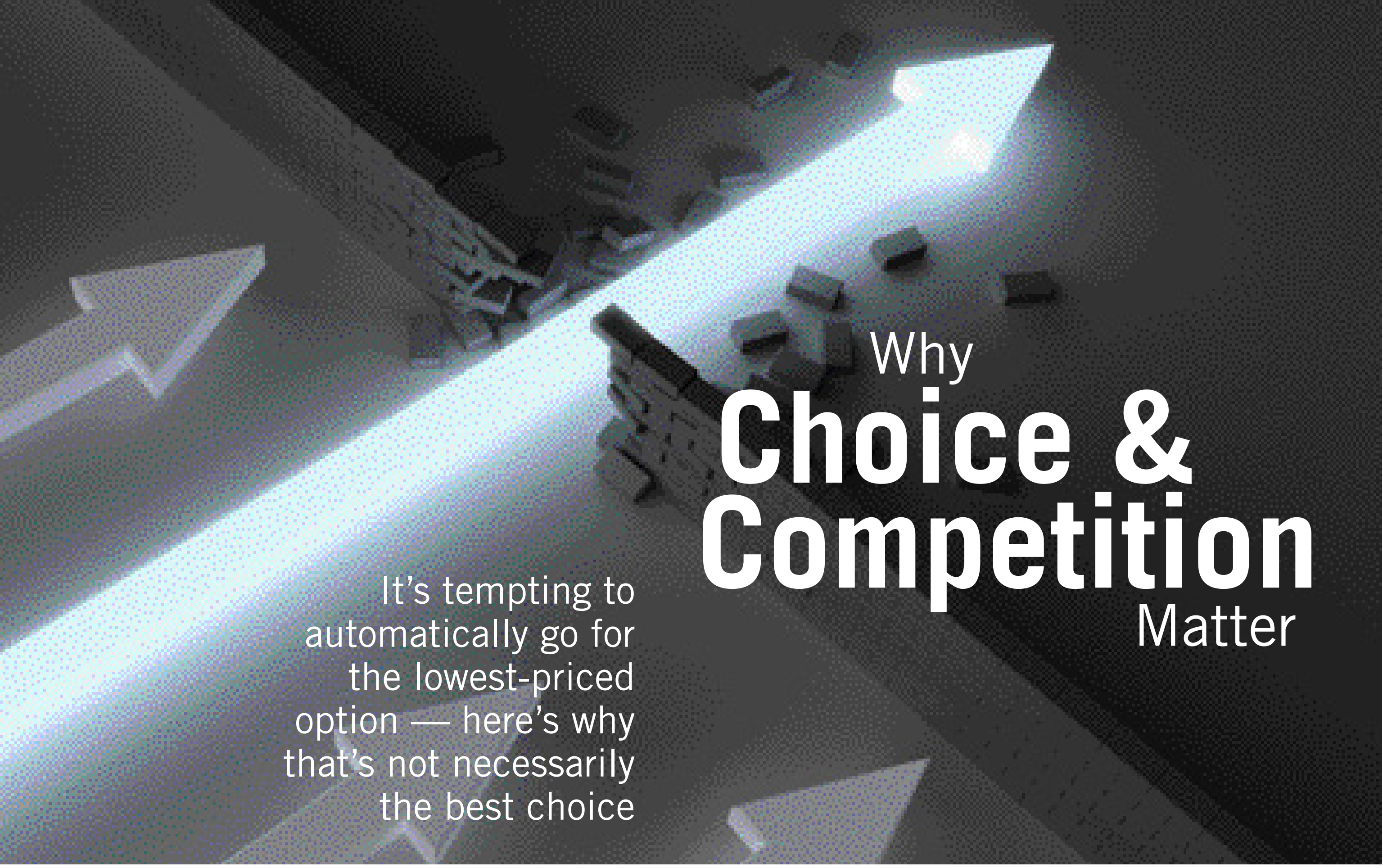

Why Choice & Competition Matter

It's tempting to automatically go for the lowest-priced option — here's why that's not necessarily the best choice

— By Kevin Brown —

There are currently a finite number of high-volume shippers and carriers in the market, and they are eager to secure long-term service contracts to preserve the status quo. With the current lack of economic growth and recession, cost reduction is on everyone's mind. It is tempting for some merchants to immediately reach for the perceived lowest price for carrier service before considering the actual services provided.

A merchant should have lofty expectations of their carrier's services because customers demand it from them. However, poor carrier service and management can lead to significant cost increases elsewhere within the organization such as:

- Confusing or inaccurate billing processes that make it virtually impossible to determine what actual costs are for the service provided
- Lengthy cycle times, which lead to a flood of inbound calls to customer service from upset customers
- A poor delivery or return experience that can have a negative impact on overall customer satisfaction and long-term revenues
- Poor integration of systems, which leads to ongoing investments by IT and other departments facing severe constraints to support the carrier program

In the face of today's challenges, now is the best time for merchants to consider their shipping needs and challenge their carrier contracts. After all, a carrier should be committed to doing everything it can to work with its client(s) in meeting their long-term savings and revenue objectives.

Being the least expensive service doesn't mean it is the most cost-effective for a company's bottom line. Rather, the total benefits will far outweigh small differences in rates, particularly in a healthy competitive environment among carriers. Merchants must be willing to push their carrier to provide better service. They must also see that there may be value in choosing a carrier with a reputation for premium service even though it may come with marginally higher prices.

Healthy Competition Mitigates Rate Increases

Annual rate increases are an unfortunate reality in the shipping business, and it is understandable why merchants hate them. Rate increases force retailers to pass some, if not all, of the price hikes on to their customers. Shippers must pass along rate increases because of the escalating costs required to maintain overall operations while remaining profitable. Merchants are fortunate because a healthy competitive environment means carriers should be reasonable in what they are able to pass along as part of their annual adjustment. Failing to adjust prices and maintain a high level of service could have potentially disastrous consequences to the shipper trying to remain a viable entity and would eventually result in higher rates for the merchant.

An uncompetitive carrier environment puts more pressure on merchants. As an example, look at "value-added service" fees such as residential delivery surcharges and address correction fees levied by some carriers. Consider the fact that from 2008-09 some of these fees jumped by almost 25% and the consequences of a market in which little competition exists, and you'll see that without a system of checks and balances, costs would spiral out of control.

The Benefits of Competition

Consumers' needs, distribution models and supply chains have become more complex, and so have the demands placed upon carriers. A single service provider cannot do everything for everyone. However, this is not to say that a single carrier cannot address all of a particular merchant's needs.

Many carriers have come into the market over the years, achieving varying degrees of success but for one reason or another are no longer operational. Every time this occurs, merchants and customers ultimately pay the price. Robust competition ensures that merchants and their customers have the benefit of: carriers who are focused on service; competitive pricing while being protected from unmanageable future rate increases; and leadership in bringing new technologies and services designed to improve the customer experience to market.

Bad news for one carrier is often great news for its competitors. This is also the sort of break that may actually be healthy and drive innovative thinking throughout the industry. While customers hate uncertainty in suppliers and service providers, they have much to gain by meeting other carriers or even demanding more from their current ones. Think of it as counter-party risk management. That is why carriers need to be held accountable. Companies committed to being leaders will flourish while those that are satisfied to simply follow will struggle.

There are competitive carriers with the ability to provide excellent service, competitive rates and innovative solutions to meet today's challenges. For shippers to succeed, they will need to go beyond individual company interests and look beyond current capabilities. Only then will they be able to provide the services demanded by today's marketplace while preparing to address the challenges of tomorrow. For merchants, they need to dismiss the status quo and take a risk in looking at other carriers. The competition demands it. ■

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