



13TH ANNUAL RATE ANALYSIS

Starting in mid-September and running through early December of last year, the major parcel carriers published their 2010 rate increases. Most of the changes went into effect on January 4, with a few more taking place on January 18. This article will go through the chronology of those announcements and provide information to help you determine the impact these changes have on your particular book of business, with a focus on the domestic parcel segment.

BY DOUG KAHL

On November 4, the USPS announced an overall price increase of 3.3%, on average, for its dominant service offering, Priority Mail. Other highlights in its announcement include:

- ▶ New cubic volume-based pricing for large volume Priority Mail shippers
- ▶ A decrease in the Flat Rate Priority Mail envelope from \$4.95 to \$4.90
- ▶ New half-pound price for Priority Mail
- ▶ There will be new prices for Express Mail, Global Express Guaranteed, Express Mail International, Priority Mail International, Parcel Select and Parcel Return Service
- ▶ Prices for First-Class Mail, Standard Mail, Parcel Post and other mailing services products will not change in 2010, with the cost of a First-Class Mail stamp remaining at 44 cents

Taking a closer look at the Commercial Base and Commercial Plus pricing tiers in Figures 1 and 2, we see increases that have a substantial deviation from the 3.3% announcement.

Although the new cubic volume-based pricing is welcome news, it has two important qualifiers — an annual shipment commitment level and a select number of acceptable payment methods. Both criteria must be met in order to qualify for this program.

An easier program to take advantage of is the new half-pound rate for Priority Mail Commercial Plus users. Prior to 2010, the USPS' first rate level started at one pound. In 2010, it now offers a weight tier at half-pound (see last chart in Figure 2).

The US Postal Service has added a new padded envelope to its Priority Commercial Plus line of Flat Rate products and has maintained its position of having no fuel surcharge.

Figure 1: USPS Priority Mail Increases

PRIORITY MAIL COMMERCIAL BASE							
	L,1,2	3	4	5	6	7	8
1-5 lb	1.8%	1.6%	2.3%	2.7%	4.1%	3.2%	4.7%
6-10 lb	5.0%	2.1%	0.3%	0.1%	3.6%	0.0%	0.0%
11-25 lb	12.1%	11.0%	9.5%	9.2%	8.3%	8.0%	7.7%
26-50 lb	9.3%	13.2%	11.4%	14.2%	13.1%	12.1%	5.4%
51-150 lb	0.0%	10.9%	2.2%	7.4%	4.8%	2.4%	0.0%
avg/zone	6.4%	10.5%	6.9%	9.4%	8.4%	6.9%	3.9%

PRIORITY MAIL COMMERCIAL PLUS							
1-5 lb	0.8%	1.2%	1.4%	1.9%	2.3%	2.6%	3.5%
6-10 lb	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
11-25 lb	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
26-50 lb	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
51-70 lb	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
avg/zone	1.0%	1.0%	1.0%	1.1%	1.1%	1.1%	1.2%

Figure 2: USPS Express Mail Increases

EXPRESS COMMERCIAL BASE							
1-5 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
6-10 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
11-25 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
26-50 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
51-70 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
avg/zone	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%

EXPRESS COMMERCIAL PLUS							
1-5 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
6-10 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
11-25 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
26-50 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
51-70 lb	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
avg/zone	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%

PRIORITY MAIL COMMERCIAL PLUS 1/2 LB.							
0.5 lb.	\$4.22	\$4.27	\$4.36	\$4.45	\$4.53	\$4.61	\$4.78
1 lb.	\$4.75	\$4.80	\$4.90	\$5.00	\$5.10	\$5.19	\$5.38
% saving	12.6%	12.4%	12.4%	12.4%	12.6%	12.6%	12.6%

GROUND ABSOLUTE MINIMUM

	'08	'09	'10
Zone 2, 1 lb. Base Rate	\$4.20	\$4.57	\$4.84
Zone 2, 1 lb. increase \$	\$0.20	\$0.37	\$0.27
Zone 2, 1 lb. Increase %	5.0%	8.8%	5.9%
Announced Ground Increase	4.9%	5.9%	4.9%

On November 20, UPS issued its 2010 Rate Change that included an average increase of 4.9% for Ground packages, a 4.9% net increase on all air express and US origin international shipments (6.9% base rate increase less a two percent reduction in fuel), adjustments to many accessorial charges and changes to the fuel surcharge tables for air express and ground services.

An assessment of the Ground increase begins with the zone 2, one-pound rate that is used to set the absolute minimum charge (AMC). This rate increases from \$4.57 to \$4.84, up 5.9%. The chart

to the left shows how the AMC has increased in recent years compared to the announced average Ground increase.

The percentage increase of this specific charge is less than last year's 8.8% but still outpaces the overall announced Ground increase. Shippers of light weight, short zone shipments need to take these changes into consideration when developing their parcel shipping budgets for this year.

Continued appraisal of the Ground rates reveals the percentage increases in 2010 are not as high as the increases taken in 2009. However, the trend toward higher increases in the lighter weight breaks continues. The differences in average increases are depicted here in Figure 3.

Figure 3: UPS Ground Service Increases

	GROUND									
	2	3	4	5	6	7	8	44	45	46
1-5 lb	6.5%	6.7%	6.6%	6.7%	6.5%	6.3%	5.4%	5.4%	5.4%	5.4%
6-10 lb	5.8%	6.2%	6.3%	6.2%	6.0%	6.1%	5.2%	5.2%	5.2%	5.2%
11-25 lb	4.8%	4.9%	5.5%	5.5%	5.3%	4.6%	3.7%	3.7%	3.7%	3.4%
26-50 lb	4.0%	4.5%	5.0%	5.1%	5.1%	4.2%	3.4%	3.4%	3.4%	3.1%
51-150 lb	2.9%	2.4%	2.3%	3.1%	3.1%	2.2%	2.4%	2.4%	2.4%	2.4%
avg/zone	3.5%	3.3%	3.4%	3.9%	3.8%	3.0%	2.9%	2.9%	2.9%	2.8%

Figure 4: UPS Overnight Service Increases

	NEXT DAY EARLY AM							
	102	103	104	105	106	107	108	124
1-5 lb	2.2%	2.8%	4.5%	4.7%	4.9%	5.1%	5.2%	5.2%
6-10 lb	2.6%	3.3%	5.3%	5.5%	5.7%	5.8%	5.9%	6.0%
11-25 lb	3.2%	4.0%	6.0%	6.2%	6.3%	6.6%	6.6%	6.7%
26-50 lb	3.9%	4.7%	6.8%	6.9%	6.9%	7.2%	7.2%	7.2%
51-150 lb	4.9%	5.5%	7.9%	7.5%	7.3%	7.9%	7.9%	7.8%
avg/zone	4.4%	5.1%	7.3%	7.1%	7.0%	7.5%	7.5%	7.4%

	NEXT DAY AIR									
	102	103	104	105	106	107	108	124	125	126
1-5 lb	5.5%	6.1%	8.3%	8.3%	8.3%	8.6%	8.6%	8.6%	8.6%	8.3%
6-10 lb	5.8%	6.2%	8.4%	8.4%	8.4%	8.6%	8.6%	8.6%	8.6%	8.0%
11-25 lb	6.0%	6.5%	8.4%	8.4%	8.4%	8.7%	8.7%	8.7%	8.7%	7.8%
26-50 lb	6.1%	6.6%	8.4%	8.4%	8.4%	8.6%	8.6%	8.6%	8.6%	7.4%
51-150 lb	6.0%	6.4%	8.7%	8.3%	8.0%	8.6%	8.5%	8.5%	8.5%	7.1%
avg/zone	6.0%	6.4%	8.6%	8.3%	8.1%	8.6%	8.6%	8.5%	8.5%	7.3%

Moving from Ground to Air, for those of you who have been taking advantage of the no-weight limit Express Envelope for Next-Day Air, you will be impacted by the change that (letter) shipments more than eight ounces will be billed by weight. This is in line with standard practice at FedEx.

The increases by service level differ from the 6.9% announced rate increase depending on the specific level of service selected, zone and weight under which you will ship. The summary analysis in Figures 4 and 5 show some average increases for Overnight and 2-day and Select service offerings.

UPS has made changes to its Weekly Service Charge format. The charge that had been set at three different weekly spend tier levels (\$0 to \$14.99, \$15.00 to \$59.99 and \$60.00 or more) will now be based on two tiers (less than \$75.00 or more than \$75.00.) The new cost will be \$20.00 if weekly billing total is under \$75.00 or \$10.00 if greater than \$75.00.

In addition, UPS will be offering an expanded menu of flexible pickup options that support its initiatives to reduce carbon emissions. Infrequent shippers should benefit most and are encouraged to take a look at the new options, which include:

- ▶ UPS Smart Pickup — Technology automatically arranges a pickup only when you have packages to ship — \$10.00 flat weekly charge regardless of weekly billing.
- ▶ Day-Specific Pickup — Pre-select the number of business days from one up to four for a UPS driver to pickup; the cost ranges from \$10.00 up to \$20.00 per week depending on the number of days and weekly billing amount.
- ▶ Daily On-Route Pickup — A UPS driver makes a pickup at your location every business day while making deliveries in your area, even if there are no packages being delivered to your location. This charge is \$20.00 if weekly billing total is less than \$75.00 or \$10.00 if weekly billing is greater than \$75.00.

Notable changes in accessories include the following:

- ▶ Additional Handling raised seven percent
- ▶ Address Correction Air goes up 10%; Ground 25%
- ▶ Hazardous Materials increase eight percent on Air and 11% on Ground
- ▶ UPS Delivery Confirmation Signature Required increases 9%; Adult Signature Required, 7%
- ▶ Saturday Delivery and Pickup unchanged at \$15.00
- ▶ Large Package Surcharge is up 11%
- ▶ Residential Surcharges up 4% for Air, 7% for Ground

Delivery Area Surcharges:

- ▶ Commercial up 6%, Residential up 4%
- ▶ Extended Commercial up 6%, while Extended Residential increases 4%
- ▶ Extended Area Surcharge Export and Import increases 9%

NEXT DAY AIR SAVER

	132	133	134	135	136	137	138
1-5 lb	5.7%	5.7%	8.3%	8.5%	8.3%	8.6%	8.6%
6-10 lb	6.0%	7.0%	8.4%	8.5%	8.3%	8.6%	8.6%
11-25 lb	6.3%	7.0%	8.6%	8.5%	8.6%	8.7%	8.7%
26-50 lb	6.3%	7.1%	9.0%	9.0%	9.0%	9.0%	9.0%
51-150 lb	5.9%	6.9%	9.0%	9.1%	9.0%	9.0%	9.0%
avg/zone	6.0%	6.9%	8.9%	9.0%	8.9%	9.0%	8.9%

Figure 5: UPS 2-day & Select Service Increases

2 DAY EARLY AM

	242	263	244	245	246	247	248
1-5 lb	6.3%	6.3%	6.0%	7.4%	9.2%	9.1%	9.0%
6-10 lb	6.1%	6.3%	6.3%	7.6%	9.1%	9.1%	9.1%
11-25 lb	6.3%	6.3%	6.3%	7.6%	9.1%	9.1%	9.1%
26-50 lb	6.3%	6.3%	6.3%	7.6%	9.1%	9.1%	9.1%
51-150 lb	6.2%	5.8%	6.3%	7.3%	9.0%	9.1%	8.9%
avg/zone	6.2%	6.0%	6.3%	7.4%	9.0%	9.1%	9.0%

2 DAY

	202	203	204	205	206	207	208	224	225	226
1-5 lb	6.3%	6.3%	6.1%	7.5%	9.1%	9.1%	9.0%	9.1%	9.1%	9.4%
6-10 lb	6.1%	6.3%	6.3%	7.5%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%
11-25 lb	6.2%	6.2%	6.3%	7.6%	9.1%	9.1%	9.1%	9.1%	9.1%	8.8%
26-50 lb	6.3%	6.3%	6.3%	7.6%	9.1%	9.1%	9.1%	9.1%	9.1%	8.2%
51-150 lb	6.2%	5.8%	6.3%	7.3%	9.0%	9.1%	8.9%	9.0%	9.0%	7.4%
avg/zone	6.2%	6.0%	6.3%	7.4%	9.0%	9.1%	9.0%	9.1%	9.1%	7.8%

3 DAY SELECT

	302	303	304	305	306	307	308
1-5 lb	6.4%	7.4%	7.4%	8.4%	8.5%	8.9%	9.0%
6-10 lb	5.3%	6.4%	7.0%	8.0%	8.2%	8.8%	8.8%
11-25 lb	5.1%	5.4%	6.3%	7.6%	7.7%	8.4%	8.4%
26-50 lb	5.0%	5.0%	6.2%	7.6%	7.5%	8.3%	8.3%
51-150 lb	4.9%	4.9%	6.1%	7.5%	7.5%	8.3%	8.3%
avg/zone	5.0%	5.1%	6.2%	7.6%	7.6%	8.4%	8.4%

Figure 6: FedEx Overnight Service Increases

FIRST OVERNIGHT							
	2	3	4	5	6	7	8
1-5 lb	2.0%	2.7%	4.4%	4.5%	4.7%	4.9%	5.0%
6-10 lb	2.5%	3.0%	5.0%	5.2%	5.3%	5.5%	5.6%
11-25 lb	2.9%	3.6%	5.6%	5.7%	5.8%	6.1%	6.1%
26-50 lb	3.5%	4.1%	6.1%	6.2%	6.3%	6.5%	6.5%
51-150 lb	4.1%	4.7%	6.2%	6.6%	6.1%	6.7%	6.7%
avg/zone	3.8%	4.3%	6.0%	6.3%	6.0%	6.5%	6.5%

PRIORITY							
1-5 lb	4.4%	4.9%	7.2%	7.2%	7.2%	7.5%	7.4%
6-10 lb	4.7%	5.1%	7.2%	7.2%	7.2%	7.4%	7.5%
11-25 lb	4.8%	5.3%	7.2%	7.2%	7.2%	7.5%	7.5%
26-50 lb	4.9%	5.4%	7.2%	7.2%	7.2%	7.5%	7.4%
51-150 lb	4.9%	5.3%	6.7%	7.1%	6.5%	7.2%	7.1%
avg/zone	4.9%	5.3%	6.9%	7.1%	6.8%	7.3%	7.2%

STANDARD							
1-5 lb	4.7%	4.7%	7.2%	7.5%	7.2%	7.5%	7.4%
6-10 lb	5.0%	5.9%	7.3%	7.3%	7.2%	7.5%	7.5%
11-25 lb	5.2%	5.9%	7.4%	7.4%	7.4%	7.6%	7.5%
26-50 lb	5.2%	6.0%	7.9%	7.9%	7.9%	7.9%	7.9%
51-150 lb	4.9%	5.8%	7.9%	8.0%	7.9%	7.9%	7.9%
avg/zone	4.9%	5.8%	7.8%	7.9%	7.8%	7.8%	7.8%

Figure 7: FedEx 2-day & Saver Service Increases

2 DAY							
1-5 lb	5.1%	5.1%	5.0%	6.3%	7.9%	7.9%	7.9%
6-10 lb	5.1%	5.2%	5.2%	6.4%	8.0%	7.9%	8.0%
11-25 lb	5.1%	5.1%	5.2%	6.4%	8.0%	8.0%	8.0%
26-50 lb	5.2%	5.2%	5.2%	6.5%	8.0%	8.0%	8.0%
51-150 lb	5.1%	4.7%	5.1%	6.2%	7.8%	7.9%	7.8%
avg/zone	5.1%	4.9%	5.1%	6.2%	7.9%	7.9%	7.8%

EXPRESS SAVER							
1-5 lb	1.5%	1.5%	1.4%	1.5%	3.9%	3.8%	4.9%
6-10 lb	2.3%	2.3%	2.4%	2.4%	3.9%	3.9%	4.9%
11-25 lb	2.4%	2.4%	2.4%	2.4%	3.9%	3.9%	5.0%
26-50 lb	2.3%	2.3%	2.3%	2.3%	3.8%	3.8%	4.7%
51-150 lb	1.8%	2.3%	2.1%	2.3%	3.4%	3.7%	4.3%
avg/zone	2.0%	2.3%	2.2%	2.3%	3.5%	3.7%	4.5%

The first announcement came on September 17, when FedEx stated its Express division will increase shipping rates by an average of 5.9% for US domestic and US export services. These rate increases will be partially offset by adjusting the fuel surcharge, with additional changes being made to other surcharges.

The “net” increase (increased shipping rates less the adjustment to the fuel surcharge index) of 3.9% will vary depending on the service level, zone and weight under which you will ship. The summary analysis in Figure 6 shows that average increases for overnight service offerings vary between two percent up to almost eight percent.

With the 2-Day and Express Saver air offerings, the increases vary from less than 1.5% up to eight percent, as shown in Figure 7.

As you can see, the smallest rate increases look to be occurring in certain weight/zone segments of the Express Saver and First Overnight service levels, with the Express, Standard and 2-Day services appearing to have higher increases.

Rates are only part of the story, as you also need to take changes to accessorials into consideration. For example:

- ▶ Address Corrections: Express increased 10%
- ▶ Dangerous Goods increased eight percent or more
- ▶ Declared Value charges increased eight percent
- ▶ Delivery Area Surcharge Commercial up six percent, Residential up four percent
- ▶ Signature Required up nine percent, Adult Signature up seven percent
- ▶ Oversize Charges increase 11%
- ▶ Residential Delivery Charge up four percent

In addition, on January 18, some new charges came into play. An additional Delivery Area Surcharge to select remote ZIP Codes for residential shipments and Minimum Billable Weight charges on select FedEx-provided packaging will occur; for Express Multiweight shipments, the average minimum package weight increases from 10 pounds to 15 pounds, and the minimum weight qualifier for Express Saver Multiweight moves from 100 pounds up to 200 pounds.

On December 3, FedEx posted a preview of its 2010 Ground rates, stating an average increase of 4.9%. As in past years, FedEx Ground rates mirror the UPS Ground rates through 70 pounds and are \$0.05 less for 71-150 pounds.

The change impact could vary from the 4.9% announcement depending on your shipment distribution pattern. The one through five pounds, zone 2-8 average increase is 6.4%; the six through 10 pounds, zone 2-8 average increase is six percent; while the 71-150 pounds, zone 2-8 average is 4.7%.

FedEx also posted its 2010 Fuel Surcharge changes for Express and Ground. The new tables match the fuel surcharge calculation changes UPS announced in late November.

And on December 11, other changes to FedEx Ground pickup charges were posted, including:

- ▶ A reduction in the Alternate Address Pickup Fee from \$13 to \$10 per unique address per week

On-Call Pickup Charge will now be:

- ▶ Future-day request tendered electronically: \$3.00, \$4.00 by phone
- ▶ Same-day request tendered electronically: \$4.00, \$5.00 by phone

Weekly Pickup Fee increases:

- ▶ From \$9.00 per week for previous weekly shipping charges of \$60.00 or more to \$10.00 per week for previous weekly shipping charges of \$75.00 or more
- ▶ From \$13.00 per week for previous weekly shipping charges of \$59.99 or less to \$20.00 per week for previous weekly shipping charges less than \$75.00

Fuel Surcharge Changes

There is some restructuring with the Fuel Surcharge (FSC) calculations for both Ground and Air. First, the fuel price at which the FSC is triggered has been increased for Ground, from \$1.50 up to \$1.75 and for Air from \$1.30 up to \$1.46. The last time the On Highway Diesel Index was below \$1.50 was December 2003 at 148.98, while the Gulf Coast Jet Fuel monthly index was below \$1.46 in April of last year when it registered 136.93. Expect to see FSC continue to have a meaningful impact on your total transportation cost in 2010.

Second, in an effort to reduce the volatility of fuel surcharges, both UPS and FedEx have increased the interval levels between FSC rate changes. In 2009, the interval for Ground was \$0.08, while in 2010, it is now \$0.12. For Air, the interval has been \$0.04. In 2010, there are two trigger rate levels that will increase the interval to \$0.06 and then \$0.08. The wider interval spreads are designed to temper fluctuations in fuel costs.

However, there is one more change pertaining to the Ground FSC Index. In 2009, the surcharge increased at a rate of 0.25% but will rise at a rate of 0.50% in 2010.

What does all of this mean?

Although there is no way to predict with certainty what will happen with fuel costs this year, we can use the current forecast from the Energy Information Administration for guidance. Using the administration's latest Short-term Outlook for Diesel and Jet Fuel costs, we can calculate the differences between what the FSC would be using the 2009 numbers versus the new 2010 changes.

Rates themselves are only one piece of an increasingly complex puzzle you must solve in order to properly identify your total cost of parcel transportation.

No matter which carrier you are using, you'll need clear visibility into your package distribution pattern, a thorough understanding of your service agreement as well as a review of the carrier's applicable terms and conditions in order to determine the specific impact this year's rate change will have on your business.

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ESTIMATED FUEL SURCHARGE LEVEL

	Q1	Q2	Q3	Q4
Projected On Highway Diesel Cost	\$2.81	\$2.95	\$3.00	\$3.06
FSC using 2009 Index	4.5%	5%	5%	5.25%
FSC using 2010 Index	5%	6%	6%	6%
Projected Jet Fuel Cost	\$2.09	\$2.19	\$2.23	\$2.29
FSC using 2009 Index	10%	11.5%	12%	12.5%
FSC using 2010 Index	8%	9.5%	10%	10.5%