# We Asked, You Answered.

## Results of the 2010 PARCEL Best Practices Survey, Part 1

— By Marll Thiede —

Good news, not so good news and even some bad news. Regardless, they are the results of our annual PARCEL survey. In this, our 13th year of conducting the survey, we made major changes to what we ask and how we ask it. Our first major change was to let our survey partner, Morgan Stanley, conduct the carrier analysis portion. Secondly, we partnered with Shipware Systems to analyze the metrics portion of our survey. Both will be released and discussed at the PARCEL Forum with follow-up articles appearing in the next issue of PARCEL. Staff of PARCEL analyzed the remaining parts of the survey which we are unveiling the results in this article.

So what is the good news? As the economy slowly improves, so do many operations. The need for cutting jobs and taking pay concessions is waning, although it is still happening in some operations. The majority of companies have also begun releasing dollars for investing in operational improvements.

Survey respondents continued to say that cost reduction and budgeting are their top two concerns. But as the economy improves, they are predicting that in the next five years containing shipping costs will be their top concern. This concern is expressed due to a lack of competition because of the duopoly of national parcel carriers (FedEx and UPS). But transportation planners are getting savvy as they look to create competition by encouraging the USPS to make enhancements, which puts it in a more competitive position as well as tapping into regional and other alternative carriers.

The other hot topic of discussion at last year's PARCEL Forum was the "rumor" that FedEx and UPS were refusing to negotiate with third-party negotiators. So we posed the question this year, and 13% of respondents said that their carrier(s) generally conveyed that they would only negotiate a contract with the company and not a third party. While it seems implausible that a vendor can dictate what a company can and cannot do, it appears they are trying. By a few comments made by respondents, there could well be some companies who take the national carriers to task through legislation or legal channels.

Even though there is lots of concern about the state of the parcel transportation industry, overall shippers thought service of the national carriers improved. The USPS had the best overall rating increases from 2009, while FedEx and UPS improved by tenths of a percent in almost all categories.

We appreciate all of those who took the survey and want to thank Shipware Systems for donating a Flip video recorder to one lucky winner who completed the survey. For more results and further analysis based on volume shipped, please visit www.PARCELindustry.com.

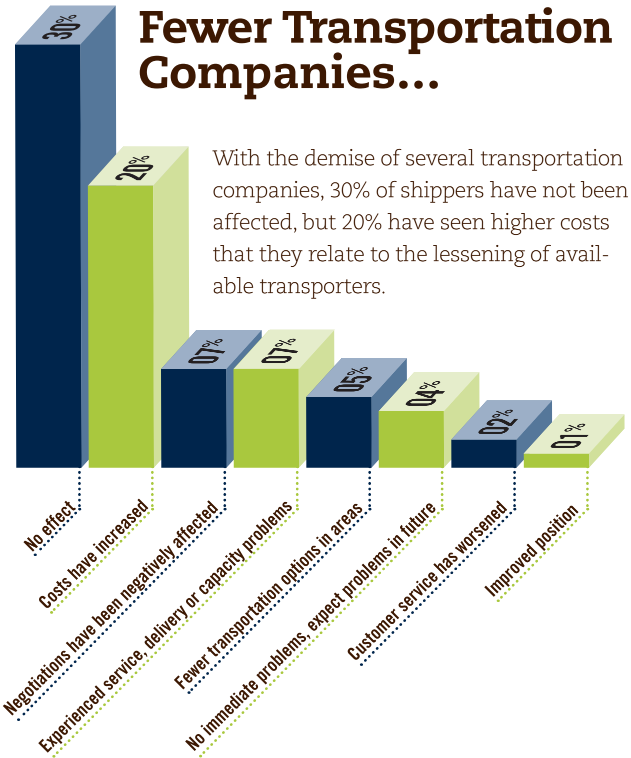
## Rate Your Carriers...

↑ Improved from '09 | ↓ Worsened from '09

| | FedEx | UPS | U.S. Postal Service |
|---|---|---|---|
| Customer Service | 7.5 ↑ | 7.5 ↑ | 6.5 ↑ |
| On-Time Service Performance | 8.2 ↑ | 8.2 ↑ | 6.8 ↑ |
| Delivery Performance | 8.0 ↑ | 8.3 ↑ | 7.2 ↑ |
| Claims Processing | 6.9 ↑ | 6.7 ↑ | 5.2 ↑ |
| Refunds For Late Delivery | 6.6 ↓ | 6.4 ↑ | 4.7 ↑ |
| Pricing | 7.1 ↑ | 6.9 ↑ | 6.1 ↑ |

Scale of 1 to 10 *(10 being the best)*

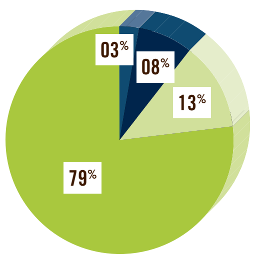
# Fewer Transportation Companies…




With the demise of several transportation companies, 30% of shippers have not been affected, but 20% have seen higher costs that they relate to the lessening of available transporters.

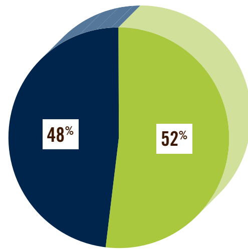
# Who Negotiates?

We do
We don't negotiate
3rd party—not present
3rd party—present




Only 11% of companies use third-party negotiators to negotiate carrier contracts, and most of those companies (8%) are not even present during negotiations.

# Keeping Pricing Competitive…




Yes No

A little more than half of shippers think that there is not enough competition in the parcel delivery market to keep pricing reasonable and service good.

# Here Are Shippers' Comments…

(We promised to keep confidentiality, so names don't appear.)

"I am concerned about the recent activity to 'legislate' terms on FedEx for labor conditions. This will hurt competition. Keep the politicians out of the process."

"Better support the alternatives when they try to enter the market."

"We are moving more volume onto regional parcel carriers."

"Develop reliable regional companies that could cooperate in national coverage."

"Further leverage of the USPS infrastructure."

"Greyhound buses were founders of the UPS NDA delivery. I think any business that has national and local route service should add some sort of shipping service."

"Privatize USPS."

"They need to be regulated. What business can raise prices each year by 5% or more?"

"Believe the industry should be examined for violations of anti-competitive practices. If necessary, antitrust statutes should be revised to redefine monopoly."

"Who can compete with the two behemoths in that industry? USPS is doing a better and better job though…"

"Rising residential shipping costs, if not controlled, will even be the tip of the iceberg contributing to small companies going out of business.

"I believe in the US free enterprise system. Just let the natural flow of supply & demand take care of things. Either one of the existing SPS will step it up a notch to prevent a third provider or a third company will appear on the scene."

# Negotiating in Today's Duopoly…

Yes No


Shippers are almost split down the middle when asked: As we are down to a duopoly of private national carriers (UPS and FedEx) with few alternatives in the marketplace, are you finding it harder to negotiate with those carriers?

# What Your Peers Are Saying…

"I find there has been increased competition between [UPS and FedEx] and my rates have been dropping consistently."

"Have to work harder to keep some competition in play. [Using] USPS or local carriers in some areas."

"During agreement re-negotiations, UPS claimed certain accessorials were non-negotiable; yet they were negotiable when UPS lost our business to FedEx."

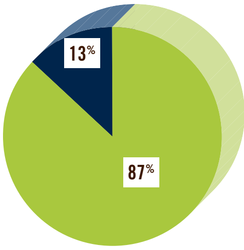
"They KNOW they are the only two games in town, and it is getting very hard to get their sales teams to respond to any real customer concerns."

"We split our business 75%/25% because of this reason. The 75% must fight to keep the higher volumes and the 25% fights to earn more."

"This [duopoly] may need [to be] regulated over time."

"I think the recovery in the market is having more effect on the carriers' unwillingness to negotiate than the departure of DHL."

# Carriers' Negotiation Demands...




Some shippers are reporting that FedEx and UPS are refusing to negotiate with third parties. Thirteen percent of respondents agreed that a carrier has made a statement to them that "generally conveys that they will only negotiate a contract with you and will not negotiate your contract with a third party."

# What Shippers Had To Say...

(When asked specifically what the carrier rep had said.)

"UPS / Fed-Ex are both pushing hard to not do business with 3rd parties for volume / pool rates. It will be interesting [to see] how successful [it will be]; then I think LTL will try..."

"Said that an edict came down from the top that they were not to participate in any negotiations involving a 3rd party because they never win the bid."

"They initially said they wouldn't discuss rates or contract components with a 3rd party, but then they agreed to when they saw the competition was going to do so."

"Not directly... but have leaned towards how they don't like or appreciate 3rd party tactics and it ends up hurting their customers in the long run."

"Two carriers refused to have the negotiations handled through the 3rd party because they did not want to use a general rate structure."

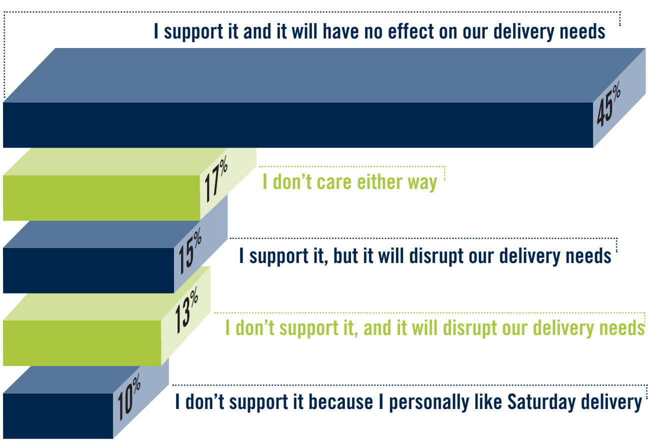
"They are thinking about disallowing 3rd parties, but have not made a decision as [of] yet."

"Explicitly that they will not work with 3rd party parcel negotiators, regardless of what my organization wants."

"...I see their point also. Two pieces (1) if I have to hire someone to do it, then why does the company need me; (2) most of the time you end up dealing with an ex-UPS or ex-FedEx person who leans one way or the other. I DON'T TRUST 3PLs."

# Saturday Delivery...

As the USPS contemplates eliminating Saturday delivery, most shippers support the move.

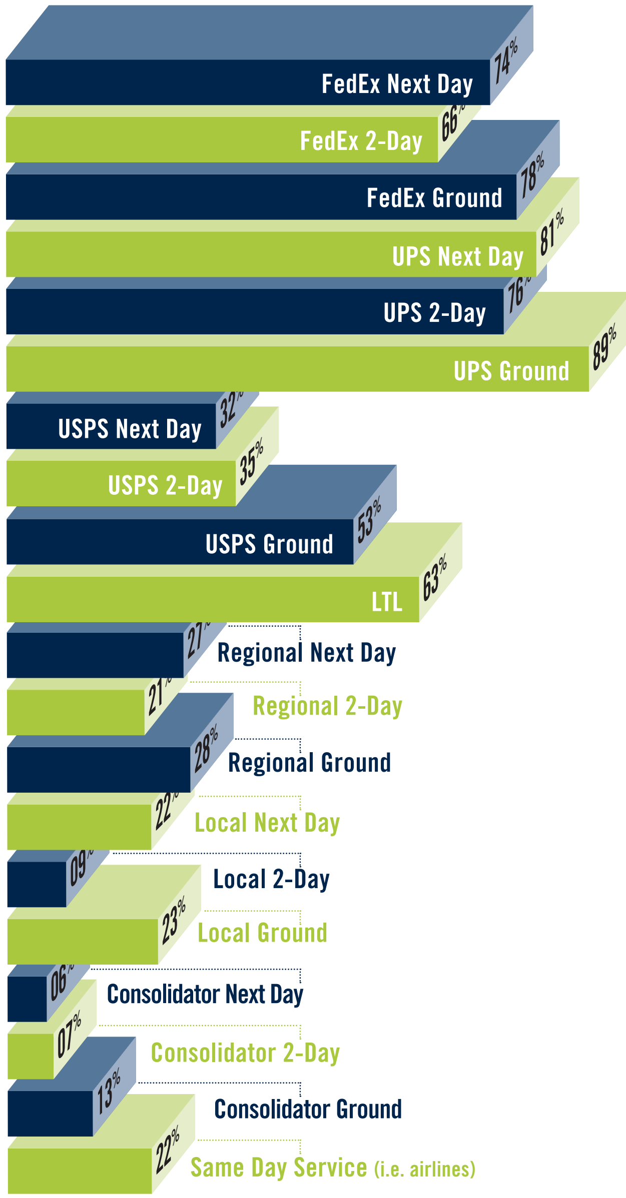



# Changed Primary Carrier Because...

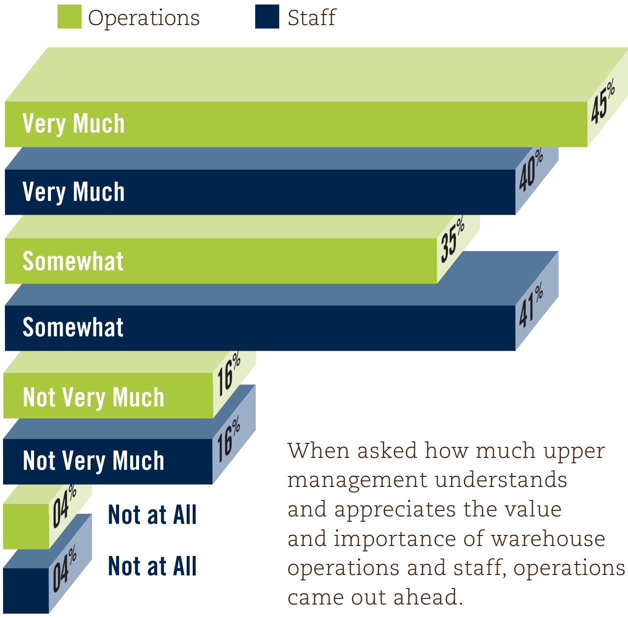
| | |
|---|---|
| 50% | Needed to achieve better pricing |
| 16% | Diversified to use more carriers |
| 11% | Reduced the number of carriers used |
| 11% | Re-bid transportation and a different carrier(s) won |
| 07% | Changed our level of service (i.e., air to ground) |
| 05% | Dissatisfied with service |

# Transportation Plans Are Complex...

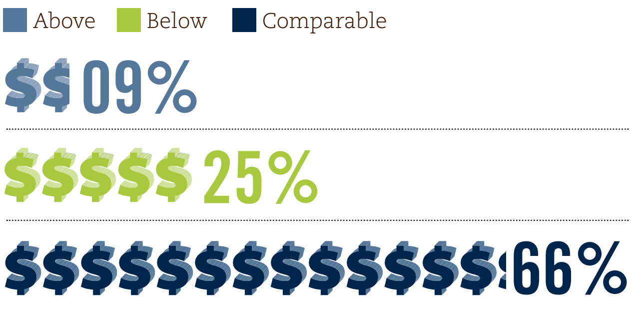
Shippers have developed a wide array of delivery channels for small packages. Most use a combination of several carriers.



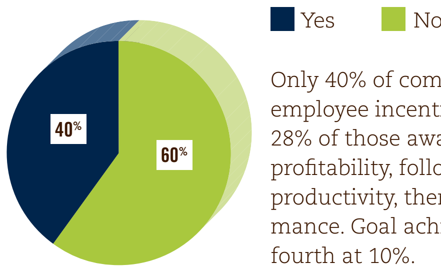
# IT'S GOOD TO BE VALUED




When asked how much upper management understands and appreciates the value and importance of warehouse operations and staff, operations came out ahead.



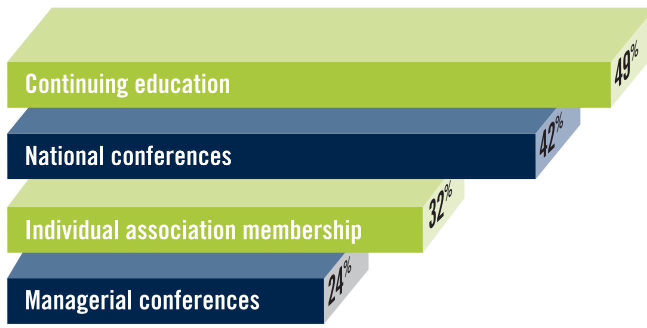

Sixty-six percent of respondents felt the wages of logistics workers in their companies were comparable to other companies in their locale; while 25% felt theirs were lower and nine percent felt theirs were higher.




Only 40% of companies have an employee incentive program. And 28% of those award on company profitability, followed by 13% for productivity, then 12% for performance. Goal achievement came in fourth at 10%.

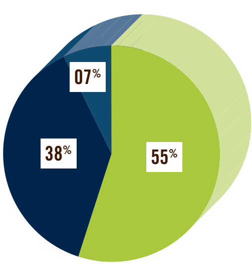
Nearly half of companies pay for continuing education of logistics professionals.

Management pays for...




Management allows time for...


# THINKING GREEN

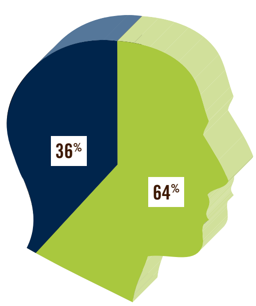



Could do more

Doing all they can

Taking no steps

Thirty-eight percent of respondents think their company is acting on all possible ways to be more environmentally friendly; 55% think their companies could do more and 7% are not taking any steps.




I believe

Not a believer

Sixty-four percent believe global warming is a reality. Whether a person believes or not does not make a difference as to how they perceive their companies' green efforts.

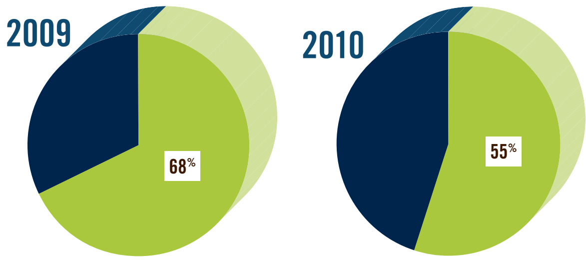
## Top 3 Challenges... in managing parcel operations:

**#1 Reducing Costs**
**#2 Budget**
**#3 Accuracy**
**#3 On-time Deliveries**

## and in 5 years... what will be the challenges?

**#1 Cost of Shipping**
**#2 Compliance Issues**
**#3 Lack of Carrier Competition**

# IT'S GETTING BETTER




Fewer companies reported the economy had an impact on their operations in 2010.

| | |
|---|---|
| Already begun | 37% |
| 3Q '10 | 06% |
| 4Q '10 | 09% |
| 1Q '11 | 16% |
| 2Q '11 | 11% |
| 3Q '11 | 05% |
| 4Q '11 | 02% |
| 2012 | 14% |

Most companies have already begun to release dollars for purchasing.


Of those affected, the negative impact of the economy didn't stop, but it slowed dramatically.

# OUTSOURCING VS. INSOURCING

## Our Company...

| | |
|---|---|
| Kept the same outsourced activities as in '09 | 39% |
| Does not outsource | 37% |
| Outsourced more processes than prior years | 09% |
| Insourced previously outsourced work | 09% |

Of those who outsourced:

| Function Outsourced | Outsource Some | Outsource All |
|---|---|---|
| Order taking | 08% | 0% |
| Warehouse/DC | 32% | 05% |
| IT | 19% | 02% |
| Transportation planning/mgmt | 28% | 02% |
| Returns processing | 11% | 03% |
| Labor/staffing | 02% | 02% |
| Trucking | 29% | 20% |