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COST IS NOT ALWAYS THE KEY TO SUCCESS

Much has been written about the state of our economy as we end 2009 and look ahead to 2010. 2009 will go down as the year of survival for many companies who have fought the good fight but for others it has been the year of decision paralysis; we hope it is not too late for those companies to survive. 2010 will be an interesting year because our Washington leaders have told us that the recession is "officially" over, however everything we see leads us to believe otherwise.

In fighting the good fight in 2009, many companies have strengthened their relationships with their core suppliers. This will go a long way towards ensuring these companies economic viability well into the future. A good part of this strengthening has been cost reduction and service improvement initiatives. Cost reductions are critical for all businesses, however companies must make sure they never sacrifice service for costs.

In the selection process for transportation service providers there is much more to the relationship than just moving freight from point A to point B and while cost is obviously one of the key factors in the relationship, it is not the most important one. Now the real task is to convince corporate management that this is the case. Here are a few examples to prove that perceived cost is not the most critical element in a supplier/customer relationship:

- A furniture manufacturer negotiated extremely low LTL rates and decided to ship a bulk of its furniture via LTL carriers. While the rate per one hundred pounds was favorable to the manufacturer the product itself was not conducive to the LTL shipping environment. The manufacturer experienced considerable product damage and many unhappy customers. The real question the manufacturer should have asked is what was the true and total cost, not what it appeared to be.
- A distributor negotiated extremely favorable Truckload rates involving stop offs in transit to deliver its products to their customers. Part of the negotiation was to include delivery appointments to be made by the carrier in advance of delivery to the customer. Unfortunately, the carrier did not totally fulfill its obligations and in many instances just showed up at the customers' door with the

product without making the delivery appointment. Many of the customers could not accept the freight without the appointment being made and refused the shipments. Those shipments would have to be placed in storage and the distributor would now have a customer service nightmare on their hands. To make things more complicated, on a shipment with three stops, if the first customer refused the shipment, the remaining customers' deliveries on that same truck would obviously be late. Now there are three unhappy customers. Again, what was the true cost to serve?

· A shipper needed to send a machine back the manufacturer for repair. It decided to utilize the LTL carrier that had the lowest rate. The actual value of the machine was in excess of \$1 million. The machine was damaged in transit and the shipper filed a claim in the amount of \$165,000. The claim was declined by the carrier because it's liability for "Used" equipment was only ten cents per pound. The shipper was paid \$1800 for the claim and had to absorb the balance of the loss.

Over and over again we see companies basing decisions on what appears to be an attractive discount pricing program. The reality is there is much more to the selection process for transportation service providers and it is incumbent on the shipping community to fully understand what the true cost to serve actually is.

UPS AND FEDEX ANNOUNCE 2010 GENERAL RATE INCREASES

Well it's that time of year again when the transportation industry announces their General Rate Increases for the upcoming year. The major parcel carriers, UPS and FedEx, have announced increases to become effective on January 4, 2010. Here is a brief overview of the projected increases. In our December 2009 issue of "Logistics Strategies," Jack Mitchell, President of Parcel Appraisal and Negotiations Consulting Group, will provide us with an in-depth analysis of each carrier's General Rate Increase. You won't want to miss next month's issue of "Logistics Strategies."

UPS General Rate Increases:

UPS' small package Daily and Retail rates will change as follows:

UPS Ground Service will increase 4.9%.

UPS Air and International Services will increase a net 4.9% through a combination of a 6.9% increase in the base rates and a 2% reduction in the fuel surcharge.

UPS will also re-align their fuel surcharge calculations to provide for a more stable surcharge structure when fuel prices fluctuate.

FEDEX General Rate Increases:

FedEx Express package and freight rates will increase 5.9%, however the rate increase will be partially offset by adjusting the fuel surcharge calculation.

FedEx will also change the following rate categories:

- FedEx Express US Import Rates
- FedEx Express US Rates to Puerto Rico
- FedEx International Premium Rates
- FedEx International Priority and International Economy Rates

As always these rate increases will require a comprehensive analysis by each shipper to ascertain the impact to the individual shipper. It is also critical to point out that the major motor carriers, including UPS Freight and FedEx Freight, will also increase their rates in January, 2010. We will provide more details as they become available.

WARREN BUFFET STAKES \$26 BILLION ON ECONOMIC RECOVERY

One of the nation's most visionary leaders, Warren Buffet, of Berkshire Hathaway is planning a \$26.3 billion buyout of the BNSF Railway. Some analysts see this move as an "all in wager" on the American economy by bringing the nation's second largest railroad under his control. Many experts believe this move will allow the BNSF Railway to reshape its network and make the other major railroads envious of its leadership. Investors believe the BNSF will be challenged to generate larger than normal profits for the privately held Berkshire Hathaway organization. You can be sure if Buffet is involved, small profits will be a thing of the past.

Many industry leaders believe BNSF will change the face of shipping for the future by taking more aggressive actions to move freight off the highways and onto the rails, strike longer contract deals with major shippers and ocean carriers and convince new shippers to open up plants and distribution centers along the BNFS tracks.

Buffet stated in a recent Journal of Commerce article, "Our country's future prosperity depends on its having an efficient and well maintained rail system. Conversely, America must grow and prosper for railroads to do well." This purchase is Berkshire's largest ever investment.

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