

UPS RATE ANALYSIS



UPS Rate Increase: Biggest ever, and then some!

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On January 2nd, United Parcel Service's (UPS) new rates will go into effect. If you use UPS to service your business, your rates will dramatically increase in all service areas. In fact, it is the biggest rate increase ever! No service sector went untouched. Ground, particularly residential, had a healthy increase while Air rates continue to skyrocket. International rates increased, too, at an accelerated rate. Ditto for surcharges, differentials and accessorials. The increase will reduce your company's profits while adding many billions of dollars to Big Brown's bottom line. Thank you very much!

Hopefully, you've learned not to rely upon UPS press releases for accuracy (or your budgeting) as it relates to planned "percentage increases" in rates. If UPS delivered packages with the same reliability as their press releases, on-time delivery would be a distant dream. The last thing the "Tightest Ship in the Shipping Business" wants you to figure out is that you're about to experience the "Highest Increase in Shipping History"!

>> Shipper Alert: *If you relied on the UPS press release to help you set your 2007 budget, you will not have budgeted nearly enough dollars.*

How can UPS continually raise rates with little or no repercussion? The answer can be found in the growing US economy. Volume growth in the parcel industry is robust, so there is no need to try to buy business

through weakened pricing. The leverage is with the carriers, and they are using it to the fullest. Likewise, the strong demand for their services enables parcel carriers to easily add substantial surcharges and differentials to augment their base rates and improve revenue.

Base rate increases have been an annual ritual, but the steady hikes in surcharges and differentials are maddening. What was once a "simple service for a simple fee" has turned into a mathematical exercise. Where's Einstein when you need him? For example, let's take a ten pound, zone 2 ground residential package going to ZIP Code 08311 in Cedarville, N.J. The following table represents the change in price since December 2004.

	2007	2006	2005	2004
Base Rate	\$5.33	\$5.06	\$4.85	\$4.65
Delivery Area Surcharge	\$2.20	\$2.10	\$2.00	\$1.75
Residential Differential	\$1.85	\$1.75	\$1.50	\$1.40
Fuel Surcharge (4%)	\$0.38	\$0.36	\$0.33	\$0.00
>> Total	\$9.76	\$9.27	\$8.68	\$7.80
% Annual Increase	5.3%	6.7%	11.3%	
% Cumulative Increase	25%			

The base rate increased 14.6% from 2004 to 2007, yet the true cost has gone up a whopping 25%. It becomes tough to swallow a 25% increase in shipping costs over a 25-month period (December, 2004 — January, 2007). But there aren't many other games in town.

This article provides a detailed analysis of this year's UPS rate changes. There are significant increases in all service sectors — ground and air, domestic and international. New accessorial charges were added, and select ones were increased. Collectively, they all severely impact your total shipping costs and pack a wallop where it hurts most — in your shipping budget. Let's take a look!

Ground Service

Ground service represents UPS' largest volume and revenue source. The base rate increase for commercial service for one to 70 pounds is 5.8% (based on a straight dollar average of all weight and zone cells, and there is not one shipper in the country that has this package distribution). Inexplicably, rates were decreased, on average, by 12.8% for 71-150 pound

packages. However, there is a wide disparity between zone 2 (-19.8%) and zone 8 (-4.6%). Table 1 on page 4 summarizes the impact of the increase.

UPS increased **Commercial Delivery Area Surcharge** on packages going to “remote” ZIP Codes from \$1.30 to \$1.40, a 7.7% increase. There are 23,430 ZIP Codes impacted by the surcharge. That’s 55% of all U.S. ZIP Codes! That means that you are a rare shipper, indeed, if none of your packages are destined to the aforementioned ZIP Codes.

>> Shipper Alert: *A significant change has occurred in Ground residential pricing. There are no longer separate Ground residential rate tables. The Ground residential surcharge that was previously built into the Ground residential rates now appears as a separate charge on your UPS invoice. Most importantly, incentives no longer apply to the residential surcharge. Ouch, is right!*

The Residential Differential has been increased from \$1.75 to \$1.85. That’s a 5.7% increase! The following example illustrates the “real” impact of incentives no longer applicable to the residential surcharge. Let’s assume a company ships 15-pound packages to zone 5 with a 25% discount. The base rate increased 5.6% but the “real” increase is a staggering 11.3%.

sight. Bottom line: if you ship Ground residential packages, you need to understand this enormous impact on your shipping costs.

Ground Commercial Hundredweight % Increase		
Zone	200 – 499 lbs.	500 – 999 lbs.
2	7.9	16.0
3	7.9	15.9
4	4.8	12.3
5	1.0	8.1
6	3.2	10.5
7	7.7	15.6
8	7.8	15.5

>> Shipper Alert: *The greater your residential discount, the more your costs will increase. Don’t look to FedEx for help, though; they have been using this same approach for years.*

The **Residential Delivery Area Surcharge** has been increased from \$2.10 to \$2.20. That’s a 4.8% increase! Do you realize it has increased 91.3% over the past four years (\$1.15 to \$2.20)? I’ll state the obvious by writing that Delivery Area Surcharge and Residential Differential are tremendous money makers for

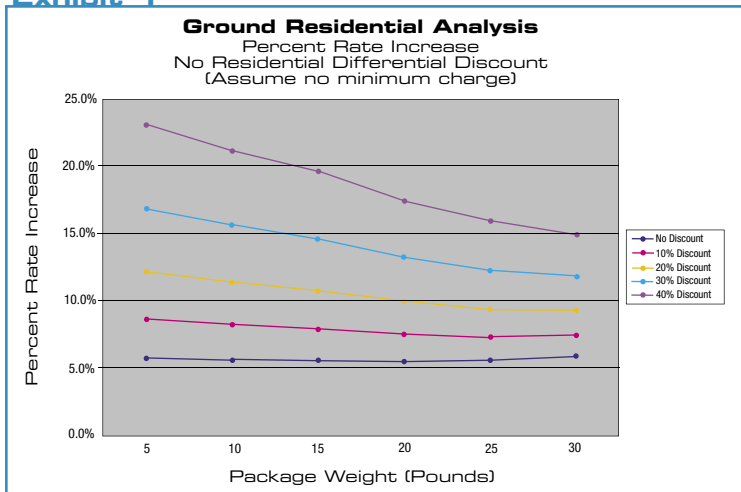
2007		2006		% Increase
Base Rate	\$7.42	Base Rate	\$7.03	5.6%
Discount	<u>-\$1.86</u>	Residential Diff.	<u>\$1.85</u>	
Net	\$5.56	Gross	\$8.88	
Residential Diff.	<u>\$1.85</u>	Discount	<u>-\$2.22</u>	
Charge	\$7.41	Charge	\$6.66	11.3%

Exhibit 1 above shows the “real” impact of no longer applying a discount to the residential differential. The graph considers various package weights (5-30 pounds) along with numerous discount rates (0-40%). The results are astounding. For example, if you have a 30% discount and ship 20-pound packages, the “real” increase is close to 14%. I don’t remember reading about this in the UPS press release. Must have been an over-

UPS. Obviously, any shipper with a high percentage of residential customers is really feeling the brunt of this charge.

Ground Commercial Hundredweight base rates increased 5.8% for 200-499.9 pounds and 13.4% for 500 pounds or more. For those of you who are keeping score, Hundredweight has increased nearly 50% over the past six years. Hundredweight rates for Ground Residential continue to be identical to Ground Commercial Hundredweight.

Exhibit 1



Time Definite/ Express Services

Time Definite/Express Service rates increased significantly this year. Also, they are subject to all surcharges and differentials. UPS has many service options to address your time-definite service requirements. In the process of doing so, it has become somewhat confusing to select the appropriate offering as it relates to cost versus service tradeoffs. Here is a summary of the service offerings and the respective rate increases:

Next Day Air: 10:30 a.m., 12:00 noon or end of day delivery of letters, documents and packages. Delivery time is determined by the destination.

Next Day Air Hundredweight		% Increase
Zone	100 Pounds or More	
102	6.3	
103	7.5	
104	8.0	
105	7.4	
106	7.5	
107	4.9	
108	5.6	

Next Day Air Saver Hundredweight		% Increase
Zone	100 Pounds or More	
132	6.3	
133	5.1	
134	10.3	
135	9.3	
136	7.1	
137	6.4	
138	6.2	

2 nd Day Air Hundredweight		% Increase
Zone	100 Pounds or More	
202	9.1	
203	7.7	
204	8.2	
205	3.5	
206	7.7	
207	8.0	
208	7.3	

2 nd Day Air A.M. Hundredweight		% Increase
Zone	100 Pounds or More	
242	6.4	
243	7.3	
244	6.8	
245	3.6	
246	8.0	
247	8.9	
248	8.5	

3 Day Select Hundredweight			% Increase
Zone	200 – 499 lbs.	500 – 999 lbs.	
302	5.6	5.7	
303	4.8	4.9	
304	4.5	4.5	
305	4.0	4.1	
306	7.6	7.6	
307	6.7	6.7	
308	8.2	8.2	

Letters increased in all zones from \$0.40-\$1.30 (3.0-7.7%). Rates increased a whopping 7.6% for 1-70 pound packages, with smaller increases in the shorter, less used, zones. To demonstrate the variability of increases, a five-pound package shipped to zone 102 increased 3.5%, while the same package shipped to zone 8 went up 8.1%. (SmartTran's analysis shows that you can expect a 7.0-7.5% increase in Next Day Air charges.) By going with smaller increases in short zones, UPS continues its efforts to decrease the number of low zone Next Day Air packages being shifted to the less profitable Ground service. The prudent shipping manager recognizes that zone 2 Ground packages are delivered next day with a guarantee and that the majority of UPS' deliveries occur before noon. So there is no reason to spend the extra money on Next Day Air service. Table 2 on page 4 summarizes the impact of the increase.

Next Day Air Hundredweight rates increased in all zones from 4.9- 8.0%. The impact is depicted on page 3.

Next Day Early A.M.: 8:00 a.m. delivery of U.S. domestic letters, documents and packages from most metropolitan areas. In addition, 8:30 a.m. delivery is available from virtually all overnight shipping locations coast to coast. Add \$28.50 to the appropriate Next Day Air rate. This is the same amount as last year.

Next Day Air Saver: 3 p.m. or 4:30 p.m. delivery to commercial destinations where UPS Next Day Air is committed by 10:30 a.m. or noon, respectively. Residential deliveries to UPS Next Day Air Saver destinations receive delivery by end of day.

Letters increased between \$0.50-\$1.00 (3.7-6.5%). Package rates increased an average of 8.8% for 1-70 pound packages. The rates for this service average a mere 8.6% off of the Next Day Air rate. Have you noticed that the price difference between Next Day Air and Next Day Air Saver has tightened over the years? It's true! UPS is clearly discouraging the use of Next Day Air Saver through its pricing strategy. Table 3 summarizes the impact of the increase.

Next Day Air Saver Hundredweight rates increased in all zones from 5.1-10.3%. The impact is depicted to the left.

2nd Day Air: A second business day delivery of both letters and packages.

Letters increased between \$0.70-\$1.00 (7.7-9.8%) depending on the zone. Rates increased an average of 6.6% for 1-70 pound packages; but, like last year, there is a large disparity among the various weights and zones. Rates increased at a lesser percentage (2.9%) in zones 202-204 where use of 2nd Day Air is unlikely and pricing becomes a non-factor. Whereas there were substantial increases in zones 205-208 (7.8%), which represent the vast majority of the volume. (SmartTran's analysis shows that you can expect an 8.0% increase in 2nd Day Air charges.) By reducing rates in low-utilized zones and substantially increasing rates in high volume zones, UPS touts an average increase which is clearly understated. The rates for this service average 42.0% off of the Next Day Air rate. Table 4 on page 4 summaries the impact of the increase.

2nd Day Air Hundredweight rates increased in all zones from 3.5 – 9.1%. The impact is depicted to the left.

2nd Day Air A.M.: 10:30 A.M. or 12:00 Noon second business day

delivery of both letters and packages to metropolitan commercial addresses where UPS Next Day Air delivery is committed by 10:30 a.m. or Noon. This service is not available to destinations where UPS Next Day Air delivery is committed by end of day.

There was a substantial increase in all zones for letters and packages. Letters increased from \$0.80- \$1.10 (9.1-9.8%) depending on the zone. Rates increased an average of 7.1% for 1-70 pound packages. Unlike 2nd Day Air, there were large increases in all zones. The rates for this service average 13.2% more than 2nd Day Air.

2nd Day Air A.M. Hundredweight rates increased in all zones from 3.6 – 8.9%. The impact is depicted in the chart on page 3.

3 Day Select: A third business day delivery of packages.

There is not a letter rate with this service. There were significant increases in all zones. Rates increased an average of 6.4% for 1-70 pound packages. Same principle applies here as with 2nd Day Air. Rates increased 5.1% in zones 302-305 while increasing 7.3% in zones 306-308. (SmartTran's analysis shows that you can expect close to an 8.0% increase in 3 Day Select charges.) The rates for this service average 32% less than 2nd Day Air but are two and a half times the price of Ground service. Since the majority of UPS' ground packages are delivered within three days, careful study of this service should be conducted prior to its use. If you are using this service for zones 302-305, you are spending a lot of extra money for this service when Ground service will satisfy your service day requirement. Table 5 summarizes the impact of the increase.

3 Day Select Hundredweight rates increased in all zones from 4.0 – 8.2%. The impact is depicted on page 3.

Ground Fuel Surcharge applies to all domestic and international transportation charges for the following services:



>> Table 1: Ground Commercial
(Percent Increase)

lbs./zone	2	3	4	5	6	7	8	Total
1 - 15	5.4	5.4	5.5	5.6	5.4	5.5	5.5	5.5
16 - 70	5.9	6.2	6.2	6.2	5.8	5.7	5.5	5.9
71 - 150	-19.8	-19.6	-17.4	-13.7	-11.0	-6.2	-4.6	-12.8

>> Table 2: Next Day Air
(Percent Increase)

lbs./zone	102	103	104	105	106	107	108	Total
1 - 15	4.4	6.1	8.0	7.3	7.9	7.4	7.7	7.2
16 - 70	4.3	7.9	7.9	7.5	7.9	8.1	8.1	7.7
71 - 150	0.8	4.0	6.9	6.9	7.5	6.2	6.9	6.2
Total	1.6	4.8	7.2	7.1	7.6	6.6	7.2	6.5

>> Table 3: Next Day Air Saver
(Percent Increase)

lbs./zone	132	133	134	135	136	137	138	Total
1 - 15	4.7	5.3	8.6	9.2	9.1	8.8	8.6	8.2
16 - 70	3.5	4.4	9.8	9.7	9.8	9.7	9.7	8.8
71 - 150	5.0	2.4	9.9	9.0	9.9	8.8	8.8	8.3
Total	4.7	2.9	9.8	9.1	9.8	9.0	9.0	8.4

>> Table 4: Second Day Air
(Percent Increase)

lbs./zone	202	203	204	205	206	207	208	Total
1 - 15	3.6	2.4	3.4	4.3	8.8	8.4	7.9	6.3
16 - 70	2.7	3.5	2.6	3.8	8.7	8.5	8.9	6.6
71 - 150	2.4	1.8	2.1	2.2	7.1	7.6	6.9	5.3
Total	2.5	2.2	2.2	2.6	7.5	7.8	7.3	5.6

>> Table 5: 3 Day Select
(Percent Increase)

lbs./zone	302	303	304	305	306	307	308	Total
1 - 15	5.6	5.3	5.5	5.3	6.2	7.1	8.5	6.5
16 - 70	5.1	5.0	5.0	5.0	6.0	7.0	8.7	6.4
71 - 150	5.0	5.0	5.0	5.0	5.9	6.9	8.6	6.4
Total	5.0	5.0	5.0	5.0	6.0	7.0	8.7	6.4

Ground Commercial, Ground Residential, Hundredweight Ground Service and Standard To Canada. The surcharge also applies to the following accessorial charges (where applicable):

- Pick-up
- Return Services
- International Extended Area
- Delivery
- Large Package

Air and International Fuel Surcharge applies to all domestic and international transportation charges for the following services:

Next Day Air Early A.M., Next Day Air, Next Day Air Saver, 2nd Day Air A.M., 2nd Day Air, 3 Day Select, Next Day Air Freight, 2nd Day Air Freight, Worldwide Express Plus, Worldwide Express, Worldwide Expedited and SonicAir. The surcharge also applies to the following accessorial charges (where applicable):

- Pick-up
- Return Services
- Next Day Early A.M./Express Plus
- International Extended Area
- Delivery
- Residential Delivery
- Saturday Delivery and Pick-up
- Large Package

As if all of that isn't confusing enough, UPS uses index-based surcharges that are adjusted monthly. Changes to the surcharges are effective the first Monday of each month and posted approximately two weeks prior to the effective date. The Ground surcharge is based on the National U.S. Average on Highway Diesel Fuel Prices reported by the U.S. Department of Energy for the month that is two months prior to the adjustment. For example, the surcharge for January 2007 is based on the November 2006 National U.S. Average on Highway Diesel Fuel Price. The Air and International surcharge is based on the U.S. Gulf Coast prices for kerosene-type jet fuel reported by the U.S. Department of Energy for the month that is two months prior to the adjustment. You can find current fuel surcharges on www.ups.com.

One last comment regarding the fuel surcharge; it seems unfair to me that shippers must pay the high Air fuel surcharge for those Air packages that are transported over-the-road. As you are aware, a high percentage of so-called "Air" packages never see the belly of an airplane. They simply travel in trailers along with the Ground packages, yet shippers must still pay the high Air fuel surcharge anyway. Hey Brown, give us a break, why don't ya!

International

In the largest expansion of its international shipping services in more than a decade, UPS will begin offering customers three, rather than two, daily time-definite delivery options to and from the world's busiest cities effective January 2, 2007.

While early morning, morning and end-of-day delivery times have become the standard within the United States, importers

and exporters have long had only one or two time-of-day delivery options for international air shipments. The new services expand those options on lanes between the United States and Asia, Europe and the Americas, giving businesses three time-of-day delivery options in 30 of the world's busiest cities. These services are:

- UPS Worldwide Express Plus (guaranteed delivery by 8:30 a.m. or 9 a.m., depending on destination)
- UPS Worldwide Express (guaranteed delivery by 10:30 a.m. or noon, depending on destination)
- UPS Worldwide Saver (guaranteed delivery end-of-day)

The first 30 markets in which three delivery options will be offered include: Australia, Austria, Belgium, Canada, China, Czech Republic, Denmark, France, Germany, Hong Kong, Hungary, India, Indonesia, Ireland, Italy, Japan, Luxembourg, Netherlands, Philippines, Poland, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, United Kingdom and Vatican City.

Worldwide Express Plus: Add \$40.00 to the appropriate Worldwide Express rate.

Worldwide Express: Letters increased, on average, 9.7% and between \$2.25-\$7.00 (8.7-10.9%), depending on the zone. Package rates increased an average of 9.6% with a range of 6.8-13.7%.

Worldwide Saver: The rates for this service average a meager 4.9% and 2.1% off of Worldwide Express letter and package, respectively.

Worldwide Expedited: The pricing structure was changed to include Origin State when determining the rate. Although the rate tables have differing zones depending upon origin state, the rates are currently the same. However, you can bet differing rates will appear in the years to come. Package rates increased an average of 7.1%.

Accessorial Charges

Many of the Accessorial Charges stayed the same. However, seven Accessorial Charges have increased, and the increases were hefty. These include Collect on Delivery (C.O.D.), Declared Value, Delivery Area Surcharges, Residential Surcharges and the Weekly Pick-up Charge. Additionally, there are five new accessorial charge added this year: Address Corrections Hundredweight, Delivery Intercept, Over Maximum Limit, Undeliverable Package Return Charge and Ground Dimensional Weighing. Table 6 on the following page summarizes the changes.

>> Shipper Alert: *Dimensional weighting replaced Oversize charges for larger packages shipped via Ground service. The dimensional weight will only apply to Ground packages measuring three cubic feet (5,184 cubic inches) or larger. Packages measuring less than three cubic feet will continue to be billed based on actual weight. If this change affects your company, it's recommended that an analysis is conducted to measure the impact.*



>> Table 6	2007	2006	% Increase
Address Correction			
- Air Hundredweight (per shipment)	Max. \$70	n/a	Max. \$70
- Ground Hundredweight (per shipment)	Max. \$35	n/a	Max. \$35
Collect On Delivery (C.O.D.)	\$9.00	\$8.50	5.9%
Declared Value			
- \$100.01-\$50,000	\$0.55*	\$0.50*	10.0%
Delivery Area Surcharge			
- Commercial	\$1.40	\$1.30	7.7%
- Residential	\$2.20	\$2.10	4.8%
Delivery Intercept	\$10.00	n/a	\$10.00
On-Call Pick-up			
- Future Day Ground, 3 Day Select Via ups.com/pickup	\$3.00	\$2.00	50.0%
Over Maximum Limit	\$50.00	n/a	\$50.00
Residential Surcharge			
- Air Services and 3 Day Select	\$2.20	\$2.10	4.8%
- Ground	\$1.85	\$1.75	5.7%
Returns: Print Return Label	\$0.30	\$0.50	(40.0%)
Returns Plus: 3 Pick-up Attempts	\$6.00	\$5.25	14.3%
Undeliverable Package Return Charge			
- Air Services and 3 Day Select	Applicable 3DS Rate	n/a	3DS Rate
- Ground	Applicable Grd Rate	n/a	Grd Rate
Weekly Pick-up Charge			
- \$0.00 - \$14.99	\$17.00	\$16.00	6.3%
- \$15.00 - \$59.99	\$12.00	\$11.00	9.1%
- \$60.00+	\$ 8.00	\$ 7.00	14.3%

* Per \$100 of declared value, minimum \$1.50

FedEx/DHL

Like UPS, FedEx Express, FedEx Ground and DHL announced various rate hikes for 2007. However, as of this writing, the aforementioned rates were not posted on the company websites. If the past is any indication, FedEx Express base rates will be greater than UPS', while FedEx Ground rates will be identical to Big Brown. As you know, since its inception, FedEx Ground has been a price follower. As for DHL, they have copied FedEx Ground's playbook and followed UPS' pricing lead. I suggest you visit the FedEx and DHL websites to keep an eye on the release of rate tables. Bottom line: despite identical base rates, all of the carriers choose to differentiate themselves price-wise in the marketplace through contract negotiations — on an account-by-account basis.

Conclusion

There you have it! What does the rate increase mean to your company? You can find that out by analyzing your monthly package expenditure by computing the incremental cost us-

ing the old and new rates plus the surcharges, differentials and accessorial charges. (To help you accomplish that task, don't forget that you can download 2007 UPS rates directly from their Web site: www.ups.com.) A detailed cost analysis will provide the necessary information to help you decide which service offerings best serve your company's needs. No matter what services you select, understanding how your carriers' rate increases impact your budget and bottom line is a top priority! Have a great 2007!

About the Author

Joe Loughran is President of SmartTran, Inc. and an expert in small package carrier rate analysis. SmartTran, in its 12th year, is a transportation consulting company offering services in carrier rate negotiation, guarantee refund service and logistics planning. SmartTran's management team has over sixty years of experience in package transportation management. Joe can be reached by phone at (724) 934-0626 or email loughran@smarttran.com