WHITE PAPER

How to Negotiate on Your Terms

By Thomas Andersen

Common business practice tells us that we don't get what we deserve, we get what we negotiate. This is just as applicable when negotiating your parcel agreements. When purchasing a meal, a haircut, a car, and most other retail goods, you have a general idea about what to pay. We see the advertisements; receive coupons, ads, and the weekend paper, which all give us an idea of what things should cost. The internet has only made this information more readily available. One of the few exceptions is having visibility to what to pay with your parcel carrier.

The language in an agreement simply doesn't allow for the information to be published. In reviewing thousands of parcel contracts throughout the years, I have found that nearly 95% of agreements for companies that spend $50K to $500K per month with their Carrier(s) have substantial room for improvement, with an opportunity for savings ranging from 10% to 30%... and yes, most people believe that they already have a fair contract with their Carrier. They believe this, since they are told that they do. After all, how would they measure it and what's the basis for them to suggest otherwise?

The following will enable you to make immediate improvements and reduce costs:

GAIN ACCESS TO YOUR DATA

By having visibility to your data, you will be equipped to review your shipment volume, service utilization, zone distribution, actual vs. billable weights, dimensions, pickup requirements, etc. This will help you identify areas where more cost-effective shipping methods and packaging can be used.

The data will allow you to identify charges on late payment, address correction, oversized, and additional handling fees, as well as charges for unexpected services. The Carriers will typically show flexibility to improve payment terms, while internal changes can often be made to account for the high costs that are associated with select fees. You'll also likely identify services that are currently not discounted. You'll be surprised, as the following are just some services that are often overlooked by most organizations:

> Second Day A.M., International Import, and Air Hundredweight services are often ignored during a negotiation, as most don't plan to utilize those services. Although these services would typically account for a relatively small percentage of the volume, applying the appropriate discounts can lead to thousands of dollars per year in savings, as odds are that they are inadvertently being utilized.
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> For Ground shipments, in addition to accounting for standard Commercial and Residential services, one must determine what discounts are being applied to Undeliverable packages, Third Party, Undeliverable Third Party, Freight Collect, and others. In reviewing the data, one will quickly identify areas that have not been addressed, and it may require little more than a phone call to your Carrier Account Manager, to have those areas addressed.

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DON'T ASSUME THAT YOU HAVE AN AGREEMENT IN PLACE THAT PROTECTS YOUR BEST INTEREST

Parcel agreements never look the same, and most leave significant gaps, which are likely to lead to unexpected expenditures over the term of the agreement. Since the Carrier misleads the Shipper to focus on the primary services and weights, many of the other components, areas, and services that account for substantial costs are ignored (as suggested above). Review your discounts on transportation charges and fees against your historical shipping patterns. Odds are that there are services that aren't receiving the discounts that they qualify for, and some are likely to receive no discounts. In addition, it helps you identify areas where more appropriate services can be utilized.

Pricing Tiers are established based on the Carrier receiving specific volume. If there is a slight decrease in volume, you may fall into a lower tier, which can result in extremely undesirable results. Make sure that you are meeting the appropriate revenue qualifiers. As this may be challenging to measure on your own, ask your Account Manager to provide you with your revenue qualifier on a consistent basis. If you identify a significant gap between the current revenue qualifier and discounts that are available at higher thresholds, ask your account manager to help minimize the gap or lower the qualifier at the higher tiers, so that you qualify for more aggressive pricing.

Don't feel that the terms of an agreement are set in stone. There may be X months or years remaining on a 3 year agreement with the Carrier. Some feel that they are required to wait until the end of the term to renegotiate. Rather than feeling locked into a 3 year term, recognize that nearly all agreements include a 30 day out clause and no penalties when making changes. You should put the business out to bid on an annual basis and have quarterly reviews with the Carriers, to ensure that your needs are being met.

ALLOW FOR ENOUGH TIME FOR THE CARRIER TO MAKE THE NECESSARY CHANGES TO YOUR AGREEMENT

A full-blown RFP is likely to require several rounds and weeks to negotiate, to achieve the best results. Allow sufficient time for the process to develop, as escalation of a pricing request is required to occur within the corporate pricing or finance group. This is a time consuming process with all Carriers and requires patience.

A thorough analysis requires substantial time and effort, on your part, to determine the savings. One must be able to apply the current versus proposed net transportation charges, based on the discounts, minimums, and fees. Building an accurate shipment profile, based on historical spend, is therefore critical when determining the net impact. Set aside ample time to review this thoroughly, as you progress through the negotiation process. If comparing pricing proposals for two or more Carriers, be aware that base rates and zones differ for most services, as do select fees.

DON'T BE MARRIED TO THEIR CARRIER

FedEx and UPS are typically both good options, yet most organizations are reluctant to make a switch. With services being similar, the cost savings may be substantial enough to justify the short-term potential headaches.

Although a change in Carriers is typically unnecessary to achieve savings, be willing to negotiate with them. As base rates differ, just be sure that you are comparing apples to apples, which can be a cumbersome and complex process

CONCLUSION

Having benchmarking information helps equip one to better understand what discounts, fee concessions, rebates, and other incentives may be available to them. It is unrealistic to expect to maximize the savings, without having access to that type of information. Without that information, one can still make progress, however. The suggestions above will likely help you lower your cost and

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improve your position, immediately.

As for the more complex components, request a free analysis from a reputable transportation professional, to determine if there are additional opportunities for savings. There should be no obligation and it will validate one way or the other, if additional opportunities for savings exist. Most large shippers utilize a third party to capture their data. A good company will provide online visibility, dashboards, customized reports and other services, including GL coding, auditing for service recoveries, as well as managing agreements on your behalf. Most charge only a percentage of the savings that are generated, with no up front or minimum fees. You'll likely find that a reputable third party will generate significant savings for your organization, while freeing up your internal resources.

We often hear how the parcel carriers make the rules, establish the terms, and limit your visibility. Although there is some truth to that, increased knowledge and visibility can help you level the playing field. The basis of any negotiation is to have a goal and an understanding of what you are setting out to accomplish.

As this is a basic and general article, only select factors were reviewed. I recommend that you refer to the article How Carriers Set Their Pricing; and How to Get Yours to Go Down, in August 2008's Parcel Magazine (pages 12 and 13) for additional tips to improve your position when negotiating with the Carrier(s). In addition, please review the article KPI's to Improve Transportation, by Rob Nelson, in January/February 2009's Parcel Magazine (pages 10 and 11) for additional insight to the value of having access to and understanding your data.

If you have any further questions, it's best to reach out to a reliable transportation professional to help you determine what type of cost-savings may be expected, as a result of optimizing your transportation modes and parcel agreements.

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