

ABCs of a Parcel RFQ

Identifying the Keys to Success

The cornerstones of a solid Parcel RFQ are the availability and familiarity of your data, along with the ability to clearly articulate this information in the RFQ. These factors, coupled with your ability to develop a costing model that clearly identifies the impact of the proposed pricing on your current costs and your negotiation skills, are the keys to your success.

The proper development and execution of a Parcel Request for Quotation (RFQ) is extremely important in this era of continued focus on cost containment, ever-growing accessorials and astronomic fuel surcharges — combined with the fact that many companies just don't realize the positive effect they can have on their pricing with a solid RFQ process. An effective Parcel RFQ is not just putting together a few statements from corporate legal and putting a few volume numbers on a piece of paper; it's a labor-intensive process that requires a sound methodology and well-thought-out execution, capped off with solid negotiation skills.

The process starts with proper planning, along with comprehensive methodology, execution and negotiation strategies. Below is a brief discussion of each part of the process, with some suggestions and examples that have been

successfully tested and employed in a number of Parcel RFQs.

A successful Parcel RFQ Planning Process has two parts: identifying targets and outlining/defining the process itself. Identifying the targets is very simple: To whom do you want to send the RFQ? There are a number of variables here and it all depends on your business and past experience. Some companies have a sole-source model and are happy with the carrier they use and just want to go through a general rate renegotiation, while others want to include all available carriers.

Experience dictates that you should always include FedEx and UPS, unless there is a specific business reason for exclusion. Parcel pricing is very complex and has many changing variables. The pricing you received last time might be significantly better, or worse, than the pricing you get this



time. Regardless of the outcome, it's always better to make your decision based on three sets of pricing, as opposed to one. Plus, knowledge from talks with the competition could enhance your negotiating position.

When it comes to outlining/defining the process, there are five sections:

1. Data Collection
2. Parcel Profile Development/Update
3. Data Analysis
4. RFQ Development/Management
5. Negotiation/Implementation

Data Collection is fairly straightforward and best practice dictates that you need to collect, analyze and warehouse your parcel data on a continuous basis. You can't rely on the carrier to give you your data.

You should be pulling this from your TMS or Manifesting System and using a Parcel Auditing company with solid data warehousing and reporting capabilities.

Typically, one year's worth of data is sufficient to build/update the profile and costing

model. However, if the data is available and your business is cyclical, or you just realized or anticipate a change, a longer period could be warranted.

A **Parcel Profile** is essential for any parcel shipper of substance. The profile should be a dynamic model that is updated continuously. The profile consists of a number of data points that identify and make up your package characteristics. While each profile is different, based on the individual business, key components of the profile include analysis and summaries of Zone Density, Seasonality, Service Level, Accessorials and Surcharges, International, Hundredweight/Multiweight and Dimensional Charges.

The **Data Analysis** phase consists of populating the costing model with the data from the parcel profile and the pricing from your existing agreement(s). Other components include best practice observations and a savings opportunity analysis. The best practice analysis typically consists of looking at air versus ground comparisons, address correction review (does it make sense to implement CASS Software?) and potential unauthorized shipments, to name a few.

The savings opportunity analysis is critical, not only for identifying possible gaps in your processes — such as not taking advantage of the ground footprint — but to also identify targets for your negotiation strategy. Do you have a lot of OS1s with no discount, but very few OS2s with a discount? Are you far above your highest revenue discount tier? Do you have a lot of Delivery Area Surcharges (DAS)? All these things should be identified in this analysis and folded into the negotiation strategy.

Once you have identified your targets, developed / updated your profile and costing model and completed your data analysis, the next step is the **RFQ Development and Management** itself. As mentioned before, corporate policy may dictate certain required elements, such as legal statements and supplier diversity requirements, so it's best to identify those first.

Experience indicates that more is better in a Parcel RFQ. You really want to create a comprehensive document that acts not only as a road map for the process itself, but gives the bidder a complete overview of your



parcel business, in order to develop a qualified response. Below are some suggested topics from a typical Parcel RFQ.

Of these, Pricing Targets and elements of the Parcel Profile are critical. You will need to understand your data and develop targets for discounts / concessions, based on the profile itself. A good way to do this is to develop

Pricing Targets based on the profile. One thing to note when developing these targets is to focus on products / service you use or will be using. If you don't place emphasis in this area, it could be perceived that you are not familiar with your profile. This could diminish your ability to negotiate.

Again, it's important that you understand your profile and package characteristics and that the bulk of this information is included in the RFQ. Without it, the respondents will be frustrated and your proposed pricing will reflect this. It is your responsibility to give them this information so you can receive the best overall pricing on the first round, based on the data in the RFQ.

The last piece of the process is **Negotiation and Implementation**. Negotiation is a major part of the process and consists of response analysis, additional round negotiation strategy and final negotiation. A typical negotiation takes at least four rounds, and it is important

that when you receive your response you analyze it thoroughly, line it up against your targets and then develop a response or counter, if needed.

Introduction	- Growth
RFQ Purpose and Objectives	- International
Project Schedule and Milestones	- Special Requirements
General Conditions	Proposal Pricing Targets
Bidder Selection Process	- Domestic Incentive Program
Intentions	- Revenue Tier Incentive Program
Confidentiality	- Weight- and Zone-Based Incentive Program
Reservations	- International Incentive Program
Rejection of Quotation	- Hundredweight / Multiweight Program
Bidder Instructions	- Same-Day Incentive Program
Scope of Bid	Accompanying Documentation
Parcel Profile	Bid Quotation Submittal Instructions
- Distribution Network Overview	Summary
- Shipment Volumes	
- Seasonality	

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