PARCEL FORUM08
COURSE M501

BEHIND THE SCENES:
FIND OUT HOW CARRIERS
SET RATES

SETTING RATES

IS

SHORTHAND

FOR

"CARRIER STRATEGIES"

FOR

PARCEL TRANSPORTATION

CARRIER STRATEGY

DEPENDS UPON

THE

CONTEXT

OF THE

“MARKET”

PRICED AND SERVED

BY THE

CARRIER

AS AN OVERVIEW

THE CARRIER PARTICIPANTS IN THE MARKET APPEAR

TO BE

THE BIG TWO AND ONE HALF, i.e.

<u>UPS</u> <u>FED</u> & <u>DHL</u>

THE OLD TIMER

<u>USPS</u>

AND A BUNCH OF

MINI's

THERE APPEARS TO BE A MARKET COMMONALITY
TO THE

<u>PARCEL MARKET</u>

ALL COMPETITORS
OPERATE IN NICHE

<u>"MARKETS"</u>

AS EACH COMPETITOR EXPANDS
THAT COMPETITOR'S "MARKET" IS LINKED
TO A RELATED MARKET
PROVIDING PRICING
LEVERAGE

Historical Perspective

OF

Parcel Transportation

Assists Understanding

Of

Pricing Strategies

UNITED PARCEL SERVICE

- STARTED IN 1927 IN PORTLAND, OREGON

- ICC CLASSIFIED AS –
  "Carrier engaged in retail-store delivery"

- 1941 – Controlled companies in Seattle, Chicago, San Francisco, Los Angeles, Milwaukee, Cincinnati

- Specialized to secure operating authorities
  (Geographical Markets)

- Limitations on Service to Packages or Parcels
  - Weight (100#) Limitation
  - Dimension Limitation

- Developed Parcel Carrier Model
  - A highly efficient system for the distribution of small packages
  - Used rates on a level with parcel post

FedEx

- Originally Air Express was REA Express
- CAB eliminated differentiation from air freight in 1950's
- Market entry selected a parcel model
- Market concentrated on parcels up to 100 pounds
- Allowed pickups and deliveries but utilized drop boxes
- Rates followed model for pricing for extraordinary service with broad geographical coverage.

PRICING STRATEGIES

(In no particular order of importance)

EMBARGO:

– Example – Broad geographical coverage and deeply penetrating distribution network conducive to an intermediary's use of zone skipping.

  (Still used for mail inserts with USPS)

  – When zone skipping became significant practice constrained

  – Distinguish this strategy from classic embargo

    Example: Fireworks Embargo

– Teaching – Define service to recapture revenue

PRICING STRATEGIES (continued)

TARIFF V. INDIVIDUAL CONTRACT

–Tariff Rate seeks highest open market rate

--Itinerant shippers

--Allows volume tracking

--Sales leads

–Contract seeks Volume by Discount

--Captures volume

--Discrete pricing by traffic lanes

--Contract seeks ties to related businesses

TEACHING: Mixing single shipment common carrier service with contracting can selectively capture volume to increase gross revenue

PRICING STRATEGIES (contined)

TARIFF DEFINITION

–Distinguish services by Categorization

--Define priorities (Upcharges)

–Distinguish Services by Geographical area (Residential Delivery)

–Distinguish Services by Weight

–Distinguish Services by Density (Dimensional)

–Distinguish Services by Commodity

–Distinguish Services by Time Provided (Off Hour Delivery)

TEACHING: Defining service allows incremental pricing that provides distinct profit opportunities and enhanced revenue opportunities.

PRICING STRATEGIES (contined)

ACCESSORIALS

TEACHING: Any service extraordinary to a self defined base rate service represents a specific revenue opportunity.

PRICING STRATEGIES (contined)

PASS THROUGHS

- Examples – Fuel Surcharge must capture at least all costs
- Other areas exist for pass throughs. At one time insurance represented an area for pass throughs when it fluctuated by claiming an insurance surcharge.

TEACHING: Any incremental cost can represent a cost recapture that indirectly can affect revenue.

PRICING STRATEGIES (contined)

ALLOWANCES

- Example – Classic common carriage required pickup from the shipper and allowances were allowed for delivery to a station
- Group or nondifferentiated pricing can enhance profit.
- Other areas include: volume parcel tender such as pallet tenders
- Allowances can interrelate with discounts

TEACHING: Rates aggregating service offering can enhance profit.

PRICING STRATEGIES (contined)

END ON SERVICES

- Example – Services that are add-ons to transportation offerings, i.e. Kinkos and Mailboxes
- Definition of Transportation = S•T•D
- Pricing can integrate or incrementally price non-transportation goods on services to enhance per shipment revenue

TEACHING: Parcel revenue may be enhanced by acquisitions that combine transportation and non-transportation functions

PRICING STRATEGIES (contined)

LIMITATIONS OF LIABILITY

–Example – A guaranteed service liability is limited to the rate paid

–Eliminate all consequential damage

–CAP all damages by contract or tariff

TEACHING: A critical component of profit is Risk and Risk is open ended unless defined and limited; which limits allow management of insurance costs

PRICING STRATEGIES (contined)

RECEIVABLES

–Example – A defined receivable period that interrelates to penalties and interest

--Each shipment represents space/volume and time that equals money value – Unpaid receivables must contemplate a recovery of receivable value on the same basis

TEACHING: Revenue opportunity/Requirement

Does not end with delivery of a shipment but accrues until payment is received

PRICING STRATEGIES (contined)

NICHE EXPANSION

–Example: FedEx acquisition of Caliber System and Viking Freight; UPS acquisition of Overnight

–Parcel service concepts expand historical market definitions

–Parcel service can accept volume LTL as well as TL

–Proper definition of service allows revenue enhancement

TEACHING: Acquisition of transportation businesses accepting parcel service concepts can enhance pricing and revenue opportunities

SUMMARY:

Parcel Service is a self defined service emphasizing parcel transportation requiring specialized handling on an expedited basis meriting premium pricing. Setting rates requires utilizing only service offerings reponsive to a need that supports premium pricing.