

# PARCEL SHIPPERS MAKE MOVES TO OFFSET ECONOMIC FORCES

## Part 1: Results of the PARCEL Annual Best Practices Survey

By Marli Thiede

**W**hat a year for the PARCEL shipping industry! This is the year that will probably redefine our industry for years to come. Why? Transportation companies recognize opportunities. And as more companies see potential in the parcel market, we will have change. But it is not just the transportation companies that see opportunities; it is you, as shippers, who are creating the need for more competition in the marketplace. Yes, your parcel volume may be stagnant but your drive to lower costs (your number one challenge in '08) is pushing the marketplace to create more transportation options in the delivery of packages.

As you read through this year's PARCEL Best Practices Survey results, co-conducted by PARCEL and Morgan Stanley, it will become obvious that with DHL's repositioning of its America service offerings, shippers are considering more alternatives than UPS and FedEx. They are making sure there is a competitive landscape as they turn to the USPS, regional carriers, consolidators and LTL transportation companies for some relief on pricing. The question remains, however; can these peripheral companies compete with the "gold" service standards set by UPS and FedEx. But UPS and FedEx are not sitting on their laurels; they have become sensitive to the changing landscape and have been careful not to price themselves out of the market. Rate increases have been minimal and discounts have improved slightly.

To track your moves this year, we actually conducted an additional mid-year survey. Since Morgan Stanley conducted its survey in March '08, before the major announcements by DHL, we opted to conduct a survey in August to note trends after the announcement. (Morgan Stanley will conduct another survey later this fall to continue to look at trends;

please take the time to fill out that survey as well.) The biggest change: earlier this year, Morgan Stanley asked how many of you had changed primary domestic carriers in the past six months. Six percent changed air carriers and 12% switched ground carriers. When asked similar questions in August, 36% of shippers said that they had changed carriers in the last 12 months and 22% of shippers anticipate that they will change carriers in the upcoming 12 months.

What will your peers do in the next 12 months? Will they indeed move to more LTL, regional, consolidator and USPS modes of transportation? Will UPS, FedEx and DHL price accordingly? When will the USPS have its volume discount programs entrenched to be more competitive? Stay tuned. We will continue to monitor trends in the industry and report them to you.

The results of the PARCEL August survey are based on 443 responses. We thank those who took the time to complete the survey; it is lengthy but by finishing it, you have helped us track and report on industry trends. Morgan Stanley, a global financial services firm and a market leader in securities, investment management and credit services, co-conducts the survey to help their clients make well-founded decisions on transportation investments.

In the November issue of PARCEL, we continue the survey results focusing on the operations side of the parcel industry. We will delve into packaging, technology, management challenges and a host of other concerns for those involved in logistics. Also in November, look for the results of an additional survey we conducted with *Traffic World* on the trends in shipping and handling charges — another hot issue in this economy!

### Rate Your Carriers<sup>1</sup>

Scale of 1 to 10 (10 being the best)

↑ Improved from '07

↓ Worsened from '07

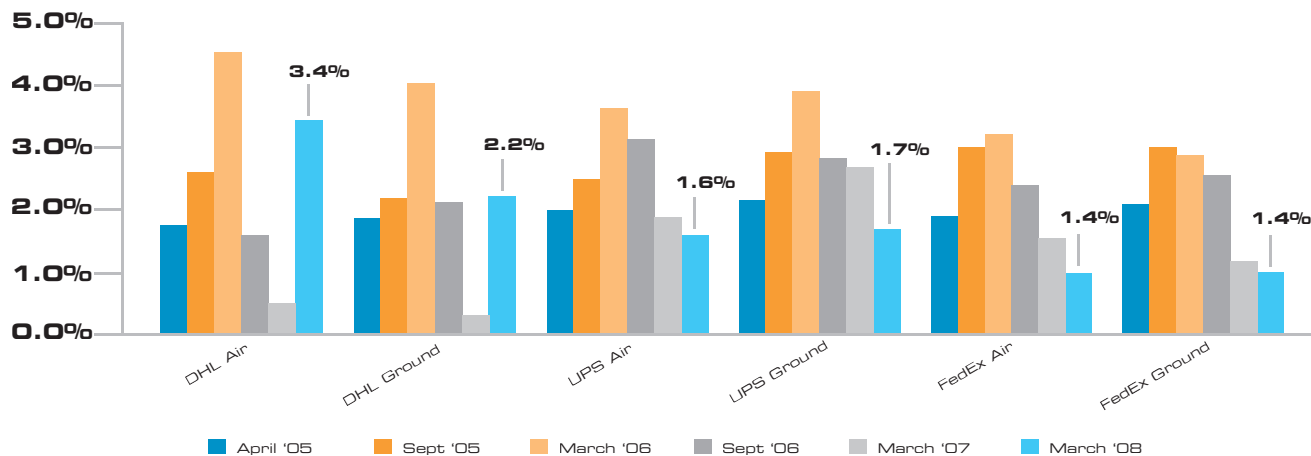
	DHL	FedEx*	UPS	U.S. Postal Service
<b>CUSTOMER SERVICE</b>	4.9 ↓	7.3 ↑	7.5 ↑	6.4 ↑
<b>ON-TIME SERVICE PERFORMANCE</b>	5.5 ↓	7.9 ↓	8.1 —	6.5 ↑
<b>DELIVERY PERFORMANCE</b>	5.8 ↓	8.0 ↑	8.1 ↑	7.0 ↑
<b>CLAIMS PROCESSING</b>	4.4 ↓	6.8 ↑	6.7 ↑	5.2 ↑
<b>REFUNDS FOR LATE DELIVERY</b>	4.3 ↓	6.6 —	6.7 ↑	4.4 ↑
<b>PRICING</b>	5.8 ↓	6.5 ↑	6.8 —	6.4 ↑

\* Compared to FedEx Express in '07

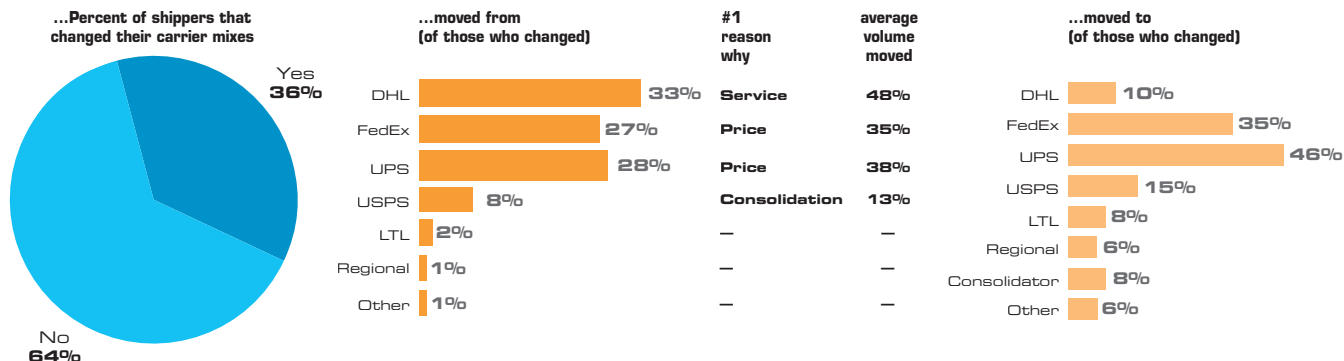
1. Data from PARCEL's August '08 Survey. 2. Data from Morgan Stanley's March '08 Survey of PARCEL readers and other shippers.

>> Shippers continue to expect more modest price increases this year, except for DHL which underscores the company's commitment to return to profitability.<sup>2</sup>

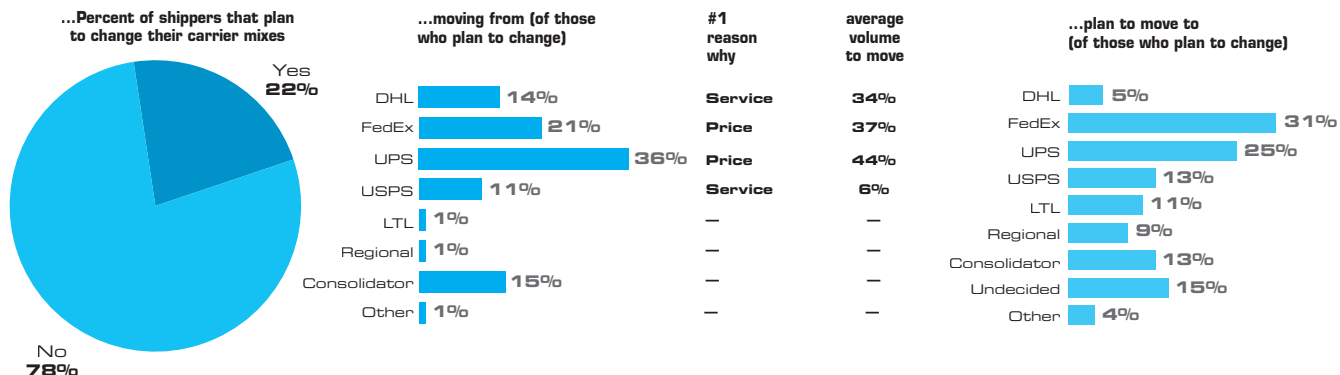
## Expected Changes



## In the past 12 months (since August 2008)...<sup>1</sup>

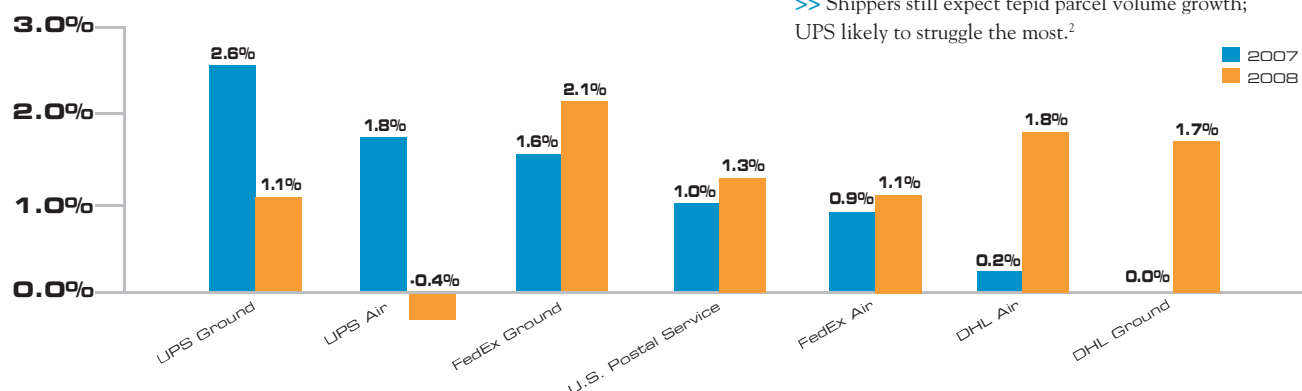
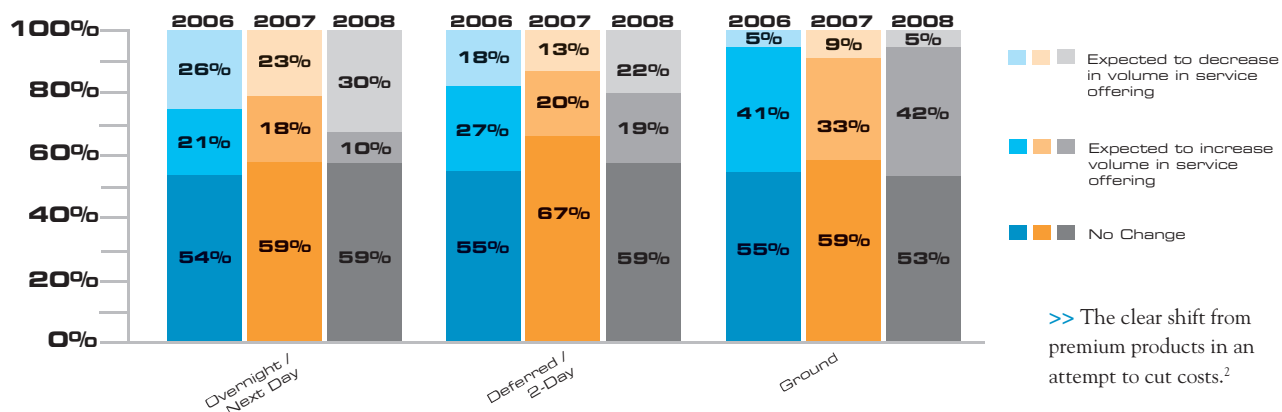


## In the next 12 months (as of August 2008)...<sup>1</sup>

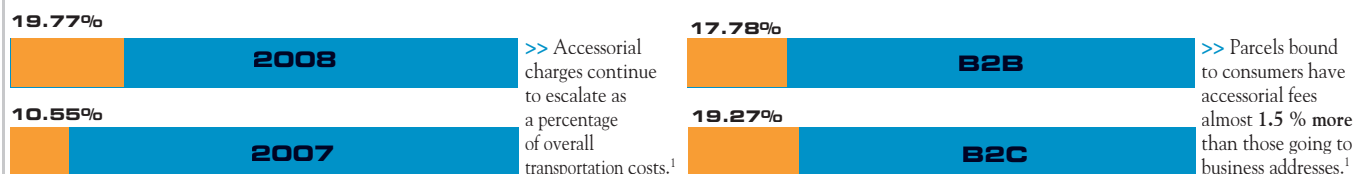


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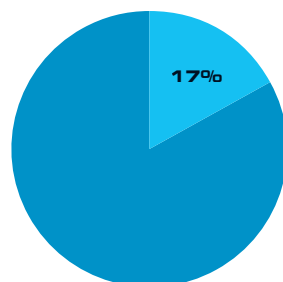
## More Expected Changes



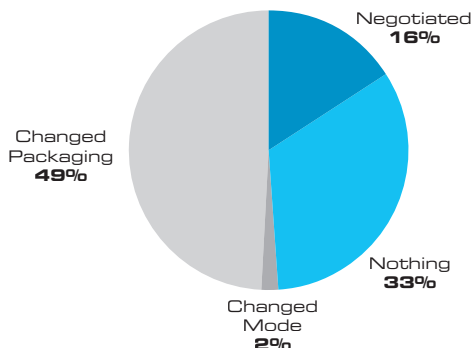
## Accessorial Charges<sup>1</sup>



## Dim Weight Issues



>> Many Shippers have resolved Dim Weight issues, as only 25% had issues this year compared to nearly 50% last year. Only 17% of volume was affected this year, compared to 20% last year.

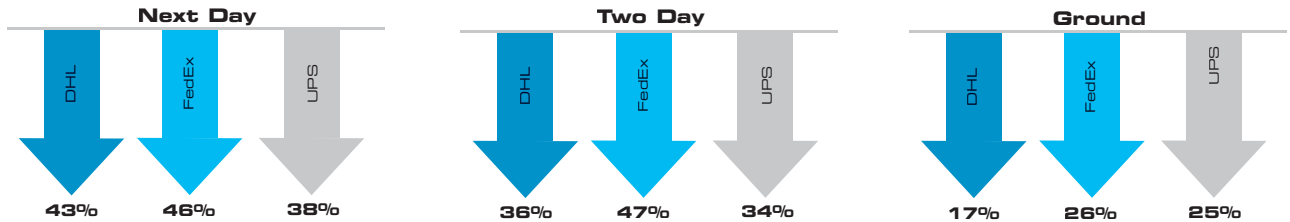


>> More of those shippers who still have Dim Weight issues are feeling nothing can be done (33% this year, compared to 25% in '07). Most shippers are changing packaging to offset Dim Weight charges.

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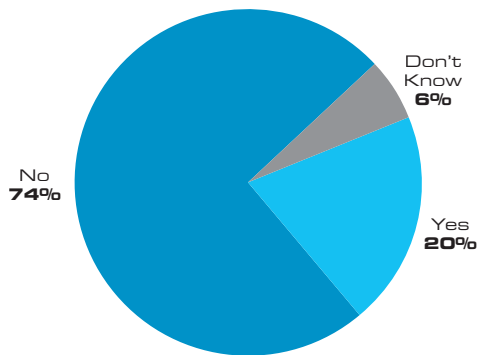
## Discounted Transportation Rates

Overall Discounts<sup>1</sup>

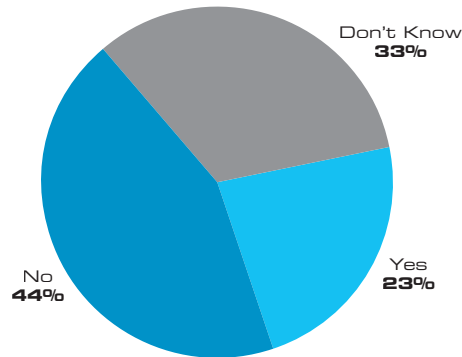


>> DHL decreased its discounts for all service levels, while FedEx and UPS increased discounts from last year.

USPS Enters Discount Game<sup>2</sup>



Would a volume discount cause you to shift more volume to the USPS?



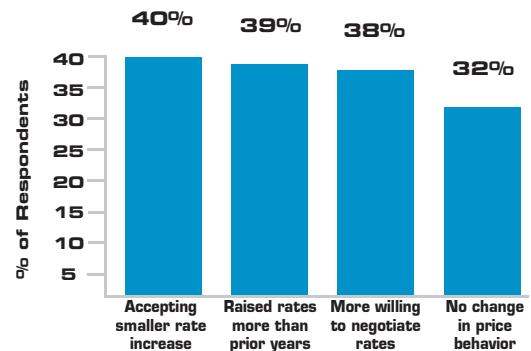
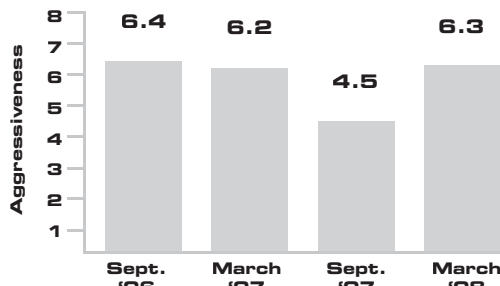
Have you been approached by the USPS regarding volume discounts?

>> According to Morgan Stanley, "More rational pricing from the USPS is good for the industry, but could also create a more challenging competition for the private carriers."

# 11%

>> There has been no growth in the number of companies (11%) that use consultants to negotiate rates in the past three years, even though it has been demonstrated they help attain deeper discounts.<sup>1</sup>

>> Shippers say carriers are being more aggressive in trying to win business.<sup>2</sup>



"While we see no signs of a price war, shippers' responses indicate that carriers are becoming slightly more aggressive in using price to win business," according to Morgan Stanley. On top of the US economic backdrop and with DHL's reorganization of its US market, UPS and FedEx seem a bit more competitive on pricing to attract any business no longer served by DHL.

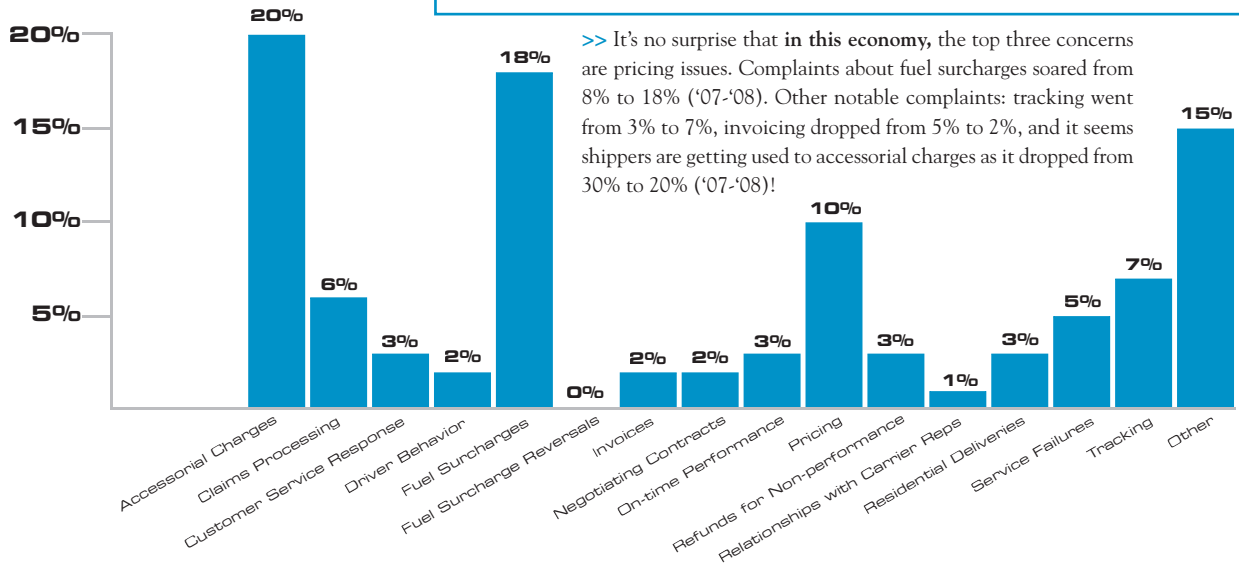
Rate increases by carriers have been limited due to our economy, but larger rate increases from DHL and USPS are

bringing up the floor on pricing, which may reduce the need to discount, according to Morgan Stanley's spring survey results.

When asked if legal challenges to FDX Ground's independent contractor model caused any service issues, an overwhelming number of shippers (94%) responded with a resounding no. And of those few who were affected, only 30% were looking to shift freight to another carrier as a result.<sup>2</sup> ■

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## Biggest Complaint



>> It's no surprise that in this economy, the top three concerns are pricing issues. Complaints about fuel surcharges soared from 8% to 18% ('07-'08). Other notable complaints: tracking went from 3% to 7%, invoicing dropped from 5% to 2%, and it seems shippers are getting used to accessorial charges as it dropped from 30% to 20% ('07-'08)!

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## MORE RESULTS ON THE PARCEL OPERATIONS IN THE NOVEMBER ISSUE.

>> Visit [www.PARCELindustry.com](http://www.PARCELindustry.com) to download these survey results.

>> Meet William Greene, with Morgan Stanley, at the PARCEL Forum([www.PARCELforum.com](http://www.PARCELforum.com))

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