

10 Commandments of Low Cost Parcel Shipping

by Keith LaBotz - ClearVista Solutions, LLC

After spending weeks negotiating with your small package carrier, you've signed a contract that you expect will save your company lots of money. And then the invoices arrive. Closer inspection reveals that discounts didn't apply as expected, revenue is not accruing towards higher discounts, surcharges are adding 15 percent to the bill, and the allowance volunteered by your carrier for a waiver on service failure refunds is worthless. Reconciling these discrepancies looks like a major headache. What happened?

Chances are you negotiated a contract without the benefit of "smart" technology. **Several billion dollars of new technology is enabling small package carriers to play by a new set of rules** that most shippers are not equipped to deal with. We compiled the advice of industry experts and came up with ten rules that you can use to minimize your parcel shipping costs.

1. Properly Analyze Your Shipping Data When it comes to reducing shipping costs, the answers are found in your shipping data. However, data must be analyzed properly to be of value. Manifest data is of limited value and pricing schedules can be misleading. Technology makes it easier for carriers to employ complex billing practices and contracts so that final billings bear little resemblance to negotiated prices. Dynamic pricing undermines static analysis utilized by many freight consultants and obscures cost sources. Without specialized software to analyze small package shipping costs, excess costs will tax your company on every shipment. **To analyze your shipping data properly, you will need to get carrier invoice data, avoid carrier invoicing software (e.g. FedEx DirectLink), and utilize specialized parcel price analysis software.**

2. Control Your Shipping Data The party who controls your shipping data controls your shipping costs. Shipping data is critical to small package carriers – it fuels their operations and drives their pricing and billing systems. Your small package carrier does not offer shipping and payment automation software because it's a value-add for your company. Unlike price negotiations, carrier provided software is a non-contentious way to secure your forfeiture of savings that can exceed 30%. It also increases your switching costs,

enabling your carrier to secure a foothold in your business. **Avoid carrier provided software and instead, use third party, carrier neutral technology for your business processes.**

3. Sell Your Shipping Data Negotiations are more about making a good presentation of data than posturing. Tactics that may have worked for shippers in the past just don't compute in today's data-driven market. In essence, **leading small package carriers purchase attractive shipping data at the highest net revenue.** A compelling presentation of your shipping data is the key to getting the best offers. To sell your data effectively, you'll need to thoroughly analyze invoice data, use price optimization software, and have knowledge of current carrier practices.

4. Focus on Net Cost, Not Price Discounts mean little these days in light of sophisticated pricing and billing systems utilized by small package carriers. Carrier pricing formulas contain multiple variables that can dilute discounts to a mere fraction of their expected value. Evaluate pricing in the same manner as your carrier - focus on net revenue billed. Your carrier may be emphasizing aggressive pricing schedules, but remember the real focus is on net revenue billed per shipment.

5. Make Your Shipments Profitable for Your Carrier Get your carrier to quantify the value of accommodations that your company can make to improve carrier profitability. Certain shipment characteristics, technologies, material handling, and scheduling issues impact carrier profitability. Higher-margin services command higher discounts (e.g. Next Day Air, International), while low-margin shipments (rural, home deliveries) offer little room for reductions. With sales rep compensation tied to profitability, it can pay to find out what your rep wants. Quantifying these values spell out new discounts that would normally be overlooked by both parties.

6. Renegotiate Whenever Conditions Change Contracts may specify any term from one to five years. Most contracts allow renegotiation on 30 days' notice and you should renegotiate whenever you believe it is to your advantage. Negligence in this area can be very costly.

10 Commandments of Low Cost Parcel Shipping

by Keith LaBotz - ClearVista Solutions, LLC

7. Understand Pricing Structures Parcel shipping prices are comprised of several elements that must be thoroughly understood upfront:

- **Revenue tiers** determine discounts by averaging weekly or daily revenue over a time period (generally the past 13-weeks). Discount level becomes a moving target, making it important for shippers to audit this figure. If average revenue falls below the minimum, **no discount will apply**.
- **Cell-by-cell** pricing applies a discount to service levels based on each zone. Discount level generally increase with zone and weight. If minimum weekly shipments and revenue are not met, **no discount will apply**.
- **Minimum net revenue** sets a base price regardless of discount levels. The minimum is typically the price of a one-pound, zone 2 package. This usually eliminates discounts on parcels weighing less than 2 pounds and reduces the effective discount on heavier packages in zones 2 – 5.
- **Hundredweight** pricing kicks in if minimum weight, average revenue per piece, and minimum piece weights qualify a shipment.

8. Confirm the Contract Covers Everything

Sales reps tend to promote big discounts while de-emphasizing surcharges, accessorial fees, and contract conditions. Make sure your contract:

- Applies discounts to lower-volume, higher-margin air shipments and residential deliveries.
- Includes a "third-party" clause so discounts apply to shipments billed to your account by third parties and suppliers.
- Does not use "portfolio pricing" that makes discounts conditional on giving all of your business to the carrier. Negotiate separate contracts for each service level.
- Accrues surcharge revenue towards the calculation of revenue tiers.
- Applies discounts to surcharges such as residential delivery, fuel surcharges, address corrections, and others (there are over 150 individual surcharges between the three largest parcel carriers).

9. Leverage Time Carrier sales representatives use time to their advantage; aware that most shippers are under pressure to conclude negotiations so they can get back to managing operations. You can leverage time for your advantage by clearly stating your objectives upfront along with the caveat that shipments will be reassigned if negotiations do not adhere to your timeline. Also, negotiate the longest term contract to secure more favorable concessions. Regardless of the contract term, you or your carrier may terminate and renegotiate with 30 days notice.

10. Maintain a Competitive Environment

Carriers and shippers prefer single sourcing transportation arrangements, but for very different reasons. For carriers, it means improved account retention through higher switching costs and bigger revenue commitments. Consequently, carriers will offer better pricing for this privilege. You can enjoy all of the advantages of single sourcing without the risks if your company (1) utilizes third party, carrier-neutral transportation management software instead of carrier-provided systems and; (2) maintains relationships with competitive carriers. Third party transportation aggregators can offer single source benefits plus better purchasing power, but your company should also abstain from accepting software from any external service provider.

Summary - Use Business Intelligence Software

Transportation is an information-driven business that favors the party with better data and "smarter" technology. Business intelligence software (BIS) makes it easy for shippers and carriers alike to swing pricing and contract terms to their own advantage. When only one party uses BIS, negotiations are anything but a fair match. In a market where it's system vs. system, no shipper can afford to operate without BIS working on their behalf. BIS is not only a "smarter" way of doing business, it is the easiest way for your company to keep the 10 commandments of low cost parcel shipping.