UNDERSTANDING CARRIER RATE INCREASES

To Better Prepare and Effectively Execute Carrier Negotiations

By Lisa Blade

Due in large part to the COVID-19 pandemic, businesses experienced rising prices for shipping parcels in 2020.

Because of the increase in shipping volumes attributable to the surge in e-commerce, carriers enacted an unprecedented number of rate increases, surcharges, and fees in 2020. With a record number of consumers now accustomed to online shopping, leading to record shipping volumes, many major carriers levied surcharges in advance of the 2020 holiday shopping season.

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Already, shippers can expect more of the same from carriers in 2021:

FedEx unveiled **rate increases and late fees**

that took effect in 2021. Starting in January, FedEx raised rates an average of 4.9% for its Ground, Express, and Home Delivery services. They are also charging a 6% late fee to U.S. FedEx Express and FedEx Ground customers who don't pay invoices within their agreed upon payment terms.

UPS announced **increased rates for 2021**

by an average of 5%, effective December 27, 2020.

DHL Express announced a 4.9% general average **shipment price increase**

for U.S. account holders effective January 1, 2021.

Even the USPS filed for **proposed 2021 rate increases**

to take effect in January 2021.

While understanding the impact of carriers' general rate increases is critical for organizations with any kind of parcel volume, identifying exactly which factors may drive the most significant shipping cost changes is critical for effectively planning budgets for 2021; shippers need to take a comprehensive look at the intricacies of carriers' pricing strategies.

CARRIER ANNOUNCEMENTS

Focus on Average Increases

Carrier rate changes can be complicated.

Carriers tend to release generalizations about the percent increase in rates, but these are just an average of the increases levied to various portions of the calculation. Shippers tend to react quickly to carriers' published "average rate increases" by simply budgeting an extra matching average percentage for each carrier, but this is the wrong approach. The devil is in the details about where those changes take effect and the percentage increase applied. Speed to delivery, weight, distance, and package count are just some of the factors shippers need to consider to understand their true rate increase. Without examining the details closely, shippers' rates could exceed the "average rate increase" and end up with a budget shortfall.

While the number of 2020 and 2021 rate increases are unprecedented, there's no need to panic. With the right technology, shippers can avoid the pain points and embrace the bargains to bring their own average much lower. The trick is understanding how the rate hikes overlay with their own unique position and needs to better prepare for and execute negotiations with carriers.

BUSINESS INTELLIGENCE

And Automated Scenario Planning Illustrate Truer Impact

Businesses must manage growing parcel volumes successfully and offer cost-effective ways to meet rapidly evolving customer demands.

They also need to get a good grasp on new rate increases and their impact on the business to effectively plan their annual budgets. With peak season over, it's time to focus squarely on 2021.

To properly assess 2021 rate changes, shippers should simulate and analyze various transport factors to identify the potential impacts of rate increases before they take effect. Doing so supports contract negotiations with parcel carriers, and it gives merchants a chance to prepare by adjusting business rules, repackaging goods, or taking other steps.

To pinpoint cost-effective methods for parcel shipping, shippers can run the following types of simulations:

- Assuming everything is the same as last year: running re-rate scenarios shows the impact from one year to the next
- Changing a business's inventory footprint: moving products from distribution centers to brick-and-mortar stores, etc.
- Carrier network expansion: adding new carriers to handle parcel deliveries, be it international or local

- Changing the approach to packaging parcels: administering simulations based on dimensional weight (size/weight of package)
- Determining metrics and cost of shipment per SKU (cost per unit): many organizations run SKU level analytics and business intelligence reports; parcel shipping data can help to illuminate even more impactful insights
- Comparing last-mile/regional services against those from major carriers: which carriers are best suited to meet delivery and cost expectations

Carriers run their own simulations to see how they can maximize efficiency and profits; technology can help level the playing field by enabling shippers to efficiently:

- Run simulations
- Analyze potential fees
- Determine how to mitigate fees
- Monitor cost impacts that could take them by surprise

For instance, Logistyx's **cloud transportation management system (TMS) for parcel shipping** with Business Intelligence enables shippers to glean insights on their own shipping patterns, usage, and more with the ability to filter and identify specific characteristics to better understand impact.

With the ability to analyze real time shipping data, shippers can:

1. Better understand how factors such as distance, speed to delivery, package size, and density affect spend within their transportation landscape.

2. Highlight savings opportunities across attributes such as origin-destination, carrier services, modes, accessories, and more.

Once shippers run simulations to consider potential impacts and how to counter them, they can align strategy and budget to particular scenarios. Accessing and analyzing available data can help shippers truly evaluate carrier performance, ensuring carrier selection is better informed and they're at an advantage when it comes to carrier negotiations.

PREPARING

For Carrier Negotiations

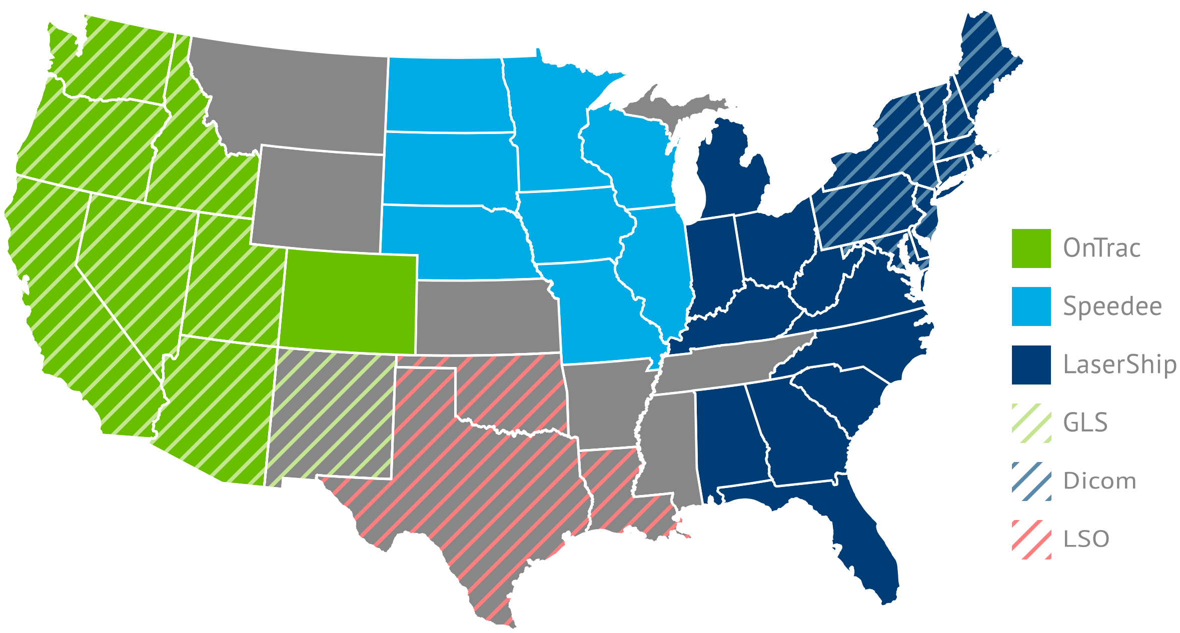
With the right data in hand to understand transportation activity and having accounted for different variables through simulations, shippers can more confidently approach their carrier contract negotiations.

To aid in this effort, Logistyx Business Intelligence monitors every shipment to ensure carriers are performing services as contracted. Subsequently, the Business Intelligence tools help shippers talk to carriers about discounts based on their own fulfillment data.

Shippers using Business Intelligence to visualize how and where cost increases will hit hardest can gain better footing when it comes to carrier negotiations. For example, if a shipper implements changes in fulfillment to increase ship-from-store or locate a new distribution center, understanding how these changes impact zone and carrier service-level downgrade options is critical.

When entering carrier contract negotiations, shippers shouldn't limit themselves to national and international carriers. Including last-mile and regional carriers in the mix places shippers in a better position to negotiate more competitive contracts with national carriers. Regional carriers can often be more flexible in order to compete with the massive volume of business that national carriers draw from the market. Whether the volume of packages shipped is low or high, rates can still be negotiated, as some carriers seek to fill capacity in specific lanes and regions. Data on a shipper's historical volumes will provide the carrier an idea of annual or seasonal volume, and rates can be adjusted accordingly.

Logistyx offers an extensive carrier network that includes dozens of regional carriers—including LaserShip, OnTrac and Speedee Delivery—making it much easier and faster to add carriers' rates and services to a merchant's carrier network.



Regional Carriers

National Carriers

Additionally, with all carrier contracts in a single system, shippers gain easy access to a real-time, accurate transportation data stream.

By harnessing data and using proper Business Intelligence tools, shippers can determine transportation spend impacts across significant data sets and visualize the effects across variables such as weight breaks, zones, regions, service levels, etc. This visualization identifies areas ripe for further negotiation to make cost-savvy supply chain decisions that align with business strategy.

Once shippers develop a data vision for planning shipping models through simulations and analysis, they should consider these tips for stronger carrier negotiations:

- Understand the terms and conditions of the contract
- Analyze omnichannel capabilities to better understand whether stores can actually ship based on space and inventory
- Determine what types of orders can be shipped versus orders that customers can pick up
- Distinguish rates for services among various types of carriers (last-mile, regional, national, international, etc.)
- Consider which last-mile carriers have relationships with other regional carriers that enable the movement of shipments through a broader network

Rather than entering carrier discussions with a focus simply on lower rates, merchants should also consider questions such as:

What business problems cause the biggest pain points in the delivery network today?

What are the top three things to improve related to the business's carrier services?

What customer service issues are top of mind for customers, and how do they affect the business?

Can delivery services be identified and added that attract and retain new customers?

With the e-commerce boom changing the way companies ship and how carriers approach rate negotiations, contracts should be reviewed more regularly to ensure rates are competitive relative to the current market.

Ideally, a shipper will go into carrier negotiations with a strategy that empowers them to:

1. **Expand capacity**
2. **Reduce surcharges and fees**
3. **Improve fulfillment performance**

Businesses should lean on agile technology like a TMS for parcel shipping with Business Intelligence to effectively capitalize on all the great data to which they have access. Tapping this data prior to entering carrier negotiations can help merchants build a broad carrier network and successfully tackle today's unique shipping challenges by introducing more options and capacity into the parcel delivery mix.

Implementing a multi-carrier parcel shipping strategy backed by Business Intelligence is a key component for merchants seeking to achieve flexibility and maintain cost control while adjusting to carrier rate increases quickly and effectively in 2021. By leveraging a cloud TMS for parcel shipping, companies can reduce shipping costs while still meeting customers' delivery expectations by boosting efficiency and choice.

Contact us to see how Logistyx's multi-carrier shipping technology can help you effectively analyze shipping data to better inform and execute carrier contract negotiations and yield greater returns.

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Lisa Blade brings more than 16 years of international shipping, parcel logistics, and multi-carrier software experience to her role as Global Carrier Program Manager for Logistyx Technologies. In this position, Lisa manages all carrier compliance for Logistyx, helping shippers locate the best value across the company's extensive global carrier network.

Prior to Logistyx, Lisa worked on both sides of the table in carrier management; first as a manager of U.S. multi-carrier vendor relations at DHL Express and, most recently, as the manager of carrier relations at ProShip, Inc.

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