

FedEx Announces (Part of) the 2011 GRI:

by: Joe Wilkinson, enVista

On September 29 FedEx released a part of their 2011 General Rate Increase (GRI). To this point FedEx has released information concerning four key aspects of the 2011 increase:

- Express List Transportation Charges
- FedEx Freight & FedEx National LTL rate increases related to FFX 1000 and FXNL 501 Base Rates
- Express Accessorials and Surcharges
- Ground and Air DIM Divisors

While the changes to FedEx LTL rates are interesting (particularly given FedEx' recent announcement that they will be consolidating these networks), we will focus on the changes to the parcel rating structure. FedEx's press release begins "*FedEx Corp. (NYSE: FDX) will increase shipping rates for FedEx Express by a net average of 3.9% for U.S. domestic and U.S. export services effective January 3, 2011.*" FedEx' publicized Express rate increase has averaged 5.0% over the past five years. So, a 3.9% increase is historically positive, right? Not so fast. As with anything in the parcel rating world, the devil is most certainly in the details.

While we do not have visibility to the full impact of the 2011 GRI due to the fact that we will not have insight to the Ground transportation charges or surcharges until later this year, we can draw a number of conclusions based on the information we do have:

- The Express increase is non-linear
- The changes to the DIM Divisors will likely have a large impact on many shippers
- The changes to the Express accessorials / surcharges generally exceed the publicized increase

Express Transportation Charges:

Carrier GRIs are always non-linear. Increases for some services, weights, and zones are higher than for others. This means that every shipper will be impacted differently based on what they ship and how they ship. The table at right shows the average

increases by service level for FedEx's 2011 Express GRI. However, even this must be taken in context.

For example, the average increase to Express Saver transportation charges is 8%. However, the zone 4, 12 lb. package list rate increases by 11% year over year, while the zone 6, 12 lb. package increases by *only* 5.9%. The key to understanding

the impact of the upcoming changes in transportation charges is applying the new rate sheets your actual parcel profile. As always applying detailed, granular analytics will give you the answers you need. This may also be the time to consider if you are using the appropriate service levels, and if your discounts are in line with the market.

Service	Transportation	Effective (Including Fuel Impact)
Priority Overnight Letter	5.5%	3.5%
Priority Overnight Package	6.4%	4.4%
Standard Overnight Letter	7.6%	5.6%
Standard Overnight Package	7.3%	5.3%
2Day	5.0%	3.0%
Express Saver	8.0%	6.0%

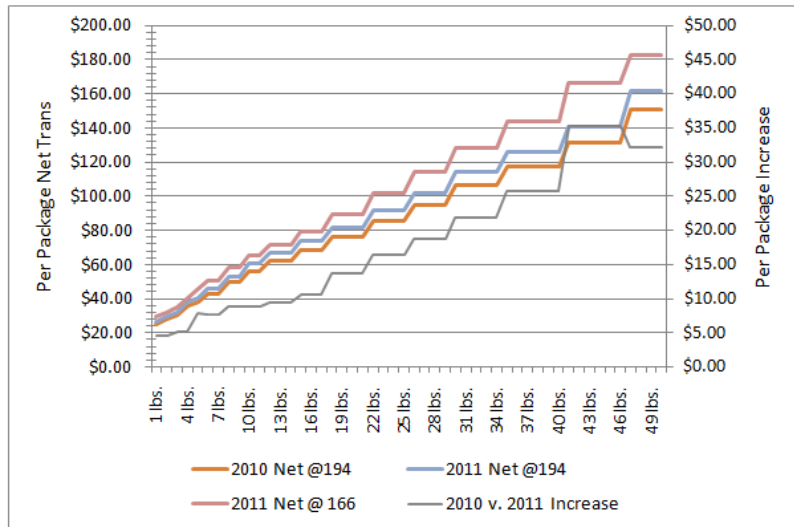
¹ Includes zones 2-8 only

Changes to DIM Divisors:

With the 2011 GRI FedEx will implement changes to the DIM Divisors applied to domestic and international packages. The DIM Divisor for domestic packages will move from 194 to 166. The divisor for international packages will move from 166 to 139. The 3 cu. ft. threshold for Ground packages will remain in place for now, although I expect this to change by the 2012 GRI if not before. For many shippers, particularly shippers of clothing, household goods, electronics, and other low-density items,

Assumptions:

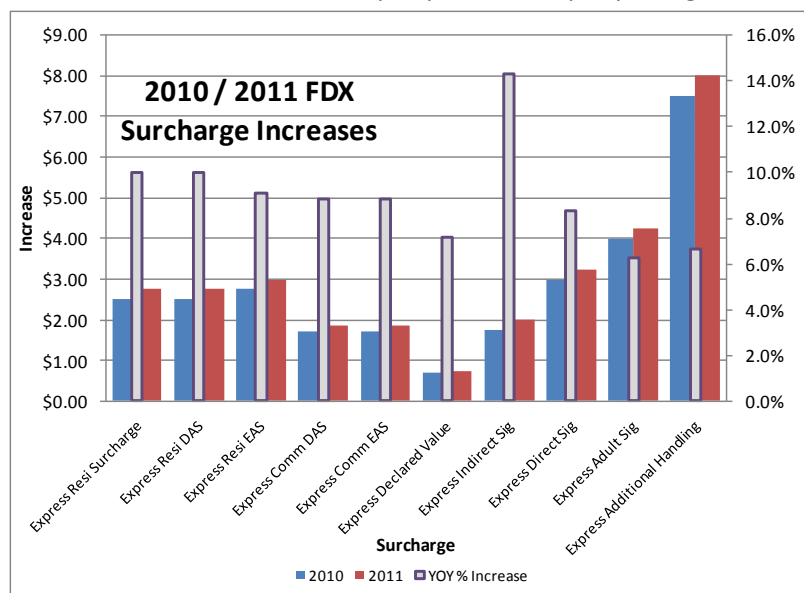
Service Level:	COM. NEXT DAY AIR
Commodity:	Clothing
Cube Factor:	0.133
Zone:	4
Discount:	35%
Minimum Package Charge:	\$0.00



the impact of this change could dwarf the impact of the changing rates. The chart above makes a few high-level assumptions and shows the impact of the 2011 DIM Divisor. Here we are looking at the impact of both the 2011 GRI and the changing DIM Divisor on transportation costs at various actual package weights. This chart uses a mythical shipper of clothing and apparel and assumes a cube factor of 0.133 for every package. In this example we are looking at Next Day Air zone 4. The left axis illustrates the total net transportation cost as actual weight, cube, and therefore billable weight increase. The right axis shows the year-over-year per package increase as a result of both the GRI and the decreased DIM Divisor. The impact is both obvious and dramatic. The cost increase on a zone 4, 1 lb. package is \$4.65; an 18.6% YOY increase. At 20 lbs. the increase ramps up to \$13.65 per package; a YOY increase of 17.9%. As mentioned earlier, and as the chart illustrates, the change to the DIM divisor actually exceeds the impact of the increased transportation charges and makes the net effective increase far greater than the publicized 5.9%.

Accessorial / Surcharge Changes:

Accessorials and surcharges typically account for approximately 15% of total parcel costs, and we have seen



instances where they range as high as 54%. This figure, of course, fluctuates from shipper to shipper. However, as has been typical for the past several years' accessorials and surcharges will be increasing to a greater degree than the transportation charges. Depending upon your surcharge/accessorial utilization these changes could have a significant impact on your total cost.

How will the 2011 GRI impact you? The answer is it is too early to tell. We will need to wait to see the changes FedEx will make on the Ground side, and what changes UPS will make. However, we can already see that the 2011 GRI will likely have a larger impact than any we have seen in recent years. Once we have a full list of 2011 changes it will be possible to ascertain the impact to individual shippers. Again, careful, informed, and granular analysis is the key to understanding these changes and to effectively mitigating the associated additional costs. Look for more information here, as we will update our analyses and commentary as more information becomes available.