5 Things Small Parcel Carriers DON'T Want You to Know

by Giles Taylor
Founder and President
Trans-Solutions, Inc.

The smarter you are about how freight rates are determined, the better your negotiating skills will become and the less you'll pay. Here are five things parcel carriers don't want you to know.

1. Bundling all of your spend with one carrier will NOT get you better pricing

In general, a higher spend should lead to better pricing, especially in certain modes of transportation. But this is not always true. Let's take the issue of single-sourcing with one carrier. Single-sourcing violates a basic covenant of purchasing since it takes away options. Multi-sourcing is ultimately more desirable and gives you the best leverage in negotiations. When a carrier gets you to single source, it impedes your ability to maintain a competitive market. Don't think you can just turn on the other small parcel carrier over night. When you go back to them, they have the leverage and you'll most likely have to go through another pricing calculation with them.

What should you do? First, develop a freight strategy. Then develop your negotiating strategy to complement it. For example, if you want to build resiliency into your transportation solution, you'll need multiple carriers in each mode. If you want to be able to keep costs down, you'll need other carriers to create a competitive market. Always give yourself leverage at the negotiation table.

2. A change in your discount percent does not mean your shipping costs will change by that same percent

The devil is in the details. Because freight rates are not linear and accessorial charges can greatly affect what you pay for freight, it is important to determine exactly how much you will pay with new pricing. A carrier may tell you they will adjust your discount to accommodate for the annual base increase. For instance, to offset a base increase of 6.9% they improve your current discount of 63% to 65.1% and tell you this is a "net zero" increase. What you need to know is that the 6.9% base increase is an average increase across all weights, zones and services. But for certain weights, zones and services, the increase could be 10.5% or more. Remember, parcel carriers have very sophisticated modeling and pricing tools and can calculate how much each weight, zone, service, and accessorial fee increase will enhance their profitability. In this example, you may experience a surprising rise in costs if the 10.5% increase applies to weights, zones or services that make up a large percentage of your shipments and costs.

The difficult part about analyzing your true costs is getting a clean file of shipments and costs. With the right analytical tools and access to invoice data, the analysis is fast and accurate. Purchasing freight is a complicated process, so give it time. Don't think you can wrap this up in a few weeks. It could take a few months to do it right.

3. Your parcel representative has limited visibility to pricing throughout the country

Carriers don't want you to know that your rep has a limited understanding of nationwide pricing. So, when your rep says "These are the best rates I've seen in years," she may not be lying. But shouldn't you know what shippers with freight profiles similar to yours are paying throughout the country? Knowing this information gives you a perspective on your pricing that will lead to lower rates. If someone offers you a 10% discount, it sounds great until you learn that others with your freight profile are receiving a 25% discount.

Parcel carriers are the biggest transportation providers in the domestic market, so naturally they have the largest sales forces. In fact, they have sales people who work only with specific industries and companies within specific revenue ranges. They have reps that cover national, regional, corporate, and centralized accounts. The problem is you may not get the right one. Your sales rep most likely has a limited view of pricing across the country and, for the most part, rates are controlled centrally. So, your rep's input is limited to what she sees and is told by central pricing. Additionally, your rep most certainly has not done a detailed analysis on your price increase. Rather, it's the pricing department that has done it. You need an objective analysis of your pricing using a tool that is as sophisticated as the one carriers used to develop your rates.

4. A carrier's on-time delivery performance can vary greatly between services and destinations

If a carrier provides better service than another and pricing is competitive, your choice of carrier is easy to determine. Many carriers talk about their service performance to avoid a bidding war. As a shipper, it's difficult to qualify carriers based on service. The carrier will give you filtered "on-time" performance numbers on overall service. But your customers don't care about that when their next day/early am package arrives at 3 pm. When carrier selection comes down to service, don't rely on overall statistics on delivery performance. One carrier's performance can actually vary greatly depending on the type of service required and the destination points.

Anecdotal case studies are probably the best way to compare service between carriers. But, these are not easy to get. Some ways to get real references include networking at conferences and reading online blogs. When soliciting input from peers, be sure to qualify responses. Shippers have long memories and sometimes it's difficult to get an objective answer about a carrier. If you are dual sourcing, you can test each carrier with specific services to specific delivery points. If one fails while the other flourishes, your decision is easy. Pay particular attention to ground versus air and international destinations.

5. Short term agreements keep your costs in check

Parcel carriers want to get you into long-term agreements when it favors them. The attraction of longer-term contracts to shippers is that they avoid a yearly negotiation process. But long-term agreements can lock in rates that may not fit your changing freight profile. As the steward of your company's transportation spend, shouldn't you get the best pricing available at all times? The way to do that is to have options and leverage. The ultimate leverage is being able to "walk away."

Parcel carriers used to take 3%-4% increases on their base rates each year. Lately that has doubled. Do you think their costs have doubled? Not only do freight rates increase, fees do as well. Plus, new fees are added or modified resulting in an increase in your bill. Pricing with small parcel carriers is a dynamic environment. Don't take a static approach. Good auditing companies, as well as these carriers, can provide a great deal of intelligent information about your freight and how it's changing. Monitor these reports and make sure you're getting all the detail available about your shipments. Then negotiate regularly to ensure you receive the best rates.

Giles Taylor is founder and president of Trans-Solutions, Inc, – http://www.trans-solutions.com – a transportation consulting company that helps small and mid-sized businesses make critical freight management decisions that result in savings of 5%–25%.