

The United Parcel Service Rate Increase: GUIDING YOU THROUGH the MAZE

BY JOE LOUGHRAN

On January 5, 2009, United Parcel Service's (UPS) new rates went into effect. There were significant increases in all service areas, greater than in previous years. No service sector went untouched. Ground service had a healthy increase, while Air rates continue to skyrocket. International rates had a strong increase, too. Surcharges, differentials and accessories saw their share of increases as well.

This is my 12th Edition of the Annual UPS Rate Analysis. I recently spent some time looking back at the earliest ones and what immediately struck me was how complicated carrier pricing has become. It's become a Rubik's Cube. Somehow, I think the carriers like it that way – the more complicated, the better! Let's take a few minutes to walk down memory lane, shall we?

- Do you remember when the annual rate increase used to begin in February? It sure did!
- Do you remember when Ground rates used to go up a modest 2.5%? That's a fact!
- Hundredweight used to have eight tiers. I wonder what happened to that lost tier.
- Do you remember when there was no Fuel Surcharge? If you can remember back to the year 2000, you can.
- Twelve years ago, there was not a Fuel Surcharge, Delivery Intercept, On-Call Pick-up, Voice Notification, Return Labels, Authorized Return Service, Returns on the Web, Delivery Area Surcharge, Extended Delivery Area Surcharge, Large Package Surcharge, Remote Area Surcharge, Pick-up of UPS Returns Services Shipments, Over Maximum Limits, and Excessive Package Tracking, Tracing and Refund Requests.

EXHIBIT 1

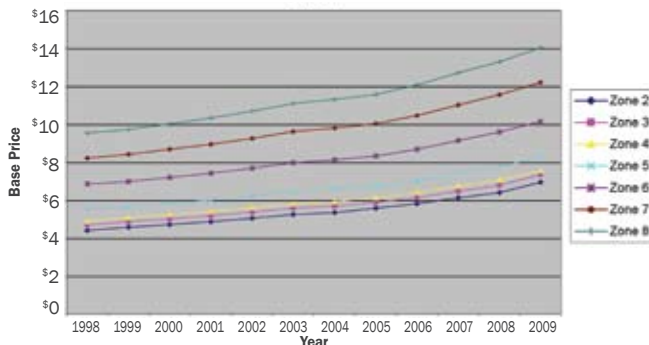
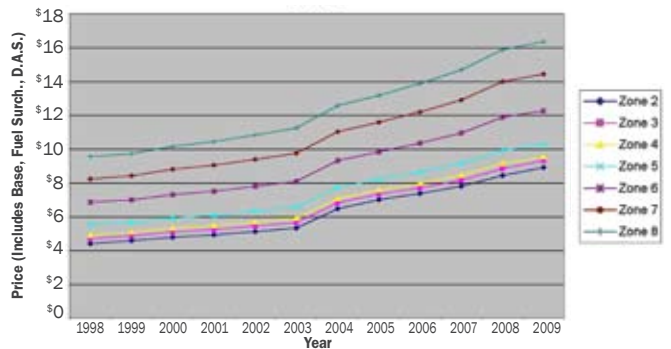


Exhibit 1 is a chart showing the historical trend of the base charge for a 15-pound commercial package from 1998 to 2009. If only it was that easy. Now let's look at that same chart after adding in Fuel Surcharges and a Delivery Area Surcharge (Exhibit 2).

EXHIBIT 2



Hopefully, after all these years, you've learned not to rely upon UPS press releases for accuracy (or your budgeting) as it relates to planned "percentage increases" in rates because they are not reflective of actual shipping cost. 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 Parcel Shipping History!

SHIPPER ALERT: If you relied on the UPS press release to help you set your 2009 budget, you will not have budgeted nearly enough dollars because the rate increase is not consistent across all weights and zones. It's time to phone the accounting department.

This article provides a detailed analysis of this year's UPS rate changes. Why UPS? Because they dominate the industry and, for the most part, establish the pricing direction, while other carriers follow. Our findings show significant increases in all service sectors – ground and air, domestic and international. The prominent accessorial charges were increased. Collectively, your total shipping costs will rise significantly. Let's take a look!

Ground Service

Ground service represents UPS' largest volume and revenue source. The base rate increase for packages weighing from one to 15 pounds is 6.9%, while 16-70 pound packages increased 5.9% (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). Rates were increased, on average, by 3.8% for 71-150 pound packages.

Obviously, the "weights" with the greatest volume went up the most. There continues to be a wide disparity between low and high zones. Table 1 summarizes the impact of the increase.

TABLE 1 - GROUND
(percent increase)

lbs/zone	2	3	4	5	6	7	8	Total
1-15	8.6	8.5	7.3	6.5	6.3	6.2	6.1	6.9
16-70	7.2	6.7	6.0	6.0	5.7	5.6	5.3	5.9
71-150	3.1	3.3	4.0	4.0	4.0	4.0	4.0	3.8
TOTAL	3.8	4.0	4.4	4.4	4.4	4.4	4.4	4.3

UPS increased the **Commercial Delivery Area Surcharge** on packages going to "remote" ZIP Codes from \$1.50 to \$1.60. Additionally, a new category within this surcharge, **Extended Commercial**, has been added. The surcharge is \$1.60, identical to the Commercial Delivery Area Surcharge. I expect that will not be the case in upcoming years.

There is good news and bad news. The good news is that the number of ZIP Codes has been reduced to 20,276, down from the 23,705 last year. The bad news is that 16,826 ZIP Codes (83% of all "remote" ZIPs) have been reclassified as Extended, leaving only 3,450 in the original classification. When the dust settled, 47% of all US ZIP Codes will face one surcharge or another! That means that you are a rare shipper, indeed, if none of your packages are destined to the aforementioned ZIP Codes. (See Residential Delivery Area Surcharge for additional impact.)

The **Residential Differential** has been increased from \$1.95 to \$2.05.

SHIPPER ALERT: Remember, there is no longer a separate Ground residential rate table, and incentives no longer apply to the residential surcharge.

The **Residential Delivery Area Surcharge** has been increased from \$2.30 to \$2.40 for non-Extended 'remote' packages. Unlike the Commercial version of this surcharge, there is a 25 cent differential for the new **Extended Residential** surcharge. You will be charged \$2.65 if you ship a package to a residential address in one of the Extended ZIP Codes.

Let's take a look at an example of the true cost of the various surcharges and differentials. You can no longer simply 'eyeball' the annual change in base rates to understand the cost impact to your company. For example, let's take a 10-pound, zone 2 ground residential package going to ZIP Code 08311 in Cedarville, N.J. This ZIP Code is now classified as "Extended." The following represents the change in price since December 2005:

	2009	2008	2007	2006	2005
Base Rate	\$6.06	\$5.59	\$5.33	\$5.06	\$4.85
Delivery Area Surcharge	\$2.65	\$2.30	\$2.20	\$2.10	\$2.00
Residential Differential	\$2.05	\$1.95	\$1.85	\$1.75	\$1.50
Fuel Surcharge	\$0.48	\$0.45	\$0.23	\$0.21	\$0.15
TOTAL	\$11.24	\$10.29	\$9.61	\$9.12	\$8.50
% Annual Increase	9.3%	7.1%	5.4%	7.3%	
% Cumulative Increase	32.4%				

The base rate increased 25% from 2005 to 2009, yet the true cost has gone up over 32%. That's a significant increase in shipping costs over a 37-month period (December 2005 - January 2009).

SHIPPER ALERT: FedEx has not implemented the Extended Residential surcharge. This may be an opportunity to reduce your expenses if you are a large volume residential shipper to Extended ZIP Codes.

Ground Hundredweight rates increased 6.1% for 200 - 499.9 pounds and 6.1% for 500 pounds or more. Tier 2 increased the greatest at 8.8%, while Tier 6 has the smallest increase (4.8%) of all tiers.

PERCENT INCREASE	TIER	200-499 LBS	500-999 LBS
	1	8.8	8.8
2	8.7	8.5	
3	5.7	5.8	
4	7.0	6.9	
5	4.8	5.0	
6	5.2	5.2	
7	5.5	5.3	

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 AM, 12:00 PM or end of day delivery of letters, documents and packages. Delivery time is determined by the destination.

Letters increased an average of 7.6% (5.3-8.6%) for all zones and from \$0.75-\$1.90. Rates increased a whopping 8.0% for 1-70 pound packages. There were lesser increases in the shorter, less used zones and greater ones in longer zones.

To demonstrate the variability of increases, a 20-pound package shipped to zone 102 increased 5.0%, while the same package shipped to zone 7 went up 8.5%. 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 summarizes the impact of the increase.

TABLE 2 – NEXT DAY AIR
(percent increase)

lbs/zone	102	103	104	105	106	107	108	Total
1-15	6.1	7.6	8.0	8.0	8.0	8.5	8.5	8.0
16-70	6.4	8.0	8.0	8.0	8.0	8.5	8.4	8.0
71-150	5.8	7.7	7.9	8.0	7.9	8.4	8.3	7.9

TOTAL	6.0	7.8	7.9	7.9	7.9	8.4	8.4	7.9
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Next Day Air Hundredweight rates increased an average of 7.8% for all tiers. There is a significant difference between the percentage increases among zones within each tier. For example, Tier 1, zone 102 increased 5.2% while zone 108 rose a staggering 8.6%.

The impact is as follows:

PERCENT INCREASE	TIER	100 POUNDS OR MORE
	1	7.8
	2	7.8
	3	7.8
	4	7.8
	5	7.9
	6	7.9
	7	7.9

Next Day Early AM: 8:00 AM delivery of U.S. domestic letters, documents and packages from **most** metropolitan areas. In addition, 8:30 AM delivery is available from **virtually all** overnight shipping locations coast to coast.

Add \$31.00 to the appropriate Next Day Air rate. This is a \$2.50 increase from the \$28.50 differential that existed for many years.

Next Day Air Saver: 3:00 PM or 4:30 PM delivery to commercial destinations where UPS Next Day Air is committed by 10:30 AM or noon, respectively. Residential deliveries to UPS Next Day Air Saver destinations receive delivery by end of day.

Letters increased an average of 8.5% (5.2-9.5%) for all zones and from \$0.65-\$1.90. Package rates increased an average of 8.9% for 1-70 pound packages. The rates for this service average a mere 5.1% 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! Last year they were 7.3% off of the Next Day Air rate, now it is only 5.1%. In fact, there is very little difference in price between Next Day Air and Next Day Air Saver for zones 103 (132) to 108 (138) for packages weighing 20 pounds or more. UPS is clearly discouraging the use of Next Day Air Saver through its pricing strategy. Table 3 summarizes the impact of the increase.

TABLE 3 – NEXT DAY AIR SAVER
(percent increase)

lbs/zone	132	133	134	135	136	137	138	Total
1-15	5.4	7.4	8.2	8.2	8.0	8.7	8.5	8.0
16-70	5.4	7.5	9.4	9.4	9.4	9.4	9.4	9.0
71-150	5.0	7.4	9.4	9.4	9.5	9.4	9.4	8.9

TOTAL	5.1	7.4	9.3	9.4	9.4	9.4	9.4	8.9
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Next Day Air Saver Hundredweight rates increased an average of 9.3% for all tiers. There is a significant difference in the percentage increase among zones within each tier. For example, in Tier 3, zone 132 increased 4.6%, while zone 135 rose a stunning 9.8%.

The impact is as follows:

PERCENT INCREASE	TIER	100 POUNDS OR MORE
	1	8.9
	2	9.0
	3	8.8
	4	8.3
	5	8.9
	6	9.5
	7	8.9

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

Letters increased an average of 8.8% (5.5-12.3%) for all zones and from \$0.50-\$1.45. Rates increased an average of 8.3% 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 (5.4%) 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 206-208 (9.5%) which represent the vast majority of volume. (SmartTran's analysis shows that you can expect a 9.0% increase in 2nd Day Air charges.)

SHIPPER ALERT: By reducing rates in low-utilized zones and substantially increasing rates in high volume zones, UPS touts an average increase that is clearly understated.

The rates for this service average 49.2% off of the Next Day Air rate for 1-30 pound packages, and 41.9% off 31-150 pound packages. Table 4 summarizes the impact of the increase.

TABLE 4 – SECOND DAY AIR
(percent increase)

lbs/zone	202	203	204	205	206	207	208	Total
1-15	5.4	5.4	5.3	7.5	9.5	9.5	9.5	8.1
16-70	5.4	5.4	5.4	7.5	9.5	9.5	9.5	8.3
71-150	5.3	4.8	5.4	7.1	9.3	9.4	9.5	8.1

TOTAL	5.3	4.9	5.4	7.2	9.4	9.4	9.5	8.2
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2nd Day Air Hundredweight rates increased an average of 7.9% for all tiers. There is a significant difference in the percentage increase among zones within each tier. For example, in Tier 3, zone 202 increased 4.7%, while zone 208 rose a whopping 9.4%.

The impact is as follows:

PERCENT INCREASE	TIER	100 POUNDS OR MORE
	1	7.9
	2	7.8
	3	7.9

4	8.0
5	7.9
6	8.0
7	8.0

7 8.0

2nd Day Air A.M.: 10:30 AM or 12:00 PM second business day delivery of both letters and packages to metropolitan commercial addresses where UPS Next Day Air delivery is committed by 10:30 AM 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 an average of 9.6% (5.9–13.2%) for all zones and from \$0.70–\$1.80. Rates increased an average of 9.2% for 1–70 pound packages. Like 2nd Day Air, the higher the zone the larger the increase. The rates for this service average 16.2% more than 2nd Day Air.

2nd Day Air A.M. Hundredweight rates increased an average of 8.0% for all tiers. There is a significant difference in the percentage increase among zones within each tier. For example, in Tier 1, zone 243 had an increase of 4.4%, while zone 248 rose 9.7%.

The impact is as follows:

PERCENT INCREASE	TIER	100 POUNDS OR MORE
	1	8.1
	2	8.1
	3	8.0
	4	7.9
	5	8.1
	6	8.1

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

There is not a letter rate with this service. There were increases in all zones, but significant increases were in zones 306–308. For zones 306–308, rates increased an average of 5.2% for 1–15 pound packages, while 16–70 pound packages went up 4.5%, on average. UPS has employed the same principle here as with 2nd Day Air – increase rates at a lower percentage in seldom-used low zones (302–305), while increasing the longer zones (306 – 308) at a greater percentage.

The rates for this service average 34% 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 extra money for this service when Ground service will satisfy your service day requirement. Table 5 summarizes the impact of the increase.

TABLE 5 – 3 DAY SELECT
(percent increase)

lbs/zone	302	303	304	305	306	307	308	Total
1–15	3.8	3.8	4.1	4.0	4.7	5.4	5.5	4.7
16–70	3.0	3.0	3.0	3.6	3.6	4.9	4.9	4.0
71–150	3.0	2.9	2.9	3.5	3.5	4.9	4.9	4.0

TOTAL	3.0	3.0	3.0	3.5	3.6	4.9	4.9	4.0

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3 Day Select Hundredweight rates increased 4.5% for 200 –499.9 pounds and 4.5% for 500 pounds or more for **zones 306-308**.
The impact is as follows for zones 306–308:

PERCENT INCREASE	TIER	200-499 LBS	500-999 LBS
	1	4.5	4.5
	2	4.5	4.5
	3	4.5	4.5
	4	4.4	4.5
	5	4.5	4.5
	6	4.5	4.5
	7	4.4	4.4

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

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
- Residential Surcharge
- 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 Saver and Worldwide Expedited. 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

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 2009 is based on the November 2008 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 ups.com.

Since UPS has parsed every other pricing component, it is unfair 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 pack-

ages, yet shippers must still pay the high Air fuel surcharge anyway. Dear Mr. UPS, how about applying the ground fuel surcharge for those Air packages that travel over-the-road? You can make that happen with your powerful computers, if you wanted!

International

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. UPS continues to expand its services in lanes between the United States and Asia, Europe and the Americas, giving businesses three time-of-day delivery options in the world’s busiest cities. These services are:

- **UPS Worldwide Express Plus** (guaranteed delivery by 8:30 AM to Canada and 9 AM to all other destinations)

- **Next business day to Canada**
- **Two business days to Europe**
- **Two or three business days to Asia**

Add \$40.00 to the appropriate Worldwide Express export rate.

- **UPS Worldwide Express** (guaranteed delivery by 10:30 AM or noon, depending on destination)

- **Next business day to Canada and for documents to Mexico**
- **Two business days to Europe and Latin America**
- **Two or three business days to Asia**

Letter export rate increased, on average, 4.6% and from \$0.65 –\$4.75 (2.2–7.1%), depending on the zone. Package export rates increased an average of 6.0% with a range of 3.9–8.1%.

- **UPS Worldwide Saver** (guaranteed delivery end-of-day)

- **Next business day to Canada and for documents to Mexico**
- **Two business days to Europe and Latin America**
- **Typically within two or three business days to Asia**

The export rates for this service average a meager 4.0% off of Worldwide Express packages.

- **Worldwide Expedited** (guaranteed delivery end-of-day)

- **Two business day to Canada**
- **Three business days to Mexico**
- **Three or four business days to Europe**
- **Four or five business days to Asia and Latin America**

The package export rates for this service increased an average of 6.0%.

- **Standard To Canada** (guaranteed delivery end-of-day)

- **Within two to six business days to Canada**

The package export rates for this service increased an average of 4.9%. But as we have seen with so many other services, the lowest weights (1–15 pounds) increased 6.9%, on average.

Accessorial Charges

Many of the Accessorial Charges stayed the same. However, nine Accessorial Charges have increased, and some of them were hefty. These include Additional Handling, Address Correction – Ground, Declared Value, Delivery Area Surcharge, Delivery Confirmation Responses, Hazardous Material, Residential Surcharges, Saturday Delivery and Pick-up and Weekly Pick-up Charge.

The following summarizes the changes:

	2009	2008	Increase
Additional Handling	\$7.50	\$6.50	15.4%
Address Correction			
- Ground	\$8.00	\$6.00	33.0%
Declared Value			
- \$100.01–\$50,000	\$0.65	\$0.60	8.3%
- Minimum Charge	\$1.95	\$1.80	8.3%
Delivery Area Surcharge			
- Commercial	\$1.60	\$1.50	6.7%

- Residential	\$2.40	\$2.30	4.4%
- Extended Commercial	\$1.60	\$1.50	6.7%
- Extended Residential	\$2.65	\$2.30	15.2%
Delivery Confirmation Response	\$1.75	\$1.50	16.7%
Delivery Confirmation Response			
- Signature Required	\$2.75	\$2.50	10.0%
Delivery Confirmation Response			
- Adult Signature Required	\$3.75	\$3.50	7.1%
Hazardous Material			
- Per Package: Ground and Standard To and From Canada	\$22.50	\$20.00	12.5%
- Per Package: All Other Domestic Services	\$32.50	\$30.00	8.3%
Residential Surcharge			
- Air Services and 3 Day Select	\$2.40	\$2.30	4.4%
- Ground	\$2.05	\$1.95	5.1%
Saturday Delivery			
- Envelope or Package	\$15.00	\$12.50	20.0%
Saturday Pick-up			
- Envelope or Package	\$15.00	\$12.50	20.0%
- Hundredweight	\$15.00	\$12.50	20.0%
Weekly Pick-up Charge			
- \$0.00 - \$14.99	\$18.00	\$17.00	5.9%
- \$15.00 - \$59.99	\$13.00	\$12.00	8.3%
- \$60.00+	\$ 9.00	\$ 8.00	12.5%

FedEx

Like UPS, FedEx Express and FedEx Ground implemented various rate hikes for 2009. FedEx Ground follows the lead of United Par-

cel Service when it comes to base Ground rates, they are virtually the same. Why not? It's easy money. As you know, since its inception, FedEx Ground has been a price follower. FedEx Express maintains its long-term position of offering higher base Air rates than Big Brown. This reflects FedEx leadership position in express deliveries while UPS attempts to undercut their competitor in hopes of gaining greater market share. I suggest you visit the FedEx website to get a copy of all rate tables. Bottom line: Regardless of where each carrier's base rates fall, 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 using 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 2009 UPS rates directly from the website: 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 choose to use, understanding how the rate increase impacts your budget and bottom line is a top priority! Have a prosperous 2009!

Joe Loughran is President of SmartTran, Inc. and an expert in small package carrier rate analysis. SmartTran, in its 14th year, is a transportation consulting company offering services in carrier rate negotiation, guarantee refund service and logistics planning. SmartTran's

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