PARCEL

Issue Date: July/August 2013, Posted On: 8/22/2013

Is It All Greek to You?

By My Mikael Trapper, Managing Partner, BridgeNet Solutions, Inc.

In a recent conversation, a director of supply chain commented, “You almost need a master’s, juris doctorate, and about 30 years of experience in supply chain management to understand today’s parcel agreements.”

There is a lot of truth in the comment. As supply chains become more complex, so do parcel carrier agreements. Each time a parcel agreement is renegotiated, it is common for it to become longer, increasingly difficult to analyze and more open to misinterpretation. Unfortunately, one small misinterpretation can have a significant impact on a supply chain budget.

Fortunately, there are some first steps and key insights that can be used to help better understand the parcel agreement, renegotiate it properly and accurately forecast a budget.

First Steps

Reviewing a parcel agreement
A great way to begin reviewing a carrier agreement is to make a checklist of all possible items expected in the document. Mark off the items on the checklist as they appear in each section. Upon completion, any items on the list not included in the agreement should be mentioned to the carrier representative.

Checklists should include the following:

• Rate discounts
o Service, weight and zone
o Published minimum
o Minimum discount
o Rate discount
o Tier discount
• Accessorial Discounts
o Type and category
o Discount and type
o Published charge
• Other items
o Dimensional weight factor
o Payment terms
o Rate caps
o Service based refunds
o CWT/MWT
o Ramp-up period

Key Insights

Published rates
Each carrier agreement starts with a set of base rates referred to as published rates. Discounts are then applied to each individual service. Carriers can have more than one set of published rates, which can cause considerable amounts of confusion. In order to calculate net rates per service level accurately, it is important to be sure which rates apply (per the carrier agreement) before calculations are made. A helpful common practice is to always request net rate charts directly from the carrier representative.

Rate caps
Every January, carriers increase their published rates by applying a general rate increase. Many agreements contain language capping the percentage the rates will increase. The level of rate cap offered and how it compares to the average general rate increase are important details to understand. The goal is to have the rate cap in the carrier agreement lower than the published rate cap. In a multi-carrier agreement, annual trends published by the carrier can be used to estimate rate caps for future years.

Be watchful for rate cap language pertaining to fuel index adjustments. Higher transportation rate increases are easily offset by reductions in the carrier's fuel surcharge index. The result is an "average net increase" matching the cap. For instance, if the rate cap is a 3% increase, a carrier might increase ground rates by 4% and reduce the ground fuel surcharge index by 1% for the year, creating the net 3% increase overall.

Bill option superscripts on base discounts
Don't be tricked by bill option superscripts. Always ensure base discounts apply to all bill options, including IB (inbound), OB (outbound), TP (third party), and RT (returns). A sizeable volume could be left out resulting in fewer discounts by simply omitting all proper billing options.

Accessorial discounts
If a carrier representative explains a 50% discount on extended area surcharge, don't assume the discount applies to every shipment receiving an extended area surcharge. The agreement must explicitly state eligibility for the 50% discount on extended area surcharge for express, ground, residential and commercial shipments. Without it, the discount will only apply to one specific type of shipment.

Net vs. gross tier qualifications
Once base rates and base discounts are understood, focus on understanding how tier qualifications are calculated. Knowing how tier qualifications are calculated is extremely important, as tier discounts often add considerable relief to base discounts. Know whether tiers are based on gross or net charges and understand how the inclusions and exclusions (e.g., freight only, freight and fuel, or freight, fuel and accessorial charges) are combined.

Tiered discounts exist to give shippers bonus discounts as a result of spending larger amounts with the carrier. You should identify which incentive tier currently applies based on average spend. Make sure to maintain a certain level of spend to avoid dropping down to a lower incentive tier, and know what bonuses are eligible to be received if and when shipping volume increases. Ask the carrier for an amendment to the contract that allows for additional tiers if the top tier is already achieved. Be aware of how the carrier is calculating the tiers so the current level and potential to move to the next tier are easily identifiable. Tiers are typically based on gross spend (before discounts), but some agreements use net spend (after discounts). Be familiar with the "rolling average" calculation of the most recent number of weeks' spend and be aware of which volumes are used to calculate this average.

Agreement length
Regardless of the length of the agreement, be conscious of the discount terms, particularly when it comes to accessorial discounts and rate increase caps. Always ensure the terms match up with the length of the agreement. Do not get stuck in a three-year agreement with discounts that apply only to the first year.

Goals for attainability
Any goal related to a timeframe, volume threshold or spend threshold should be thoroughly reviewed. Are the goals attainable or should alternative goals be met? Incentives or programs such as ramp-up periods, rebates, signing bonuses or technology credits can easily be paired

with unachievable goals. Ensure all targets are realistic before budgeting for them.

Early termination clauses
It is not uncommon for early termination clauses to be included in new carrier agreements. These clauses often include hefty fees for exiting an agreement before its expiration or for drops in volume. If business unexpectedly drops while in the second or third year of a three-year carrier agreement, a payment of a percentage of the entire spend from the first year could be the penalty. Including language in the agreement that guards against this type of scenario is the best way to prevent such a penalty.

It’s always better to be safe than sorry when navigating and negotiating through carrier agreements, so don’t ever hesitate to ask your carrier rep for clarification in writing on any unclear items in the agreement. You should always have written documentation to fall back on if any misinterpretations do occur.

Mikael Trapper, Managing Partner, BridgeNet Solutions, has worked in the logistics industry since she graduated from Fordham University with a degree in Economics and English. Mikael joined the BridgeNet team in 2008, and now manages Xonar, BridgeNet's propriety visibility dashboard. She currently serves on the board of the Midwest Chapter of Women in Logistics and Delivery Services Council. For more information, visit www.bridgenetsolutions.com.