

BACK TO BASICS



Learn the key components of parcel pricing | By Don La France

Parcel shipping and pricing is somewhat mysterious and convoluted for people who are not used to working with it. The best way to understand pricing and how parcel shippers work is to download each carrier's Rate and Service Guide from their websites and read it from cover to cover, and then re-read when they publish a newly updated one at the beginning of each calendar year! However, they are very in-depth — UPS's is 164 pages — and might be too much information for a casual shipper or a finance person trying to understand their billing. But that, coupled with sitting down and walking through the whole process with a seasoned veteran seven or eight times, should do the trick.

Obviously, not everyone has the time or resources to do this. So, we have developed a quick tutorial that outlines the key factors for individuals that do not deal with this every day or who might be involved on the periphery, such as a person in Accounts Payable. After reading this, you probably won't be ready to go out and negotiate your own pricing, but that's not the audience this is intended for.

Since this is a very basic article, not all factors are reviewed, so if you do have any specific questions, it's best to reach out to a transportation professional or look at the carrier's Rate and Service Guide or website prior to making any decisions. With that, the first place to start is the key components of

parcel pricing: published rates, negotiated rates, service level, weight, package attributes, accessorials, surcharges and service charges.

Published Rates

Parcel carriers charge three types of rates to shippers: Published, Counter and Negotiated. Published is a rate that you would get if you did not have established pricing with a parcel carrier or you are a very small shipper. Counter rates can be charged at the shippers' retail locations. A good example would be, if you walked into a FedEx Kinko's and you wanted to ship a personal package and did not have an established account number, you would be charged Counter Rates. Published rates are non-discounted rates and are called "Gross Charges" if you have negotiated rates.

Negotiated Rates

Negotiated rates are rates that you negotiate based on a number of factors in the marketplace. In the simplest of terms, your "Net Spend" is your Negotiated Rates, which is the published rate minus any incentive. Typically, any company shipping packages on a day-to-day basis will have negotiated rates (discounts) with one or possibly all of the parcel carriers.

Some factors that drive your ability to negotiate favorable discounts could be net or gross spend, package volume, package characteristics, zone density and even your ability to negotiate. Negotiated rates could contain varying discounts on service levels, like 15% off ground commercial; revenue-based incentives that kick in or increase/decrease based on your volumes; and quarterly or annual rebates based on your net or gross spend. There could also be certain minimum requirements,

such as minimum packages per day, minimum gross or net spend, minimum revenue per package and minimum charges per package, that drive your negotiated rates.

Service Level

The first place to start in identifying your cost is service level, which is what parcel carriers typically call their different offerings. FedEx Priority Overnight, UPS Ground and DHL 2nd Day are all service levels. FedEx and DHL have no 2 Day Early AM Service, and DHL does not have a 3 Day Service, so keep in mind that just because one carrier has a certain service level does not mean the others have the same. If they do have the same, the name could be different. Also, service levels are generally grouped by Express and Ground to more clearly categorize the offerings.

Another key factor to remember is that there is a unique distinction and price differential between residential locations and commercial locations. Which means that there are separate rates for packages going to a residence and separate rates — normally lower — for packages going to a commercial location. A brief breakdown of some commonly used service levels can be found in the Figure 1.

As you can see, another term used is "Service Grouping". Non-transportation people sometimes look at shipping with a "blended" outcome, while transportation people typically break it out by carrier. That is to say, a high level finance person would normally not want to see Next Day shipments broken out by Service Level and carrier; they would want to see a roll-up of all Next Day shipments. That is where Service Grouping comes in. A Service Grouping in an aggregate of the Service Levels that have specific delivery times associated with them; in this case, delivery days. As you can see in the table, the Service Grouping of Next Day has all Next Day Service Levels tied to it and then the rest follow. Since this is a high level review, Same Day, International and Hundredweight/Multiweight Service Levels are not part of this table.

Weight/Zone-Based Pricing

The next step is to discuss the pricing of the Service Levels. In the simplest terms, your pricing is based on eight factors: origin, destination — both of which determine your zone — service

level, weight, package attributes, accessorials, surcharges and service charges.

The second factor, after service levels, is weights and zones. All parcel carriers use a zone- and weight-based pricing formula to price their services. They divide weight into one pound increments, typically from one to 150 pounds, while the country and the world are divided into a series of zones. Think of a zone as large ZIP Code groupings. Your zone is driven by your origin — where you are shipping from — and your destination — where you are shipping to. If you look at a zone map, you can see an example of this. If you begin with an origin of 10104, which is mid-town Manhattan, New York, you will see how the zones increase as you move west. Typically, the farther the zone, the greater the transit time and the higher the price. It's important to note that your zones are driven by your origin, and Nashville's and Burbank's zone maps would look different than Manhattan's.

FIGURE 1: KEY SERVICE LEVELS BY GROUPING

	SERVICE GROUPING	SERVICE LEVEL	STANDARD DELIVERY TIMES
EXPRESS	Next Day	Early AM (UPS) First Overnight (FedEx)	8 AM to most major cities. 8:30 - 9 AM in others. 10 AM to remote areas.
		Next Day Air (UPS) Priority Overnight (FedEx) Next Day 10:30 (DHL)	10:30 AM to most US Zips Codes. 12 PM or 5 PM in remote areas.
		Next Day Air Saver (UPS) Standard Delivery (FedEx) Next Day 3PM (DHL)	3 PM to most commercial addresses. 4:30 to remote areas.
	2 Day	2 nd Day Air AM (UPS)	10:30 AM to most US Zip Codes. 12 PM in remote areas.
		2 nd Day Air (UPS)	End of business day (5 PM).
		FedEx 2 Day (FedEx) DHL 2 nd Day (DHL)	4:30 to commercial locations. 7 PM to residential. 5 PM
	3 Day	3 Day Select (UPS)	End of business day (5 PM).
Express Saver (FedEx)		4:30 to commercial locations. 7 PM to residential.	
GROUND	Ground	Ground (UPS) Ground (FedEx) Standard Ground (DHL)	3 - 5 business days depending on destination Zip Code. 5 PM for commercial locations and end of business day for residential locations.

Once you know your service level, weight and zone, you would turn to a rate table for that specific service level. An example of this is Figure 2, a table for a US Domestic Ground Commercial shipment. On the left-hand side is the weight breaks, which typically run from one to 150 lbs, and on the top are the zones. Zones 2-8 are Continental United States Zones, while 44, 45 and 46 are Alaska, Hawaii and Puerto Rico for this particular carrier.

In the simplest of terms, if you were shipping a one pound package to Zone 2, your charge would be \$4. If you were shipping

a three-pound package to Zone 7, your charge would be \$5.69. Remember this is just the transportation charge, so accessorials and surcharges, which are discussed below, still need to be added to get the correct price. Also, different carriers use different zone definitions. So, a specific zone for UPS might not line up exactly with FedEx, while a Zone 44 for UPS might not be the same name for DHL.

It's also important to note that DHL, FedEx and UPS published rates are not equal in all weights and zones. So, you cannot say that your cost with UPS is the same with FedEx for a particular shipment unless you price them out with both carriers.

Package Attributes

Package attributes play an important part in pricing. An attribute could be the size or shape of the shipment, or it could be

FIGURE 2: GROUND COMMERCIAL RATE CHART

GROUND COMMERCIAL										
Weight	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Zone 44	Zone 45	Zone 46
1	4.00	4.09	4.22	4.39	4.62	4.70	4.81	14.93	14.93	27.05
2	4.04	4.29	4.72	4.80	5.15	5.28	5.59	16.68	16.68	28.68
3	4.08	4.49	4.96	5.12	5.50	5.69	6.21	18.22	18.22	30.23
4	4.19	4.65	5.24	5.46	5.82	6.02	6.61	19.84	19.84	31.96

the size and shape of the packaging. Likewise, it could also be exaggerated or compounded by the packaging. All carriers use Dimensional Weight Pricing to price irregular, or very large, packages. The rules that govern Dimensional Weight Pricing are much too complicated to discuss here, but basically, the carriers have certain rules that govern irregular size shipments, such as guitars, tires or exhaust pipes. If you are shipping something like this, it's very important to understand this pricing because your cost could significantly increase and additional surcharges could apply.

Accessorials

The next area in pricing to look at is accessorials, which are

sometimes referred to as "other charges" or "additional shipping fees." There are well over 80 accessorials today, and it's very important that you understand these in order to determine your price. Some accessorials can be negotiated, and if you have negotiated rates, it's important to understand if you have any discounts on specific accessorials. A few examples of accessorials — all of which could have a different price based on the Service Level — include address corrections, delivery area surcharges, missing or invalid account numbers, oversize charges and reroute of shipment.

Surcharges

The last key factor in determining your price is surcharges. The main surcharge today is the fuel surcharge. As the fuel prices across the world have skyrocketed in the last few years, all the carriers have instituted a Fuel Surcharge. This surcharge is broken into Ground and Express and is calculated monthly. The calculation is driven by a US Department of Energy National Average. The reason it is broken down into Ground and Express is that the Ground Surcharge is tied to diesel fuel, while the Express Surcharge is tied to jet fuel.

Not all carriers calculate the surcharge the same way, and, for example, in June of this year, DHL's Express Fuel Surcharge is two points higher than UPS and FedEx. While two points might not seem like a lot, it is when you are trying

to determine your pricing and DHL's transportation charges are lower. The most obvious thing would be to choose the lowest transportation charge. But, if you did not factor in this surcharge, the price could actually be higher. Again, this pricing changes monthly, and all carriers post this charge on their website.

Service Charges

Service charges are a small component of pricing but warrant discussion. A service charge typically won't affect the cost of an individual shipment but will be added to your bill if you have an account with one of the carriers. Typical service charges would be weekly pick-up fees and late fees, if warranted. It's important to understand, take into account and review these fees if you have an account with any of the carriers.

As you can see, parcel pricing is somewhat convoluted but with a brief overview such as this, it should be easier to understand. As noted before, all three carriers have excellent websites and any question you may have should be answered there.

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