

Viewpoint

Understanding The Value of Package Characteristics

How to Use Package Characteristics to your Advantage in a Carrier Negotiation

Do you know what package characteristics are important to your parcel carrier or their competitor? Are you shipping the type of packages that bring in the most profit to the carrier? Certain shippers have more profitable package characteristics than others. Of course, the carriers need a good mix of packages, but by having an understanding of what drives the carrier's profitability you will have better leverage during the contract negotiation process.

As a customer of a carrier you should want your selected carrier to be profitable. After all, they are a vital extension of your business. By having the basic facts about package characteristics in your toolbox, you will facilitate a win-win both you and the carrier, your next contract negotiation.

There are four basic package characteristics that the carriers look for in a client when negotiating incentives. They are:

Package Volumes per day or week

Average Weight of those packages

Length of Haul of those packages

Percent of Residential deliveries

We will give you a basic understanding of these characteristics and why they are important to the carrier. Again, the more desirable the carrier believes you are, the smoother the incentive negotiating process will be.

The first package characteristic is **package volumes** per day or week. This is important to the carrier because it directly affects their pick up costs. For example, if a certain shipper has one thousand packages per day for pick up, the carrier may be able to use the customer's dock and equipment for loading. Usually, this is a win-win situation for both parties. The shipper's staging area is freed up because they are able to extend their dock twenty-eight feet with the carrier's trailer space. For the carrier, the shipper loads the trailer and, more important, it only takes one stop to pick up the packages. Conversely, for the carrier to pick up 50 packages at a stop would take them 20 stops to yield the same number of packages, thus increasing their pick up cost dramatically.

You can see that the number of packages per pick up is vital to the carrier in controlling their cost. The more a shipper can help with controlling this cost, the more willing the carrier will be to provide a higher incentive for the shipper. This could be the deciding factor as to whether you would use a single carrier for your shipping needs or split the business among several vendors.

The next two important categories are the **average weight** and **length of haul** of your packages and how they directly effect the carrier's revenue generation. The heavier the package and the longer the distance the package travels, the more cost to you, the shipper, and the more revenue for the carrier.

For example, a 25-pound package going to zone 8 yields much more revenue for the carrier than a 1-pound package going to zone 2. In these two categories the carrier is looking for maximum revenue generation. Why? It does not cost the carrier any more to move a 1-pound package 2000 miles than a 25-pound package, yet the revenue they receive is substantially more. The carrier does look at a good mix of packages for loading purposes and that is why averages are used in these areas, but in general, the heavier packages and longer hauls are good shipping characteristics to have when negotiating.

Lastly, the carrier looks at your package characteristics as they relate to the delivery cost for the carrier, and, more specifically, the [percentage of packages being delivered to a residence](#). Residential deliveries are more costly to the carrier, because typically only one package is delivered to a residence from one shipper. Whereas, a commercial stop has multiple packages delivered from several vendors. Also, important in the equation is that a commercial delivery stop probably has another delivery stop within a couple hundred yards. Residential deliveries have to be “sought out.”

The carriers have done a good job of controlling the delivery cost by charging more for residential delivery, partly due to the increase of on-line shopping and auctions, but it is still a crucial part of their business model and thus a consideration during negotiations. If you are a high volume residential shipper do not be

discouraged, the carriers have become better at handling this type of business with technology tools, but be prepared to pay more and receive less incentive for this segment of packages. Simply stated, the more commercial deliveries, the more attractive you are to a carrier.

These package characteristics are the first snapshot that a carrier is going to look at when they are making pricing evaluations. Other considerations include: claims ratio, accounts payable, oversized packages, and hazardous material/dangerous good packages.

By understanding the importance of these characteristics and the impact each one has to a carrier, you will be armed with better negotiating power. A shipper with a desirable shipping profile and package characteristics can use these items to their advantage in decreasing overall shipping costs.

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