



- By Jim Berluti

Shippers face a dilemma, they need to deliver the goods but want to find the best value for their parcel shipments following the price increases of the major carriers. On the face of it, this may seem difficult to accomplish, especially since DHL (previously regarded as the budget service among the nationals) has suspended domestic services, leaving UPS and FedEx with less incentive to keep their rates in check. **So, what are potential solutions?**

- Shippers should consider migrating from air to less expensive ground transport, as warranted. To save money and time, they might want to check out new and less costly ground products provided by regionals.
- Shippers should make sure they understand the full extent of the new prices, including accessorial charges and other hidden fees. This will help them negotiate more effectively and budget accordingly.
- They should conduct a thorough analysis of their shipping needs and expenses before making decisions, and they may want to consider broadening their service providers to include regional carriers, which are typically 10% to 20% more cost-effective for priority and ground than the industry giants.

At the beginning of the year, the major carriers announced their annual price bumps. While companies were hoping for lower-than-average percentage increases, especially since the price of fuel has dropped considerably from a year ago, the overall increases of FedEx and UPS were on par with or higher than those in past years.

- For express shipments (via air transport), they both announced a 6.95% overall increase, along with a 2% fuel charge reduction (fuel costs will fluctuate in the future, depending on the market index).
- For ground service, the hike was also 6.95%, which is a record 2.2% increase.

What's important to note about these increases is that they represent averages. In most cases, when you take variables like zones and weight into account, the actual prices are a few percentage points higher. For instance, for the all-important ground deliveries to Zone 2, the closest within 150 miles of the distribution point, the price increase has resulted in a hefty \$8.80 charge for lightweight parcels.

#### **What You Need to Know about Accessorial Charges**

Accessorial charges include additional surcharges and fees for items such as commercial and residential

deliveries, Extended DAS (Delivery Area Surcharge) into rural areas, missing signatures, incorrect addresses, Saturday and early morning deliveries, and special handling charges. Most of these charges are a few additional dollars, which can quickly add up - and many of them aren't transparent to the shipper. All told, up to 90 such accessorial charges from FedEx and UPS -versus only a dozen from the regionals - are passed on to shippers, including a 35% increase for incorrect addresses. And then there are the new charges this year for items such as forgetting your zip code and oversized DIM.

When you consider that accessorial charges account for about 25% of the total revenue of UPS and FedEx, you can see that these are significant profit centers. So it's not surprising that they try to bury these costs- until they jump off the page on invoices!

Another thing to keep in mind is that while the annual prices are generally fixed until the next year, fuel surcharges are not. Based on the market value, the adjusted fuel surcharges are billed to customers - and it now appears that gas and diesel costs are trending upward.

After the giants announced their increases, most regional services followed suit with priority and ground increases in the same range, but it's important to put this into context:

- The base delivery prices of regionals are generally lower to begin with.
- While the regionals charge accessorial fees as well, comparisons for like items show lower prices than the nationals.
- Regional services are known for being much more flexible with their overall pricing and contracts.
- Discounts provided by the giants are generally suspended after 13 weeks, while discount guidelines are more lenient with the regionals

Since time is money, an additional consideration is that regionals typically pick up later and deliver earlier than the nationals. Another difference is that the regionals offer more personalized service, and while it's hard to quantify the value of this, shippers have historically appreciated this benefit.

Of course, shippers have always put a premium on efficiency, and the perception has been that the giants have superior track records in this area. In reality, the level of technology is now generally on par between the nationals and regionals - and this has resulted in improved quality.

Especially in this economy, shippers need to be extra vigilant and apply due diligence. For companies intent on cost savings, this should not be a time for conducting business as usual. For further cost-cutting measures, here are our recommendations:

- Study the fine print of the new price structures.
- Check out other shipping options, including regional carriers and the U.S. Postal Service, even if your contract isn't up. If your contract is up, consider locking into a new agreement before prices increase next year.
- Conduct an analysis of your unique shipping history and characteristics. Various industry consultants tout their specialized services in this regard, and they are one means of helping you negotiate new terms. However, before you pay big consultant fees, consider that some carriers provide comprehensive audits of this kind at no cost. These audits may include a breakdown of cost comparisons between national and regional services.

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