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STEPPING UP TO THE PLATE TO NEGOTIATE

There is no one-size-fits-all approach to negotiation, but there are some tactics every shipper should implement.

Small parcel shippers understand the nature of the General Rate Increase, and they attempt to mitigate the increase accordingly. We can negotiate a solid contract, but if our understanding and visibility of data suffers, so can our expected savings. Is there a one-size-fits-all approach to negotiation? No. Are there bases every shipper should cover? Absolutely.

FIRST BASE: DATA

This is, by far, the most commonly overlooked first step in any Request for Pricing (RFP). How will you reduce costs if you don't know what drives them? Are you looking at all volume or just outbound shipments? Paying too much for inbound freight has a direct relationship with outbound rates. Is your data "all in cost," or can you break down freight, fees, and fuel separately to better analyze where improvements need to be made? Is your data even accurate — in other words, is the raw data you pull from the carrier website, once imported into your data warehouse, manipulated incorrectly or incompletely? Revenue tiers appear on many agreements. If you can't proof-check your data against your invoice, how can you confirm you are hitting your target tier? We need leverage to negotiate. We lose leverage if we don't know what we shipped, where we shipped, what mode we shipped, and what that shipment cost.

SECOND BASE: SERVICE GUIDE

Once we understand our data, we need to understand how to price those shipments. Each year, usually towards the end of the year, each carrier announces the general increase to their service guide rates. We say "general" because the increase announced is not specific to industry or client, but rather overall carrier base. Analyzing your actual increase per weight and zone is highly recommended, whether you do it in-house or through an outside party. What you thought was a 4.9% increase may actually be 13.5% if you are shipping the Express Saver package to Zone 7 (as an example — which underscores again the importance of knowing your data).

But it's not enough to just know where to find the service guide online and run a quick impact analysis. We need to know The details in the service guide, especially around those surcharges.

A case in point is the FedEx Ground Residential surcharge. Not only is it not the same as the Home Delivery fee, but the Ground Residential fee also carries a substantially high cost differential over it's Home Delivery counterpart and possible flat rate options. As shippers, we may see our Ground Commercial rates lower than Home Delivery's and choose to put everything in the Ground Commercial network, allowing FedEx to then determine commercial versus residential charges. Or we may be accustomed to UPS and one residential fee for Ground, not realizing that with two separate networks at FedEx come two separate residential fees. The Ground Residential fee at FedEx is not a hidden cost, but can easily be a costly oversight during negotiation.

Can we avoid this Ground Residential fee? If you ship anything Home Delivery over proof-check, a good rule of thumb is no, you cannot avoid this fee. But you can monitor it. FedEx offers an Address Validation API called FedEx Address Checker. As part of FedEx Ship Manager, by entering the consignee's address, city/

state, or ZIP Code, Address Checker can:

1. Receive monthly updates to its address matches
2. Provide street-level address matches
3. Distinguish between business and residential addresses, if an exact match is found

THIRD BASE: WEIGHT

We know our data. We know the rates applicable to the data. Or do we? If you are looking only at actual weight, and not billed weight, you may be in for a costly surprise.

When considering dimensional impact — and how to offset it — we must first understand how to calculate it. We can go fast and furious and attack the dimensional divisor itself, but few shippers get the divisor waived. Instead of immediately targeting the surcharge, let's understand what drives it — and how we can reduce it outside of the contract.

To calculate your dim weight — the weight that you will be billed — take the total inches and divide by 166 (for shipments within the US) or 139 (effecttive January 2, 2017, if you are a FedEx customer shipping within the US). If the dimensional weight is greater than the actual weight, you may be assessed charges based on dim weight, which becomes your billed weight. Simply put, this means that your list rate will increase. Your package may actually weigh eight pounds, but given the box size, it dims to 30 pounds and is now seen as a 30-pound package. This almost quadruples your actual base rate. You need to negotiate at the 30-pound rate regardless what the actual weight is.

We also want to pack our boxes efficiently. The average e-commerce shipper achieves 60-65% cube utilization on outbound boxes. This means that package has 35-40% of its inner space occupied by fillers or air. Unfortunately, you aren't paying peanuts to ship those 30-pound foam pieces.

HOME PLATE: RATE CAP

A rate cap does essentially as the name implies — caps the maximum rate increase on the list rates. The maximum increase on the rate only applies to base rates and minimums not additional charges. Why is that important to remember? If you are a hockey stick merchant looking at a 14.8% increase on the Oversized Fee this year, and you negotiated a four percent rate cap, you are still getting hit with the full Oversized increase. If fees are a cost you pass through, you want to be cognizant of what needs to be assessed, or your black line could become red.

If you don't have an agreement with flat minimums, your work on the cap is not done. You can drill down the list rate to ensure it only took that four percent increase. But you likely have minimum reductions on your contract. If those reductions change from that last time you negotiated, your list rate could be at a four percent increase but your minimum charge increases 14% due to the change in the reduction.

A good takeaway for all shippers —but especially lightweight shippers —is to watch the minimum net charges. You can effectively cap rates by just negotiating a competitive minimum reduction. But if the carrier is more willing to offer the rate cap versus the minimum reduction, be sure the rate cap applies to, and is implemented on, minimum charges as well. Minimums aren't as small as they sound when they drive your rates up 14% versus the expected four percent.

BULL PEN: CONTRACT LANGUAGE

Equally important, although not always the primary focus, is contract verbiage. One potential pitfall during carrier negotiations is misunderstanding the terms of the deferred incentive

The deferred incentive, more commonly known as a rebate, is a quarterly incentive program that offers shippers payment as a percentage of net transportation spend. The incentive is generally structured as a percent back at certain tier level. Rebates reflect incentive off net transportation spend, less fuel surcharges paid. Generally tiered, the revenue bands are determined by a customer's weekly average net transporttation charges, these charges being based on the 52-week rolling average. The spend excludes surcharges and any applicable accessorials. The incentives are calculated quarterly, and within 30 days after the end of period, UPS sends a check to the customer — if incentive has been earned.

We negotiate spend levels to ensure we achieve incentive, so how wouldn't we earn the incentive? With the rebate, the culprit can be the minimum. Packages that hit the minimum net package charge will contribute to the deferred rebate revenue tier calculations. However, the minimum language stipulates the rebate amount will not be paid on these packages. The rebate incentive is subject to all applicable minimums in all active agreements. Addressing the minimum itself can be the best way to mitigate impact. The less volume hitting the minimum equals the more spend contributing to your tiers. ■

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