

5 Reasons to Renegotiate Your UPS or FedEx Parcel Contract

MARKET BRIEF

The small parcel market has undergone a significant transformation since 2020, and now is the time to negotiate with FedEx and UPS for cost savings.

In the dynamic landscape of the small parcel market, the period from 2020 to the present has witnessed a substantial evolution, prompting a unique opportunity for shippers to reevaluate their agreements with industry giants FedEx and UPS. As you prepare to evaluate your position in the current landscape, here are the five pivotal factors to consider.

1 NEGOTIATING LEVERAGE HAS SHIFTED BACK TO THE SHIPPER

- Carriers had leverage from 2020 to 2022 due to the increased shipment volumes as e-commerce sales boomed with everyone staying at home.
- Shipment volumes spiked in 2020 and 2021 but have since declined due to consumers returning to more traditional brick-and-mortar shopping and overall economic uncertainty influencing consumer spending.
- Total shipping volumes jumped from 15 billion in 2019 up to 20 billion in 2020. Shipping volumes increased slightly to 21.6 in 2021 but fell in 2022 to 21.2 and 2023 will likely finish below the 2022 number.
- FedEx had market leverage in the first half of 2023 due to the uncertainty of a potential UPS strike, but this has since dissipated as UPS and Teamsters have ratified a new contract.

2 FEDEX AND UPS ARE COMPETING TO WIN BUSINESS

- UPS lost almost 1M shipments per day or ~5% of their business to other carriers during the time leading up to the potential strike.
- UPS has been aggressively trying to win back this business and has now dedicated an entire sales team to doing so.
- With lower shipment volumes, service for both carriers has improved to pre-pandemic levels, and is near even. At this point, all carriers are having to compete on price to win business.

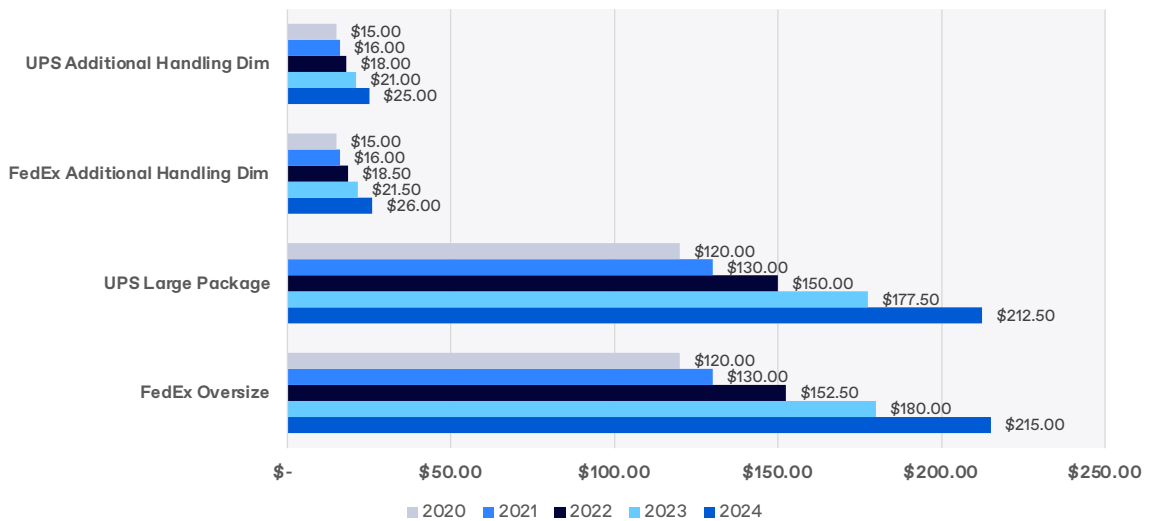


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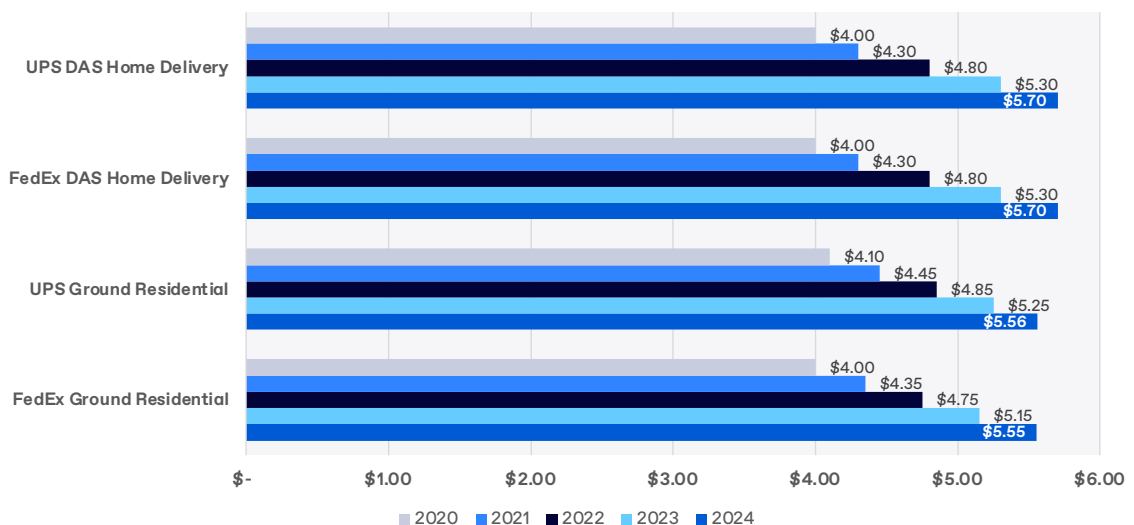
FUEL AND ACCESSORIAL CHARGES HAVE INCREASED

- FedEx and UPS have increased their fuel scales over the past few years.
- Ground diesel fuel is at \$4.18 today, which in 2020 was a 10.25% fuel surcharge, where today that is 15.25% fuel surcharge representing an almost a 50% increase.
- Accessorial charges not covered by the General Rate Increase (GRI) caps often seen in contracts, often increase at a more rapid pace than freight rates.
- FedEx and UPS have aggressively increased surcharges on larger, bulkier shipments such as Additional Handling surcharge and Large Package/Oversize surcharge to the tune of 70% from 2020 to 2024.
- Residential surcharges have increased well beyond the typical GRIs at almost 40% from 2020 to 2024.
- Finally, Delivery Area Surcharge (DAS) rates have increased over 40% from 2020 to 2024 and were applied to thousands of additional zip codes, with both carriers now having an even higher cost “remote surcharge”.

Additional Handling and Large Package/Oversize



DAS and Residential Surcharge



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YOUR CONTRACTED GRI CAP IS NO LONGER COMPETITIVE

- Insight Sourcing has reviewed numerous contracts signed in 2020-2022 that have 4.5% or even 5% GRI caps, whereas prior to 2020 most GRI caps were in the 2.75% to 4% range. These will compound YoY and continue to increase rates.
- In most recent negotiations, we have seen both FedEx and UPS willing to concede lower GRI caps in new contracts.

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OTHER PLAYERS ARE EXHIBITING NOTABLE ADVANCEMENTS

- The marketplace has seen an increase in viable contenders compared to three years ago.
- Amazon now surpasses FedEx and UPS in monthly package shipments.
- USPS has debuted USPS Ground Advantage, a price competitive product.
- DHL has both an international option along with a low-weight e-commerce shipping option.
- Regional players are experiencing growth and expanding their presence.

RECOMMENDATION

Given the current conditions, Insight Sourcing recommends all shippers consider renegotiating or issuing Requests for Proposals (RFPs) for their existing parcel agreements as a strategy to achieve cost savings.

To discuss this market brief or speak to Thomas or a member of our Logistics Center of Excellence, please contact us at info@insightsourcing.com.



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