PARCEL FORUM HOT TOPIC 2015

2015 PARCEL PRICING & BENCHMARKING SURVEY:

LIVE PARCEL FORUM RESULTS UNVEILED

By Rob Martinez

For the third consecutive year at the PARCEL Forum, Shipware, LLC conducted a live parcel pricing and benchmarking survey in which 77 shippers responded to survey questions about their parcel usage, carrier preferences, pricing discounts, cost reduction strategies and other valuable benchmarking data. Survey respondents collectively commanded approximately $2.8 billion in annual parcel spend.

We asked the questions, you provided responses. Contracts were not shared, but rather, participating shippers responded anonymously to survey questions based on ranges. Technology-enabled and totally blinded to avoid confidentiality concerns, the survey was designed to help shippers better understand how their pricing stacks up with other shippers. Moreover, all survey responses were cross-tabulated by industry, company revenues, primary carrier, and annual parcel volume/spend for more meaningful like-volume correlations.

Why is benchmarking parcel pricing data so critical? Well, the most common challenge I hear from volume parcel shippers is that they don't know how good — or bad — are the incentives, terms and structure of their carrier pricing agreements. While no shipper would ever negotiate a contract and knowingly leave money on the table, the reality is that some shippers have clearly done a better job than others when it comes to negotiating the most favorable rates and terms.

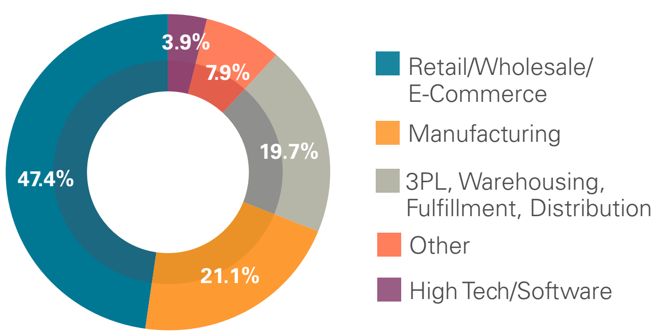
Published for the first time to non-survey participants, this article provides survey results on general parcel procurement, discounts/pricing benchmarks, DIM divisors and minimum charges, and mode/carrier optimization.

SURVEY DEMOGRAPHICS

Industry

While participants included a mix between several industries the most common sector was retail/wholesale/ecommerce followed by manufacturing.

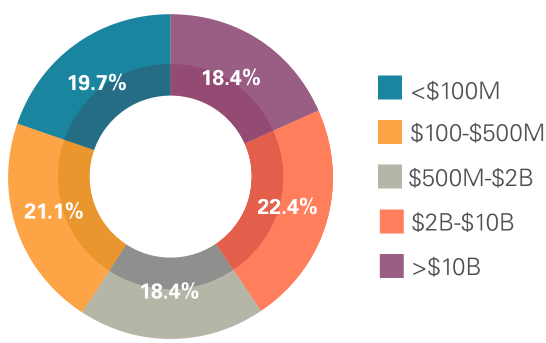
My employer's primary industry



Annual Revenues

Small and large companies alike were represented with annual sales revenues ranging from under $100M to those businesses that generate revenues greater than $10B.

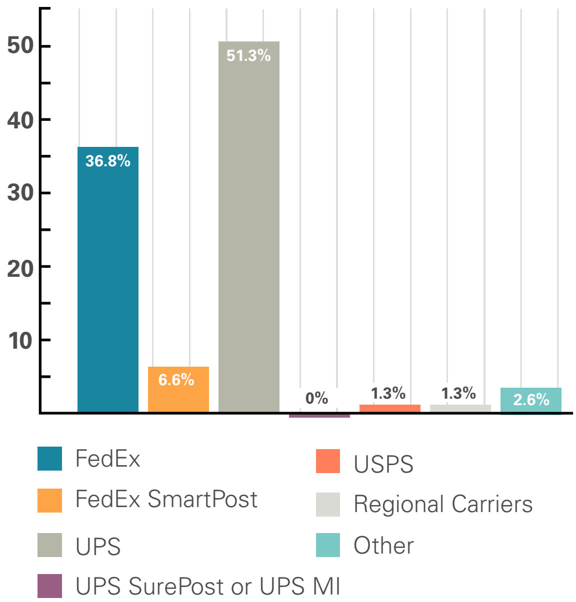
Employer's size by annual revenues



Primary Carrier

Predictably, 94.7% of all survey participants named UPS or FedEx as the "primary" carriers (as defined as more than half of overall volume). Other carriers included USPS and regional carriers although adoption of carriers outside of FedEx and UPS was not common.

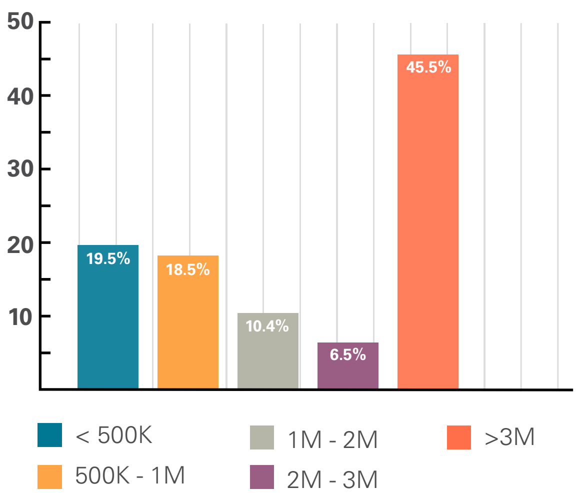
Our primary parcel carrier is:



Parcel Volume

Annual parcel volume revealed a balanced mix of small, medium, large and huge shippers, although as expected for the PARCEL Forum audience, nearly half the survey participants shipped high volumes of more than 3 million parcels annually.

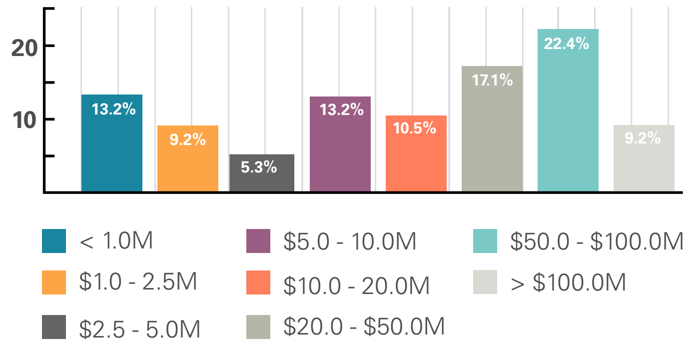
Parcel shipping volume (~ shipments/year)



Parcel Spend

Annual parcel spend likewise revealed a balanced mix of shippers of all sizes. Collectively, Shipware estimated survey participants command annual parcel spend of $2.8 billion.

Parcel spend (~Annual Net Revenue)



SURVEY RESPONSES

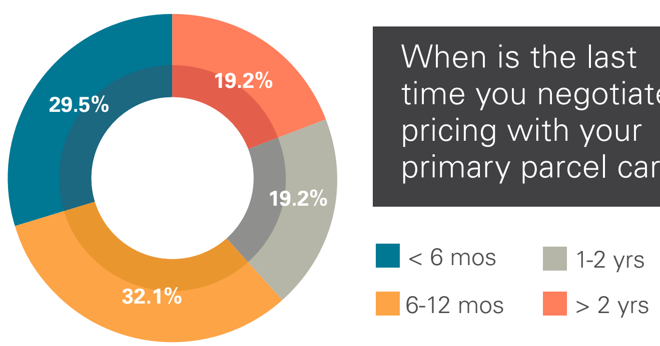
General Parcel Procurement

By a margin of about 5 to 1, survey respondents feel carrier negotiations have gotten harder rather than easier over the years. Interestingly, more than half (56.3%) of the survey participants that feel it's harder to negotiate with the carriers today believe FedEx and UPS have a tacit agreement to avoid "price wars." Personally, my feeling is that these two companies are fierce rivals, and have not colluded in any traditional definition of the word. Rather, I think shippers observe that FedEx and UPS tend to follow each other's pricing actions. One raises rates, the other matches it. One creates a new surcharge, the other quickly implements the same thing. One changes Ground pricing to dimension-based, the other adapts the strategy. One raises fuel surcharges, the other follows with a similar announcement.

Rather, we agree that it is harder than ever to negotiate pricing with the major national carriers, but view the remaining responses as primary contributing factors. The carriers are categorically focused on operating margin; pricing has become more of a "commodity" with FedEx and UPS pricing so closely aligned; and the industry has few national, private carrier options to FedEx and UPS.

But shippers and carriers were still busy making pricing changes in 2015. 61.5% negotiated pricing with their primary parcel carrier within the last 12 months. By further correlating actual pricing results mapped to the frequency of negotiations, the data would suggest that those companies having negotiated contracts more recently are in fact driving deeper discounts than those shippers that hadn't negotiated in more than two years.

When is the last time you negotiated pricing with your primary parcel carrier?

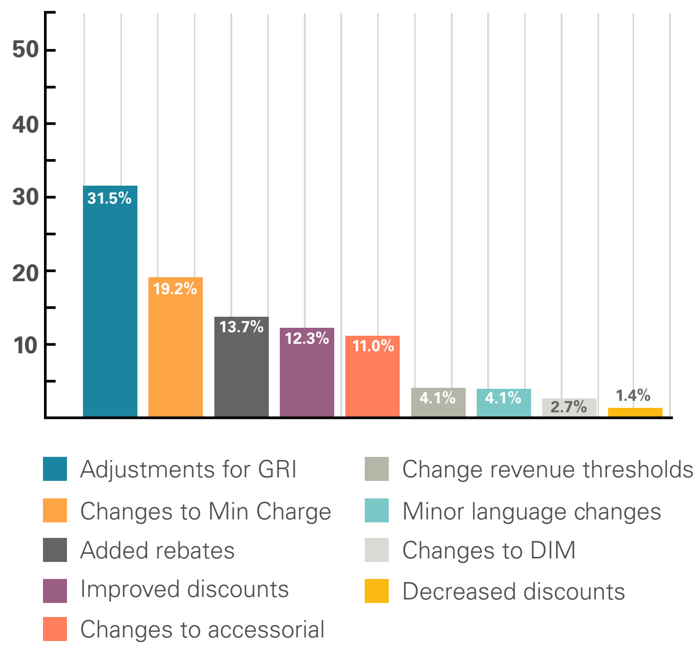


Shipware advocates that shippers should create an expectation with carrier reps of ongoing cost reduction. Notable reasons to bring the carriers back to the negotiation table include changes in shipping profile: volume fluctuation, changes in shipping product utilization, zonal distribution shifts, weight/DIM changes, etc. Moreover, changes in FedEx Earned Discounts thresholds and UPS Portfolio Tier changes, up or down, are legitimate reasons to make contract changes.

However, the most effective rationale for initiating pricing improvements with FedEx and UPS are changes in the market place. The rise of the USPS as a legitimate third option — especially when comparing Priority Mail to Ground — regional parcel carrier options, package consolidators and parcel select players, service guide and pricing changes initiated by FedEx and UPS, etc.

We followed up by asking what changes were made during the most recent negotiations. Roughly one-third of respondents (31.5%) made adjustments to their contract to address General Rate Increases. 19.2% made changes to the Ground Minimum Charge.

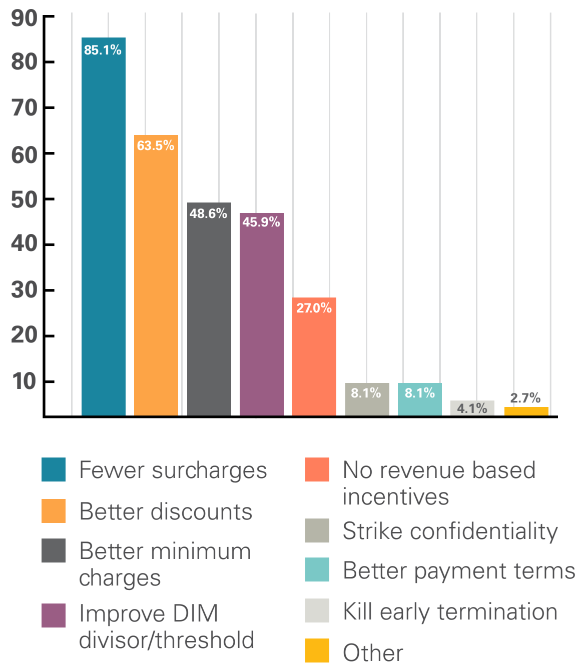
What changes were made? (All that apply)



It is important to note that what's meaningful for one shipper may not be meaningful for another. It is important to conduct a comprehensive analysis to understand which pricing contract changes will have the most material impact.

When asked to rank the top three ways shippers would change their UPS and FedEx pricing agreements, minimizing surcharges was the highest weighted response (85.1%), amazingly higher than getting deeper discounts (63.5%). Shippers would also like to have more favorable minimum charges (48.6%) and DIM factors/thresholds (45.9%).

If could change UPS or FedEx Pricing Agreement, how would you? (Rank top 3)

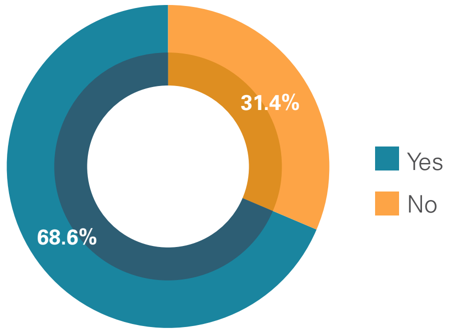


While historically only a UPS discounting vehicle, FedEx has also started to offer rebates called FedEx Earned Discount Override Program. Shippers that have rebates get monthly, quarterly or annual rebate checks for meeting negotiated revenue thresholds. Rebates are quickly becoming a popular carrier incentive. Forty percent of survey participants now get rebate checks from either UPS or FedEx.

There are pros and cons of rebates. In general, Shipware does not advocate rebates. Rebates are one of many forms of carrier retention tools designed to keep shippers locked into using their services only. Plus, the carrier hangs onto your money for the period (in some cases, one full year). Not good for those companies that need working capital. Rather, we'd like to see the carrier give those discounts to shippers upfront, rather than "earn back" dollars through rebating.

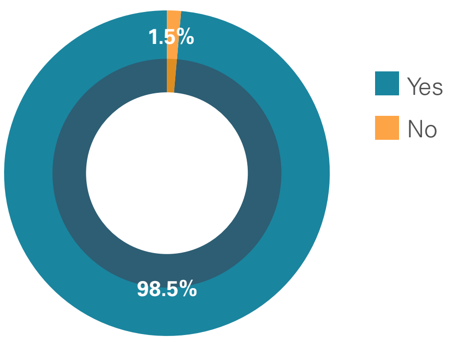
Unfortunately for shippers, one-side contract language including Early Termination Agreements (ETAs) —essentially, financial penalties for terminating parcel contracts prior to its renewal date — are becoming more common with nearly one-third (31.4%) of shippers reporting their contracts include ETAs.

Our contract includes "early termination" penalties



However, the ETAs may be more bark than bite. Only one survey participant had ever been invoiced by a carrier for "early termination".

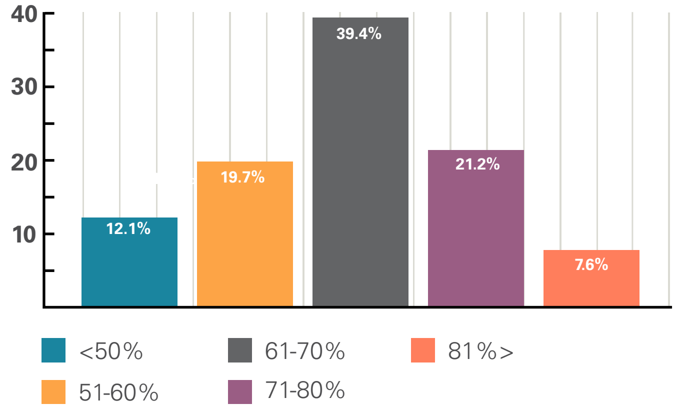
To your knowledge, has either carrier ever invoiced you for Early Termination?



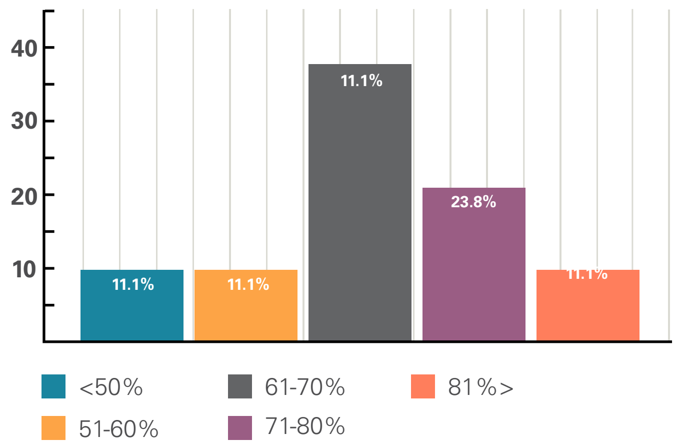
Pricing Benchmarks

The next series of charts describe incentives on frequently used FedEx and UPS products as well as common special handling ("accessorial") charges. Please keep in mind that many factors go into the pricing decisions. Just because a shipper receives X% discount does not automatically qualify other shippers for the same discount. The value of the following charts is provide shipper's with an idea of what other shippers have achieved in their carrier negotiations, a view into what's possible in today's marketplace.

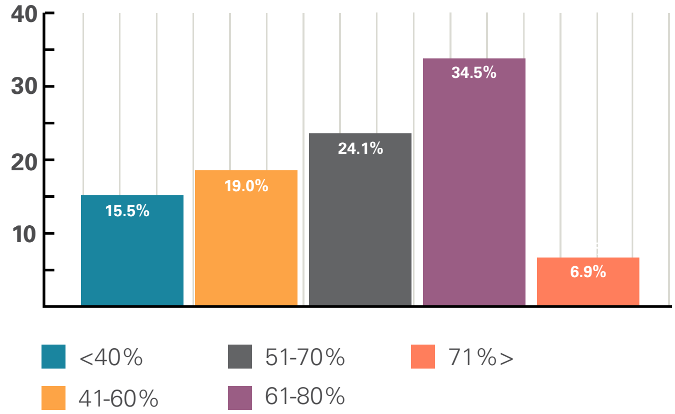
Our discounts for UPS Next Day Air/FedEx Priority Overnight services with all Earned Discounts and Portfolio incentives ("all in") are:



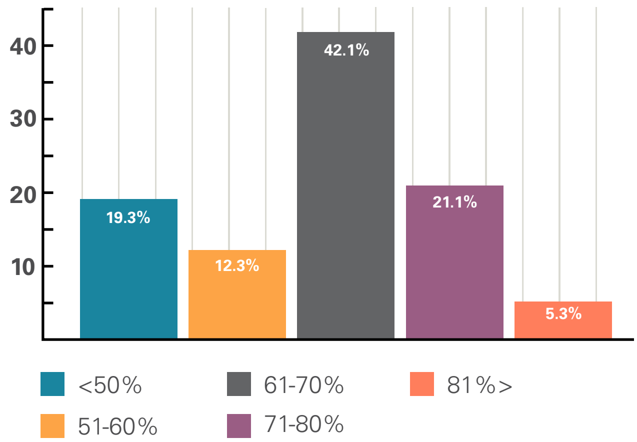
Our discounts for UPS NDA Saver/FedEx Standard Overnight services ("all in"):



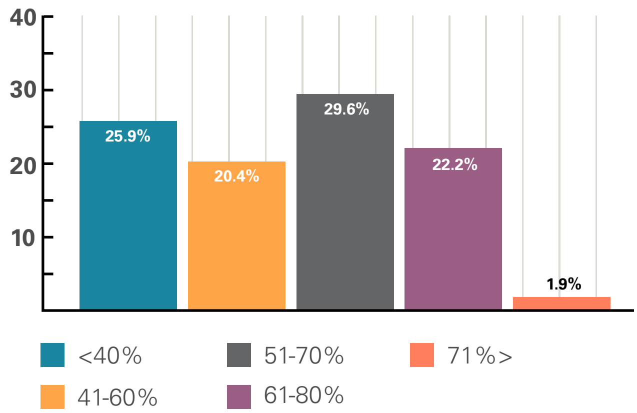
Our discounts for UPS 3 Day Air and/or FedEx Express Saver services ("all in"):



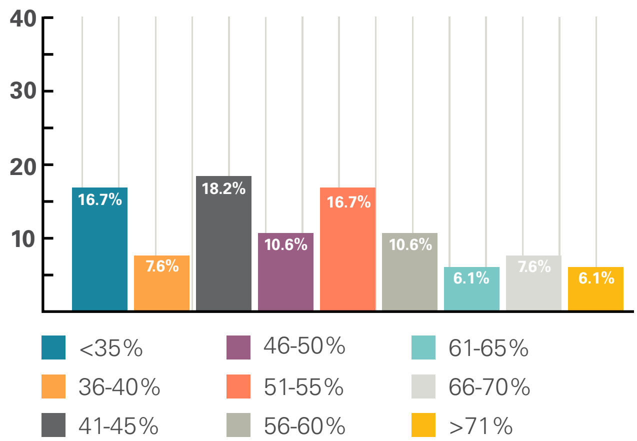
Our discounts for UPS Worldwide & FedEx International Priority/Economy Export services ("all in"):



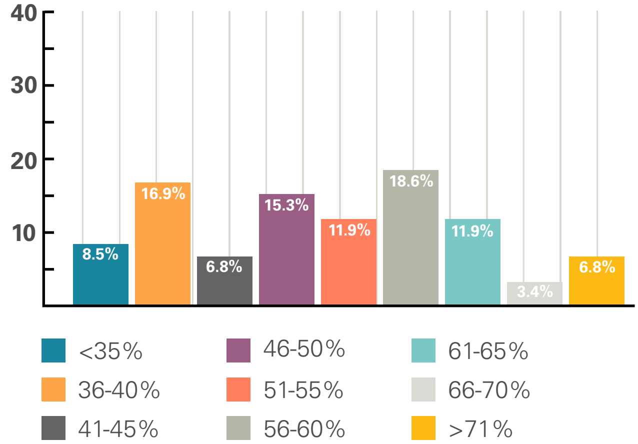
Our discounts for UPS Worldwide & FedEx International Priority/Economy Import services ("all in"):



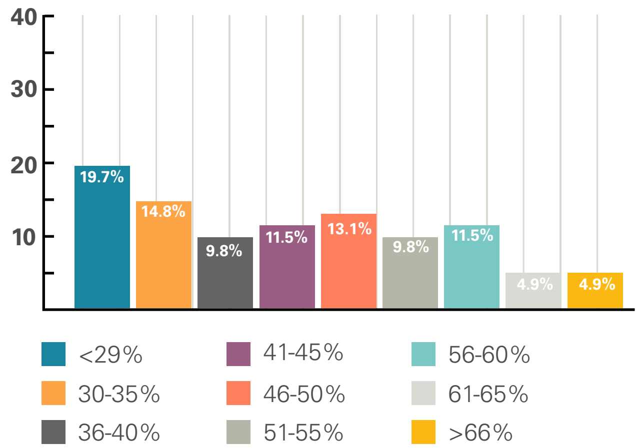
Our discounts for Ground Commercial services 1-10 Lbs. ("all in"):



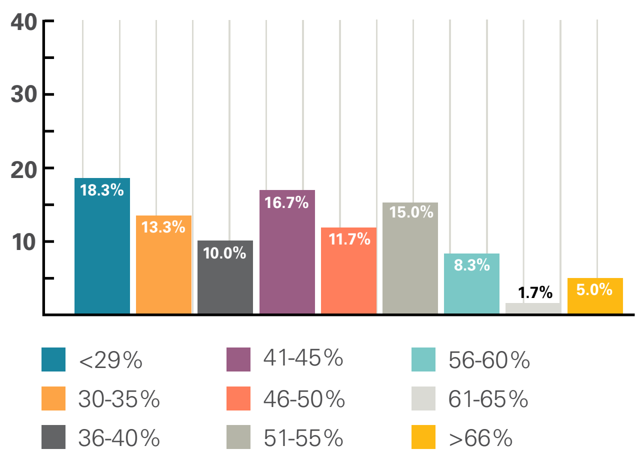
Our discounts for Ground Commercial services 11-30 Lbs. ("all in"):



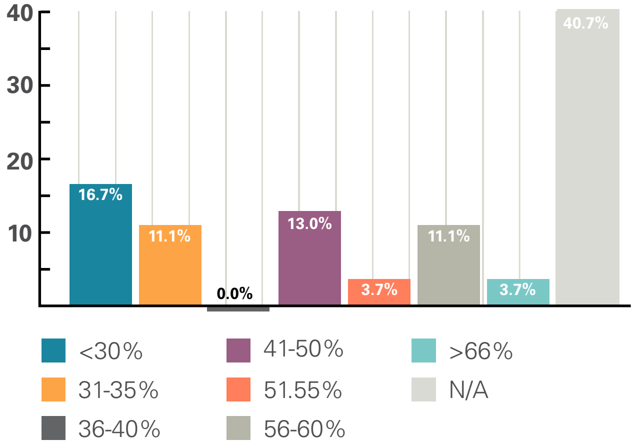
Our discounts for Ground Residential services 1-10 Lbs. ("all in"):



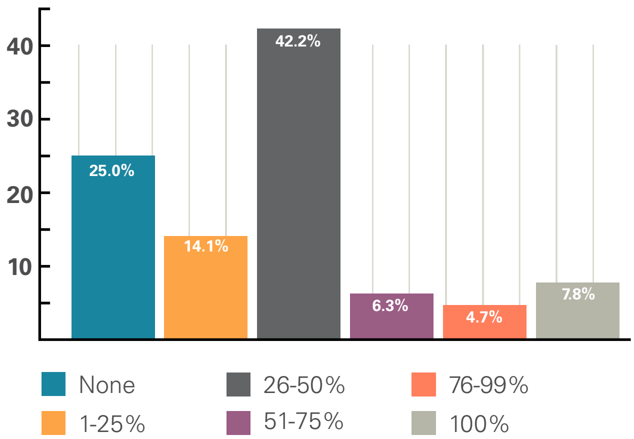
Our discounts for Ground Residential services 11-30 Lbs. ("all in"):



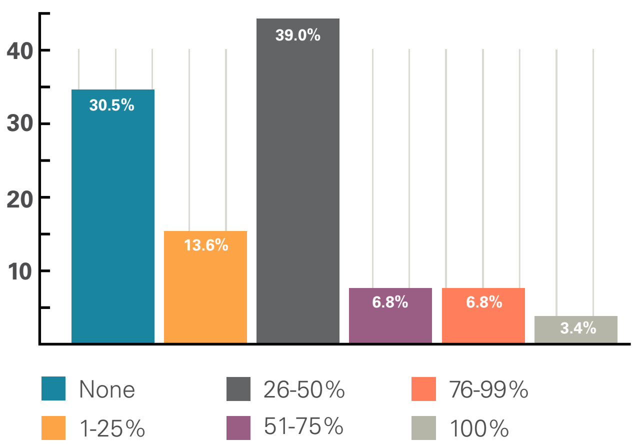
Our average discounts for Parcel Select 1-3 Lbs:



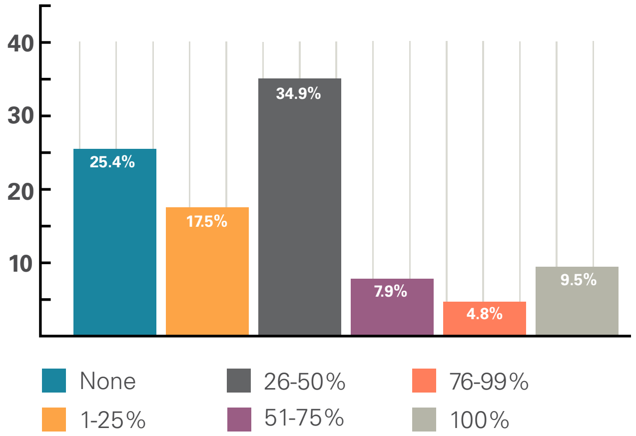
DAS Incentive (Air/Ground):



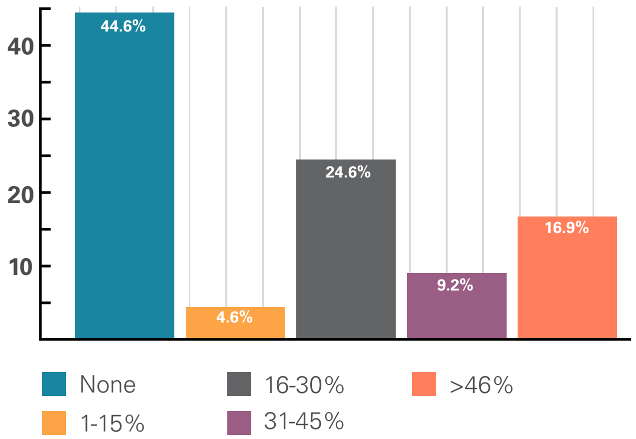
Extended DAS Incentive (Air/Ground):



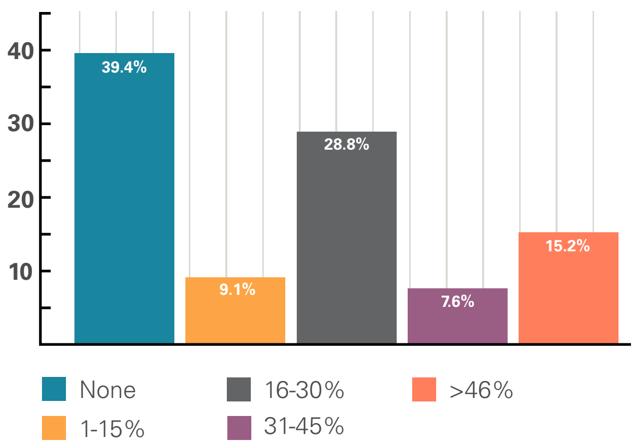
Residential Surcharge Incentive:



Fuel Surcharge Incentive (Air):

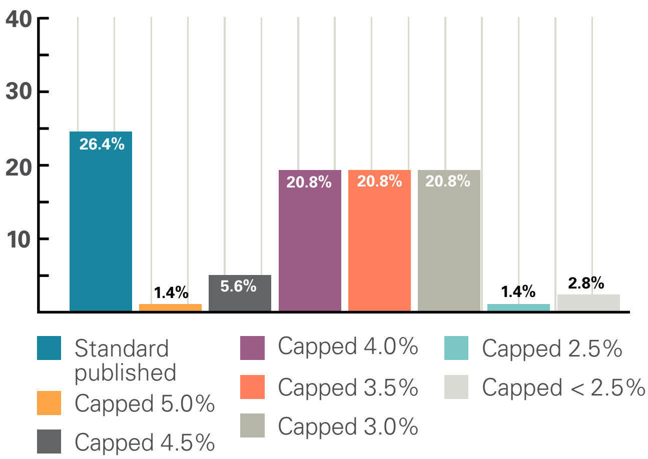


Fuel Surcharge Incentive (Ground):



Even amongst the survey group's $2.8 billion in collective parcel spend, more than one quarter (26.4%) continue to receive the standard/published General Rate Increase (GRI). For those shippers that negotiated a "cap" to the GRI, 62.5% are capped between 3-4%. Only 3.2% of shippers have a GRI cap of 2.5% or less.

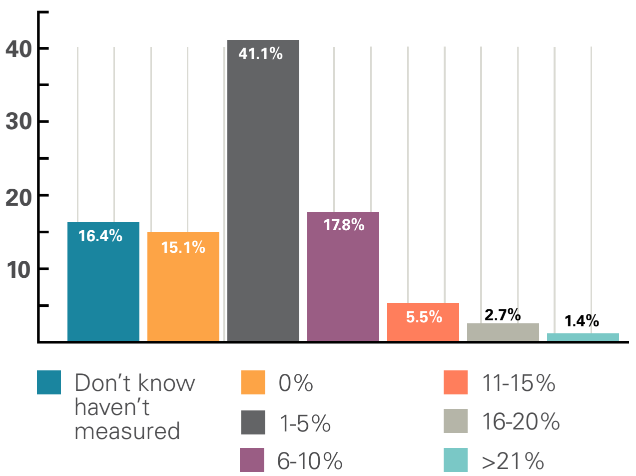
Regarding GRIs, ours is:



DIM Divisors and Minimum Charges

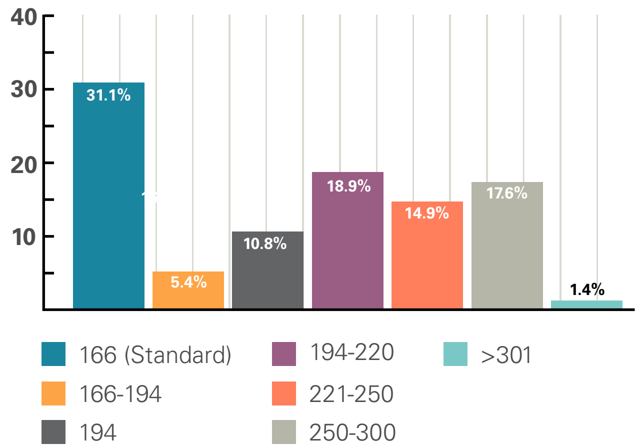
When asked how the 2015 Ground dimension-based pricing changes impacted shippers, the majority (41.1%) felt the increase was limited to 1-5% on those packages impacted. 15.1% of shippers experienced no increase, and surprisingly 16.4% of survey participants did not know or hadn't yet measured its impact. Shipware believes shippers may be significantly underestimating DIM pricing changes, as our research shows an average increase of 17% on those packages impacted.

2015 DIM changes for UPS/FedEx Ground resulted in what % increase (packages impacted)?



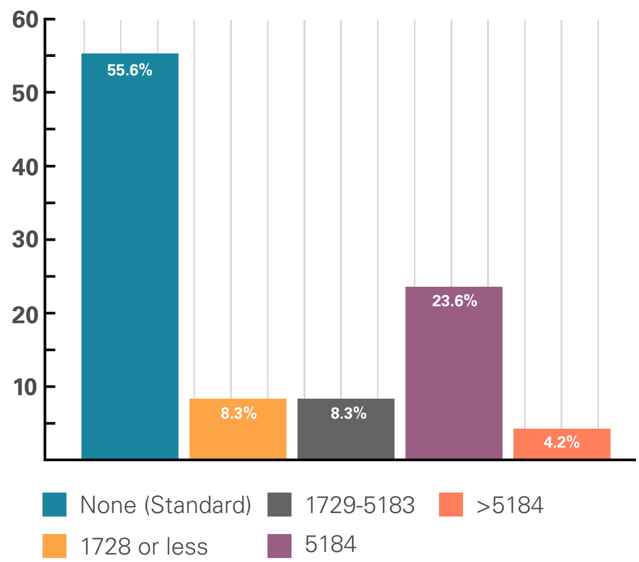
The next series of charts provides benchmarking data for DIM divisors and thresholds as well as minimum charges. Not surprisingly, the majority of Ground shippers (31.1%) have the standard DIM divisor of 166. Only 1.4% of survey participants enjoy a DIM divisor greater than 300.

What's your current Ground DIM divisor?

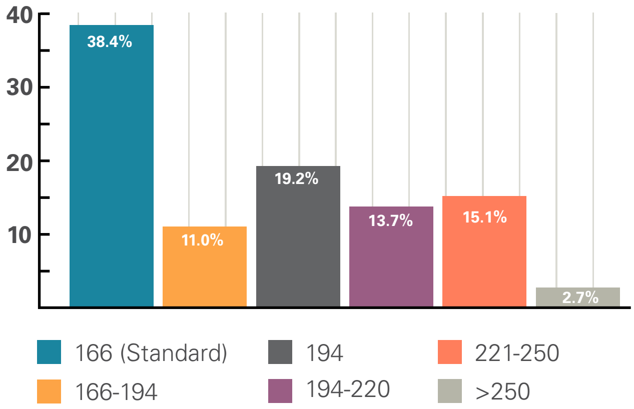


Moreover, the majority of Ground shippers (55.6%) do not have a custom DIM threshold (standard). However, the results appear to be "the haves and have nots:" 27.8% have maintained the Ground DIM threshold of 5184 or better.

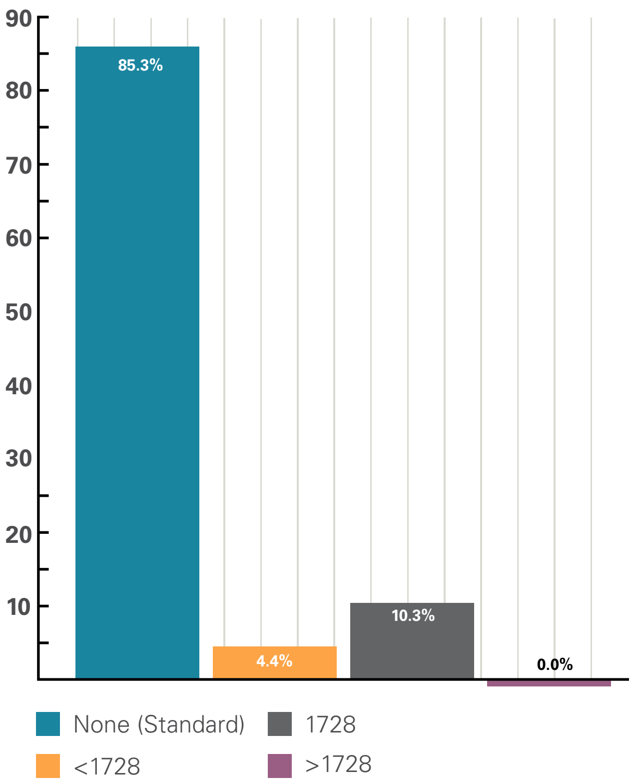
UPS & FedEx shippers: 2015 Ground dimensional threshold exception?



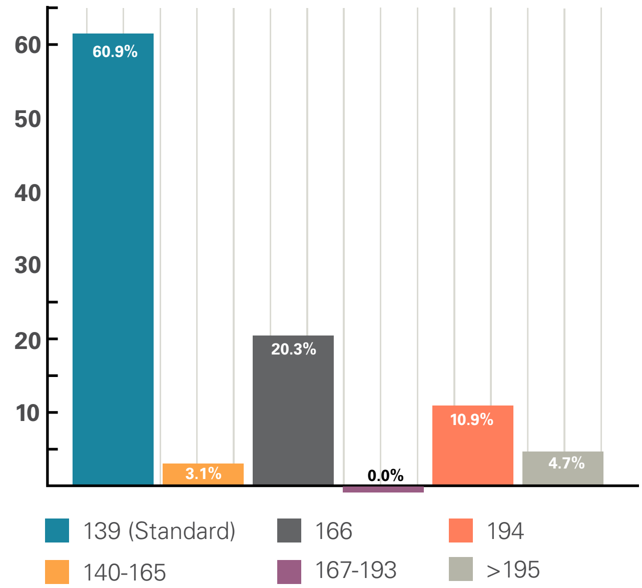
What's your current Air/Express DIM divisor?



UPS & FedEx shippers: 2015 Air dimensional threshold exception?

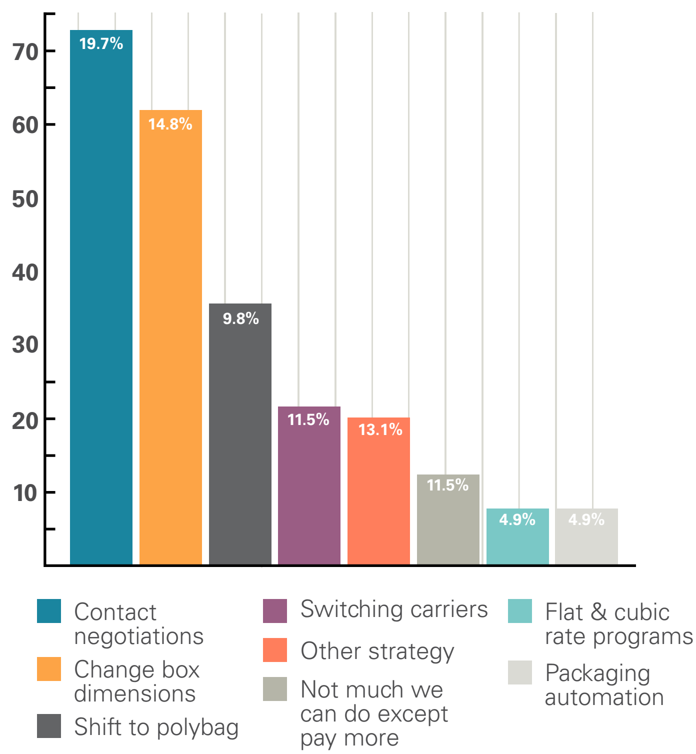


What's your current International Export DIM divisor?



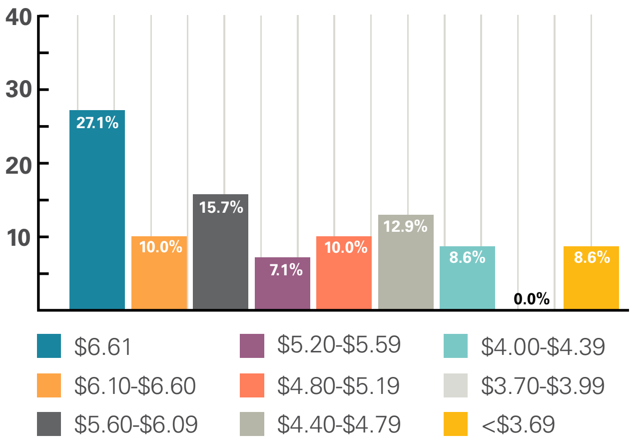
Specific to the 2015 Ground DIM increases, shippers have attempted multiple strategies to mitigate the impact of the increase. The most common strategies included contract negotiations (72.3%), changing box configurations (61.5%), or shifting from corrugated packaging to polybags (35.4%).

What have you done to mitigate 2015 DIM changes? (All that apply)

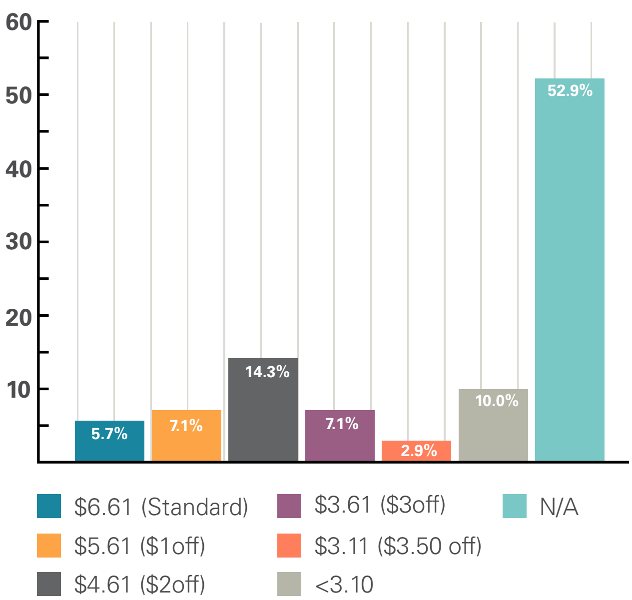


Minimum charges continue to be an effective revenue management strategy for the parcel carriers, as charge minimums whittle away at negotiated discounts. While the majority of survey participants were able to negotiate some discount to the minimum charge, the single largest pool of responses were those shippers that have no minimum charge relief (27.1%).

Ground Minimum charge for 2015 is $6.61. My Ground minimum charge is closest to:



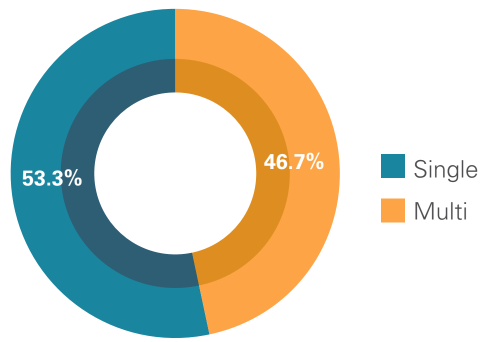
My Parcel Select Minimum Charge is closest to:



Mode/Carrier Optimization

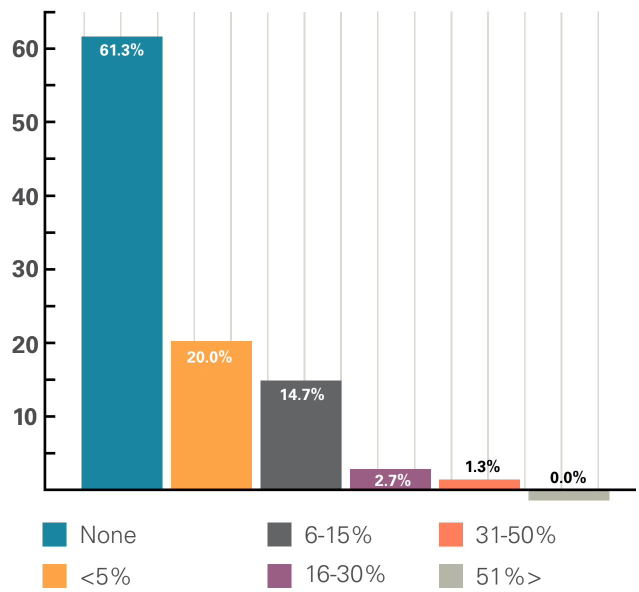
On the issue of single sourcing (defined as giving 80%+ volume to a single carrier) versus multi-sourcing, the survey group was nearly evenly split, with the slight majority electing to single source.

Single or multisource? (>80% of volume)



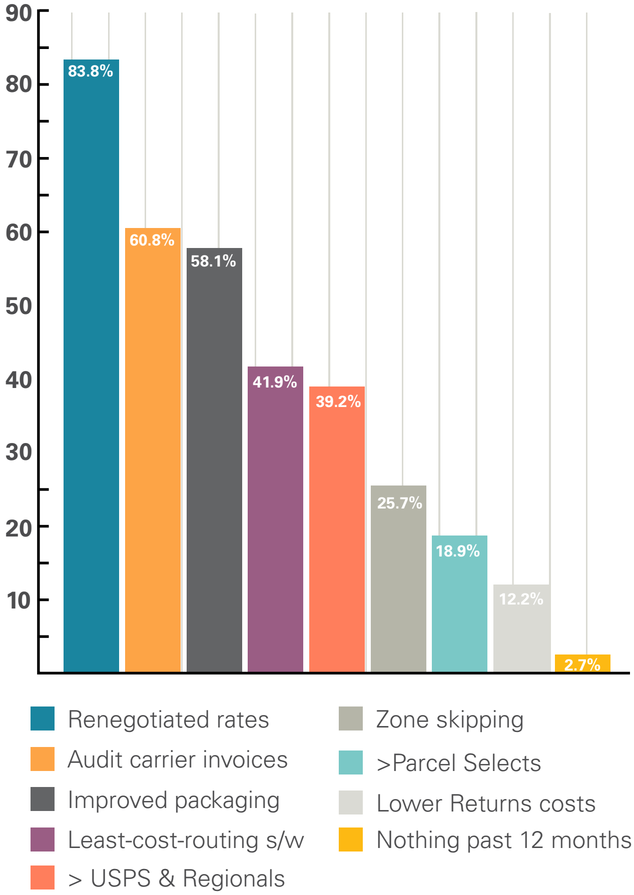
Even amongst the select group of high volume PARCEL Forum shippers, relatively few (28.7%) use regional parcel carriers like Eastern Connection, OnTrac, Spee-Dee, LSO, etc.

What % of overall parcel goes to regional carriers (like Eastern Connection, LSO, OnTrac, Spee-Dee, US Cargo, etc.)?

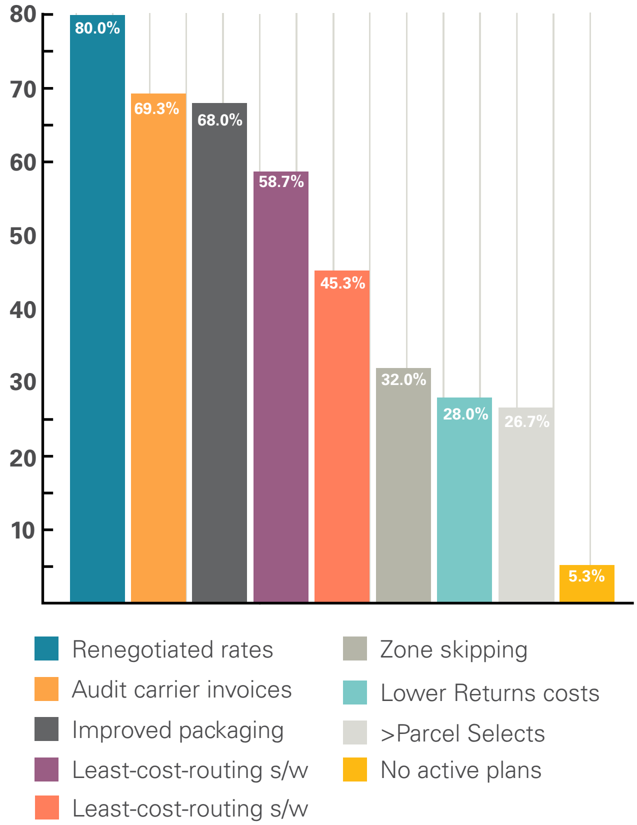


Over the past 12 months, shippers predominantly chose to renegotiate their carrier pricing agreements (83.8%) as the principal strategy to keep shipping costs in check. Only 39.2% of respondents increased their use of the USPS and/or regional carriers.

To keep shipping costs in check, in the past 12 months, we… All that apply



To keep shipping costs in check, over the next 12 months, we plan to…All that apply



To determine anticipated changes for 2016, we also asked how shippers intended to keep costs in check over the next 12 months. While contract negotiation remained the top strategy (80.0%), significantly more shippers indicated they'd increase USPS and/or regional carrier usage next year (58.7% — up from 39.2% in the previous question). Other popular strategies include auditing carrier invoices (69.3%), improving packaging to minimize dimension-based pricing costs (68.0%), and using least-cost-routing software (45.3%).

SUMMARY: BENCHMARKING VALUE & LIMITATIONS

Of course, benchmarks can only take a shipper so far in their carrier negotiations. While overall volume and revenue certainly play a role in pricing, FedEx and UPS discounts are largely based on the carriers' analysis of distribution footprints and physical package characteristics, which are directly tied to the carrier cost drivers. Other pricing factors include desired carrier operating ratios, sales commissions, strategic account value, and competitive considerations. Therefore, simply reviewing benchmarking data may not be enough to draw conclusions that you, too, should be receiving similar discounts. Benchmarks like those published above will provide shippers with an idea of what's possible — high watermarks for which to strive. And when survey questions are cross-tabulated with shipper volume, spend, industry or other key metrics, shippers can get a better sense of how they compare with others.

ROB MARTINEZ, DLP is President & CEO of Shipware LLC, an innovative parcel audit and consulting firm that helps volume parcel shippers reduce shipping costs 10%-30%. Rob offers more than 25 years' experience negotiating parcel contracts – on both sides of the negotiating table — for some of the most recognizable brands in the world, and is a sought after speaker and industry thought leader. He welcomes questions and comments, and can be reached at 858.879.2020 Ext 114 or rob@shipware.com.