

# WRAP UP

with **Michael Ryan**



## The Times, They Are-a Changin'

I am excited to be the new columnist for PARCEL magazine. I've been in the parcel business for more than 27 years, having worked with DHL, Velocity Express and, currently, GENCO Supply Chain Solutions. Hopefully, what I've learned and continue to experience in this industry translates into topics that will interest you.

Against a backdrop of perhaps the biggest challenges it has ever faced, the small parcel industry is undergoing a transformation. The landscape of the industry started changing when DHL exited the domestic parcel business in the United States. Other changes are forcing the industry to redefine itself: fuel costs skyrocketed, parcel volumes dropped by more than 20%, the Internet became the "delivery of choice" for invoicing and payment, and the world experienced the worst economic recession in 25 years.

These challenges have created much uncertainty for shippers and carriers alike. Many shippers have experienced lower costs because of declining volumes and fuel costs. However, I would caution every shipper that your costs will grow exponentially as volumes and fuel costs increase. Keep in mind, it's easier to explain why you were under budget than why you were over budget.

As the economy begins to bounce back, though, the "integrators" will start to optimize their networks. FedEx and UPS have done an excellent job right-sizing their organizations in parallel with their revenues and cost. They've achieved this without compromising service — a difficult task, but it truly demonstrates their customer-centric approach.

As the parcel industry evolves, the FedEx-UPS "duopoly" will continue to introduce new services and innovations to the market. Despite these attractions, small parcel shippers will still look for a new "challenger brand." I believe the company best suited for this role is the USPS. Although it is experiencing financial difficulties, the USPS has the largest delivery network in the United States, and the small parcel business is the future of the USPS. The USPS has established many partnerships with parcel consolidators, resulting in a creative solution for large small-parcel shippers. I believe we are seeing the beginning of how the USPS will change how small parcels are shipped. This is something FedEx and UPS can't ignore, and when competition intensifies, shippers win.

In addition to the USPS, regional carriers (Eastern Connection, OnTrac, Spee-Dee, Lone Star Overnight) will have an increased influence on the small parcel business. Also, many local courier/delivery companies can provide a solution for your delivery requirements. I challenge each shipper to examine all options during these changing times.

The elephant in the room, however, just might be the potentially largest price increase in the history of the small parcel

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industry. American shippers need to brace themselves for this. FedEx and UPS typically publish their price increases in early December, their formal 30-day notice of a price change. However, numerous analyses over the years have shown that the "published increase" doesn't truly reflect the actual cost to shippers, putting them at a severe disadvantage.

We anticipate a 5.9% increase this year; this will be more at the individual shipper level. Then factor in the more than 80 accessorial fees today (as well as whatever new ones FedEx and UPS create).

FedEx and UPS by themselves will generate over \$4 billion in 2009 in pre-tax earnings and even more in 2010. This is a critical time for you to negotiate a new contract with your carrier(s) because as they grow and optimize their networks, carriers will become less receptive to negotiation.

The integrators are making money. Don't let it be yours. ■

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