

Key Components of Parcel Pricing

Parcel shipping and pricing can be somewhat mysterious and complicated. The best way to understand pricing and how parcel carriers 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 new one each year (as well as mid-year amendments). However the guides are very in-depth—UPS's 2010 Service Guide is 180 pages—and usually provides too much information for a casual shipper or a finance person trying to understand their parcel costs. That, coupled with sitting down and walking through the whole process with a seasoned veteran, should do the trick.

Obviously not everyone has the time or resources to do this. Here is a quick tutorial that outlines the key factors for individuals that do not deal with parcel shipping and pricing every day, or who might be involved on the periphery, such as a person in Accounts Payable.

The first place to start is the key components of parcel pricing which are outlined below.

Key Components

- Published (List) Rates
- Package Attributes
- Negotiated Rates
- Accessorials
- Service Level
- Surcharges
- Weight
- Service Charges

Parcel carriers charge three types of rates to shippers: Published, Counter and Negotiated.

Published Rates

Published is a rate that you would get if you did not have established pricing with a parcel carrier, or if you are a very small shipper. Published rates are non-discounted rates.

Counter rates

Counter rates can be charged at the shipper's retail locations. A good example would be if you walked into a FedEx Kinkos and wanted to ship a personal package and did not have an established account number you would be charged Counter 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 Rate, 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, average zone, delivery density, and even your ability to negotiate.

Negotiated rates could contain various discount types on Service Levels such as base discounts, matrix (or weight/zone-based) discounts, or revenue based discounts. Rebates and minimum packages charges could also play a role. There could also be certain minimum requirements that drive your negotiated rates such as minimum packages per day, minimum gross or net spend, minimum revenue per package and minimum charges per package.

Service Level

The first place to start in identifying your cost is at the Service Level. Parcel carriers typically call their different offerings Service Levels. FedEx Priority Overnight, UPS Ground, and DHL Express Worldwide are all Service Levels. FedEx does not have a 2 Day Early AM Service and UPS' typical Ground Hundredweight structure differs from FedEx's Ground Hundredweight service. Just because one carrier has a certain Service Level does not mean the others have the same service, or they may have homogenous services but under a different service name. Also, Service Levels are generally grouped by Express (or Air) and Ground to more clearly categorize the offerings.

Another key factor to remember is that there can be, based on service level, carrier, and

contractual terms and conditions, a unique distinction and price differential between residential deliveries and commercial deliveries. Therefore there can be 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 table 1-1 below.

Weight/Zone Based Pricing

The next step is to discuss the pricing of the Service Levels. In the simplest terms your pricing is based, primarily, on eight factors which are listed in the illustration above.

We discussed Service Levels above. The second factor is Weights and Zones. All parcel carriers use a zone and weight based pricing formula to price their services. That is to say they divide weight into one pound increments, typically from 1 to 150 pounds, and the country and the world, into a series of zones. A zone is like a large zip code grouping. Your zone is driven by your origin, where you are shipping from, and your destination, where you are shipping to. If you look at the zone map you can see an example of this. This is a zone map with an origin of 10104, which is Mid-Town Manhattan, New York. You can see how the zones increase as you move west.

Grouping	Service Level	Standard Delivery Times	
EXPRESS	Next Day	Early AM (UPS) First Overnight Next Day Air (UPS)	8 am to most major cities. 8:30 to 9 am in others. 10 am to remote areas.
		Priority Overnight (FedEx) Next Day Air Saver (UPS) Standard Overnight (FedEx)	10:30 am to most US zips. 12 pm or 5 pm in Remote Areas. 3 pm to most Commercial Addresses. 4:30 to Remote Areas.
		2 Day	2nd Day Air AM (UPS) 2nd Day Air (UPS) FedEx 2 Day (FedEx)
	3 Day	3 Day Selects (UPS) Express Saver (FedEx)	End of Business Day (5 pm) 4:30 to Commercial Locations. 7 pm to Residential Locations.
		Ground	Ground (UPS) Ground (FedEx)

Table 1-1: Key Service Levels by Grouping



Illustration 1-1: Components of Parcel Price

Typically, all other things being equal, 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 and Burbank's zone maps would look different than Manhattan's.

Once you know your Service Level, along with Weight and Zone you would turn to a rate table for that specific Service Level. An example of this is in the table below. This table is for a US Domestic Ground Commercial Shipment. On the left hand side is the weight

breaks which typically run from 1 to 150 pounds and on the top are the zones. 2-8 are Continental United States Zones while 44, 45 and 46 are Alaska, Hawaii and Puerto Rico for this particular carrier.

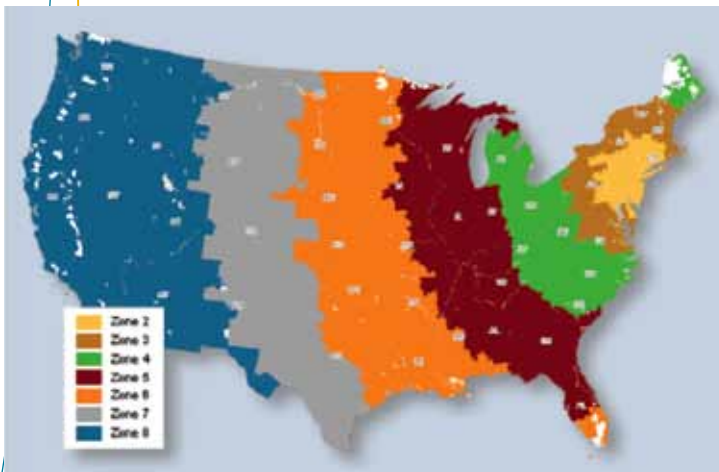
In the simplest of terms if you were shipping a one pound package to Zone 2 your transportation charge would be \$4.84. If you were shipping a three pound package to Zone 7 your charge would be \$6.87. Remember this is just the "transportation charge" and accessorials and surcharges, which are

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.

It's also important to note that FedEx and UPS published rates are not equal in all service levels, weights, and zones. Therefore, 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 the size and shape of the packaging. All carriers use Dimensional Weight Pricing to price irregular, or very large packages.



Zone Map from 10104

Ground Commercial

Weight	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8	Zone 44	Zone 45	Zone 46
1	\$4.84	\$5.01	\$5.11	\$5.34	\$5.62	\$5.69	\$5.77	\$17.78	\$17.78	\$23.44
2	4.97	5.28	5.74	5.87	6.27	6.40	6.65	19.87	19.87	25.54
3	5.01	5.53	6.03	6.24	6.67	6.87	7.36	21.69	21.69	27.36
4	5.15	5.71	6.34	6.65	7.05	7.28	7.86	23.62	23.62	29.29
5	5.37	5.79	6.62	6.92	7.35	7.65	8.31	25.77	25.77	31.42
6	5.53	5.97	6.73	7.10	7.49	7.88	8.57	28.25	28.25	33.88
7	5.81	6.15	6.86	7.29	7.70	8.09	8.85	30.18	30.18	35.80
8	6.04	6.34	7.04	7.42	7.95	8.45	9.39	32.26	32.26	37.86
9	6.19	6.52	7.16	7.60	8.13	8.89	9.98	34.53	34.53	40.11
10	6.39	6.56	7.30	7.81	8.48	9.52	10.65	36.67	36.67	42.24

Table 1-2: Ground Commercial Rate Chart

Carriers have certain rules that govern irregular size shipments, such as guitars, tires or exhaust pipes, or packages in non-corrugated packaging. If you are shipping something like this it's very important to understand the accessorials and surcharge definitions, as your cost could significantly increase and additional surcharges could apply.

Accessorials

The next area in pricing is Accessorials, which as sometimes referred to as Other Charges or Additional Shipping Fees. There are well over 80 Accessorials today and these help determine your price. Some Accessorials can be negotiated and if you have negotiated rates it's important to see if you have any discounts on specific Accessorials.

Ground Commercial

Bulleted below are just a few and each could have a different price based on the Service Level.

- Address Corrections
Residential Surcharge
- Delivery Area / Extended Area Surcharges
- Missing or Invalid Account Number
- Oversize Charge
Additional Handling Surcharge
- Reroute of Shipment
Dimensional Weighting

Surcharges

The last key factor in determining your price is Surcharges. The main Surcharge today is the Fuel Surcharge (FSC). As the fuel prices across the world have rollercoasted in the last few years all parcel carriers utilize a Fuel Surcharge. This Surcharge is broken into Ground and Express (Air) and 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 and the Express Surcharge is tied to Jet Fuel.

Historically UPS' and FedEx's fuel surcharge tables have aligned. However, bear in mind that the transportation charges and surcharges the FSC applies to could be different based on different list rate charges, different application of the charges, or different contractual discounts. The most obvious thing would be to choose the lowest transportation charge. But, if you did not factor these factors the price could actually be higher.

Again, the applicable FSCs change monthly and all carriers post this charge on their website.

Service Charges

Service Charges are a small component of pricing. 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 take into account and review these fees if you have an account with any of the carriers.

Summary

As you can see Parcel Pricing is somewhat complicated, but with a basic understanding it should be easier to understand. As noted before all major carriers have excellent websites and any question you may have should be answered there. If you still have unanswered questions, or if you'd just like some further explanation, please contact us at <http://www.envistacorp.com>.

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