OUTSOURCE

VOLUME 5, ISSUE 8 September 2017

THE SOURCE

Inside this issue

Cover Story:
Small Package Industry - Time for Rate Increase season

Small Package Industry

It's GRI Announcement Season: Now's the Time to Prepare for 2018

by Andrew Brueckner 8/31/17

If UPS and FedEx follow their 2017 timelines, general rate increase (GRI) announcements for 2018 are on the horizon. No matter when they are announced, it's important not to wait for New Year's Day to prepare for their effects (or April, when you review your first quarter parcel spend and panic at the sticker shock). It's never too early to answer the fundamental GRI question: **Do I know what to expect and how to adjust for next year?** Anticipating what's to come will provide you the intel to make data-driven decisions for 2018 and re-engage with your carrier reps to ensure your parcel costs are within your control. As we dive into how parcel shippers should plan for – and mitigate – these inevitable increases, a look back at recent history is a good jumping-off point.

By examining recent trends in GRI, we can get a better sense of what to expect from 2018 announcements and identify tangible impacts on parcel spend for various shipping profiles.

- **Last Year**: For 2017, average rate increases by UPS were 4.9% for ground and air service types. FedEx, meanwhile, also increased ground by the 4.9% average while air jumped 3.9% on average.
- **Last Decade**: Since 2008, average rate increases for ground have consistently been between 4.9% and 5.9%, while air has been fickler with a low of 3.9% and a high of 6.9%.

With this knowledge, we can make a few assumptions when predicting GRI impacts for 2018:

- **Air and ground increases are unlikely to deviate from the post-2008 mean**. For UPS, that's a 6.1% average increase for air versus a 5.5% increase for FedEx. Ground rates have been 5.3% for both.
- **In fact, if the past four GRI announcements are an indication, the percentages may be even lower than those 10-year averages**. Since 2014, yearly rate increases have decreased: FedEx air has averaged 4.4% and UPS a smidge under five percent. For both, ground has been consistently 4.9%.
- **Carriers are more creative with surcharges and other fees**. A more generous GRI will be more than offset by surcharge changes. Look at what's happened recently: revised DIM thresholds, peak season surcharges, increased minimum charge floors, and more frequent fuel surcharge calculations, to name a few.
- **Carriers will continue making it hard to "comparison shop."** After the carriers broke from their longtime alignment by diverging in base pricing last year, it seems unlikely they come back together this year.

GRI Impacts on Parcel Spend: 2 Case Studies

It's worth remembering – and this is very important – that GRI is an average percentage across all service types and accessorial categories. If a business uses every service type and is charged every fee or surcharge at equal rates, sure, you're likely to be affected by the increase at, or close to, the announced GRI rate. Truth is, no shipper operates that way, which means no shipper is seeing flat 4.9% or better increases across their package volume.

- Company A, a supplier of construction materials, had about $800,000 in small parcel shipping volume in 2016 – more than 99% via ground, which increased by 4.9% for 2017. But the rate increases for its most common accessorials were more burdensome: 8.2% for its most assessed surcharge. All told, Company A's average GRI was 5.2% and projected to add more than $41,000 to its shipping spend year-over-year.
- Business B is a multichannel retailer shipping close to $5 million annually – almost half via ground, another 35% 2-day, and a sizeable percentage home delivery. The average GRI for those service types was 6.7%. Across the board, Business B saw an average GRI of 6.4% and projected parcel spend increases of $315,000 in a single year.

The lesson: don't assume that 4.9% will apply to you by default.

Small Package Industry

It's GRI Announcement Season: Now's the Time to Prepare for 2018 (continued)

Next Steps for Parcel Shippers

- Once GRIs are official, and before the busy holiday season, contact your carrier rep and ask, "How will this affect me?" Remember, they have the data.
- Like you would with car repair estimates or medical diagnoses, always get a second opinion. Connect with your parcel auditing and contract negotiation partner and ask the same question you ask your carrier rep. You'll receive a more objective perspective and, if they're thorough, they'll also have data – yours, plus billions of data points collected over years to establish benchmarks that align with you shipper profile. If you don't have a parcel intelligence company working on your behalf, now's the time to find one.
- In ongoing discussions with your carrier rep, work toward mitigating potential impacts for 2018 and beyond.
- Model what your budget should look like for 2018 and plan accordingly, including opportunities to make operational changes to offset rate increases.

When rates go into effect around the New Year, monitor, monitor, monitor. While UPS or FedEx make big fall GRI announcements, don't assume they won't continue to tweak to their advantage. You still have negotiating power if costs don't mesh with projections.

FedEx to slap dimensional pricing on packages handled in concert with USPS

by Mark Solomon, DC Velocity 9/20/17 (abridged) www.dcvelocity.com/articles/201709fedex-to-slap-dimensional-pricing-on-packages-handled-in-concert-with-usps20-/

New charges for "SmartPost" follow UPS' lead

FedEx Corp. said that, effective late January, it will apply so-called dimensional pricing—rates based on a package's dimensions instead of its weight--to its "SmartPost" service, in which FedEx parcels are inducted deep into the U.S. Postal Service's (USPS's) vast infrastructure for last-mile deliveries. Separately, Memphis-based FedEx said it will apply a 2.5-percent surcharge on all shipments that are billed to a third party that is neither the shipper nor the consignee. The action would mostly hit large e-tailers with steep shipping discounts that instruct third parties like fulfillment houses and so-called drop-ship vendors to use the e-tailers' account numbers when the e-tailer discounts are greater than the third party's price breaks. The moves, disclosed late Monday, follow the lead of rival UPS Inc., which imposed both measures in 2015 and 2016, respectively. FedEx also announced on Monday a series of rate increases for 2018 that will push up list prices by 4.9 percent across the company's three main service lines. The rate increases take effect Jan. 1.

Under the carriers' dimensional pricing formulas, packages are priced by the higher of either their dimensions or their actual weight. E-commerce shipments—which compose much of the traffic tendered under the carriers' postal services—are generally lightweight, but are getting bulkier as more goods are sold online. FedEx and UPS already impose dimensional pricing on U.S. air and ground deliveries, as well as on international services. The companies say dimensional pricing is necessary to properly compensate them for handling lightweight and bulky packages that occupy disproportionate amounts of space aboard an aircraft or ground vehicle. As e-commerce volumes continue to grow, the companies have said they handle a larger proportion of packages with those characteristics, and can no longer price all of them at their actual weight.

The FedEx and UPS last-mile services operate in conjunction with USPS' "Parcel Select" program, which connects local post offices to residential and commercial addresses for local package deliveries. USPS, which is required by law to serve every U.S. address, picks up and delivers at 156 million addresses. USPS prices the Parcel Select service incrementally, and its low prices have made it very popular with shippers. FedEx and UPS have migrated to it because it enables them to broaden their delivery coverage without the expense of deploying drivers and delivery vehicles to stop at countless residential addresses. Rob Martinez, CEO of consultancy Shipware LLC, said between 70 and 80 percent of SmartPost packages would be eligible for dimensional pricing. However, Martinez said that FedEx and large users of the service will negotiate concessions in one form or another to avoid most of the pain associated with the pricing scheme. Jerry Hempstead, who runs a consultancy bearing his name, said shippers that have SmartPost discounts and that ship packages weighing less than 10 pounds will still get a better deal with SmartPost than with other FedEx delivery products. The vast majority of SmartPost shipments fall under that weight threshold, Hempstead estimates. The SmartPost and third-party billing charges are part of a slew of FedEx accessorials announced late Monday. Hempstead said the new dimensional-weight charge, along with the other accessorials, represent a "bold new world of pricing." Being publicly traded companies, FedEx and UPS "have to deliver top-line and bottom-line growth, so each year there are surprises that sting shippers," he said. Given that the two have a duopoly on U.S. business-to-business parcel traffic, and a strong, albeit not fully dominant, footprint in the business-to-consumer segment, "there is little a shipper can do," Hempstead said

NAFTA Negotiations Update

Canada border crossing

Mexico border crossing

Getting a NAFTA deal by 2018 is within reach, Canadian officials say Toronto Star 9/20/17

OTTAWA—Canadian government officials insist the American deadline for a new North American free trade deal by year's end or early 2018 is within reach, as Canada gets set to host round three of NAFTA talks in Ottawa this weekend. On the eve of those talks, Foreign Affairs Minister Chrystia Freeland will meet with the original Canada-U.S. and North American free trade deal architects and negotiators in Toronto, including former Progressive Conservative prime minister Brian Mulroney, his former U.S. ambassadors Derek Burney and Allan Gotlieb, former finance minister Michael Wilson, former NAFTA negotiator John Weekes, and Don Campbell, former deputy minister of foreign affairs and international trade. Freeland will also meet her NAFTA advisory council which includes former Conservative interim leader Rona Ambrose and James Moore, former industry minister in the Stephen Harper-led Conservative government. Also in Toronto Friday, Navdeep Bains, Liberal innovation, science and economic development minister will sit down for a roundtable meeting with representatives of the autoworker sector in Toronto.

Canadian government sources downplayed pessimistic predictions from some industry sources that the time frame to reach a deal is too tight, given the lack of agreement to date, after just two rounds of meetings between negotiators. One said it is premature to suggest any aspect of the talks has gone off the rails, because in fact progress has been made in areas of common ground, although negotiators have not finalized text even for those chapters. As round three kicks off Saturday in Ottawa, with teams from Washington, D.C. and Mexico City arriving for negotiations scheduled to continue until Wednesday next week, officials say all the separate negotiating tables are still open. They said progress was made in Mexico City and expectations at the senior levels of the Canadian government are that more progress will be made in Ottawa, although all three parties at the table have agreed not to make public statements on specific areas of agreement without signoff by their counterparts.

Despite tough talk, Canada see unlikely to walk away from NAFTA Fox Business 9/22/17

Despite Canada's threats to walk away from NAFTA talks if necessary, its limited success in diversifying exports leaves the nation too reliant on U.S. markets to play hardball, government insiders and trade experts say. U.S. President Donald Trump says he will ditch the pact unless major changes in are made. Canada last month suggested it could walk away if the United States pushed to remove a key dispute-settlement mechanism. But insiders say leaving the table remains very much a last-ditch measure for the government of Liberal Prime Minister Justin Trudeau.

The United States accounts for 75 percent of goods exports from Canada, where firms flourish operating next to the world's largest economy. Transport costs are low, both nations operate in English and employ the same business practices. A survey by Export Development Canada last year predicted that under such scenario, Canadian gross domestic product would shrink by 1.9 percent a year and many jobs would be lost. Since NAFTA came into force in 1994, supply chains have become so integrated that borders barely exist, especially for key sectors such as the auto industry.

Mexico, which has a much more tense relationship with Trump than Canada does, is more assertive. While an even greater share of its exports - around 80 percent - go to the United States its officials point out that half of that is not subject to NAFTA rules. Experts say some Mexican firms choose to pay WTO tariffs rather than follow complex procedures to get their goods into the United States duty-free. Mexican Foreign Minister Luis Videgaray last week told Reuters "there would be no leap into the abyss" if NAFTA vanished and said Mexico would deepen trade with other nations.

TRIVIA QUESTIONS

OUTSOURCE
THE FREIGHT MANAGEMENT COMPANY

1) **With the clean diesel trucks operated today it would take ___ trucks to equal the amount of emissions released by a single truck in 1988?**
   A. 15 **B.** 28 **C.** 60 **D.** 75

2) **In 2012** the trucking industry accounted for *WHAT %* of all of the fuel purchased in the United States**?**
   A. 6.3% **B.** 12.8% **C.** 16.2% **D.** 9.9%

3) **What year did the first woman receive a driver's license?**
   A. 1908 **B.** 1910 **C.** 1912 **D.** 1918

4) **How expensive are the largest container ships in today's market?**
   A. Over $200M **B.** $175M **C.** Over $150M **D.** Approximately $125M

5) **Approximately how many merchant ships carry cargo in the world?**
   A. 38,000 **B.** 60,000 **C.** 55,000 **D.** 45,000

6) **How many of the 11 INCOTERM's are applicable to ocean shipments?**
   A. All 11 **B.** 6 **C.** none **D.** 4

Answers Later In The Newsletter

FUEL REPORT

U.S. On-Highway Diesel Fuel Prices* (dollars per gallon) http://www.eia.gov/petroleum/gasdiesel/

	9/04/17	9/11/17	9/18/17	Change from week ago	Change from year ago
U.S. National Average	$2.758	$2.802	$2.786	↓ 0.016	↑ 0.397

Quote

'Fuel is such a large cost for us that we have every incentive to try to get to the best miles per gallon we possibly can.'
—U.S. Xpress Enterprises Inc. Chief Executive Eric Fuller.

Number of the Day

$1.93

Average per-mile rate on the spot trucking market for truckload van transport in mid-September, a two-year high, according to DAT Solutions LLC

Maersk joins Cosco diverting cargo away from Prince Rupert

By: Reynolds Hutchins, Associate Editor, JOC 9/21/17

Week-long dwell times at Canada's Port of Prince Rupert have spurred both of the port's primary ocean carriers, first Cosco Shipping Holdings and now Maersk Line, to divert cargo to the Port of Vancouver. Terminal operator DP World is nearing completion on a $200 million upgrade to its Fairview Container Terminal at Prince Rupert, but remaining construction to landside infrastructure, including connections to the terminal's sole rail provider Canadian National Railway, has roiled port productivity.

Beneficial cargo owners told JOC.com under the condition of anonymity they did witness delays clear over the past weekend, but the relief proved shortlived as Asian imports began mounting at the terminal again Monday morning, driving dwell times and delays back up. A Prince Rupert Port Authority spokesperson told JOC.com on Thursday that there have been no changes to the current situation or the ongoing plan to address it and that an update from the port would not be available until next week. Under the current plan, the port does not anticipate dwell times to return to their 2.5-day norm until November. On Tuesday, Maersk announced that it would be temporarily diverting cargo on its Asian services from DP World's terminal at Prince Rupert and to the DP World's Centerm terminal at Vancouver. The announcement came six days after Cosco announced it would be doing the same for vessels on its Asia-Canada services.

Although CN archrival Canadian Pacific Railway will be railing Cosco's diverted cargo from Vancouver inland, it will not be doing the same for Maersk. Maersk will continue to rail cargo from both Prince Rupert and Vancouver via CN rail.

Trans-Pacific spot rates drop on new loader capacity

by Bill Mongelluzzo, Senior Editor JOC 9/22/17

Spot rates in the eastbound Pacific declined 7 percent to the East Coast and 6 percent to the West Coast this week as deployment of "extra-loader" vessels offset peak-season volumes. Nine carriers have announced general rate increases ranging from $600 to $1,000 per 40-foot equivalent unit container effective Oct. 1, according to Alphaliner. If the experience with GRIs of earlier this year repeats itself, spot rates could increase during the coming week as importers bring their holiday merchandise into the country before the GRIs take effect. Also, factories in China will shut down beginning Oct. 1 for the annual Golden Week celebrations. Some carriers have already announced "blank" sailings for the first two weeks of October.

Overall, freight rates in the eastbound Pacific appear to be stuck in a narrow range this year. The spot rate to the East Coast this week was $2,105 per 40-foot equivalent unit container, a decline of 7 percent from last week. The West Coast rate was $1,484 per FEU, down 6 percent, according to the Shanghai Containerized Freight Index published under the Market Data Hub on JOC.com. This week's spot rate to the East Coast is 13 percent lower than the $2,433 per-FEU rate in effect in Week 38 last year, and the West Coast rate is 14 percent lower than the $1,726 rate last year, according to the SCFI. Spot rates got a slight bump last week of 2 percent to the East Coast and 8 percent to the West Coast, due in part to GRIs some carriers had announced for Sept. 15. As has been the case all year, though, the rate hikes lasted only a week and then they began to erode. The peaks and valleys occurred despite relatively buoyant imports this year. According to Global Port Tracker published by the National Retail Federation and Hackett Associates, US containerized imports increased 7.3 percent in the first half of 2017 and are projected to end the year up about 6 percent compared with last year.

Alphaliner noted this week that US imports have been quite strong this peak season, but an overhang in capacity from last year, an injection of new capacity this year and deployment of extra-loader ships the past two months have capped rate hikes. Carriers deployed seven extra-loader ships to the Gulf and East coasts, two to the US West Coast and one to Vancouver, British Columbia. The extra capacity was apparently sufficient to offset import growth.

FOR IMMEDIATE RELEASE **September 19, 2017**

ATA Truck Tonnage Index Rose 7.1% in August

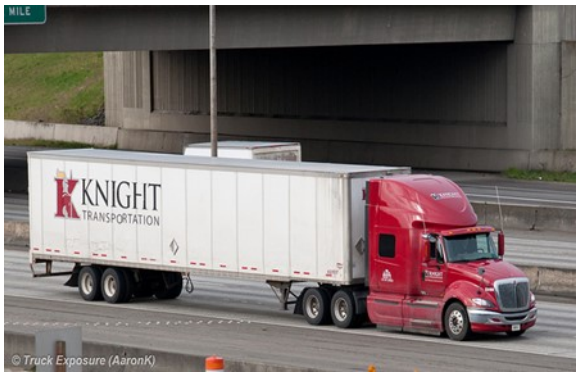
Tonnage Index Up 8.2% from Year Earlier

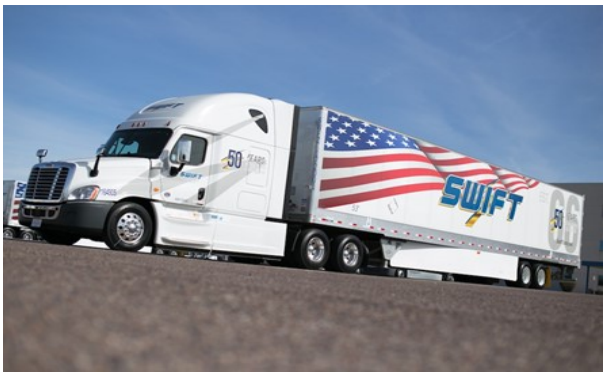
Arlington, Va. — American Trucking Associations' advanced seasonally adjusted (SA) For-Hire Truck Tonnage Index jumped 7.1% in August, following a 0.5% gain during July. In August, the index equaled 149 (2000=100), up from 139.1 in July. Compared with August 2016, the SA index surged 8.2%. In July, the index rose 2.7% on a year-over-year basis. Year-to-date, compared with the same eight months in 2016, the index is up 2.1%. As part of this report, ATA also revised its July increase in the index upward to a 0.5% gain from the previously reported 0.1% increase. The not seasonally adjusted index, which represents the change in tonnage actually hauled by the fleets before any seasonal adjustment, equaled 156.4 in August, which was 10.5% above the previous month (141.6).

"Tonnage was stronger than most other economic indicators in August and more than I would have expected," said **ATA Chief Economist Bob Costello**. "However, prep work for the hurricanes and better port volumes likely gave tonnage an added boost during the month. "I suspect that short-term service disruptions from when the storms made landfall, as well as the normal ebb and flow of freight, could make September weaker and tonnage will smooth out to more moderate gains, on average," he said.

Trucking serves as a barometer of the U.S. economy, representing 70.6% of tonnage carried by all modes of domestic freight transportation, including manufactured and retail goods. Trucks hauled nearly 10.5 billion tons of freight in 2016. Motor carriers collected $676.2 billion, or 79.8% of total revenue earned by all transport modes. ATA calculates the tonnage index based on surveys from its membership and has been doing so since the 1970s. This is a preliminary figure and subject to change in the final report issued around the 10th day of the month. The report includes month-to-month and year-over-year results, relevant economic comparisons and key financial indicators.

Answers to Trivia





Knight shareholders OK Swift merger

by DC Velocity Staff 09/08/17

Shareholders of truckload carrier Knight Transportation Inc. late yesterday approved its $6 billion merger with rival truckload carrier Swift Transportation LLC, the largest trucking deal in history.

Following the move, the merger closed today. On April 9, (NYSE: KNX) ("Knight") today announced that its stockholders approved its merger with Swift Transportation Company (NYSE: SWFT) ("Swift") at a special meeting of Knight stockholders held earlier today. Knight stockholders approved all proposals put forward at the special meeting. The all-stock deal, announced April 9, creates a $5.1 billion transportation and logistics giant with footprints in dry van and refrigerated transport, dedicated contract carriage, cross-border Mexico and Canada operations, truck brokerage, and intermodal. The fleet will consist of approximately 23,000 tractors and 77,000 trailers. It is the nation's largest truckload carrier. Swift, with about 18,000 tractors, had been the nation's largest trucking company based on fleet size. The combined company has been named Knight-Swift Transportation Holdings Inc

5 Ways to Reduce Freight Damage

by Alex Stark 9/24/15

Damage losses and claims increase your transportation costs and can also damage your relationship with shipping partners. To reduce freight damage, monitor claims closely and take proactive steps to continuously drive down damage incidents. Here are 5 simple strategies to reduce freight damage:

1. Select the right packaging type and size

The wrong carton type will undermine all your efforts to reduce damage. Some corrugate simply won't hold up if pallets are stacked. Here's a costly example. The purchasing manager for a CPG company changed packaging vendors to save money. However, the new boxes were designed to stack only one pallet high and were often being shipped double stacked. Thousands of dollars in product damages were incurred before the root cause was identified. Product packaging is the smallest cost segment in the supply chain, comprising less than 10% of each supply chain dollar. Warehousing eats up about 25% and transportation 60%. It doesn't make economic sense to scrimp on packaging materials since you'll pay for it in other areas.

2. Use only quality pallets

Check your pallets frequently and pull damaged ones out of circulation. Make sure you choose a pallet type that can handle the weight of your freight. In the CPG supply chain, the standard wooden pallets developed by the Grocery Manufacturers Association is recommended. Plastic pallets also do an excellent job, although the top deck may be slippery. Proper pallets are absolutely essential if you want to reduce freight damage.

3. Stack products correctly on the pallet

The goods must be stacked in a uniform and stable manner, whether it's done by hand or using an automated stretchwrapper. For instance, if box contents are solid and rigid, stack them like bricks with the weight of each box being partially supported by more than one box below. Avoid product that hangs out over the edge of the pallet. When this happens, it reduces box strength up to 32%. Poor stacking can really increase your freight damage, so bone up on stacking techniques if you are unsure of proper approaches.

4. Shift from LTL to truckload

An LTL shipment moving from the Eastern U.S. to the West passes through as many as six trucking terminals. That's the LTL model. Every time you handle something, it increases the freight damage percentage, so it's worth exploring opportunities for freight consolidation with other small-volume shipments moving to the same region or distribution center.

5. Load the trailer properly

Freight loading must be well planned, with procedures clearly documented and followed to prevent freight damage. That will avoid simple mistakes like double stacking cartons or pallets that should not be stacked. It's also key to distribute the load evenly in the trailer, with lighter cargo loaded on top of heavier cargo.

Reduce freight damage with a clear plan

These are just a few ideas to reduce freight damage. The key, of course, is to put an action plan in place and execute, relying on a sound set of metrics to determine progress.

Cass Freight Index: A Measure of North American Freight Volumes

by: AJOT 9/20/17

Data within the Index includes all domestic freight modes and is derived from nearly $21 billion in freight transactions processed by Cass annually on behalf of its client base of hundreds of large shippers. These companies represent a broad sampling of industries including consumer packaged goods, food, automotive, chemical, OEM, retail and heavy equipment. Annual freight volume per organization ranges from $1 million to over $1 billion. The diversity of shippers and aggregate volume provide a statistically valid representation of North American shipping activity.