%
2 Day	6.71%	6.62%	6.60%	6.58%	6.58%
2 Day AM	6.73%	6.60%	6.58%	6.57%	6.58%
Next Day Air Saver	6.14%	6.12%	6.11%	6.12%	6.11%
Next Day Air	4.48%	4.47%	6.90%	6.77%	7.15%
Next Day AM	2.86%	3.19%	5.27%	5.36%	5.89%

With lightweight packages set to increase across all zones, many shippers will work to determine whether air services might be more cost effective.

*Average base percentage increase. Dimensional weight pricing not factored.

As you can see from the percentage increases above, UPS has applied heavier increases, on average, to the feasible options a shipper might realistically look to shift volume toward. Only a comprehensive analysis of company-specific package characteristics will indicate which service is truly the most cost-effective.

So what can you do?

The first thing a shipper should do is request that its carrier provide a report containing a re-rate of all packages from a sample size sufficient enough to help illustrate the level of cost increases your company would face if shipping characteristics remained constant for 2015. Do not let carriers talk in terms of average weights and average zones, as they can skew the true net effect, just as they do with regard to the average rate increases. A true re-rate, using your own package data and shipping characteristics, is the only way to conduct a valid analysis.

While this will not provide direct guidance for things like shifts in volume, or overall growth or decline, it will give you a thorough understanding of what the impending rates would have meant for you in 2014. From there, you can assess the damage and determine a plan for moving forward.

Depending on the findings, it might make sense to request an addendum to address the largest pain points within your agreement, or to renegotiate entirely.

In either event, it is important to read between the lines with regard to what these advertised overall increases represent, which is that there is more than meets the eye to the discount-levels alone. Hidden in the annals of complex carrier agreements are "fine print" factors that can dilute the true net effect of the discounts you see on paper. This happens in much the same way carriers apply smaller increases to infrequent package weights and zones to pull down the overall average and thus mask the fact that many shippers will be hit harder than the advertised average.

The only way to successfully mitigate such steep increases is to harness the power of your own data by conducting a thorough analysis to uncover cost-saving opportunities. The decision whether to do so by optimizing modes, diverting volume or simply asking for lower rates should be guided by due process, a sound business case and, if needed, expert insight. While high-level reports may illustrate the problem, they are incapable of solving it. An effective solution can only be made possible after a detailed assessment of your company-specific situation.

The carrier has posted the assignment. It's time to do your homework.

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