PARCEL
February 10th, 2017
Parcelindustry.com

Is Your Contract Intact?

By Brittany Beecroft

One of the biggest mistakes a shipper can make is to nickel and dime a negotiation. Routinely chipping away at pieces only weakens the entire structure. Visualize your agreement as a milk bottle pyramid, with each bottle being a section in your contract. Can you skillfully hit each object and still keep your contract - and bottom line - intact?

OBJECT: MINIMUMS

UPS offers rebates - a quarterly incentive program paying shippers on a percentage of net transportation spend. Rebates reflect incentive off net transportation spend, less fuel and any applicable accessorials. Generally tiered, the revenue bands are determined by a customer's 52-week rolling net average.

Simple enough. We negotiate spend levels to ensure we achieve incentive, so how wouldn't we earn the incentive? It's actually pretty common, thanks to a little factor called the minimum. Packages that hit the minimum net package charge will contribute to rebate tiers. However, the contract language states the rebate amount will not be paid on these packages. What?

Impact: Contrary to its name, minimums can pack a mighty punch to your bottom line. These sneaky little numbers can drain savings and reduce discounts — and often go completely unnoticed.

Say your deferred agreement offers a 4.8% rebate off the net transportation spend of $667,106. Now remove the net spend impacted by the minimum — as a general example, look at your net rate sheet provided by the carrier. Now look at your service guide, Zone 2, one pound for Ground. If you see that dollar amount anywhere on your net rate sheet, you are hitting the minimum. That package (and spend) will not be part of your rebate payout. Your total is $536,205 counting towards the rebate. We expected a rebate check for $32,021. Instead we receive $25,737. Multi-million dollar companies who pass on the portfolio tiers and go straight for the rebate (the logic being that cash in hand is better, no?) can destroy a bottom line if they don't watch the verbiage in the rebate.

The argument can be (and has been) made that portfolio incentives are the more reliable means of investing shipping back in your company; gross spend, not subject to minimums. If your company prefers the deferred incentive, just double check for these five words — subject to all applicable minimums. If you can't remove the verbiage, try to reduce the minimum.

OBJECT: WEIGHT

An issue for many shippers is knowing package weight. And by package weight, we don't mean the weight you recorded in your warehouse when you packaged the item. We mean the weight at which the carrier billed you. If you ship fishing poles and hockey sticks, "billed weight" is no stranger to you and has you on the antacid run for transportation indigestion yearly (if not monthly). But our friends in the jewelry and small goods business may be getting their own bout with heartburn as UPS and FedEx shift the dimensional divisor to 139. Multiply your box dimensions - L x W x H. Divide by 139. The number you get is the billed weight of your shipment. For those of you avoiding the dim by using a FedEx box, grab an invoice, and make sure you aren't paying MBW (Minimum Billable Weight). Your aim for this object better be good because billed weights are moving targets.

Impact: If your aim is more suited for a target the size of a grizzly bear versus skeet shooting, dim adjustments would be your object of choice. A three-million-dollar shipper, with a 250 dim, could see impact of less than seven thousand monthly — $84K annually if the package characteristics remain constant. Unless someone is eyeballing every invoice, seven thousand dollars is likely going undetected and easily mitigated.

Let's look at a $200 million shipper. Annualized impact for 2016 is a little over $15 million. With the change to a dim of 139, the pending impact is over $17 million. That's a two-million-dollar cost increase and a dim impact almost 10% of net cost. The shipper, and most likely its customers, will feel that hit, so we would consider dimensional waivers based on account number or a freeze in the logic change. An option often overlooked, but very effective, is negotiating the billed weights to offset the increase in cost — since it is those weights driving your costs.

MBW is more akin to a deer, as it's a bit more difficult to detect.

The tube can be expensive. We're sending some promotional material Standard Overnight to Zone 6. The actual weight of the tube is one pound at a $54.35 list rate for 2017. Applying MBW, the billed weight is seven pounds at now a $92.02 list rate — an increase over 69% at list. And, if we didn't realize this surcharge existed, or understood its impact, we probably didn't negotiate discounts at the seven-pound weight, which is your billed weight.

OBJECT: GRI

GRI (General Rate Increase) is as direct an impact as you can take because it impacts everyone. Unless you are in the very small percentage receiving your own custom list rates, everyone's service guide is increasing — not saying your rates are if you have a cap or freeze (that's impact), but the object itself takes a blanket hit.

For 2017, FedEx stated the following average increases:

- Domestic Express 3.9%
- Export/Import 3.9%
- Ground/Home Delivery 4.9%

Impact: We thought our rates would increase five percent — turns out they went up over 10% because of weight. How do we get that increase more manageable? We want to limit the impact — cap or freeze the increase.

Adjusting incentives is how carriers implement the cap. Year 1, you receive a four percent rate cap with a 60% reduction to Next Day Air. When we move into Year 2, FedEx won't generate a service guide specific to the cap — they will adjust your incentives to offset the increase. Your 60% could now become 60.8% — the equivalent of a four percent increase.

Don't forget minimums (if it's not the weight it's the mins, right?). If you don't have flat minimums, your work on the cap is not done. If those reductions change from that last time you negotiated, your list rate could be at a four percent increase, and your minimum charge could increase 16% due to the change in the reduction. Be sure the clause applying the cap to the minimums is on your contract as well.

OBJECT: RAMP UP

This one really goes one of two ways — no impact at all or complete discount annihilation. Ramping up (grace period) is essentially restarting your contract's revenue aggregation. You are offered a certain discount, at a certain tier, for a certain period of time in exchange for all spend that went into your tiers being removed. You will then "ramp up" that spend over the designated weeks until you hit the target tier. If your spend is consistent week over week, no problem. Or if you had some low volume months, you can restart the Earned Discount to shed the lesser spend, which otherwise wouldn't come off until the 52 weeks ran its course. Those seasonal pockets or changes in revenue can create a healthy net

rate increase, and your customers' reactions to their subsequent increases are generally less than graceful.

Impact: We need to watch any net rate increases when falling off tier if we ramp up. Revenue tiers reflect gross spend and gross discounts. The change in that discount is your net rate impact. A four percent tier discount, when lost, can create a 12% net rate increase if your base discount is aggressive. The more aggressive the contract discount, the more aggressive the net rate increase when the discount is lost. We want to understand how the ramp up works too. Week one isn't spend counting towards your tiers. For a four-week ramp, the first three weeks do not count towards the revenue tiers. The intent of the "ramp up" is that you are using these weeks to get volume on board. Week four — this is the first week that will count towards your tiers. So, week five is the first week of your Earned Discount, using the spend from week four. Limit the net rate impact to keep your contract intact.

Brittany Beecroft is Regional Sales Vice President at AFMS. She can be reached at 304.374.4739 or brittany.beecroft@afms.com.

10260 SW Greenburg Rd. Suite 1020
Portland, OR 97223
800.246.3521
www.afms.com