

RETHINK.

**WHY YOUR CARRIER
NEGOTIATION MODEL
ISN'T PRODUCING
RESULTS.**

ISS | INTEGRATED
SHIPPING
SOLUTIONS



introduction



The model for small parcel negotiations remains one of the most **complex and misunderstood engagements many logistics and transportation professionals take on over the course of their careers.**

Even if we ignore the simple fact that the way these negotiations are typically handled is severely disjointed from how we would approach negotiating anything else in our professional or personal lives, it is also rapidly changing and a bit chaotic for individuals who don't have a constant ear to the ground. Consider this small fact: when I left my job at one of the national parcel carriers in 2004 there was less than five accessorial charges on the average parcel bill- today, shippers could be subjected to literally hundreds of different accessories.

As competition between the carriers continue to decrease and market share gets awarded to the two most well-known parcel carriers, getting competitive agreements continues to get more challenging. Shippers need to be armed with the facts, while also understanding what the negotiables in their contracts are. Despite what 99% of shippers think- you probably don't have the best rates- regardless of how awesome your relationship with your carrier seems to be. **Shippers need to begin putting a closer eye on their small parcel agreements and rethink what they define as a successful negotiation, starting with this eBook.**

let's talk negotiations

Stick with us here, people.

We promise, this eBook is loaded with juicy details about why your parcel negotiation strategy isn't performing, and what you should do to change it- but first, we want to pull you out of the logistics space a bit. Bear with us here; to give you a frame of reference for why parcel negotiations are so unlike anything else when it comes to getting the best deal, we want to set the stage for how negotiations work in 99% of the other services or products you purchase for either yourself or your company.

How we were taught negotiations worked.

To gain some of the aforementioned reference, let's use the purchase and negotiation of a vehicle as an example for how we typically negotiate. As a buyer, you're looking to get the absolute best vehicle you can for the most competitive price. Thankfully for you- there are literally hundreds of options on the market for you. Not only do you have multiple manufacturers to choose from, but also the decision to buy new or used, to lease or purchase- just deciding how you would like to buy is as big of a decision as who you would like to buy from. The advent of the internet has made you a much more educated buyer than those of years past. Before even stepping foot in a dealership you can view their inventory and consult numerous resources such as Autotrader, CARFAX, Kelly Blue Book- all which give you a good feel for what's happening in the marketplace.

tool to hold. Because the buyer and the seller both believe the deal is in good faith- if certain conditions are met for both of you, the deal will be made. Both parties have leverage and know when to walk away, but both also have an ideal range at which they will accept the terms- in supply-side economics this is sometimes referred to as the equilibrium, market price, or competitive price. This price tends not to change unless the supply or demand for a product changes significantly- ie, suddenly the number of auto manufacturers drops from 200, to say...two. Because the supply and demand for vehicles has remained relatively proportionate over recent years, most consumers have a healthy amount of knowledge of where to start in the negotiating process for the purchase of a vehicle.

Effectively, you've got an opportunity to set your expectations before you even begin the negotiations which gives you significantly more confidence- an educated buyer is a dangerous buyer.

Now that you're armed with all of these things, you can negotiate the price of your vehicle, knowing full-well when to walk away, and likely end up with a fairly competitive offer that both you and the dealer will be happy with. Sound fair?

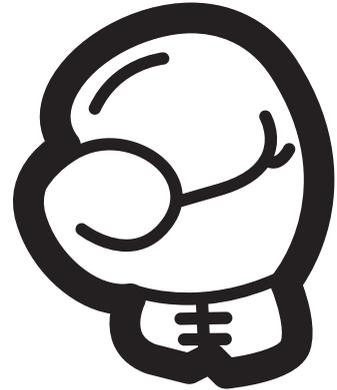
Because you're an informed, educated consumer with endless options, you also have leverage. There comes a point where you can stand up and leave the dealership if you don't feel like you're getting the deal that you want- which is a fairly powerful

sooo, why not parcel?

Remember that little part about competition?

When you're buying a vehicle (or anything else, really), you have two really, really powerful things going for you:

- ✓ You can always walk away
- ✓ You have this ability because you can go buy from someone else.



But what if you couldn't walk away? Remember when we cited what would happen if auto manufacturers dropped from 200 to say, two? Welcome to parcel. A serious majority of domestic parcel business is handled by two main carriers. TWO! Think about that for a second: imagine going to buy your coffee in the morning and only being able to choose between United Coffee Service and Federal Coffee Express. They were right nextdoor to each other and had lines out the door. A tall, black coffee would cost you \$34!

In most industries the market, or competitive price drives the cost- sort of like spot pricing. No car manufacturer could ever get away with saying, "no matter what happens, regardless of outside forces, we always, always, always charge \$X for our cars, got it?" At least not in a competitive landscape.

sooo, why not parcel?

Doesn't help pricing much.

So now we're left with basically two options to service our parcel business if we're shipping on a truly national level.

We've eliminated 99.9% of the market. At least we have some competition here....right? As it turns out, not completely. Between the two main national carriers, pricing on "ground" services practically mirrors one another. In any other industry, pricing services like that would be quite the positioning statement, it would sort of be like saying: "None of us are better or worse than the other- it's all an identical service." Seems sort of silly, right?

In essence, the carriers are almost pricing themselves like a commodity- if prices are the same, service quality must be the same too, or so you'd think. And yet, if you're familiar with parcel negotiations all they ram down your throat is their value added solutions and how unique their are.

The fact remains that the carriers price themselves because it doesn't make financial sense for either of them to put their best foot forward with customers as a result of an unspoken agreement

they have with each other, almost as if to say, "we'll compete when we absolutely have to, but en masse, why would we ever do that?" What sense does it make for either of them to royally F their system and drop prices by 10% knowing full well the other would just do the exact same?

The void of information.

Earlier we talked about how important it was to have a robust amount of information before purchasing a car, remember? An educated buyer is a dangerous buyer! Unfortunately for parcel agreements information has continuously been sucked out of the market as carriers continue to increase the complexity of their pricing. Unlike purchasing a home or a vehicle, there simply aren't as many resources out there to help you understand what sort of expectations you should go into your negotiations with (sans an outside firm). In addition to this, we see too many shippers simply take their reps word for it. Of course they're going to tell you your deal is the "best in the area" or that they simply "can't go any lower," what do you expect them to say?

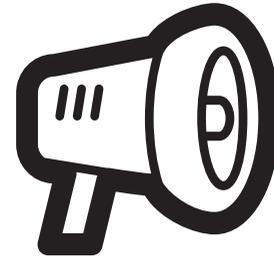
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Their job as carrier reps is to maximize the amount of profit they can drive from each of their accounts (which is also how their commission is calculated), and you are relying on this same source to educate you. Imagine if the only resources out there to understand how you should negotiate a car price were Audi salesman and their blogs? Do you believe them when they claim they can't go any lower? If your max price for a car was \$30,000 and they offered you \$35,000 with the promise it was the best they could do- would you take it? Come on, people.

Communication from carriers is whacky.

Think about how a potential seller communicates to you in most business transactions: with a high amount of appreciation and respect for your purchasing power, because after all, customers are not very easy to acquire. When consumers have little choice, however, that card isn't always necessary to play. Have you ever considered the way your carrier rep communicates with you? Perhaps, at one point or another, you've been subjected to "Performance Scorecards" that tell you how awesome (or awful), of a customer you are. In what normal business situation do service providers get to tell their customers how awful of a job they were doing? Imagine picking up the phone, it's your local grocery store, just a friendly reminder that your weekly milk

handling surcharge is going to go up because you're stopping in to purchase at really infrequent periods lately. You can make it stop, but only if you agree to purchase 25% more milk. Whaa?



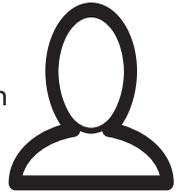
These communication tactics aren't unwarranted. Your carriers use them against you when it comes time to negotiate- how could they give you better rates? They've been telling you for two years you're a terrible customer- in fact, they're going to raise your rates. Sometimes these communication tactics are even disguised as favors. It's likely that many of you have been fortunate enough to receive technological investments from your carriers, like new computers for an office- how nice! These favors always come with a catch, however. Those \$20,000 worth of computers come with the explicit promise that you'll agree to ship \$4 million over the next two years. Oh, and if you don't meet that expectation...you owe us twenty grand. Whoops!

how you probably do it

Odds are that if you're reading this, you've probably negotiated a few parcel agreements in your career. If you're really seasoned on the shippers side- maybe you've done 10..11? Some of you may have only done one or two. Regardless of this, you've probably handled your bids using one of the four strategies below:

Single Source:

You go to your current carrier and say, "You know what, I think I need a better deal." There is typically no real compelling reason for this decision- you just want to pay less and as a consumer, you're entitled to that. Perhaps this is an opportunity driven event, say you got a new carrier rep, expanded into online retail, or secured a large account- but 9/10 times it's just because you think you deserve a better deal.



Shop your Business:

This time you're going a bit deeper than a single source: you take both major parcel carriers and tell them your business is up for grabs! 90% of the time you don't want to switch from your incumbent, but you intuitively know that by introducing a second player to the bid your odds of getting better pricing go up. You probably don't create an RFP or much documentation, you simply hand the competing carrier a stack of bills and tell them both to come back with their, "most competitive offer."



You issue an RFP:

You've gone all in- doing a full blown bid is the closest you can get to doing the negotiation the best way. When issuing an RFP you'd outline your requirements- both operationally and technologically- for the carrier to own your business. Using all your own data, analytics and understanding of your business you've given the carriers an all-encompassing document that gives them an accurate snapshot of how to bid on your business.



Carrier Initiated:

As surprising as it may seem, many shippers never think strategically about their agreements at all-- they simply wait for the carrier rep to let them know their agreement has expired and provide the new pricing they "qualify" for. A few signatures and no further thought later, the shipper has a new agreement for three more years of poor pricing.

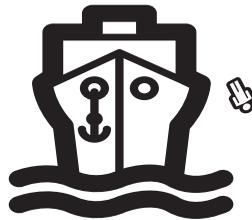


why there's a glass-ceiling

Now that we've covered the approach you're likely taking right now, let's dig in to the reasons that these strategies simply aren't producing results-- even if you think they are.

You're really going to single source this thing?

Single sourcing any business opportunity is not ideal-- it's especially dangerous in parcel negotiations. We often liken this to buying the first car you test-drive and simply taking the sales managers word for it when they tell you "you're getting the best deal possible!" If you're using this approach, here's our advice: ABANDON SHIP.



We understand why shippers take this route: it's the easiest. Does that mean you're lazy? No, it means there are a million other things going on in your life and negotiating rates is time-consuming. Despite the fact that you may be telling your incumbent carrier rep that you're shopping your business- a lot of money is spent on training those individuals to ask the right questions and know whether this is a single source or not. Anytime they ask you questions like this:

1. So, how is the other carrier bidding? On 100% of the business? 25%?
2. What analytics are you using to help determine pricing? Is time in transit going to figure into the decision?

By catching you off guard the reps are getting immediate insight into whether you're approaching this process strategically or not. Besides, in most cases they've been in and out of your business every week for years-- they know what you've got going on. Do you really think your rep is going to believe you when 80% of your shipments are inbound and you say you're considering changing carriers?

why there's a glass-ceiling

Alright, so you're "Shopping" your business- "big whoop," says the carrier.

Once again, your friendly neighborhood carrier rep likely has a better idea of what's going on than you think he or she does. Realistically, the carriers know you're probably not interested in changing your business-- you're only making it known both carriers are involved so you can get better pricing from the incumbent. The problem, however, is that you assume the carriers are actually fighting tooth and nail for your business. When you get both those proposals back, perhaps one may come in a few percent more competitive than the other, but does that actually sound like a competition? The carriers know based on the information you've provided what their competitors are going to come in at, and as such, only try and be marginally better-- if at all. Besides, it's not like you gave the competing carrier enough data and analytics to accurately compete for your business in the first place. A stack of bills simply isn't going to cut it.



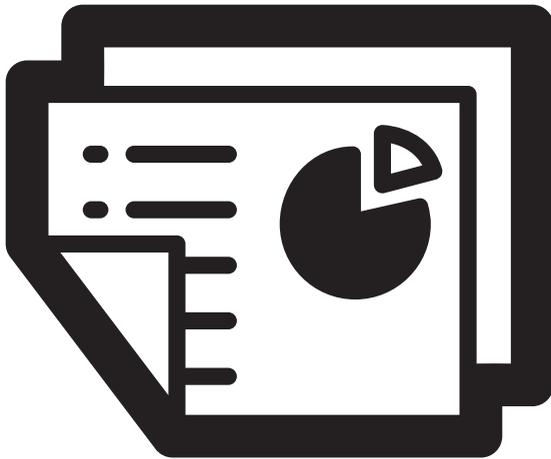
Haha, nice try, bro.

THIS IS HOW THE CARRIERS FEEL.

why there's a glass-ceiling

You issued an RFP- pat yourself on the back!

Issuing an RFP can be a great option because no matter what- at least you can feel really confident knowing you did everything you could to get your company the best deal. I mean, you've really approached this thing holistically: you've run analytics, zone profiles, time in transit reports, cost per pound and-- boom! Then, you stripped out all the pricing and sent purely package level details to both carriers so they can properly "bid" on your business.



If you're really doing this right, you also made sure to include the list of technology requirements and even the pick up time requirements. Really, the RFP can be as detailed as you want. Your intention is good, and you believe

the carriers will come back in good faith with their best possible offer to "win" your business. So, how could we possible poke holes in this strategy?

The answer is simple:

You're still not speaking the carriers language- and you're also still assuming they're actually fighting for your business.

You haven't given them any real targets, nor do you know what the targets should (or could) be for the carriers to win your business. Therefore, you assume that like in other negotiations, the market will help you determine what that pricing should be-- but of course you know by now, it doesn't. The only real benefit of doing a dedicated RFP is that at least you feel all warm and fuzzy now, psychologically speaking- you feel like you've chalked this one up as a win!

some tips to level the field

Since we've spent so much time discussing the challenges focused around parcel negotiations, let's identify some general strategies you can employ to ensure you get more competitive pricing.

Don't forget about the regionals, man!

While a majority of parcel shipments are handled by the two largest national carriers, regional parcel carriers represent a fantastic alternative for certain shippers. Take time to educate yourself about which regionals could handle your business. Often times they can provide better times in transit at very competitive price points. Sure, they're not a multi-billion dollar entity-- but they are still very, very good at what they do.

Bring in outside help.

We really cannot stress this enough. You wouldn't perform open-heart surgery on yourself would you? You wouldn't go to court without an attorney because you happened to catch "My Cousin Vinny" on AMC last week, right? Side note: easily Pesci's best performance.

The fact remains that bringing in outside consultants to help you negotiate your agreements will almost always result in you getting better rates, and most of these firms operate on a contingency-basis so it's fairly risk-free for you. As a shipper, you simply don't have the privilege of having negotiated thousands and thousands of agreements like a consultant would and confidentiality clauses prevent you from calling your neighboring businesses and asking them about their pricing. If companies like ours weren't good at what we do, we wouldn't be in business.

