THE COLD HARD TRUTH

In Parcel Shipping What You Don’t Know Can Hurt You
A massive amount of money is spent by companies on parcel shipping contracts with carriers like UPS® and FedEx®. But as massive as those parcel spends may be, they’re just the tip of the iceberg. What is even more important is what is under the surface—the hidden, unnoticed dollars that impact parcel budgets without ever being seen.

Companies who want to better manage margins and control costs must continually measure these wasted dollars, assess how they are impacting their budget, and take action to avoid creating a hole through which countless funds are lost. Left unaddressed, these lost dollars can be disastrous to a parcel budget.

Parcel accountability is not easy—in part, because much of the information needed to understand it is obscured beneath the surface. Only through proper parcel intelligence can parcel shippers not only avoid chilling costs, but begin to make smart, informed steps to thaw the ice itself.
Consider the following: How does a package with a sticker price of $15 end up costing $37? It’s the same way a “$49 per month” phone plan becomes $72 per month. And the same way a “$99 airline ticket” ends up costing $127. Or the way a concert ticket costs 14% more on the invoice than it did on the website used to buy it. It’s the hidden fees!

They’re everywhere—baggage fees, processing fees, restocking fees, convenience fees. If consumers knew they were going to pay a convenience fee to begin with, they probably wouldn’t have thought it was so convenient!

Parcel shipping carriers have figured this out, too. Their fees come in the form of accessorials and surcharges that are tacked onto a package’s total landed cost—after the package has been shipped.

Steering a parcel budget on the correct path requires an understanding of what is hidden underneath the surface. It may seem simple to avoid something immediately visible—like a huge dollar amount assigned to a carrier contract—but it’s important to consider the smaller, less noticeable fees that add up to massive wasted dollars.

There was a time when paying the published rate based off the package weight, zone, and the service type was enough to “ensure delivery.” But that time is no more. These tacked-on fees and accessorials become the story of death by a thousand cuts; while they’re only a few percentage points at a time, they add up to huge wasted dollars.

Just how much do they add up? Most shippers can’t answer that question, even though the data is included in every invoice. The answer is, on average, a whopping 31% of a carrier’s invoice is made up of additional accessorials and surcharges. That’s no small amount—and they’re not going anywhere any time soon. So the question becomes: what can parcel shippers do about it?
The First Step Is Admitting the Problem

In the world of parcel shipping, 31% is a pretty big problem. Surcharges were born out of the seemingly innocuous practice of adding a fuel surcharge when fuel prices were rising. They have grown to include dimensional weight surcharges for oversized packages and penalizing companies who ship large, lightweight products. In 2015, UPS and FedEx introduced seasonal surcharges, which impacts customers that have seasonal businesses (most retailers). These new surcharges from both UPS and FedEx will only add to the increasing cost of parcel shipping, with businesses either passing those costs along, or absorbing them and taking the accompanying hit to profits.

The fact is, just like telephone companies, airlines, and everyone else, parcel carriers are making a lot of money from accessorail fees—and these fees are not going away; in fact, the list is only growing. Parcel shippers who accept that can begin to take action.

What Can Be Done About It?

Once a parcel shipper admits there’s a problem, they’re ready to start taking control of the situation and driving improvement. The process starts with uncovering and measuring all of the different areas accessorials affect their parcel spend. Quantifying the scope of the impact helps to identify which accessorials are avoidable and which aren’t. The key is to manage or eliminate the controllable surcharges and then work with the carrier to negotiate lower rates on the rest.
UNDER THE SURFACE

SURCHARGES

OVERSIZED PACKAGES

FUEL
How to Avoid a Surcharge and Accessorial Catastrophe

**Step 1: Measure and manage the impact.**

You can’t manage what you can’t measure, so understanding your total landed cost on a per-package basis is a key performance indicator (KPI) that every business should be monitoring weekly. In terms of accessorials, here are some things you need to know:

- What percentage of your cost per package is made up of accessorials?
- How has that trended over time? Is that percentage trending higher? Have there been any recent spikes or unexpected drops?
- Which specific accessorials are having the largest impact, both in terms of number of occurrences and the dollars spent?
- Are there specific service types that are being affected more than others? Specific accounts?

**Step 2: Implement operational changes.**

Once you know the total impact that accessorials are having on your parcel spend, you can begin to take specific action to reduce or eliminate overspend. With “initiative-driven changes,” you pick an accessorial or a surcharge impacting your cost per package, use the current impact per package as your starting point, and set a goal to reduce that figure by X% over the next quarter. Having the data upfront allows you to set a smart goal with a measurable definition of success.

- Hire a parcel auditing company to recover refunds on the invalid accessorials
- Utilize address verification software
- Use appropriately sized boxes
Step 3: Negotiate with your carrier to lower your fees.

There will be some accessorials you just can’t avoid. But that doesn’t mean you have to pay sticker price for them. You can negotiate discounts on your accessorials in the same manner you negotiate discounts on your service rates. And just like those service negotiations, the person with the most data is going to win. Armed with the data you uncovered in Step 1 and monitored in Step 2, you’ll be equipped to sit down with the carrier and negotiate controls around parcel spend. A parcel intelligence platform with a robust, data-driven benchmarking solution can drive you towards an optimized contract, including all surcharges and accessorials appropriate for your level of parcel spend.

With the right combination of tools and data, parcel shippers can:

- Identify weak spots
- Implement changes to improve weak spots
- Measure the effectiveness of those changes
- Repeat the process all over again

The Path to Continuous Improvement

Remember, it’s not enough to simply implement these changes. It is equally critical to continue to monitor these changes to A) determine whether or not goals have been met, and B) prevent that impact from returning. That’s why a parcel intelligence platform, with a robust data-driven benchmarking solution, is so important. When done right, it becomes a loop of continuous improvement—and that’s the direction every parcel shipping customer should be steering towards.
There are many industries that make it easy to compare prices and enter negotiations prepared to get the best value. Parcel shipping is not one of them. As discussed earlier, add-on expenses and differences on a contract-by-contract basis can obscure the information needed to get the best deal. Consequently, many companies freeze up when attempting to negotiate and get stuck with exorbitantly high rates that could have been avoided. Nonetheless, this benchmarking information is critical if companies hope to avoid chillingly high ongoing parcel spends.

Consider how different this experience is for an industry like the real estate market, where home buyers and sellers can research comparable prices in order to avoid leaving money on the table. But what are parcel shippers to do? How do they—to borrow a term from the real estate world—“pull some comps” on their parcel carrier contract?

The answer: benchmarking. For any process or cost improvement project, benchmarking is a core component. Companies use benchmarking to analyze internal KPIs and compare the data against that of competitors and best-in-class companies. The next step is to compile the data to identify gaps between actual and industry leaders. These gaps become opportunities to improve rates and optimize shipping health.

Similar data is easily available for a home purchase, but that same data is painfully difficult to acquire when negotiating or operating under a carrier contract—despite the fact that often, even a fraction of the total annual shipping spend can dwarf the purchase of a home.
Compiling Data

In the real estate world, REALTORS® have spent millions of dollars to develop Multiple Listing Services (MLS) and other real estate technologies that compile data points on real estate transactions across the country and make them more efficient and transparent.

Today, through MLS, brokers share information on properties they have listed while cooperating with other brokers working with their customers to buy or sell homes. Without the collaboration the MLS provides, brokers would create their own separate systems of cooperation, fragmenting rather than consolidating property information such as historical purchase prices.

Comparing Parcel Rates

The ability to benchmark parcel shipping rates is a powerful force for competition. A parcel contract has hundreds of negotiable attributes that have to be negotiated to fit a shipping profile and optimized specifically for the customer. A carrier agreement could have over 600 negotiable attributes, each impacting the overall spend in a different way. Benchmarking—or “pulling comps”—levels the playing field so even the smallest parcel shipper can compete against the biggest, enabling savings now while providing the data to plan for future growth within their shipping profile.

But how does one compile the data? There is no such thing as an MLS for the parcel shipping industry, but what does exist is data science-driven parcel auditing technology that can compare attributes with thousands of other companies, determine how they measure up, and make appropriate recommendations. Put another way, that data-science driven parcel auditing technology can provide parcel shippers with the “comps” they need to make an informed carrier contract buying decision.
Negotiating Parcel Carrier Contracts

When someone decides to purchase a home, a good real estate agent will advise them regarding a maximum price to offer for a home based on home style, square footage, numbers of bathrooms, geographic area, school district, finishes, etc.

But what if parcel shippers knew the information regarding similar data points, such as maximum incentives, service types, air/ground percentages, and specific accessorail discounts to target? How can that information be acquired today? Some financial and transportation leaders take the risk of resting on their limited (read: no MLS access) parcel contract negotiation experience, which typically ends up leaving major savings on the table for their organization. Others—enabled with parcel intelligence via benchmarking—go the MLS route by engaging a proven parcel intelligence company to advise them.
Monitoring Success

While some partners may offer benchmarking, make certain they are not relying on stale, outdated information, or through a sample size too small to be considered valuable for use in negotiations. It is important to look for partners who use real-time benchmarking of thousands of companies. And remember: This negotiation is not a one-time event, so after successfully negotiating a carrier contract, parcel shippers must be armed with technology that can continuously benchmark and monitor the results and quantify the savings.

Many parcel shippers mistakenly believe they are frozen in place once the contract is signed, unable to make changes despite whatever new information may come their way during the life of the contract. In fact, nothing could be further from the truth—a parcel carrier contract can be renegotiated at any point with only 30 days’ notice. Likewise, a good partner provides ongoing monitoring, benchmarking, and alerts when any of the 600 negotiable components of a carrier contract are not “best in class” so that they can take advantage of the opportunity to renegotiate their contract.

Many companies attempting to negotiate their parcel carrier contract may feel as if they are being left out in the cold. Benchmarking information is simply not as readily available for the parcel industry as it is for real estate or many other industries. Despite this, a strong partnership with a parcel auditing company can reveal important benchmarking information that can be used to negotiate (and renegotiate) rates on an ongoing basis to ensure parcel dollars aren’t needlessly thrown to the wind.

A parcel carrier contract can be renegotiated at any point with only 30 days’ notice.
Parcel accountability is important. Not just for the savings generated by a robust carrier invoice audit, but for the wealth of information and actionable intelligence it can uncover for multiple areas of a business. A parcel audit acts like a thawing agent, allowing companies to access critical but previously unattainable data by auditing UPS® and FedEx® invoices. This is often the only way an organization can gain access to this savings-producing data. And as lost parcel dollars begin to thaw out, they can begin to trickle outwards, impacting not only supply chain activities, but other departments as well.

The savings derived directly from a parcel audit come from auditing the service type and associated accessorail charges. The results are lower costs on a per-package basis. Through auditing parcel invoices, an audit company should be ingesting every component of every tracking number—over 150 data points per package. That data allows an audit company the opportunity to provide actionable intelligence across a number of departments. Through KPIs, reports, and alerts, that data will inform and impact everything from customer service to marketing to finance.
SOME EXAMPLES

Finance department:
Invoice data will provide package-level GL coding, making cost center allocation a learned, automated function rather than a labor-intensive, manual process.

- **Impact/Result**: Lower costs, increased accuracy, repurposed resources.

Marketing department:
Geographic reporting, density, and frequency data from the invoice can help fine-tune a marketing campaign and provide another view of campaign efficacy.

- **Impact/Result**: A granular, third party measure of marketing campaign effectiveness.

Logistics or traffic (operations) departments:
Visibility into behaviors and data that are typically neglected or overlooked by understaffed transportation teams is key. Eliminate the need for hundreds of manual tasks and hours of meticulous review through automated alerts and carrier account utilization monitoring. Teams must have actionable insight into why KPIs fluctuate beyond associated adjustable tolerances/measures in areas such as cost per package, unauthorized account usage, and improper application of contracted rates.

- **Impact/Result**: Improved overall health and transparency around your parcel shipping profile.
The right parcel auditing company should ensure that the overall carrier contract is optimized to the customer’s specific characteristics. That can be accomplished through a robust benchmarking effort, comparing hundreds of negotiable components of the contract to those of industry peers.

Statistics suggest that parcel auditing produces a 2–5% annual savings return on your current parcel spend. Considerably more significant: a trusted partner with a complete auditing, intelligence, and parcel engineering offering potentially yields a 20–50% savings on an annual parcel spend when the data is analyzed and leveraged to optimize the carrier agreement and network utilization tendencies.

Companies must make certain that their parcel audit company is not only holding the carriers accountable through a robust invoice audit, but also using the data to deliver prescriptive analytics and actionable parcel intelligence.

Countless parcel shippers have lost dollars hiding in plain sight. But these dollars are frozen and will remain that way until parcel shippers begin to challenge their partners towards greater parcel accountability.

It is up to parcel auditing partners to find solutions that serve all their customers’ parcel accountability needs—something that can only be accomplished by looking beneath the surface and thawing the countless factors contributing to the ice.
THAWING THE ICE
VeriShip is a cloud-based parcel audit and intelligence company providing innovative parcel audit, intelligence, and engineering solutions. More than 3,300 clients have uncovered significant cost savings using its turnkey software for real time analysis and benchmarking of parcel spend.

Thaw the ice.
Contact VeriShip to begin the process.

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