

We Asked,

You Answered.

Parcel Pricing Survey – Results Unveiled

— By Rob Martinez —

PART ONE – SURVEY DEMOGRAPHICS AND SHIPPER SENTIMENTS

Industry

Participants included a balanced mix between many industries including manufacturing (32% of survey respondents), retail or wholesale (16%), warehousing, fulfillment & distribution (17%), education, government, non-profits (8%), insurance and finance (4%) and others (23%).

Annual Revenue

Small and large companies alike were represented with annual sales revenues ranging from under \$25M (35%), \$25M-\$500M (31%) and over \$1B (26%).

Primary Carrier

Predictably, UPS (52%) and FedEx (32%) were cited as the “primary” carriers (greater than 50% of the shippers’ overall volume). Other carriers that survey respondents named as primary included US Postal Service (9%), regional carriers and parcel consolidators (4%), UPS Basic/SurePost/Mail Innovations (2%), and FedEx SmartPost (1%).

Primarily Ship Residential or Commercial?

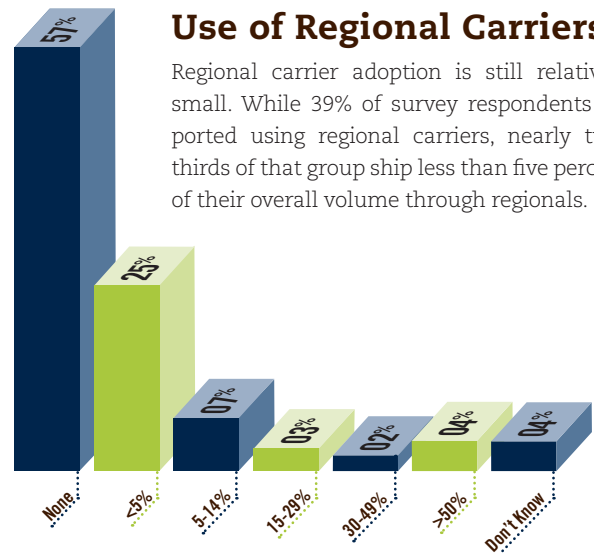
The majority of those surveyed (62%) ship primarily to businesses, while 38% ship to residences. The survey results match recent national estimates by Colography Group and others.

Monthly Packages Shipped

Fifty-eight percent of survey respondents ship fewer than 10,000 packages monthly; 14% ship between 10,000 and 25,000; eight percent between 25,000 and 50,000; six percent between 50,000 and 100,000; and 14% ship more than 100,000 packages monthly.

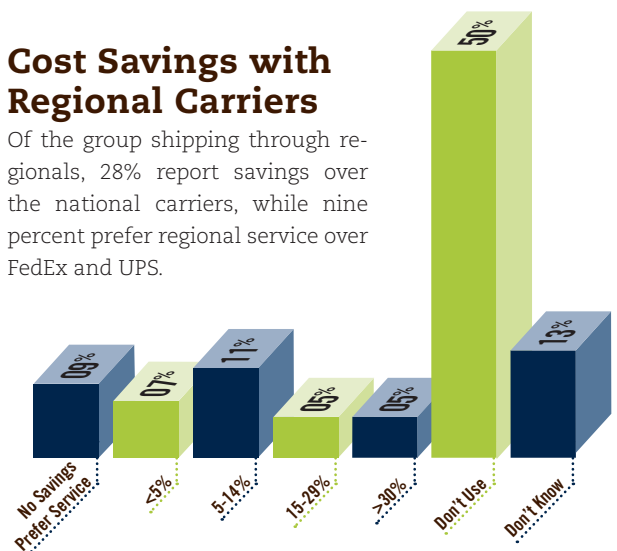
Use of Regional Carriers

Regional carrier adoption is still relatively small. While 39% of survey respondents reported using regional carriers, nearly two-thirds of that group ship less than five percent of their overall volume through regionals.



Cost Savings with Regional Carriers

Of the group shipping through regionals, 28% report savings over the national carriers, while nine percent prefer regional service over FedEx and UPS.



Shipware LLC, in conjunction with PARCEL, recently conducted a national survey on "Parcel Pricing, Benchmarks, Trends and Cost-Savings Strategies."

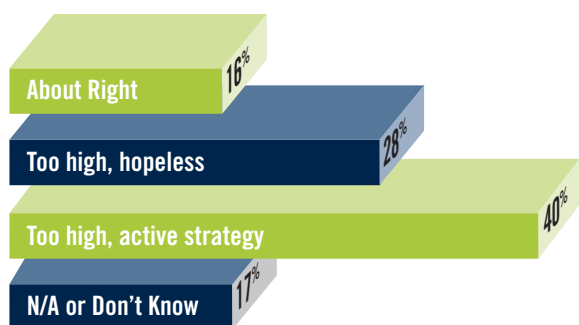
440 PARCEL readers completed the survey, representing a balanced mix of business sizes, industries, parcel volume and carrier mix. The results published below offer shippers an opportunity to compare market data, carrier pricing and contract terms, and cost reduction strategies with hundreds of other shippers.

In **Part One**, we lay out survey demographics and address strategies taken by shippers to reduce parcel costs. This section

includes negative shipper sentiment on negotiating with UPS and FedEx as well as recent carrier policies regarding third party consultants.

In **Part Two**, we report on the tactics used by shippers to negotiate parcel contracts, the use of benchmarking and other strategies to reduce cost. Shippers are able to compare their own negotiated incentives on air and ground services as well as accessorial charges with other shippers surveyed.

Finally, in **Part Three**, we draw comparisons on key survey questions between respondents based on size and carrier choice.

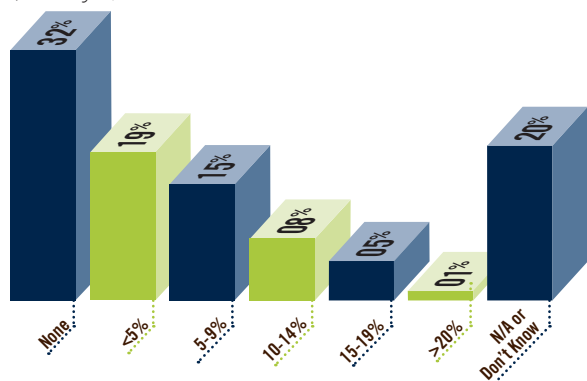


FedEx and UPS General Rate Increases

Shippers are upset with UPS and FedEx general rate increases. Interestingly, of those respondents that feel the increases are too high, 41% don't feel there's anything they can do about it, while 59% have an active strategy to mitigate rising costs.

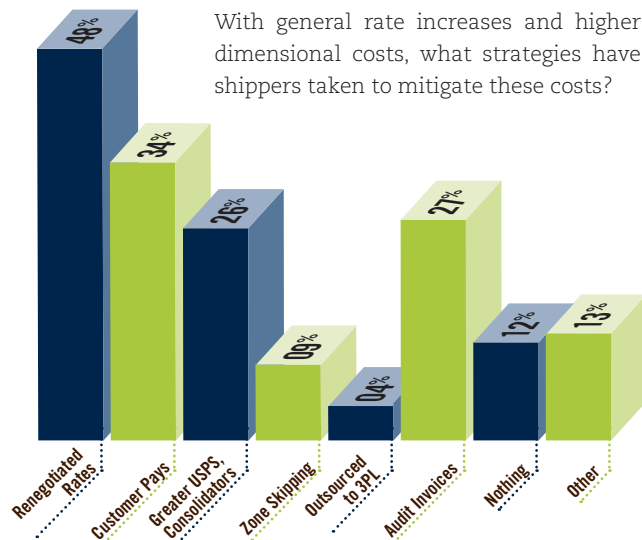
Overall Rate Increases Due to New Dimensional Divisors

The dimensional divisor changed from 194 to 166 for domestic services, and from 166 to 139 for international services effective January 3, 2011.



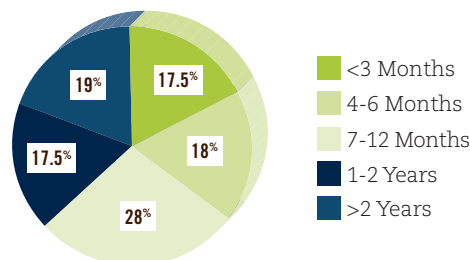
Strategies to Reduce Parcel Costs

With general rate increases and higher dimensional costs, what strategies have shippers taken to mitigate these costs?



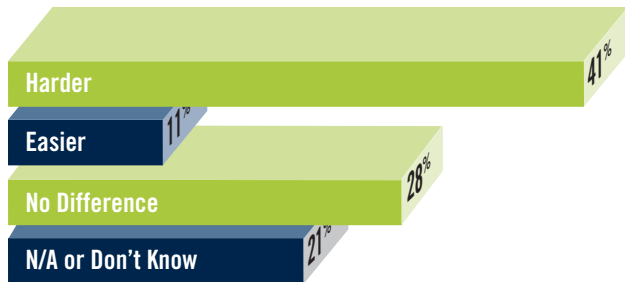
Last Rate Negotiation

Shippers are renegotiating carrier pricing agreements on a frequent basis. 64% of shippers have renegotiated within the last year, while only 36% reported negotiations took place at least one or more years ago.



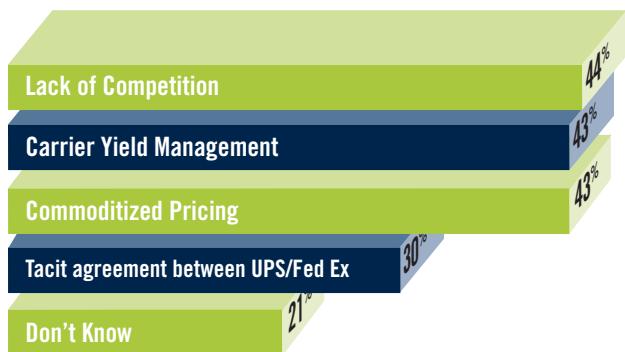
Is Negotiating with UPS & FedEx Harder or Easier?

When asked if it's harder or easier to negotiate with FedEx and UPS now than in the past, shippers by a margin of 4 to 1 feel it's harder to negotiate today. A quarter of respondents reported no difference.



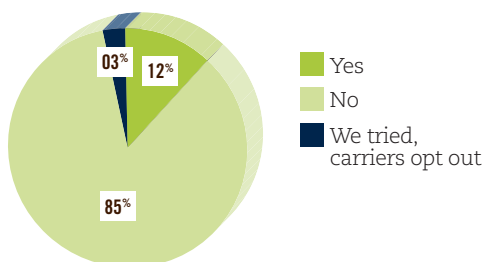
Why Harder?

In explaining their response that today's carrier negotiations are harder, shippers provided numerous reasons including: a lack of competition (44%); carriers are focused on revenue yield per package (43%); and the perception that pricing has been commoditized (43%). Interestingly, 30% feel there is a tacit and collusive agreement between FedEx and UPS to avoid pricing wars.



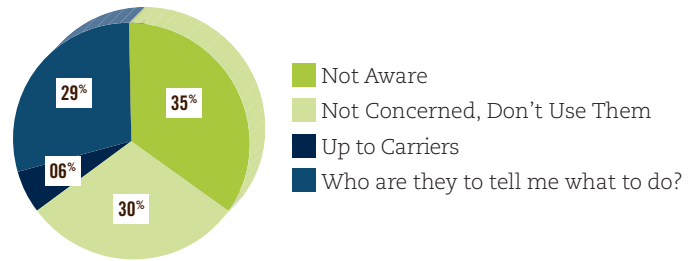
Use of Third Party Consulting Firm for Carrier Negotiations

The majority of shippers continue to approach carrier negotiations on their own (85%). However, within the last 12 months, 12% of shippers leveraged the expertise of third party market experts to assist on contract analysis, benchmarking, contract negotiations and other assistance. Three percent employed third parties, but were unsuccessful as the carriers did not participate in rate discussions.



Sentiment on Carrier Policies Not to Work with Third Party Experts

As reported in PARCEL, in 2010 both FedEx and UPS implemented internal policies to boycott third party negotiators. While 35% of shippers are unaware of the policy and 30% are not concerned because they do not use third parties, only six percent agreed the carriers should be allowed to do whatever they want in choosing with whom to do business. By a margin of nearly 5 to 1, shippers surveyed expressed anger and frustration regarding these carrier policies by agreeing to the statement, "Who are the carriers to tell me what to do?"



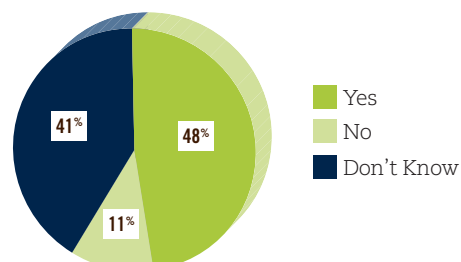
Primary Carrier Motivation for Third Party Boycott

Internal memos at both FedEx and UPS cite rate confidentiality as a primary motivation to the policy. Not so, according to shippers we surveyed. Only 29% feel the policies were enacted to protect disclosure of confidential information. Sixty-three percent believe the policy is designed to protect carrier margins.



Are UPS & FedEx Guilty of Collusion?

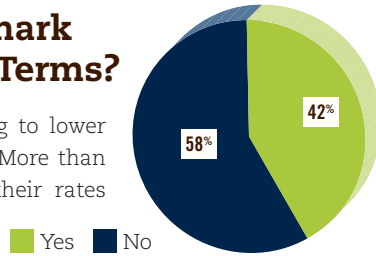
Of those shippers that have an opinion on the subject — by a margin of nearly 5 to 1 — shippers believe UPS and FedEx acted in collusion to boycott third parties. The Department of Justice continues a formal investigation into antitrust contentions at FedEx and UPS, and a 2010 lawsuit for antitrust claims is scheduled to go to trial in early 2012.



PART TWO – NEGOTIATIONS AND BENCHMARKING

Do You Benchmark Parcel Rates & Terms?

What are shippers doing to lower escalating parcel costs? More than half (58%) benchmark their rates against peer companies.



Benchmarking Sources

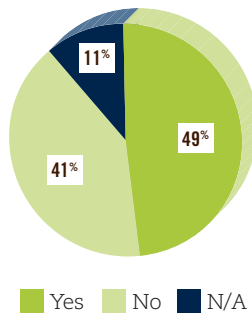
The benchmarking concept is simple: Compare your company's rates relative to others. Any shortcomings become opportunities for improvement and the basis for contract negotiation.

However, of those shippers that benchmark parcel rates, the vast majority do so informally by sharing rate information with industry peers (67%). Sixteen percent conduct formal benchmark studies, and 22% rely on third party consultants.

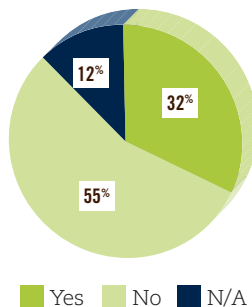


Is USPS a Viable Alternative to FedEx and UPS for Ground Services?

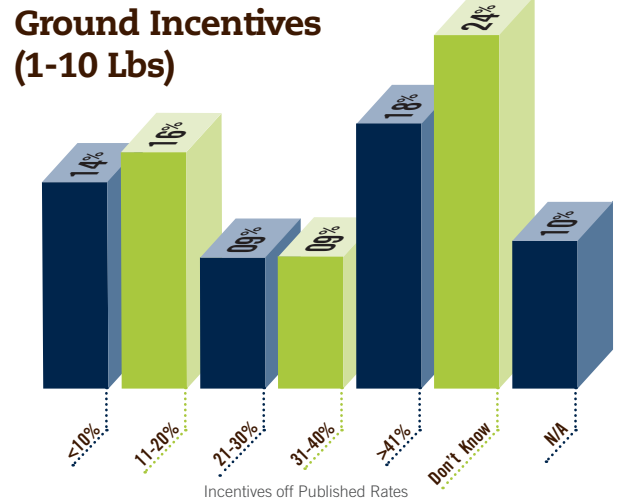
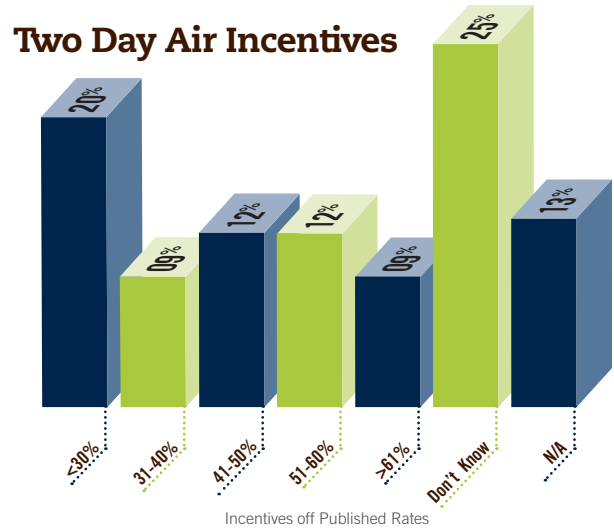
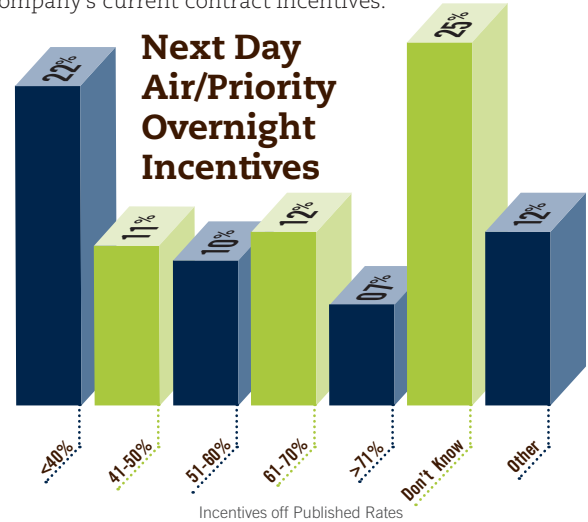
As we saw previously, 26% of shippers have switched from FedEx and UPS to lower cost alternatives like the US Postal Service for a percentage of shipments. Unfortunately for the US Postal Service, however, a perception gap exists between the reliability of air versus ground shipments using USPS.



Is USPS a Viable Alternative to FedEx and UPS for Air/Express Services?



The following charts provide benchmarks for carrier discounts off published list rates as reported by survey respondents. Shippers can use the following pricing benchmarks to better understand what's possible, as well as to compare your company's current contract incentives.



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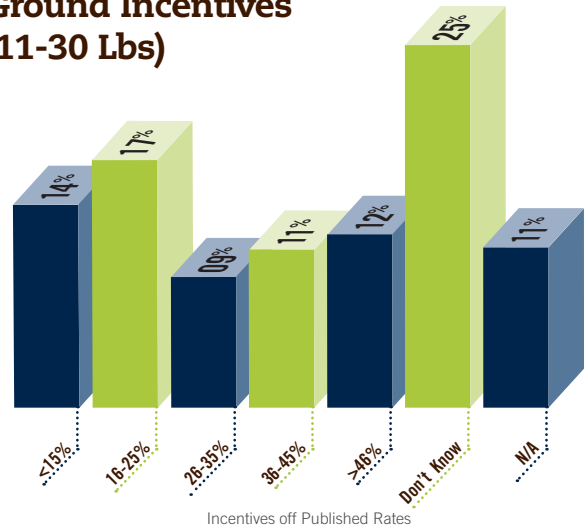
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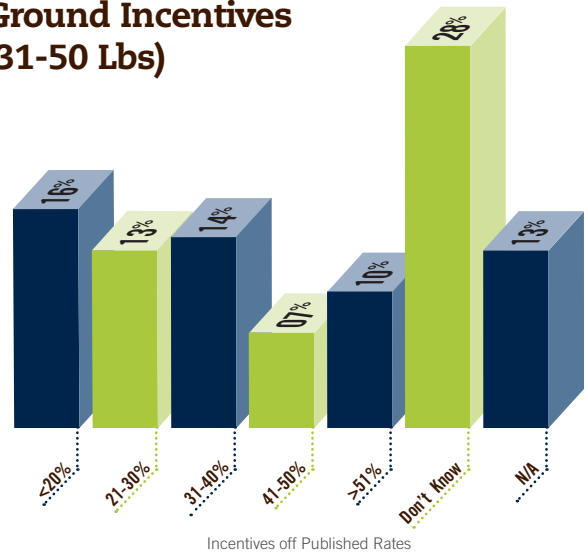
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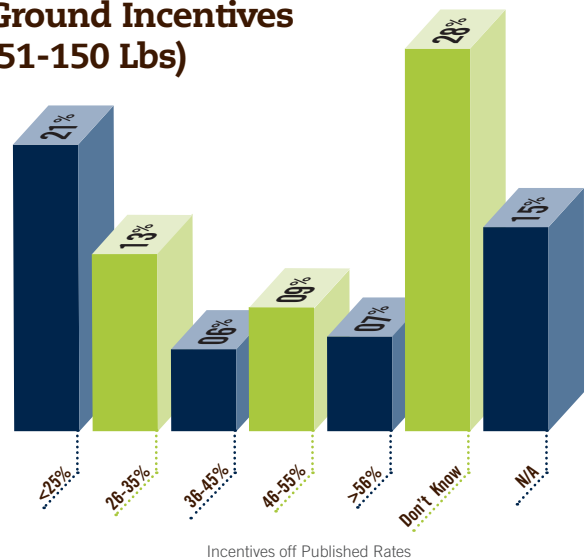
Ground Incentives (11-30 Lbs)



Ground Incentives (31-50 Lbs)

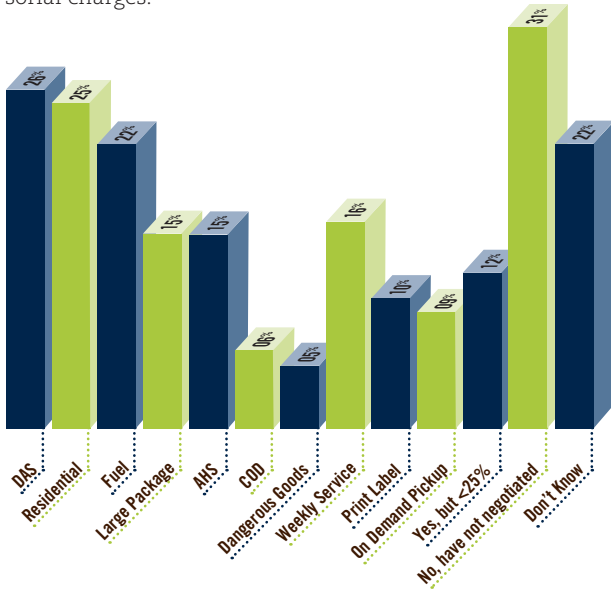


Ground Incentives (51-150 Lbs)



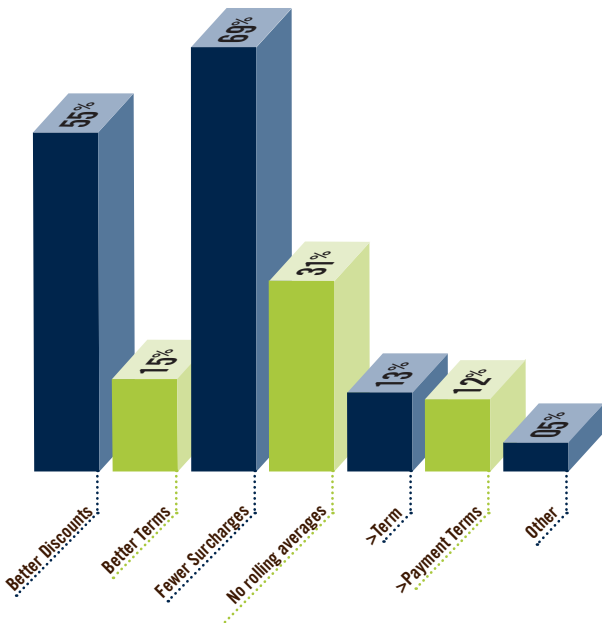
25% or Better Discount Negotiated on Accessorial Charges

Has your carrier rep ever told you that accessorial charges — items like Residential Surcharges, Delivery Area Surcharges, Weekly Service Fees and the like — are not negotiable? Forty-seven percent of shippers surveyed have negotiated a discount of 25% or more on at least one accessorial charge. Twelve percent have negotiated surcharges concessions, but the discount was less than 25%. Only 31% of shippers have not negotiated accessorial charges.



What Changes Would You Make to Your FedEx/UPS Agreement?

Surcharges are one of shippers' biggest frustrations. When asked, "What changes would you make to your UPS or FedEx Pricing Agreement if you could?" 69% of shippers want fewer surcharges. Fifty-five percent want better discounts, and 31% would shun rolling averages and earned discount thresholds.



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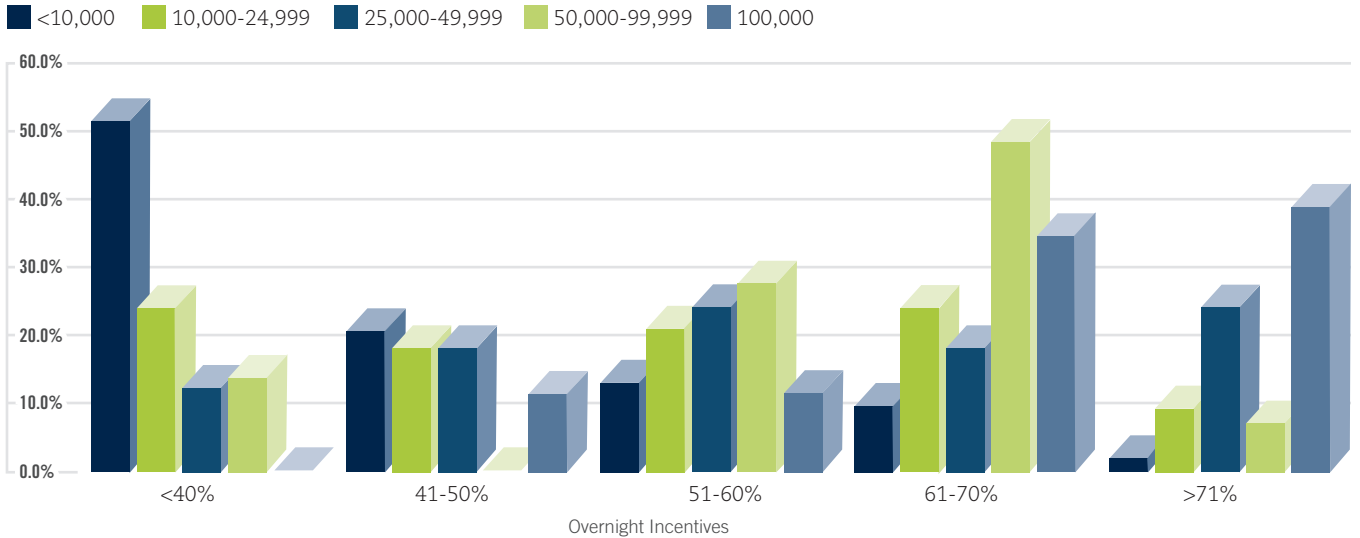
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PART THREE

Part Three draws comparisons on key survey questions between respondents based on size and carrier choice.

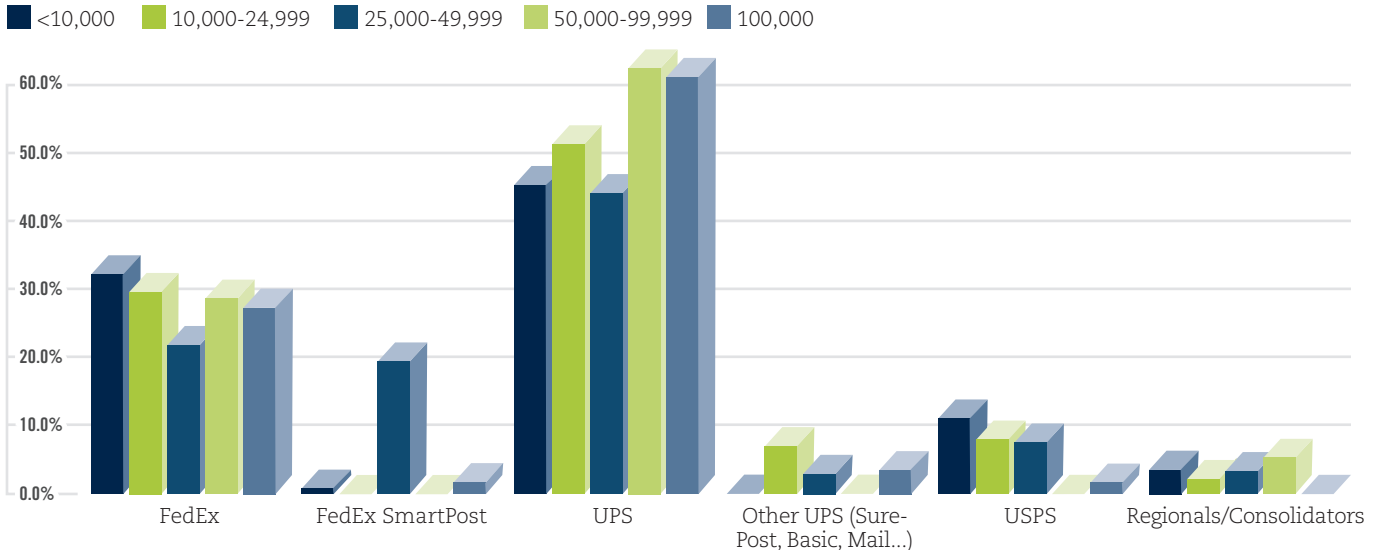
Correlation of Monthly Parcel Volume and Overnight Incentives Received

While package characteristics like weight, dimensions, zone, residential/commercial, delivery density play a major role in pricing, parcel volume drives discounts. Seventy-five percent of small shippers (fewer than 10,000 parcels per month) have negotiated incentives under 50% for overnight services, while 76% of volume shippers (monthly parcel volumes greater than 100,000 packages per month) get discounts of 61% or better.



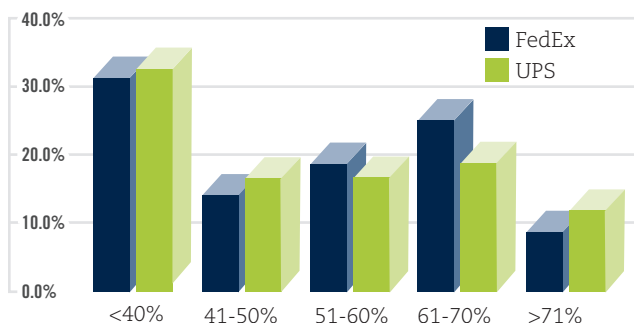
Primary Carrier by Shipping Volume

Is there a correlation between shipping volume and carrier choice? UPS scores higher with volume shippers. Sixty-two percent of survey respondents whose volume exceeds 100,000 packages a month select UPS as their primary carrier versus FedEx at 29%. Lighter volume shippers (fewer than 10,000 shipments per month) have also selected UPS as the primary carrier, but the range is much closer at 47% using UPS versus 34% with FedEx. Low volume shippers also reported greater use of the US Postal Service (12%) and regional carriers and parcel consolidators (6%). FedEx SmartPost found its niche garnering 19% of the volume of shippers with monthly parcel volumes between 25,000 and 50,000.



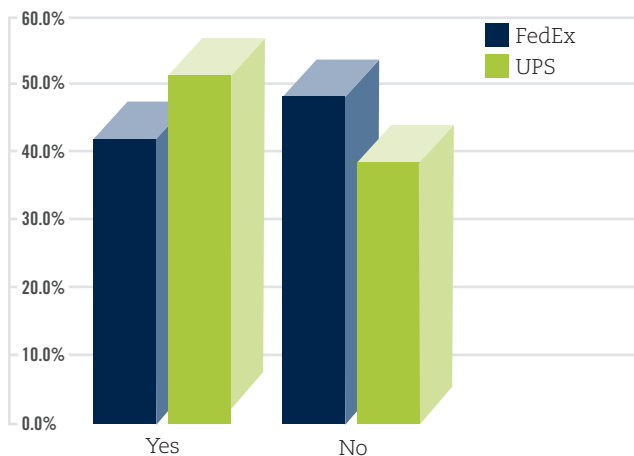
Overnight Incentives by Carrier

Which carrier offers better discounts? We compared UPS Next Day Air and FedEx Priority Overnight incentives based on survey respondent data. While there were no dramatic differences, slight variations are notable between UPS and FedEx. Regardless of carrier, about one third of shippers reported discounts under 40%, while another one third enjoy discounts of 61% or greater.



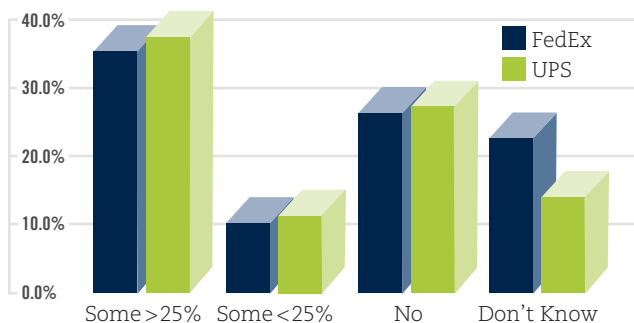
Surcharges Negotiated?

Which carrier is more likely to negotiate surcharges? The answer: 56.5% of shippers report successfully negotiating surcharges with UPS, versus 48% for FedEx. Figure 33.



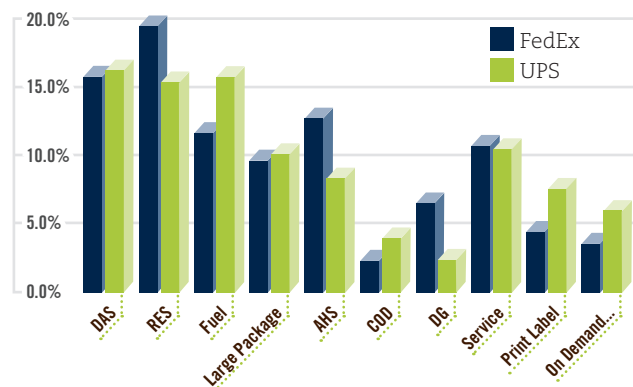
Level of Surcharge Incentive

Moreover, survey results show that UPS more frequently negotiates incentives of 25% or better more often (45%) than FedEx (37%).



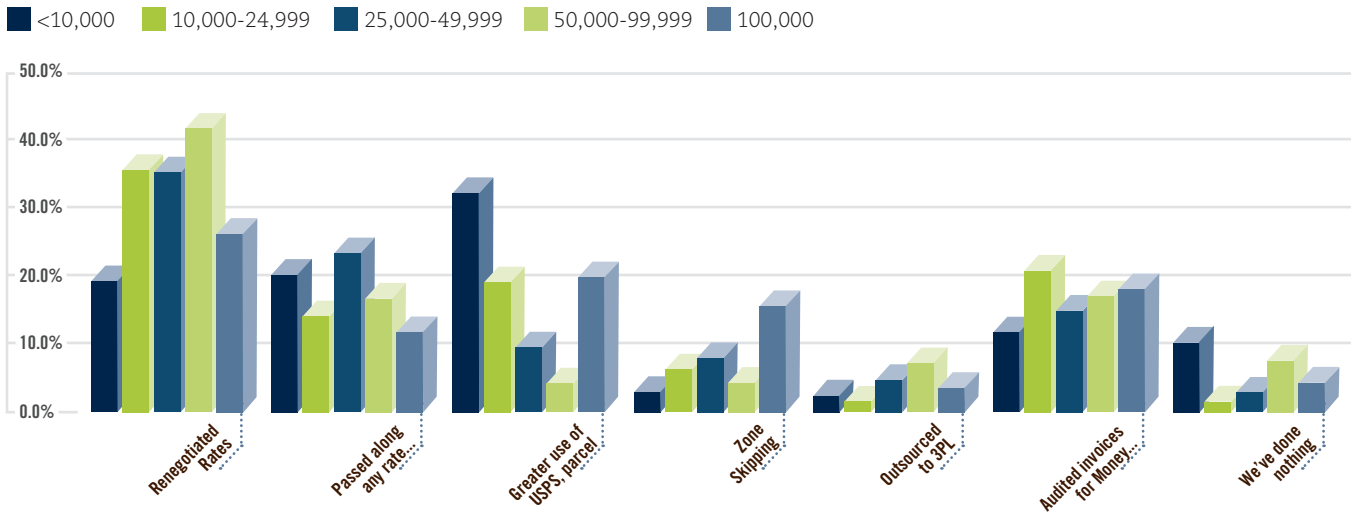
Carrier Variation on Surcharge Concessions

The survey reveals slight differences between the carriers on which surcharges tend to be negotiated. FedEx offers greater incentives for residential surcharge, Additional Handling Service (AHS) and Dangerous Goods fees, while UPS shippers reported greater discounts on fuel surcharge, COD, Print Label and On Demand Pickup fees. Figure 35.



How do cost reduction strategies vary based on shipment volume? Smaller shippers (fewer than 10,000 packages per month) are more likely to switch to lower cost alternatives (34.5%) than attempt to negotiate with UPS and FedEx (20%). Interestingly, 10% of smaller shippers have done nothing to improve parcel costs. Higher volume shippers (more than 10,000 packages per month) renegotiated rates as the primary strategy to reduce costs (37% average for the top four volume groups). Eighteen percent of volume shippers audit carrier invoices versus 12% of smaller shippers. The highest volume shippers employ zone skipping by a margin of three to one over smaller counterparts.

Strategies to Reduce Parcel Costs by Volume



In summary, shippers are frustrated with rising parcel costs and many are actively trying to mitigate increases. Although the majority of shippers feel negotiating with UPS and FedEx has never been harder, the most popular strategy to reduce costs contract renegotiation, and the majority of shippers have done so within the past year.

Regarding the carrier boycott on third party experts, nearly two thirds of shippers were unaware of or angry about the policy, and two thirds believe any such policies were developed to avoid carrier revenue dilution. Surprisingly, amongst shippers familiar with the policies, 82% believe that FedEx and UPS are guilty of collusion.

This year's survey asked shippers to report their negotiated incentives by service type. For benchmarking and comparative value with your own parcel contract incentives, refer to Figure 37 below.

Upper Tier Incentives by Service Type

Service	Incentive	Percent of Shippers
Next Day Air/Priority Overnight	61% or Greater	19%
Two Day Air	51% or Greater	21%
Ground (1 to 10 Lbs)	41% or Greater	18%
Ground (11 to 30 Lbs)	46% or Greater	12%
Ground (31 to 50 Lbs)	51% or Greater	10%
Ground (51 to 150 Lbs)	51% or Greater	7%

The majority of shippers are unhappy with carrier accessorial charges. However, nearly half of all shippers surveyed have negotiated a discount of 25% or more on at least one surcharge. Furthermore, 56.5% of UPS shippers report successfully negotiating surcharges versus on 48% of FedEx shippers.

While carrier discounts off published rates are highly correlated to volume with the best discounts going to the highest volume shippers, it is notable that even small shippers report negotiating discounts in the highest incentive tiers. That means that even small shippers are occasionally successful at negotiating similar discounts as the mega shippers.

Finally, shippers prefer contract renegotiation as the chief means to curb rising parcel costs. However, smaller shippers are less likely to rely on contract negotiation as larger shippers often opting to change to lower cost alternatives like the US Postal Service. Other cost reduction strategies employed by larger shippers include invoice audit, zone skipping and outsourcing to 3PLs.

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