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Three Big Misconceptions About Small Parcel Negotiation

Small Parcel Negotiation WHITE PAPER

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Small parcel is big business

Love it or hate it, everyone understands the need for an effective small parcel contract negotiation strategy in today's hypercompetitive economy. Less obvious, however, are the ingredients necessary to concoct a winning strategy.

Ecommerce has ushered in an unprecedented wave of competition, leaving companies with fewer ways to trim operating costs to gain an edge. Across all industries, the universal truth is that merchandise has got to get to where it's going; whether to the store it'll be sold in, or to the front door of the customer who bought it.

That means that companies must find ways to pay less for shipping, lest they meet the fate of Payless. For several reasons, though, shippers often hesitate to assert control when it comes time to negotiate or renegotiate their small parcel agreement and ultimately fall victim to baseless misconceptions that erode what little margin remains.

Sometimes the reluctance is rooted in misunderstanding your "rights" as a customer. Shippers that take a stand against rising shipping costs — rather than simply accept the rates their carrier gives them — end up with the best shipping rates.

It's that simple.

As the market for small parcel shipping continues to grow more complex, it will get harder and harder for shippers to navigate discussions with their carrier representatives and arrive at a market-appropriate small parcel bid alone. In many ways, the carriers (primarily FedEx® and UPS®) hold all the cards, and it can be tough even for seasoned small parcel executives to get the best shipping rates for their company.

The ugly reality is that when most small parcel execs go it alone, they inhibit their company's ability to pull its shipping costs in line with the rest of the market. This costs companies millions, collectively, each year.

Here are the three most common reasons decision-makers say they can't negotiate a better small parcel agreement than the one they have — and the reasons they're wrong.

I can't lower my shipping costs because my small parcel contract hasn't expired yet.

Actually, it's not a contract, it's an agreement. An agreement is exactly what you have with your small parcel carrier. Understanding the difference between a contract and an agreement is paramount when you compare shipping costs to see if you have the best shipping rates. Most small parcel carrier agreements lack essential verbiage needed to form a legally binding contract.

It's surprising how few executives realize their agreement can be revisited at any time. Most small parcel agreements contain language allowing either party to terminate it. Markets and costs change fast in the logistics industry — this means your "great" rates can quickly become above market. That is why it's important to understand that carrier agreements are not etched in stone. Optimizing your shipping costs means keeping your rates and agreements current with where the market is today.

The truth is, you can negotiate anytime. The average company does so every 13 months. This is not surprising when you consider that both carriers increase their list rates every 12 — and these days they announce increases to specific individual fees and surcharges throughout the year.

My small parcel carrier says I can't use a third party to help me in the parcel contract negotiation.

Make no mistake, you aren't the only one negotiating here. Small parcel carriers are expert negotiators out of necessity. The profits they deliver to shareholders depend on winning business at the highest possible margin. You can be sure that behind your smiling sales rep there is a team of pricing engineers and analysts who understand your small parcel spend better than you do.

Of course, both major small parcel carriers have third-party accountants and lawyers that understand their taxes and legal issues better than they probably do, too. That's why they hire outside help. The difference is that a carrier knows shippers (for now) only have two easily viable options. If a carrier threatens to move you to published rates or refuses to negotiate more favorable shipping costs if you decide to hire an expert, then you may want to ask yourself how strong your partnership really is.

You can't negotiate the best shipping rates when the chips are stacked against you. The right third party understands how to be fair to both sides and still make money. They will maintain carrier profitability while protecting your best interests — which includes staying out of sight to keep your carrier relationship intact.

I can't share my small parcel data with someone who can tell me if I have the best shipping rates.

This is another strongarm tactic used by the carriers. A legal expert will tell you that you own your small parcel data. Carriers know that understanding the story your shipping data tells is vital to obtaining the best shipping rates, but they can hang their hats on the fact that most companies don't have the tools or experience to read their data effectively. That is, of course, unless you hire someone who has the right resources. Preparation is the key to successfully negotiating small parcel agreements, and the prep work can't begin without gathering data about your business and your shipping.

Don't be shy about insisting that your carriers provide complete reporting on your shipping patterns and volumes. Remember, that data belongs to you.

The carriers need you, too.

You would be hard pressed to find anyone, from either carrier, that is purposely out to hurt your business. FedEx and UPS are two of the most revered businesses in the world, and for good reason. They are great companies and have great people working for them.

But they have jobs to do and interests to protect just like you do. When it comes to obtaining the best shipping rates for your company, it boils down to resources, information, and business intelligence. And you are likely to have less of all three relative to your carriers' understanding of how your small parcel shipping costs compare to what's available in the market.

In the end, however, you know your business better than anyone. Don't close the door on teaming up with a small parcel negotiation expert to help you compare your business and shipping needs to others in a way that will help you thrive.

It's hard enough keeping the doors open as it is.

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