



960 South Broadway, Hicksville, N.Y. 11801 T: 516.822.1183 F: 516.822.1126 [www.icclogistics.com](http://www.icclogistics.com)

Dear friends:

It's that time of year again! Last month we told you about UPS' General Rate Increases. Now, it's FedEx's turn! FedEx announced this month their Ground service rates would increase by 5.9% with a 1% reduction in the fuel surcharge and their Air Express and US Export rates would increase by 6.9% with a 2% reduction in the fuel surcharge, also to become effective on January 3rd, 2011. What does this mean for you and your business? Things aren't always what they seem...

That's why this year again, we have asked Jack Mitchell, president of Parcel Appraisal and Negotiations Consulting Group, and our strategic business partner to provide us with his very comprehensive analysis of the "actual" increases these carriers will be implementing in just a few short weeks. As you can see by the detailed charts below, Jack has analyzed the rate increases for various service levels and shipment weights so you will see that while some increases fall below the average, many increases will be well above the average. These charts will enable you to track how these increases will affect your own business starting in January.

To take this one step further, while General Rate Increases are usually implemented only once a year, when you compound these annual increases over several years, the increases are actually much higher than originally calculated. For example, three consecutive years of a 5.9% increase might be calculated as a 17.7% increase however, the actual increase is 18.7%.

Had enough bad news? Well, here's some good news for you!!! The real key for all shippers to realize is that they do not have to just sit back and accept these General Rate Increases proposed by the major parcel carriers, or any freight carrier for that matter. The best way to stay ahead of these increases is to have a Benchmark Analysis performed to analyze current rates and see how they stack up compared to the competition and other similarly situated shippers. The results of these Benchmark Analyses have resulted in Millions of Dollars in annual savings for those companies who had their rates benchmarked and then took steps to re-negotiate their contracts to meet constantly changing competitive freight rate structures.

Want to know how your rates stack up and whether you have an opportunity for significant cost savings for your company? Contact Tony Nuzio at 516 822-1183, ext. 312 or via email at [tnuzio@icclogistics.com](mailto:tnuzio@icclogistics.com). We look forward to hearing from you and helping you find significant cost savings for your company! Please enjoy Jack's comprehensive analysis below. Wishing all our readers a very Happy, but more importantly Healthy New Year!



## UPS & FedEx 2011 General Rate Increase

UPS & FedEx overall rate increase takes effect on January 3, 2011. The increase will touch every service and increase a majority of accessorial fees and surcharges. The PANC Group, like those of you who are responsible for shipping, is faced with determining the impact of the rate increase for its customers. We hope our analysis helps lessen the impact of shipping expenses on your company and clients.

### Carrier Announced Rate Increase

- UPS Air & International net increase 4.9% ↔ Increase 6.9% with a 2% reduction in fuel surcharge.
- UPS Ground commercial net increase 4.9% ↔ Increase 5.9% with a 1% reduction in fuel surcharge.
- FedEx Air & International net increase 3.9% ↔ Increase 6.9% with a 2% reduction in fuel surcharge.
- FedEx Ground commercial net increase 4.9% ↔ Increase 5.9% with a 1% reduction in fuel surcharge.
- New Dim Divisor will increase rates considerably for both domestic and international shipments.

### General synopsis of rate and accessorial fees increases

The carrier's have now published the 2011 air and ground rate charts, accessorial fees, surcharges, new package minimums, and a costly new method to price single and multiple piece shipments subject to dimensionalization. The annual increase was announced as a flat percentage and as a rule is thought of in linear terms. The reality is that nothing could be further from the truth. The 4.9% percent increase in fact is not linear at all. Much to the contrary, it is based on the **mean average**. ("The mean is what most people mean when they say 'average'. It is found by adding all the numbers you have to find the mean of, and dividing by the number of numbers. So the mean of 3%, 5%, 7%, 3% and 5% is  $23/5 = 4.6\%$ ).

This year's ground increase was introduced as a 4.9% increase, yet as you can see from the chart below, the **mean average** for shipment 1 to 5 pounds is actually a 7.72% increase. By contrast the **mean average** for shipments weighing 100 pounds is 2%. The actual increase is different for each customer and a direct reflection of their shipping characteristics. Each shipper will pay more or less based on actual package weights, distances traveled, service requested, actual delivery area, residential or commercial deliveries, and a host of other items outlined later in our analysis.

2011 RATES								2010 RATES								PERCENTAGE INCREASE								
Ground	2	3	4	5	6	7	8	Ground	2	3	4	5	6	7	8	Ground	2	3	4	5	6	7	8	Average Increase
1 lb	5.17	5.40	5.51	5.75	6.04	6.12	6.22	1 lb	4.84	5.01	5.11	5.34	5.62	5.69	5.77	1 lb	6.8%	7.8%	7.8%	7.7%	7.5%	7.6%	7.8%	7.6%
2 lb	5.37	5.72	6.22	6.34	6.75	6.89	7.13	2 lb	4.97	5.28	5.74	5.87	6.27	6.40	6.65	2 lb	8.0%	8.3%	8.4%	8.0%	7.7%	7.7%	7.2%	7.9%
3 lb	5.45	5.97	6.53	6.73	7.15	7.36	7.88	3 lb	5.01	5.53	6.03	6.24	6.67	6.87	7.36	3 lb	8.8%	8.0%	8.3%	7.9%	7.2%	7.1%	7.1%	7.8%
4 lb	5.58	6.16	6.86	7.17	7.53	7.85	8.44	4 lb	5.15	5.71	6.34	6.65	7.05	7.28	7.86	4 lb	8.3%	7.9%	8.2%	7.8%	6.8%	7.8%	7.4%	7.8%
5 lb	5.79	6.25	7.15	7.46	7.83	8.20	8.91	5 lb	5.37	5.79	6.62	6.92	7.35	7.65	8.31	5 lb	7.8%	7.9%	8.0%	7.8%	6.5%	7.2%	7.2%	7.5%
10 lb	6.86	7.05	7.87	8.40	9.00	10.17	11.28	10 lb	6.39	6.56	7.30	7.81	8.48	9.52	10.65	10 lb	7.4%	7.5%	7.8%	7.6%	6.1%	6.8%	5.9%	7.0%
25 lb	9.35	10.86	11.57	13.56	17.09	20.02	23.42	25 lb	8.81	10.24	10.82	12.67	16.13	19.06	22.48	25 lb	6.1%	6.1%	6.9%	7.0%	6.0%	5.0%	4.2%	5.9%
50 lb	13.67	17.12	19.82	24.15	30.07	36.24	41.04	50 lb	12.95	16.21	18.60	22.69	28.48	34.61	39.53	50 lb	5.6%	5.6%	6.6%	6.4%	5.6%	4.7%	3.8%	5.5%
75 lb	20.02	24.24	26.21	31.98	38.34	44.32	49.63	75 lb	19.25	23.20	25.07	30.33	36.62	42.70	47.72	75 lb	4.0%	4.5%	4.5%	5.4%	4.7%	3.8%	4.0%	4.4%
100 lb	39.37	40.00	42.64	46.33	51.95	57.43	61.83	100 lb	38.88	39.47	42.11	45.69	50.18	56.10	60.32	100 lb	1.3%	1.3%	1.3%	1.4%	3.5%	2.4%	2.5%	2.0%
150 lb	65.88	68.67	71.66	74.37	78.07	84.14	92.65	150 lb	65.23	67.76	70.25	71.51	76.40	82.32	88.66	150 lb	1.0%	1.3%	2.0%	4.0%	2.2%	2.2%	4.5%	2.5%

### Ground Rates

Ground rates, as you can see in the above comparisons of the 2010 rates versus the 2011 rates, have increased quite a bit more in the lower weight ranges and shorter zones. Take a quick look at the 2, 3, 4, and 5 pound rates predominantly in zones 2, 3, 4, and 5. The increases climb from 7.8% upward to a high of 8.8%. It's not just a coincidence that those weights and zones, in particular, are some of the very heaviest areas of business concentration for carriers and shippers. The average increase for ground rates from one to ten pounds is approximately 7.44%.

### Ground Minimum

The Ground Minimum increased by \$0.33 cents per shipment, or a 6.8% increase, much higher than the 4.9% announced. The minimum, as you might know, is the lowest possible price to ship a one pound package using the ground service. The chart below shows how rapidly the ground minimum has been increased in just a few short years. Retailers shipping ground packages to residences will see a hike of \$0.25 cents per shipment. That is an 11.3% increase in the residential surcharge applied even prior to a fuel surcharge being added.

<b>Minimum Plus Residential Increases</b>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Zone 2, 1 LBS Ground	\$5.17	\$4.84	\$4.57	\$4.20	\$4.00
Residential Surcharge	\$2.45	\$2.20	\$2.05	\$1.95	\$1.85
Cost before fuel added	\$7.62	\$7.04	\$6.62	\$6.15	\$5.85

**A New Dimensional Weight Factor** is one of the largest cost items being implemented is receiving far too little attention based on its impact. Customers familiar with dimensionalization rules should evaluate the new Dim Divisor immediately to determine its effect on shipping costs. The new rules will increase rates substantially for shipments that already dim. The dim of a package is figured by multiplying the length of a package, (X times) the width of a package, (X times) the height of a package and divided by a dominator or dim divisor.

### New Dim Divisor

- The domestic ground and air dim divisor currently 194 will change to 166.
- Export services from the U.S. (all services) will change from 166 to 139.
- UPS Standard to Canada will change from 166 to 139.
- Import to the U.S. from Canada and Virgin Islands will change from 166 to 139.
- The new dim applies to packages 3 cubic feet or larger in size.

**Sample Dim Divisor:** 194 to 166 - box size of 18 x 15 X 12 actual weight of 10 Lbs.

<b>Dim</b>	<b>Service</b>	<b>Zone</b>	<b>Actual</b>	<b>Dim</b>	<b>Cost</b>
Current Dim 194	Ground	5	10 lbs.	17 lbs.	\$12.38
New Dim 166	Ground	5	10 lbs.	20 lbs.	\$14.15
Current Dim 194	2nd Day	5	10 lbs.	17 lbs.	\$48.45
New Dim 166	2nd Day	5	10 lbs.	20 lbs.	\$54.65

### Air Services

UPS increase will be a net of 4.9% and that is 1% higher than their competitor, FedEx, at only 3.9%. Why would that happen two years in a row, you might ask? Simply because FedEx's list rates, before applying any incentives or discounts, are 8% higher for priority, 6% higher for saver, 7% higher for 2 day and in the high teens for 3 day shipments. UPS is trying to reduce the rating differential for air services between them and FedEx. Ground rates and accessororial fees for both carriers' are mostly identical. In order to figure the exact increase, shippers must thoroughly analyze their invoice data. Next, compare your current rates verses the new rates after discounts inclusive of accessororial fees and surcharges using your live shipping data.

### FedEx Increase Averages 1 to 50 Pounds

Early AM increases up to 50 pounds will be approximately 4%  
Next Day Air increases up to 50 pounds will be approximately 6.08%  
Standard Air increases up to 50 pounds will be approximately 7.28%  
Second Day increases up to 50 pounds will be approximately 5.78%  
Express Saver increases up to 50 pounds will be approximately 7.73%

### **Accessorial Fees & Surcharges**

These extra fees have now become about 25% of your overall carrier shipping costs. It is now vital that shippers fully understand the impact of all additional surcharges. As shipping expenses continue to increase they have more impact on profit and loss. As a result you must be certain that all fees are built into your price metrics. These fees rapidly increase your spend, but do nothing to improve pricing.

Address Correction increased to \$11.00 from \$10.00 an additional \$1.00 per shipment or 10%  
Additional Handling increased to \$8.00 from \$7.50 an additional \$0.50 per package or 6.7%  
COD Fees increased to \$10.50 from \$10.00 an additional \$0.50 per package or 5%  
DAS commercial increased to \$1.85 from \$1.70 an additional \$0.15 per package or 8.9%  
DAS extended commercial increased to \$1.85 from \$1.70 an additional \$0.15 per package or 8.9%  
DAS residential increased to \$2.75 from \$2.50 an additional \$0.25 per package or 10%  
DAS extended residential increased to \$3.00 from \$2.75 an additional \$0.25 per package or 9%  
DAS CWT assessed per package, with maximum fee up \$9.25 from \$8.50 an additional \$0.75 or 8.8%  
Declared value minimum increased to \$2.25 from \$2.10 an additional \$0.15 per package or 7.1%  
Declared value per \$100 increased to \$0.75 from \$0.70 an additional \$0.05 per package or 7%  
Delivery intercept: increased to \$14.00 from \$11.00 by phone – with no increase if made by web.  
Residential surcharge increased to \$2.75 from \$2.50 an additional \$0.25 per package or 10%  
Signature indirect increased to \$2 per package from \$1.75 an additional \$0.25 per package or 14.2%  
Direct signature required increased to \$3.25 from \$3.00 an additional \$0.25 per package or 8.3%  
Adult signature required increased to \$4.25 from \$4.00 an additional \$0.25 per package or 6.2%  
On call residential pickup increased to \$2.45 from \$2.20 per package an additional \$.025 or 11.4%%

By Jack Mitchell President & CEO