



## UPS and FedEx 2012 Rate Increase – Understanding the severe financial consequences of not understanding the changes!!!

By Ken Wood, President – LJM Freight Auditing & Consulting



It's that time of the year again – when UPS and FedEx simultaneously increased their rates. Happy Holidays and Happy New Year to all shippers! Wouldn't you know, once again both companies' increases are almost identical. I cannot imagine that this increase comes as a surprise to anyone who ships with UPS or FedEx or who works in the transportation industry, as this has become an annual tradition. The rates have gone up consistently over the years despite weakening economies and tightening budgets. As a shipper, it is absolutely vital to your organization to truly understand the carrier's rate increase and the effect that the increase has on your company's bottom line; after all, transportation is likely your company's second or third largest expense.

According to their website, UPS's 2012 Ground and Air rates increased a net of 4.9%. If you are listening to and believing this propaganda, you are going to be unpleasantly surprised when you see your next carrier invoice. When you take a closer look at the carrier's rate tables, you get a more realistic and accurate view of the actual increase and how the increase will affect your particular business based on your company's unique shipping profile. How is it possible that the carriers can continue to quote an average rate increase of 4.9% when the average increase to the typical shipper is much greater? It is important to realize that the announced 4.9% rate

increase is an overall average based on shipping 1lb through 150 lbs to every single cell in zones 2 through 8. There is not a shipper in the United States who fits that shipping profile. Nearly 75% of shipments weighing between 1 lb and 35 lbs, which is common for most parcel shippers, have increased between 6.5% and 8.8%. Shipments weighing between 71 lbs and 150 lbs, which are much less common, have increased less than 2.8%. This allows the carriers to quote a 4.9% average increase.

*The following chart illustrates examples of the average percentage increases for Ground Packages by weight breaks as well as the increases for Air Services. To see a wider sampling of increases by weight and zone ([please click here](#))*

| <b><u>Ground Service</u></b> |      |
|------------------------------|------|
| Average Rate Increase        |      |
| 1-5 lbs.                     | 7.9% |
| 6-10 lbs.                    | 7.5% |
| 11-20 lbs.                   | 7.1% |
| 21-30 lbs.                   | 6.4% |
| 31-70 lbs.                   | 4.6% |
| 71-150 lbs.                  | 2.7% |

| <b><u>Air Services</u></b>   |      |
|------------------------------|------|
| Average Rate Increase        |      |
| Next Day Air Early A.M.      | 6.5% |
| Next Day Air                 | 7.6% |
| Next Day Air Saver           | 7.6% |
| 2 <sup>nd</sup> Day Air A.M. | 6.4% |
| 2 <sup>nd</sup> Day Air      | 7.3% |
| 3 Day Select                 | 7.9% |

Unfortunately, the base rate change itself is only half of the bad news. Package surcharges and accessorial fees can add as much as 30% or more to the cost of shipping a package. These additional fees, such as address corrections, residential surcharges, dimensional weight charges and delivery area surcharges (to name a few) account for a very large portion of both UPS's and FedEx's profits. Year after year, these accessorial fees have been increasing at a higher percentage than the base rates. As an example, in 2012 the "Large Package Surcharge" increased by 10% (from \$50 to \$55), the "Residential Surcharge" for air shipments increased by 9.1% (from \$2.75 to \$3.00), the "Delivery Area Surcharge" (DAS) for commercial shipments increased by 8.1% (from \$1.85 to \$2.00), and the "Residential Delivery Area Surcharge" for air shipments increased by 9.1% (from \$2.75 to \$3.00). If your company ships to residential locations or locations outside of major cities, which is becoming more and more prevalent due to the e-commerce boom, the 2012 increases are momentous.

The following is a listing of the 2012 Accessorial Fee (surcharge) increases:

## Accessorial Fees\*

|  |   |
|--|---|
| <b>Residential Air Surcharge:</b>                      | Increased \$.25 from \$2.75 to \$3.00 <b>(9.1%)</b>   |
| <b>Residential Ground Surcharge:</b>                   | Increased \$.10 from \$2.45 to \$2.55 <b>(4.1%)</b>   |
| <b>Residential 100 Weight Surcharge:</b>               | Increased \$2.00 from \$24.00 to \$26.00 <b>(8.3%)</b>  |
| <b>Delivery Area Surcharge Air Residential:</b>        | Increased \$.25 from \$2.75 to \$3.00 <b>(9.1%)</b>   |
| <b>Delivery Area Surcharge Commercial:</b>             | Increased \$.15 from \$1.85 to \$2.00 <b>(8.1%)</b>   |
| <b>Delivery Area Surcharge "Extended" Residential:</b> | Increased \$.25 from \$3.00 to \$3.25 <b>(8.3%)</b>   |
| <b>Delivery Area Surcharge "Extended" Commercial:</b>  | Increased \$.15 from \$1.85 to \$2.00 <b>(8.1%)</b>   |
| <b>Delivery Area Surcharge 100 Weight:</b>             | Increased \$.75 from \$9.25 to \$10.00 <b>(8.1%)</b>  |
| <b>Declared Value (insurance) Minimum:</b>             | Increased \$.15 from \$2.25 to \$2.40 <b>(6.7%)</b>   |
| <b>Declared value (insurance) per \$100:</b>           | Increased \$.05 from \$.75 to \$.80 <b>(6.7%)</b>   |
| <b>Additional Handling Surcharge:</b>                  | Increased \$.50 from \$8.00 to \$8.50 <b>(6.25%)</b>  |
| <b>Large Package Surcharge:</b>                        | Increased \$5.00 from \$50 to \$55 <b>(10%)</b>   |
| <b>COD (Collect on Delivery) Fee:</b>                  | Increased \$.50 from \$10.50 to \$11.00 <b>(4.8%)</b>   |
| <b>Delivery Confirmation Signature Required:</b>       | Increased \$.25 from \$3.25 to \$3.50 <b>(7.7%)</b>   |
| <b>Delivery Confirmation Adult Signature Required:</b> | Increased \$.25 from \$4.25 to \$4.50 <b>(5.9%)</b>   |
| <b>Delivery Intercept surcharge:</b>                   | Increased \$1.00 from \$14 to \$15 for requests made by telephone <b>(7.1% increase)</b>                        |
| <b>Hazardous Materials Surcharge Air/Ground:</b>       | Increased \$2.50 from \$35.00 to \$37.50 for Air <b>(7.1%)</b> and from \$25 to \$27.50 for Ground <b>(10%)</b> |

\*The above Accessorial Fees are for UPS. FedEx Accessorial Fees vary slightly. For detailed FedEx surcharges and fees, visit <http://www.fedex.com/us/2012rates/surcharges-and-fees.html>

What is surprising is that most companies do nothing to “push back” on their carriers regarding these yearly rate and surcharge increases. There are several reasons as to why many companies just sit back and accept the increases:

- (1) Many believe that since they have a contract, rate increases do not apply to them.
- (2) The overwhelming majority of UPS/FedEx customers do not fully understand the impact that the rate increase has on their businesses, nor do they have the means to quantify the increase. Most accept the carriers at their word when they state a 4.9% increase.
- (3) Many shippers believe that they are not able to renegotiate their carrier contract until their current contract expires (you can renegotiate your agreement any time with thirty days’ notice).
- (4) Due to the perceived lack of competition, many companies are intimidated and fear repercussions from their carrier if they try to push back.
- (5) Many shippers are under the impression that their carriers are their “partners” and assume that they are getting the best agreement available. Both UPS and FedEx are excellent at making each of their clients feel as though they are getting the best deal around.

Understanding how your business will be affected by these rate increases is crucial to your company’s bottom line. Two things that your organization can do immediately to help offset these annual increases is to (1) audit your weekly carrier invoices with a professional third party auditing firm and (2) get professional assistance and look to renegotiate your UPS/FedEx agreement immediately.

Contact LJM today at **631-844-9500**, [kenwood@myLJM.com](mailto:kenwood@myLJM.com), or visit us at [www.myLJM.com](http://www.myLJM.com) for a free analysis on what impact the rate increases will have on your organization, and learn how to offset these increases.

Additional helpful links:

<http://www.rates.ups.com/index.html> - 2012 UPS Rate Change Information

<http://www.fedex.com/us/2012rates/rate-changes.html> - 2012 FedEx Rate Change Information