Do-It-Yourself Parcel Carrier Contract Negotiations

Parcel shippers are better positioned than ever to negotiate better shipping rates, terms and conditions in their carrier contracts without bringing expensive consultants on board.

Contents

Executive Summary

Within businesses today, one activity remains a holdout in many organizations' efforts to apply the strategic sourcing techniques taken for granted in virtually every other business function: parcel shipping. As a result, many companies – among them manufacturers that rely on the fast delivery of urgently needed components and omnichannel retailers that depend on e-commerce sales – pay far more for parcel shipping than they should.

In almost all cases, this failure to maximize savings in parcel shipping operations is a direct reflection of a flawed approach to one critically important skill: do-it-yourself (DIY) negotiation of parcel carrier contracts and agreements. Fortunately, today's shippers are ideally positioned to use a variety of techniques to secure more favorable shipping rates, terms and conditions in their carrier contracts. In fact, most companies have the opportunity to lower their shipping costs by 22% or more, an opportunity that directly translates into significant top-line and bottom-line gains. This whitepaper will offer insights on carrier contracts, the levers within them that can be used to lower costs, and steps savvy shippers can take to effectively negotiate savings without using expensive consultants.

Parcel Shipping – More Important Than Ever

The ability to cost effectively and reliably get items from one point to another has always been a differentiator in business, but in recent years the importance of parcel shipping acumen and performance has grown dramatically as the pace of business accelerates. Whether it's in manufacturing where the operations of an entire facility can hinge on the ability to quickly get parts for an important machine, or in healthcare where fast access to personalized medicines and sophisticated devices impacts patient care, parcel shipping is increasingly appreciated as a mission-critical concern.

In no arena is this more overtly apparent than e-commerce. For today's dynamic omnichannel retailers, parcel shipping is the core of the fulfillment process – one that determines not only whether purchases are reliably delivered to customers on time, but also if products can be competitively priced with "free" or discounted shipping.

These are some of the many reasons why it has never been more important to approach parcel shipping in a strategic manner. And perhaps not surprisingly in a time when most businesses are paying more to parcel carriers than ever before – most have seen their shipping rates increase in excess of 30% over the past three years – there is a newfound mandate among many c-suite leaders for shippers to take action.

The Era of Do-it-Yourself (DIY) Parcel Carrier Contract Negotiations is Here

In the past, when organizations wanted to secure savings by negotiating better parcel carrier contracts, they turned to a contract analysis and negotiation consultancy. The challenge was always that such support is expensive, especially given the gain share model that remains the standard business model within the parcel consulting field.

With gain share, consultants take a percentage of the savings they secure – typically by identifying practices that can be improved or finding opportunities within carrier contracts to save money and then guiding the negotiations needed to secure them. The consultant then receives a percentage of the savings, with three years being a typical payout period.

It's a lucrative model for consultants but one that quickly grows expensive for shippers. The most basic parcel shipping audit is but one example. A thorough but basic audit will identify savings opportunities of one to two percent of total parcel shipping spend, often simply by requesting the rebates shippers are already owed because carriers failed to meet their own service-level guarantees, most often because deliveries arrived late.

(Reveel found that 78% of new clients have failed to request rebates they are owed.) In a gain share model, the consultant is paid for such savings for an additional two years after securing them – even if all they did was request rebates owed but not requested.

Fortunately, as a result of innovations in data science and AI, new Software-as-a-Service applications are upending this dynamic. Just as on-demand applications like TurboTax and Travelocity empowered consumers to do their own taxes and book their own flights for the first time, advancements like the Parcel Spend Management 2.0 technology within Reveel's Shipping Intelligence Platform empower shippers to do for themselves what once required consultants.

Such applications allow shippers to proactively gain visibility and control over the numerous, complex factors in their carrier contracts that impact costs and act on them to negotiate far better rates, terms and conditions. The era of DIY parcel carrier contract negotiations, in which shippers proactive secure savings, is here.

Understanding Carrier Contracts and Agreements

When consumers want to ship something with a carrier, for example sending a parcel via FedEx or United Parcel Service (UPS), they simply choose a service that addresses how quickly they need the shipment to arrive at its destination and pay the going rate. In contrast, corporate shipping operations are governed by carrier agreements – extensive service contracts that typically include many pages of fine-print details. Such agreements are brought forth by the carriers' sales representatives, who usually have a lot of leeway in determining what the proposed agreement looks like.

While many organizations make the mistake of accepting the first contract that is presented, carrier sales representatives expect companies they want to onboard or renew to negotiate for better shipping rates, terms and conditions. Most receive commissions that incentivize them to sell contracts that impact the one metric all carriers are laser-focused on growing – revenue-per-parcel or revenue-per-package, commonly referred to as RPP.

Not surprisingly, most start with offers that are on the high side with the understanding that they will make concessions during negotiations. Historically, in the resulting back-and-forth that ensues, carriers typically enjoyed a significant advantage. Because a company might ship thousands of shipments in a day and each one is in effect an ad hoc event in which costs are influenced by numerous, constantly changing variables – including everything from how large and heavy the parcel is to where it is being sent – most businesses historically had very little real visibility or control over their shipping activity.

Even fewer had any ability to proactively know how small changes, such as absorbing a new surcharge for a specific zone, would impact their shipping costs. Today's on-demand data science solutions change that.

Notably, in recent years most of the major parcel carriers moved to radically increase their RPP with historic rate increases. This really kicked into high gear during the pandemic, where the rapid adoption of e-commerce exceeded the capacity of carriers' networks and in many cases empowered them to walk away from less profitable clients.

Even today, long after the official end of the pandemic and following the steady normalization of consumers' shopping behaviors, the volume of online sales is growing faster than in-store sales. This is despite the fact that shoppers have long since returned to the brick-and-mortar stores they love. And perhaps not surprisingly, carriers are still raising their shipping rates.

It is for such reasons that the ability to effectively negotiate parcel carrier agreements in a self-service, DIY manner, is crucially important and growing more so every day. Most organizations simply can't continue to absorb parcel shipping cost increases. DIY contract negotiations are the solution. Fortunately, the process of effectively executing them is fairly straightforward.

DIY Negotiations

Step 1 | **Understand the Basics of Carrier Agreements**

Parcel carrier contracts are complex agreements. That is why on the most basic level it is important for shippers and business leaders to first understand four important truths that apply to all carrier contracts:

1. **Published shipping rates never tell the whole story.**

   Each fall carriers introduce their general rate increases or GRIs for the year. Published on their rate cards, these are considered baselines in contracts for the new year. Many shippers mistakenly take these increases at face value and simply add them to annual budgets despite the fact that rate cards are but one of the ways shippers can increase shipping costs and grow RPP. For example, when both FedEx and UPS introduced a 5.9% GRI for 2024, Reveel's analysis showed that once the fine-print details in every contract are factored in, the average FedEx customer would actually pay 8.17% more and the average UPS customer would pay 7.72% more in 2024 if they made the same shipments as in 2023.

2. **Most carrier contracts include many pages of important fine-print details.**

   These include a litany of surcharges, zone-specific rules, extra fees, and exceptions – many of which have the potential to radically impact what it costs to send any one package from one location to another. It is absolutely imperative to remember that even one new rule – for example adding a new delivery destination area surcharge or DAS – can radically impact costs. Far too many shippers know from experience what it feels like to discover they have been shipping an entire product line at a loss because they failed to gauge the impact of one new surcharge, fee or rule hidden within the fine print of their contract.

3. **Carrier contracts are constantly changing with terms that often expire before the contract does.**

Most service-level agreements are valid for a set time frame, but in contrast carrier contracts often include terms with different expiration dates. For example, while the contract may be valid for a year or three years, negotiated surcharge discounts often expire after a matter of months. On top of this, carrier contracts stipulate that shippers accept future changes that impact costs, such as fuel and peak season surcharges, new rules on zones, changes in service levels and other ad hoc details as they are unveiled and put into effect by the carrier.

4. **All carrier contracts offer shippers extensive opportunities to negotiate.**

The good news is that every carrier contract presents savvy shippers with the opportunity to negotiate better rates, terms and conditions from numerous vantage points – all of which can deliver significant gains not only in savings, but also in operational efficiencies that drive bottom and top-line results.

DIY Negotiations

Step 2 | **Consider the Levers to Secure Savings**

Shippers should know of the numerous components in their contracts that serve both as levers to negotiate savings and to improve service levels. Some of the most common found in carrier contracts, and which have the potential to deliver significant savings when addressed in focused negotiations, include:

1. **Service level discounts:**

   Service level discounts are exactly that – price discounts carriers offer when the volume a business ships with them meets a specific threshold. In addition to continually monitoring how close they are to reaching the next volume tier, a process made easy by today's SaaS applications, shippers can negotiate not only when volume discounts kick in, but also what the discounts will be. Both are lucrative options that deliver savings.

2. **Assessorials and surcharges:**

   Assessorials are special charges for additional steps or handling a shipment requires. Surcharges are the extra costs that carriers add at will and which can significantly impact shipping costs. Some of the many common surcharges include delivery area surcharges or DAS – charges that typically were associated with rural, hard-to-reach destinations but just were unveiled for densely populated major metropolitan areas as well, fuel surcharges for jet and diesel fuel cost increases, but which typically includes an extra amount to drive greater RPP; peak season surcharges during the holiday shopping season; and zone-specific surcharges that are often used to drive additional revenue in popular zones. All surcharges and how long they are valid should be aggressively negotiated by shippers as a matter of course.

3. **Zones:**

   In addition to the DAS surcharge mentioned above, zones can significantly impact shipping costs in other ways as well. Shippers should also look at zones where they do the most business, and negotiate rates, terms and conditions specific to them. Service levels are another lever that enable shippers to find additional savings related to the zones they use. For example, if you are shipping to a specific zone using express services, it should be determined if less expensive ground services will suffice and still meet customers' expectations.

4 Weight breaks:

One of the most lucrative fees among carriers are overage charges for heavier packages. Notably, these represent some of the steepest increases since the pandemic, as carriers have moved to streamline their networks by removing heavier parcels from them. Such charges also tend to change frequently, with increases introduced with painful regularity. For shippers that move heavier items such automotive parts, sporting goods, and furniture, it is imperative to pursue exceptions to weight breaks. The savings associated with even a small negotiated change can be significant. In many cases a package that exceeds the weight break and is deemed overweight can be exponentially more expensive to move.

5 Dimensional weight divisors:

Carriers use many complex divisors to calculate their pricing by the size and weight of packages – something that makes sense when you consider that a relatively light, but large parcel will still take up space. While carriers have different ways of calculating dimensional weight divisors or DIMs, they are designed to assign what the carrier would view as the ideal weight of the parcel based on its size, or dimensions. They are also a lucrative thing for shippers to focus on in their negotiation efforts, particularly if they have items that would be less expensive to ship if the rates were calculated by weight rather than DIM.

6 Minimums:

The lowest price a parcel will cost to ship, minimums are important to view as a lever for securing savings for one simple reason: negotiated discounts cannot go lower than this amount. For this reason, minimums and how they are related to service levels and zones should be viewed as opportunities to generate additional savings.

7 Money-back guarantee waivers:

Carriers often will offer shippers discounts or rebates in return for waiving the money-back guarantees that are typically included in service-level guarantees, for example when a parcel is delivered late or lost. If the costs incurred, or customer inconvenience associated with a lost or late shipment is relatively low and rare, these waivers may be worth exploring as a bargaining tool.

If, on the other hand, the costs and business impact of an event that would prompt a money-back guarantee is high, shippers should consider negotiating their removal of such waivers from the carrier agreement.

8 Early termination clauses:

Most carriers work to include a volume guarantee in their contracts – the volume of packages a shipper agrees to ship with them over a set time period. If this volume decreases in excess of the threshold, the punitive fees can be substantial. Businesses that operate in sectors or markets that are sensitive to macro-economic trends, global events or even natural disasters should be particularly wary of early termination clauses, and shippers should view their negotiation to set terms – or their removal entirely – not just as a way to secure savings, but also an "insurance" or risk mitigation strategy.

9 Payment terms:

The ability to control cash flow and capital is a strategic imperative of any business. While most carriers offer net-30 terms as the standard, negotiations can focus on either lengthening terms or even including discounts for early payments – both issues shippers should explore with their finance team to determine where the most lucrative benefits for the organization lie.

DIY Negotiations

Step 3 **Prepare to Negotiate**

For DIY negotiations with carriers, preparation is key. While your carrier is likely a valued partner and should be treated as such, make no mistake about it: In negotiations the sales representative that services your account will do everything they can to increase their commission and the carrier's RPP. It is crucial that several steps be taken, and considerations addressed, before negotiations occur.

1 Know Your Shipping Vital Factors:

Every organization has a unique shipping profile DIY negotiations should reflect. More specifically, shippers should have a keen grasp of what we call Shipping Vital Factors – the metrics that play the greatest role in determining what ultimately should be considered a successful negotiation, and which are the key indicators for gauging shipping activity and performance.

Notably, it's important to remember that in many cases carrier reps will approach negotiations with their own detailed understanding of their business with you. For example, sales representatives at UPS use Deal Manager, a tool that uses data science and advanced machine learning to provide insights on which pricing strategies to use when negotiating agreements with new and existing customers based on that organization's specific shipping activity.

Most importantly, in negotiations data is power. Shippers should absolutely know their Shipping Vital Factors before going into any negotiation. These include:

- **Total shipping spend and total shipping spend with the carrier:** You should be able to point to exactly how much you spent with the carrier, and know how much total shipping spend you bring to the market if using multiple carriers.

- **Total surcharge spend:** Total surcharge spend should be tracked as a matter of course. In negotiations, being able to differentiate from published rates – as well as rates included in the proposed contracts – and the surcharges that can dramatically impact real world costs is imperative.

- **Average cost per shipment:** Knowing this is important for a number of reasons. First it is essential for planning, forecasting and budgeting. It is also crucial in order to know how your costs with the carrier are tracking over time.

- **Average weight and average dimension weight:** To negotiate for the previously mentioned weight breaks and DIMs, you must of course know how your own packages relate to them. This is particularly true of businesses that have a diverse product mix that changes frequently.

- **Minimums:** Minimum charges should also be tracked. If you are getting hit with the minimum charge on a frequent basis, a negotiated increase in your "minimum reduction" should absolutely be pursued.

- **Average zone:** You should know not only what your average zone is, but also which additional zones you ship to most frequently. This is important, because negotiations should focus on those zones that have the greatest potential impact on your business.

This last point brings us to the second, and arguably the most important point that all shippers should consider when preparing to negotiate.

2 Follow the money:

One of the most common and most effective negotiation strategies used by carrier reps is to present numerous discounts and concessions that have little material impact on the shipper's business but that create the impression that a great or heavily discounted deal is being offered. This is why it is crucially important to follow the money – focus on getting discounts and exceptions that really impact your costs. Prior to going into negotiations, you should know exactly what levers present the greatest opportunity to lower shipping costs, and pursue those intently and in a focused manner.

3 Know what you are getting into:

Carrier contract negotiations are not a one-and-done affair. Carriers expect to go through many rounds of negotiations before settling on an agreement. Some even counter shippers' offers with agreements that further increase rates – a scare tactic that unfortunately prompts some to accept the initial offer. Expect to go back and forth in numerous rounds before securing the deal you want.

4 **Look at and consider the competition:**

Ideally, shippers can take a carrier- agnostic approach, something that is difficult to achieve, but becomes much easier when they take a multi-carrier approach that makes it possible to match the right parcel with the right carrier. In negotiations, getting the best deal often requires competition and seeing what other carriers will offer. Today, when carriers are again eager to attain market share, the competition will often present a better deal – something that can be the foundation for more aggressive negotiations with the incumbent.

DIY Negotiations

Step 4 | Embrace an "Always Negotiating" Mindset

Historically, most organizations negotiated their carrier contracts annually – typically in line with the unveiling of the new GRIs or every three years. Importantly though, shippers should never fall into the "set it and forget it" trap of thinking your negotiations are complete. The carriers introduce new rules, surcharges and fees all of the time, so even the best negotiated contract is subject to changes that may render it insufficient. Shippers should always be mindful of the impact that timing has on effective negotiations. At a bare minimum, they should pursue:

1. **Full negotiations annually:**
   Advocate for an annual review and the negotiation of contacts so you can adjust to and address changing business needs and market conditions.

2. **Periodic amendments:**
   The flexibility to address unforeseen changes in shipping volumes, product mix, service requirements and the carrier's own pricing changes can be pivotal in shippers' efforts to ensure that their agreement remains competitive and cost effective throughout the entire term of the contract.

Step 5 | Build Long-term Partnerships with Carriers

In ideal negotiations, everyone wins. Carriers should be viewed as long-term, valued partners who play an important role in your ability to do business. The best way to create an ideal negotiation is to use your shipping data to build a business case that shows why it not only benefits your organization to receive discounts, but also how doing business with you benefits the carrier.

Your carrier rep will appreciate it if you provide them with a compelling business case they can take to their pricing department. Doing this as a matter of course for each of the major discounts or concessions you are asking for – again, follow the money – is a great approach. And as in all negotiations, positive long-term relationships typically lead to optimal rates and service.

Conclusion

By taking these five steps for DIY carrier negotiations, shippers can radically lower their shipping costs while simultaneously strengthening their carrier partnerships. And as with all things, DIY negotiations get easier the more you do them. The better you get at using data-driven insights to identify where the greatest opportunities to drive saving lie, and to secure them with effective data-driven negotiations, the easier it becomes.

Shippers can also learn from others. The resources page of Reveel's website includes on-demand webinars and blog posts that explore pivotal issues for shippers. It also features customer case studies that detail the thinking behind how some most effective shippers have used the data- driven analysis and decision making today's advancements in data science make possible to effectively lower their shipping costs. Some of these include:

How Boot Barn dramatically decreased the shipping costs associated with its e-commerce sites while helping to inform the expansion of its nationwide network of brick-and-mortar stores

How a leading direct-to-consumer beverage distributor perfected its multi-carrier shipping strategy while securing a new three-year carrier contract that delivered significant savings

How a fast-growing, billion-dollar high-end yoga apparel brand secured more than $1.8 in initial parcel shipping savings

How Motion Flow & Control Products (MFCP) secured significant savings on the parcel shipping costs associated with its manufacturing operations, e-commerce site and brick-and-mortar stores

The strategies a venture capital firm used to slash parcel spend by more than $3 million while achieving an estimated $24 million jump in enterprise value across its portfolio of companies

Shippers are also invited to demo the Parcel Spend Management 2.0 technology within Reveel's Shipping Intelligence™ platform, a SaaS-based analytics, contract analysis, and negotiation solution that enables shippers to gain unparalleled visibility and control over costs and performance. With the right tools, every shipper can be successful in their DIY carrier contract negotiations.

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