



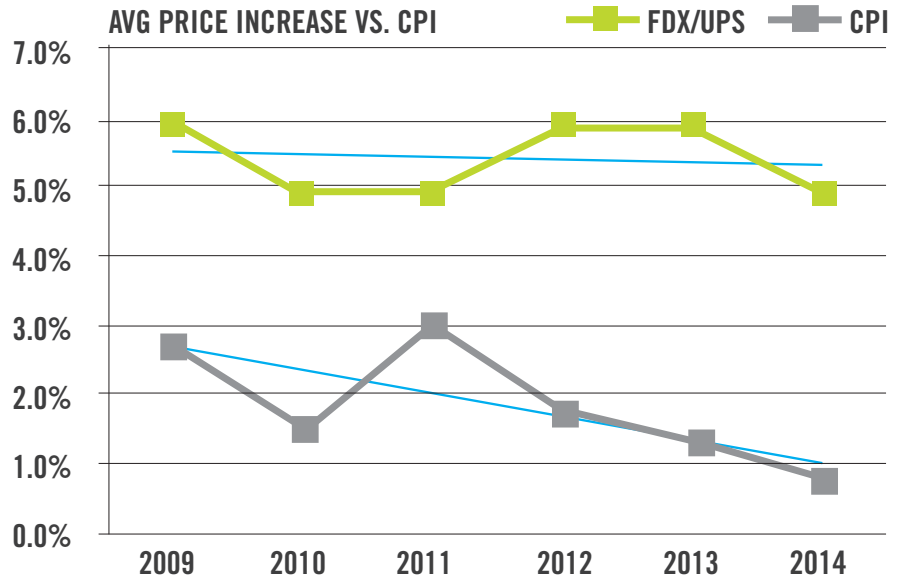
# Carrier Rate Increases Outpace the Economy

Expectations have been set that FedEx and UPS will raise Ground rates on an annual basis. This year, however, rate increases have a stronger punch especially when considering additional changes, which include recent modifications to fuel surcharge tables and the implementation of new Ground dimensional weight standards. Instead of blindly accepting these increases, shippers should instead be asking for justifications. Are there other options available for shippers?

Since the "Great Recession," the US economy has been operating in recovery mode, albeit sluggish at times. Unemployment is slowly declining, manufacturing production is positive, trade is improving and inflation has been minimal. Food, energy and medical care appear to be the primary drivers for inflation increases.

Meanwhile, average daily parcel volumes for FedEx and UPS have steadily increased along with average revenues per parcel. For FedEx, average revenue per Ground parcel has risen from \$7.70 for fiscal year 2009 to \$9.25 for fiscal year 2014, reflecting over a 20% increase. UPS, although at a slower rate, realized average revenue per Ground parcel increases from \$7.20 for its fiscal year 2009 to \$7.85 in fiscal year 2014.

When compared to the US Bureau of Labor's CPI (Consumer Price Index), a measurement of inflation, average annual Ground rate increases have significantly outpaced the average annual inflation rate.



The reality is that customers have realized much larger rate increases than what the carriers have announced. This is due to carriers strategically increasing prices much more in areas where shippers have the majority of their volume between one pound and 20 pounds. The Ground minimum charge which is the minimum cost per package that most shippers pay has increased by almost 30% over the last five years.

In addition to average rates increasing at a higher rate than the CPI, fuel surcharges appear to be increasing the average shipping rates as well. In its recent earnings announcement, FedEx noted a decline in fuel surcharge revenues thanks to falling oil prices. As a result, it announced it would reconfigure its fuel surcharge, and effective February 2, 2015 the average rate increased from 5.5% to 6.5% for Ground Shipments and from 0.0% to 3.5% for Air and International shipments.

Additional accessorial charges are also contributing to this increase in shipping costs. For example, UPS Domestic

Ground will charge \$3.00 per request for excessive tracking, tracing and refund requests while FedEx Ground will charge \$1.00 for use of its email return labels. This historical chart of accessorial rate increases for the last five years shows a much different picture than the CPI.

Furthermore UPS plans to not only cut costs in 2015, but will also implement a peak residential surcharge. According to David Abney, UPS' CEO, "pricing strategies will be designed to ensure we're properly compensated for the value we provide." While operating costs have indeed increased for both parcel carriers, profit has as well. Since fiscal year 2009, FedEx Ground has enjoyed a 16.4% CAGR increase in profitability from its Ground products whereas for the same period, UPS has seen a 13.6% CAGR increase in its Domestic Ground profitability.

Annual rate increases, fuel surcharges, accessorial charges and DIM weight pricing are all adding up to huge headaches for shippers. Not only are these charges

GROUND MINIMUMS	2011	2012	2013	2014	2015	5 YEAR CHANGE
DOLLAR VALUE	\$5.17	\$5.49	\$5.84	\$6.24	\$6.61	\$1.44
% CHANGE	N/A	6.19%	6.38%	6.85%	5.93%	27.85%

KEY ACCESSORIAL CHARGES	2011	2012	2013	2014	2015	'11 THRU '15
DAS Reg- Ground Com <i>% Change year over year</i>	\$1.80 <i>N/A</i>	\$2.00 <i>11.11%</i>	\$2.00 <i>0.00%</i>	\$2.07 <i>3.50%</i>	\$2.20 <i>6.28%</i>	\$0.40 <i>22.22%</i>
DAS Reg- Air Com <i>% Change year over year</i>	\$1.80 <i>N/A</i>	\$2.00 <i>11.11%</i>	\$2.15 <i>7.50%</i>	\$2.25 <i>4.65%</i>	\$2.35 <i>4.44%</i>	\$0.55 <i>30.56%</i>
DAS Reg-Air RES <i>% Change year over year</i>	\$2.75 <i>N/A</i>	\$3.00 <i>9.09%</i>	\$3.25 <i>8.33%</i>	\$3.40 <i>4.62%</i>	\$3.55 <i>4.41%</i>	\$0.80 <i>29.09%</i>
DAS Extended-Ground COM <i>% Change year over year</i>	\$1.85 <i>N/A</i>	\$2.00 <i>8.11%</i>	\$2.00 <i>0.0%</i>	\$2.07 <i>3.5%</i>	\$2.20 <i>6.28%</i>	\$0.35 <i>18.92%</i>
DAS Extended-Air COM <i>% Change year over year</i>	\$1.85 <i>N/A</i>	\$2.00 <i>8.11%</i>	\$2.15 <i>7.50%</i>	\$2.25 <i>4.65%</i>	\$2.35 <i>4.44%</i>	\$0.50 <i>27.03%</i>
DAS Extended-Ground RES <i>% Change year over year</i>	\$3.00 <i>N/A</i>	\$3.25 <i>8.33%</i>	\$3.50 <i>7.69%</i>	\$3.62 <i>3.43%</i>	\$3.80 <i>4.97%</i>	\$0.80 <i>26.67%</i>
DAS Extended-Air RES <i>% Change year over year</i>	\$3.00 <i>N/A</i>	\$3.25 <i>8.33%</i>	\$3.50 <i>7.69%</i>	\$3.65 <i>4.29%</i>	\$3.80 <i>4.11%</i>	\$0.80 <i>26.67%</i>
Residential Surcharge-Air <i>% Change year over year</i>	\$2.75 <i>N/A</i>	\$3.00 <i>9.09%</i>	\$3.20 <i>6.67%</i>	\$3.35 <i>4.69%</i>	\$3.50 <i>4.48%</i>	\$0.75 <i>27.27%</i>
Residential Surcharge-Ground <i>% Change year over year</i>	\$2.45 <i>N/A</i>	\$2.55 <i>4.08%</i>	\$2.80 <i>9.80%</i>	\$2.90 <i>3.57%</i>	\$3.10 <i>6.9%</i>	\$0.65 <i>26.53%</i>

adding to shippers' general operating costs, but budgeting for these additional charges is difficult when many shippers

are unaware of the numerous charges. Many shippers whom offer "free shipping" may find they are no longer able to

do so and must come up with alternative ways of customer retention.

As such, shippers need to review their contract and be willing to renegotiate. If all else fails, shippers should be willing to walk away and know there are alternative solutions to the duopoly. Among the alternative solutions are regional carriers, the USPS and modal changes to air, LTL, intermodal or a combination. Regardless, the need to have an optimized network is increasingly important in today's changing business environment. ■

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