



# LOGISTICS STRATEGIES

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## Greetings

Here we are in another month, and that means another fresh edition of LOGISTICS STRATEGIES is ready for your review.

As always, we highlight practical strategies from industry experts – suggestions, recommendations, and tips that are designed to fit into your day-to-day operations.

We warmly welcome your feedback, and invite you to share this edition of LOGISTICS STRATEGIES with your colleagues and contacts.

We hope you enjoy this issue.

## The Devils in the Details

While parcel carrier competition continues to grow, not only within the "Big Three", (UPS FedEx and DHL), but also through the ever increasing impact of regional parcel carriers, you might think that rates would be decreasing. Well, that's just not the case. In fact, recent surveys of parcel shippers are generating responses such as "Why are my parcel carrier costs so much higher than they were several years ago?" "Am I doing something wrong, or is this happening to everyone?" These responses are being echoed by many small parcel shippers and by major parcel shippers as well. What's a shipper to do?

The first place to start is with your parcel carrier contract. Do you have one, or are you paying "List Rates" for your parcel shipments? Secondly, if you do have a contract, how competitive are your rates? How do you know the rates are competitive? Are you sure that your parcel carrier is charging you the proper rates and charges for ALL of your shipments? Again, how would you know? These are issues that parcel shippers face on a daily basis and many do not know where to turn.

Well, there is a solution and one that can be implemented almost immediately to every shipper's complete satisfaction. As the title of this story indicates, the answer is in the details. What do we mean by details? We mean the value of the contract that the shipper has negotiated with its parcel carriers, as well as the complete audit of the parcel carrier's invoices to ensure that every shipment is rated

correctly. Sounds pretty fundamental to us, however, you would be surprised at the number of shippers that do not know if they even have a contract with their parcel carrier. And if they do, many are not auditing their invoices to validate the rates, charges and service guarantees.

In fact, we hear all too often from many high level logistics manager's that they do not want to audit their parcel carrier invoices because they have a strong long-term relationship with their parcel carriers and do not want to do anything to destroy that relationship. Some are afraid that if they audit their invoices, the parcel carriers will just increase their rates to offset the overcharges. Nothing could be further from the truth. In fact in our experience the audit process strengthens the relationship because the parcel carrier is held accountable to the fundamental aspects of the business relationship, On-Time Delivery and Invoice Accuracy. Not auditing invoices would be great news if they were working for the IRS, however, in business the logistics manager has a corporate fiduciary responsibility to make sure that all of their service providers charge them in accordance with the pricing agreements that have been negotiated. We can tell you that the parcel carriers will hold shippers to several standards including charging a 5% late payment penalty charge if invoices are not paid on time. Why wouldn't the shipper want to hold the carrier to invoice accuracy standards? The reality is, without an audit the shipper may not even know it is paying late payment fees at all, or even the amount of those late payment fees.

For those shippers that receive paper invoices, the audit process is virtually cost prohibitive. A shipper would have to hire a staff of auditors to review the invoice to extract errors and file for overcharge recoveries. The cost would obviously outweigh the benefit and for that reason many companies do not audit their parcel invoices at all. Not only that, the paper invoices do not contain all of the necessary information to thoroughly audit the package level details anyway so what's the sense? So, is there a solution? You bet there is!

Fortunately, there are Third Party Parcel Audit Services that have spent great sums of money to develop the technology to audit parcel carrier invoices at the package level detail. This completely electronic audit process ensures that all packages are delivered on time, where a guaranteed delivery commitment applies; that every shipment is rated properly; that every accessorial charge is correct, and that every package manifested is actually delivered. Not only will they perform this audit on a contingency basis, (no charge if no errors are found), but they will also provide visibility tools that will make it easier for corporate logistics to budget and manage its parcel expenses today and into the future. In addition, they have the technical expertise to evaluate a shipper's parcel contract to assess if the rate levels are competitive and if not, they can perform a contract negotiation for the shipper, or assist the shipper working behind the scenes to obtain the best rate levels. The vast database of information housed by these parcel consultants is worth its weight in gold. Based on this database and technical expertise, the parcel consultants will almost always obtain lower rates and charges through contract negotiations than the shipper can obtain on its own. Technology and product expertise is the answer!

The recent surveys we mentioned before also revealed that parcel shippers main complaints were hidden charges 60%, invoicing accuracy 60%, and lack of details 46%. These survey results clearly indicate the need for every parcel shipper to have their invoices

audited electronically to ensure 100% invoicing accuracy. So what will these audits reveal? How about returns of between 2% and 12% of a shipper's annual parcel freight expense. These numbers are staggering when you consider the billions of dollars spent annually on parcel shipping and the continued tremendous growth of Internet sales.

The time to act is now! The benefits are staggering! For more information on Parcel Audits and Contract Negotiations, contact Tony Nuzio at 516 822-1183, ext 12, or via e-mail at [tony@iccllogistics.com](mailto:tony@iccllogistics.com).

## So You Think Your Shipments are Insured

Most shippers believe the carriers they do business with will reimburse them if the products they ship are lost or damaged in transit. However, that may not always be the case. The fact is that carriers of all types may limit their liability for lost and damaged merchandise and many of them never even let the shipper know about these liability limitations until it's too late.

A case in point! A shipper of high value fabrics purchased by interior designers tendered a shipment to its top motor carrier which they had been using for years without any claims issues. Unfortunately, this shipment was lost and the carrier could not provide any proof that the shipment had been delivered. The shipper filed a claim with the motor carrier to recover its loss to the tune of \$26,000. The claim was filed timely within the 9 month statute of limitations for motor carrier freight claims, but when the carrier issued a check in the amount of \$2000 as "full and final settlement" for the claim, the shipper had to dig further into the details to see why.

The reason, the carrier published in its rules tariff a provision that limited its liability based on the classification of the product shipped. You see, this shipper had negotiated a Freight-All-Kinds rating of class 65 for all of its products and received a reduced freight rate in return for the business. What the shipper did not know was that the carrier would make up the difference when and if a claim was filed. Based on that classification, the carrier's liability was limited to \$3.92 per pound instead of the actual loss which was more than ten times that amount.

In another case, a different motor carrier limited its liability to the "greater of the shipping charges for the actual shipment or ten (10) percent of the shipper's total freight charges for the immediately preceding twelve (12) months". To put this into perspective, if a shipper had a \$10,000 freight claim with an \$800 freight bill and it was a one-time shipment with this carrier, the total carrier liability would only be \$800.

It's not only motor carriers that limit their liability, most domestic air freight forwarders limit their liability to \$.50 per pound and state that liability on the back of their airway bill. International air freight forwarders usually limit their liability to \$9.07 per pound and again place that liability limitation on their international air waybills. How

often do shippers read the fine print on their airway bills? Not often, if at all!

To add insult to injury some shippers have paid for excess insurance to insure packages they shipped with the major parcel carriers only to find out that the carrier ultimately had no liability. A case in point!

A jeweler in Wisconsin returned a diamond ring to a wholesaler in California via UPS' Next Day Air service. The shipping arrangements were made on the UPS web-site and the jeweler insured the package for \$50,000, the maximum available. The package was picked up at the Jeweler's in Wisconsin, but never delivered to California. Good thing the jeweler took out the insurance. NOT SO FAST!

When the jeweler attempted to collect the \$50,000 from UPS, the carrier declined its claim asserting that in the Terms and Conditions of its tariff and insurance policy it had no liability claiming that the contents of the package had what it called "UNUSUAL VALUE". UPS stated that it published a disclaimer on the UPS web-site explaining that fact. The jeweler, however, asserted that the disclaimer was not clear and conspicuous. Believe it or not, the courts ruled in favor of UPS and this jeweler is out \$50,000.

These few examples of everyday losses clearly point to the need for shippers to become "EDUCATED CONSUMERS" about carrier liability. It is not enough to negotiate lower rates with a company's freight carriers. Shippers MUST perform DUE DILLIGENCE to ensure that all of the carriers they do business with have the necessary liability coverage to protect them in case of loss or damage to their products.

## By the Numbers

### \$1.75 Billion

China's Ministry of Commerce says that when the final numbers are in, China's exports will have climbed 24%, up \$330 billion over 2005.

### 3

The number of international delivery options UPS now offers to 30 world markets. 8:30 AM, 10:30 AM and end of the day.

### 80

The number of surcharges being applied to parcel carrier invoices.