



The GRI Pressure is On Is Your Business Prepared?



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It happens every year – the General Rate Increase. As carriers increase their shipping rates to keep pace with the economy, shippers try to adjust and factor the annual increase into their business model. But there’s more to GRI than meets the eye.

The GRI is just one of many variables in your shipping costs, and misjudging the GRI and other cost increases that might come along with it can be catastrophic to your bottom line if they are not managed properly. With smart planning, however, you can control these costs and protect your profits.

Shipping rates are increasing across the board

In recent years, carriers have raised other shipping charges along with the GRI, wreaking havoc on some shippers’ operations. Many have also implemented a stifling new cost calculation, shifting shippers to a model in which they must pay based on their actual shipping weight or their dimensional weight – whichever is greater.

Assuming an overall increase in shipping costs communicated by your carrier won’t protect you from some of the individual cost increases that might be

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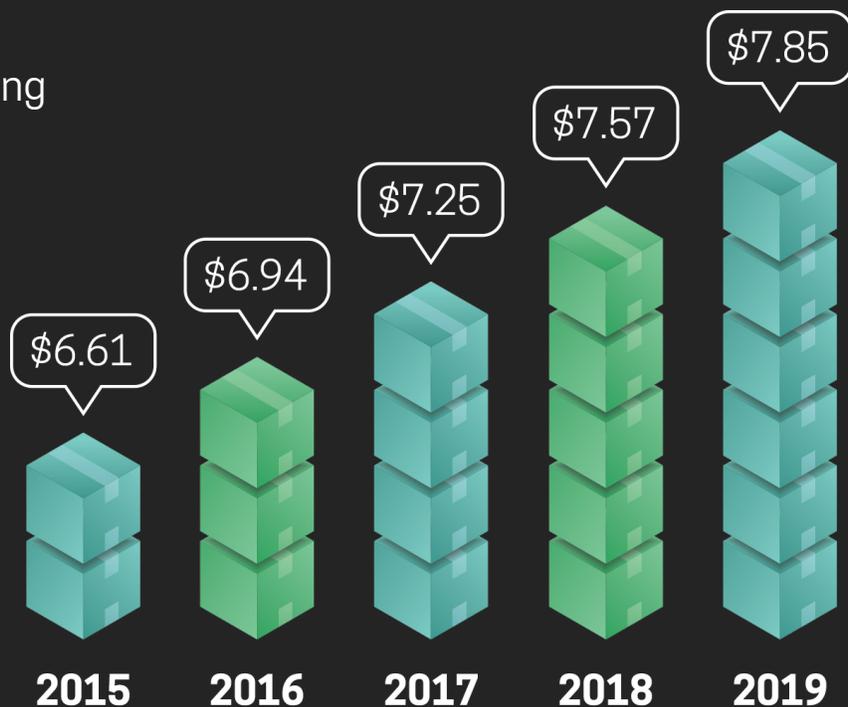
lurking just behind the GRI. Careful study of specific rates that might affect your business more than others is key to keeping costs under control.

Not all GRI costs are created equal

While the GRI is indeed a general increase announced by individual carriers, the impact on each shipper can vary widely. Just as every shipper has a unique shipping profile, each will feel a distinctive GRI impact based on their specific shipping behaviors and how the rates apply to those behaviors.

1 Lb. FedEx™

Domestic Ground Shipping
0 - 150 miles (Zone 2)



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The dangers of underestimating your company's increase

Even as your carrier tweaks its GRI right up until the end of the year, their representative might be assuring you the impact will be minimal. But assuming your business will fit perfectly within your carrier's advertised GRI and budgeting around it is a costly mistake. In fact, years of making this assumption can compound to stunt your business's overall growth potential.

These increases don't just affect your shipping department. GRIs can affect unexpected areas of your business, making it even more important to have a clear understanding of which rates are increasing. Communicating these changes internally helps other departments make wise financial decisions for the business.

Cost of Goods Sold miscalculations

To ensure sustainability, your business must always factor the most accurate shipping costs possible into its Cost of Goods Sold (COGS). Your COGS formula should be reviewed and updated annually at a minimum, ideally after each GRI announcement. Your updated formula should include all associated surcharges and accessorials added after packages are manifested, shipped, and delivered.

However, if the carriers impose changes outside of the GRI, it is recommended to schedule the necessary updates in line with the effective date of the carrier change. Failure to accurately update your COGS formula with recent rate changes could result in an unexpected cost increase you're forced to pass on to your customers, creating a negative experience.

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Corporate-level budget forecasting issues

Communicating GRI updates within complex logistical systems, numerous distribution centers and multiple accounting offices is complicated but waiting too long to determine how your business' bottom line might be impacted could be quite catastrophic.

In 2017, UPS™ and FedEx™ changed the dimensional weight rate alongside the GRI announcement. Even businesses savvy enough to catch this additional update and quickly communicate associated financial revisions on a corporate-wide scale were devastated by an increase greater than 60% in some cases.*

Make a plan to address the shipping increases that could be revealed after you have concluded their initial forecasts and budgets for the next year. Work with your accounting team to study last year's shipping costs and look for expenses that went over budget and seek out a tool to help you identify these budget busters from previous years.

50% of shopping cart abandonment is due to excessive shipping costs.*



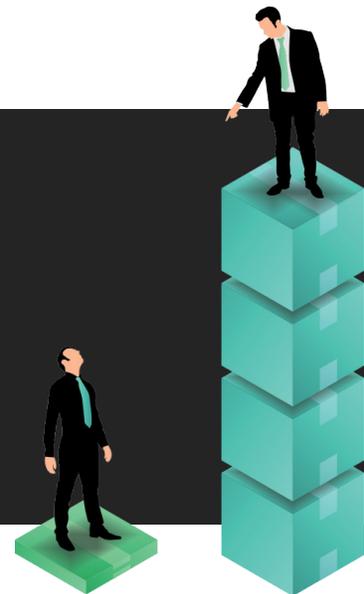
Operational challenges

Operational decisions tied to shipping can have a major impact on your company's finances if your GRI isn't accurately determined.

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One shipper questioned if their business should continue using up their existing supply of \$150,000 in non-optimized packaging or implement new packaging that might lessen the impact of their anticipated GRI. In this case, this shipper chose to maintain their current packaging, resulting in a \$212,000 increase tied to the change of dimensional weight pricing. Because the shipper lacked the ability to run complex pricing simulations, they learned an expensive lesson.

One shipper could see a **0.96%** rate increase while **another** could see a **91.88%** increase. With variable GRIs, it is crucial to understand the specific rates that are increasing as part of the GRI and plan for it.**



Uninformed negotiations

Many businesses believe there is nothing they can do about the carrier-released GRI. They consider the minimum GRI impact within their operations and move forward without carrier discussions. For more GRI-savvy businesses, simple transportation adjustments or carrier-agreed initiatives might seem like the answer. But there is more leverage to negotiate when you empower your company with information about what other shippers like you are paying.

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Insights into what similar companies pay can help you benchmark your own costs and assess areas in which you can lower expenses. As carriers focus their GRI models on residential and lightweight, large-packaged shipments, seek out tools that provide industry shipping data so you can negotiate

Data empowers you to accurately predict your GRI costs

While the pain points and pressures that come with each annual GRI are not entirely avoidable, you can mitigate your GRI impact with careful analysis and data-based decisions. The impact of the GRI varies considerably for each shipper and relying on your carrier's advice without identifying the unique needs and concerns of your business can cut into your profits. The more you know about how the looming GRI will affect your business – and what others like you are paying – the more prepared you'll be to make the right changes with your carrier. ♦

* Source: UPS Pulse of the Online Shopper. 2016.

** Data acquired through VeriShip's Intelligence Platform industry benchmarking tool that uses 13 trillion data points across hundreds of industries.