PARCEL FORUM SPEAKER 2016

Top 5 TRANSPORTATION DATA ANALYSES THAT GET RESULTS

By Tim Sailor

We have all heard that knowledge is power. This could not be truer when it comes to managing your transportation expense. In today's world, the carriers have made it difficult for shippers to get the information and data that they need to effectively manage their carrier contracts and expenditures.

When shippers enter into discussions on renewing or replacing their existing carrier agreements, they are usually told by their representatives that they will give the shipper their best possible deal. Well, what does that mean? And, how do you compare it with the other offers on the table?

Many shippers (and consultants) try to back into the "best deals" by employing benchmarking and/or trying to understand the carriers cost to serve models. I believe that a better approach is to use data and analytics to determine which factors increase your carrier expenditures and dilute contract discounts. After studying and evaluating thousands of different shippers' carrier costs, we have found that five simple analyses can identify and significantly drive down hidden costs.

UNDERSTANDING THE GRI AND ACCESSORIALS

The biggest culprit in increasing costs is the carriers' annual General Rate Increase (GRI). FedEx and UPS announce these GRIs by saying that the annual increase will "average" a certain percentage. The biggest problem with this approach is that the increase is not applied equally across services, weights, zones, and residential deliveries. Since shippers typically have fixed discounts off of tariff rates, most shippers don't know the true impact to their bottom lines.

This year, the carriers announced a 4.9% increase. However, if you are a residential shipper who ships packages weighing from one to 10 pounds, you took a 7.3% increase. Big difference!

It's necessary to evaluate net rates for each weight and service level using the carrier-provided net rate sheets. Then, to determine the actual dollar cost to your company, apply the new 2016 net rates to your 2015 actual usage. This will show you to a penny what your increase will be, including the minimum shipment charge. We have also found that negotiating a GRI rate cap will also limit these increases and ensure an equal, across-the-board application of the new rates for all weights and services.

In addition to the GRI net rate increase, the carriers also impose annual increases to their accessorial fees. These increases can also be significant. This year, FedEx increased the Additional Handling Fee by $1.50, or 16.7%. Again, apply the new rate to your 2015 historical usage to get the net increase to your organization. By quantifying the additional costs, it's possible to go back to the carriers and ask for additional discounts to offset the tariff increase.

We take the same approach to calculating all accessorial fees. Most carrier reporting will break out the accessorial fees and show you annual shipment totals and cost for each surcharge.

Other common accessorials are the DAS fee and Residential fee. DAS fees have increased a total of 13.9% over three years, and residential fees have increased 15.3% over three years.

Year	DAS	Residential
2014	3.6%	3.6%
2015	5.3%	6.9%
2016	5.0%	4.8%
3 Year Increase	**13.9%**	**15.3%**

Once the dollar impact of these charges have been quantified, it's possible to request additional discounts to offset these increases.

THE DREADED DIM

Dimensional charges have been another area where shippers have taken huge increases and have had difficulty calculating how this impacts their costs. The carriers first began in 2013 by lowering the dimensional factor from 194 to 166. By most estimates, this increased oversize shippers' costs by 18%. Then, last year, the carriers began to apply dimensional pricing to all packages, including those under one cubic foot.

The first thing to review is the weekly electronic shipment invoicing from the carrier. Focus on two columns: Actual/Original Weight and Billed/Rated Weight. If the invoiced weight is higher than the actual weight, you are getting hit with additional dimensional charges.

The next step is to request that your carriers provide you with an electronic billing format that gives you the length, width, and height for each package. When multiplied together you will see the total cubic inches of each package. Apply the carrier dimensional factor, and you will get the true invoiced weight and cost. Compare this to your packaging and you will then see which boxes incur the highest dimensional weight. With this data, you can establish your incremental costs and may be able to negotiate a non-standard dimensional factor that benefits your company's unique packaging and shipment mix. We have seen many shippers lower their costs by hundreds of thousands of dollars utilizing this approach.

	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	$6.94	$6.94	$6.94	$6.94	$6.94	$6.94	$6.94
2	$6.94	$6.94	$6.94	$6.94	$6.94	$6.94	$6.97
3	$6.94	$6.94	$6.94	$6.94	$7.06	$7.29	$7.71
4	$6.94	$6.94	$6.94	$7.20	$7.41	$7.76	$8.26
5	$6.94	$6.94	$7.15	$7.48	$7.65	$8.05	$8.67
6	$6.94	$6.94	$6.94	$7.08	$7.27	$7.66	$8.11
7	$6.94	$6.94	$6.94	$7.23	$7.40	$7.87	$8.42
8	$6.94	$6.94	$6.95	$7.37	$7.63	$8.11	$8.71
9	$6.94	$6.94	$7.04	$7.43	$7.79	$8.44	$9.26
10	$6.94	$6.94	$7.15	$7.64	$8.03	$8.94	$9.87

For those shippers who are impacted by the Ground minimum shipment charge, they saw YOY total increases of 34.2% over the last five years.

DON'T IGNORE THE MINIMUMS

Analyzing the minimum shipment charge can also produce significant savings. For those shippers who are impacted by the Ground minimum shipment charge, they saw YOY total increases of 34.2% over the last five years. Despite how high your discounts are, the carriers state that your net rate can't fall below a ground, zone 2, one pound package — or $6.94. Most shippers don't realize how many of their packages are impacted by this rule (see table above).

For many shippers, the minimum shipment charge negates ground discounts, on average, for 30-50% of packages. Essentialy, these shipments are going out as tariff rates. Once you quantify the impact to your shipping costs, you may be able to negotiate a reduction in the minimum shipment fee. And, as we showed earlier, this will produce more savings than negotiating higher discounts.

The best way to determine the impact of the minimum shipment charge is to quantify the total number of shipments where the charged amount was $6.94 from the carrier invoicing.

APPLES TO ORANGES COMPARISONS

A fourth area where shippers would benefit from robust analytics is when they are trying to compare different carrier proposal and rate sheets. While it might seem impossible to do this "apples to oranges" comparison, it can be done. Again, start by building a comprehensive data and usage sample. Then, do a NET rate comparison on a shipment by shipment basis. This is far more effective in determining costs than by evaluating discount levels. Next, do the same exercise for all your accessorial fees. Many times, the low cost bidder may not offer the lowest up front rates, but instead offers accessorial concessions that more than make up for it.

UNDERSTANDING AUTOMATION

Finally, one last analysis shippers can improve upon is when they automate rate shopping and Least Cost Routing (LCR) logic. While this is an effective automated way to process shipments at the lowest cost, it is extremely important to analyze the rates you use to compare and route shipments. If the routing logic is based on inaccurate rates or mismatched services, it may end up costing money instead of producing savings. Not only do the right rates need to be uploaded, but the comparison needs to factor in all the accessorial variables. Finally, LCR needs to be updated every January to reflect the GRI impact.

Once you have done these analyses and established your shipping expenditures, you are in a better position to request concessions from the carriers that will impact and lower costs in the areas that impact you most. These savings will go right back to your bottom line. ■

TIM SAILOR is the founder of Navigo Consulting Group, which specializes in contract optimization, distribution analytics, and strategic sourcing. As a 10-year speaker at PARCEL Forum, Tim will be presenting "101: Top 5 Transportation Data Analyses that Get Results." You can reach Tim at 562.621.0830 or Tim@NavigoInc.com.