

UPS

RATE ANALYSIS



The United Parcel Service Rate Increase: What It Means To You!

By Joe Loughran

On December 31, 2007, United Parcel Service's (UPS) new rates will go into effect. I am sure the reason for implementing the new rates on New Year's Eve was purely for your budgeting convenience. As you'll see, there were dramatic increases in all service areas. No service sector went untouched. Ground service had a healthy increase while Air rates continue to skyrocket. International rates had a strong increase, too. Ditto for surcharges, differentials and accessorials. The increase will reduce your company's profits while adding many billions of dollars to Big Brown's cash flow. Someone has to pay for UPS' new labor contract. Someone has to give UPS additional cash so it can please Wall Street and ignite its sluggish stock price. Someone needs to pick up the slack for all of those recent UPS acquisitions that have been slow to accelerate profit growth. That someone is you! The loyal customer that makes the whole thing go. Thank you very much!

Hopefully, after all these years, you've learned not to rely upon UPS press releases for accuracy (or your budgeting) as it relates to planned "percentage increases" in rates because they are not reflective of actual shipping behavior. If UPS delivered packages with the same reliability as their press releases, on-time delivery would be a distant dream. The last thing The Tightest Ship in the Shipping Business wants you to figure out is that you're about to experience The Highest Increase in Shipping History!

>> Shipper Alert: *If you relied on the UPS press release to help you set your 2008 budget, you will not have budgeted nearly enough dollars because the rate increase, as reported in UPS' press release, is not consistent across all weights and zones. Get ready to start the process all over again.*

Base rate increases have been an annual ritual, but the steady hikes in surcharges and differentials is maddening. What was once a "simple service for a simple fee" has turned into a mathematical exercise. For example, let's take a 10-pound, zone 2 ground residential package going to ZIP Code 08311 in Cedarville, N.J. The following represents the change in price since December 2004:

	2008	2007	2006	2005	2004
Base Rate	\$5.59	\$5.33	\$5.06	\$4.85	\$4.65
Delivery Area Surcharge	\$2.30	\$2.20	\$2.10	\$2.00	\$1.75
Residential Differential	\$1.95	\$1.85	\$1.75	\$1.50	\$1.40
Fuel Surcharge (4%)	\$0.40	\$0.38	\$0.36	\$0.33	\$0.00
>> Total	\$10.24	\$9.76	\$9.27	\$8.68	\$7.80
% Annual Increase	4.9%	5.3%	6.7%	11.3%	
% Cumulative Increase	31%				

The base rate increased 20% from 2004 to 2008, yet the true cost has gone up a whopping 31%. It is tough to swallow a 31% increase in shipping costs over a 37 month period (December, 2004 – January, 2008). But there aren't many other games in town.

This article provides a detailed analysis of this year's UPS rate changes. Why UPS? Because it dominates the industry and establishes the pricing direction, while other carriers follow. Our findings show significant increases in all service sectors — Ground and Air, domestic and international. Select accessorial charges were increased. Collectively, they all severely impact your total shipping costs and pack a wallop where it hurts most — in your shipping budget. Let's take a look!

Ground Service

Ground service represents UPS' largest volume and revenue source. The base rate increase for commercial service for one to 70 pounds is 4.5%

(based on a straight dollar average of all weight and zone cells, and there is not one shipper in the country that has this package distribution). Rates were increased, on average, by 3.1% for 71 – 150 pound packages. However, there is a wide disparity between zone 2 (1.9%) and zone 7 (5.0%). Table 1 summarizes the impact of the increase.

UPS increased the *Commercial Delivery Area Surcharge* on packages going to “remote” ZIP Codes from \$1.40 to \$1.50 — a 7.1% increase. There are 23,441 ZIP Codes impacted by the surcharge. That’s 55% of all US ZIP Codes! That means that you are a rare shipper, indeed, if none of your packages are destined to the aforementioned ZIP Codes.

>> Shipper Alert: Remember, there is no longer a separate Ground residential rate table, and incentives no longer apply to the residential surcharge.

The *Residential Differential* has been increased from \$1.85 to \$1.95. That’s a 5.4% increase! The following example illustrates the “real” impact of incentives no longer applicable to the residential surcharge. Let’s assume a company ships 15-pound packages to zone 5 with a 25% discount. Since December 2006, the base rate increased 10.8%, but the “real” increase is a staggering 17.0%.

(0 – 40%). The results are astounding. For example, if you have a 30% discount and ship 20-pound packages, the “real” increase is 22%. Bottom line: if you ship Ground residential packages, you need to understand this enormous impact on your shipping costs.

Ground Commercial Hundredweight % Increase		
Tier	200 – 499 lbs.	500 – 999 lbs.
1	5.2	5.3
2	5.2	5.3
3	5.3	5.3
4	5.3	5.4
5	5.3	5.4
6	5.2	5.3
7	4.2	4.2

>> Shipper Alert: Residential shippers are seeing an unprecedented increase in shipping cost since the elimination of discounts on the Residential Differential, and there is no let-up in sight.

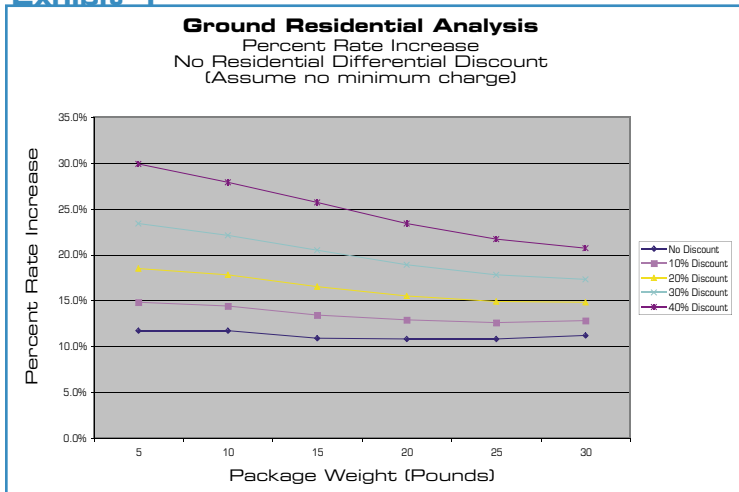
The *Residential Delivery Area Surcharge* has been increased from \$2.20 to \$2.30. That’s a 4.6% increase! Do you realize it has increased 100% over the past five years (\$1.15 to \$2.30)?

	2008	2007		2006	% A Year Increase
Base Rate	\$7.79	\$7.42	Base Rate	\$7.03	10.8%
Discount	<u>-\$1.95</u>	<u>-\$1.86</u>	Residential Diff.	<u>\$1.85</u>	
Net	\$5.84	\$5.56	Gross	\$8.88	
Residential Diff.	<u>\$1.95</u>	<u>\$1.85</u>	Discount	<u>-\$2.22</u>	
Charge	\$7.79	\$7.41	Charge	\$6.66	17.0%

Exhibit 1 shows the “real” impact of no longer applying a discount to the residential differential. The graph shows the net rate increase from December 2006 to 2008 for various package weights (5 – 30 pounds) along with numerous discount rates

I’ll state the obvious by writing that Delivery Area Surcharge and Residential Differential are tremendous money makers for UPS. Obviously, any shipper with a high percentage of residential customers is really feeling the brunt of these charges.

Exhibit 1



Ground Commercial Hundredweight rates increased 5.2% for 200 – 499.9 pounds and 5.3% for 500 pounds or more. Tier 7 has the smallest increase (4.2%) of all Tiers. There was a fairly even increase among all zones within each Tier.

Time Definite/ Express Services

Time Definite/Express Service rates increased significantly this year. Also, they are subject to all surcharges and differentials. UPS has many service options to address your time definite service requirements. In the process of doing so, it has become somewhat confusing to select the appropriate offering as it relates to cost versus service tradeoffs. Here is a summary of the service offerings and the respective rate increases:

Next Day Air Hundredweight		% Increase
Tier	100 Pounds or More	
1		7.0
2		7.0
3		6.9
4		7.0
5		7.0
6		5.5
7		7.2

Next Day Air Saver Hundredweight		% Increase
Tier	100 Pounds or More	
1		5.9
2		5.8
3		5.8
4		6.4
5		5.8
6		5.3
7		5.8

2nd Day Air Hundredweight		% Increase
Tier	100 Pounds or More	
1		5.8
2		5.8
3		6.0
4		6.0
5		6.1
6		6.0
7		5.9

2nd Day Air A.M. Hundredweight		% Increase
Tier	100 Pounds or More	
1		5.7
2		5.8
3		5.9
4		5.9
5		5.9
6		5.9
7		5.8

3 Day Select Hundredweight			% Increase
Tier	200 – 499 lbs.	500 – 999 lbs.	
1	6.1	6.2	
2	6.1	6.1	
3	6.1	6.2	
4	6.1	6.2	
5	6.1	6.1	
6	6.1	6.1	
7	6.0	6.1	

Next Day Air: 10:30 a.m., noon or end of day delivery of letters, documents and packages. Delivery time is determined by the destination. Letters increased in all zones from \$0.30 - \$1.40 (2.2 – 6.9%). Rates increased a whopping 8.1% for 1 – 70 pound packages, with smaller increases in the shorter, less used, zones. To demonstrate the variability of increases, a five-pound package shipped to zone 102 increased 3.4%, while the same package shipped to zone 5 went up 8.9%. (SmartTran's analysis shows that you can expect an 8.5 – 9.0% increase in Next Day Air charges.) By going with smaller increases in short zones, UPS continues its efforts to decrease the number of low zone Next Day Air packages being shifted to the less profitable Ground service. The prudent shipping manager recognizes that zone 2 Ground packages are delivered next day with a guarantee and that the majority of UPS' deliveries occur before noon. So there is no reason to spend the extra money on Next Day Air service. Table 2 summarizes the impact of the increase.

Next Day Air Hundredweight rates increased in all Tiers from 5.5 – 7.2%. There is a significant difference in the percentage increase among zones within each Tier. For example, in Tier 1, zone 2 increased 5.2% while zone 3 rose a staggering 9.4%.

Next Day Early A.M.: 8:00 a.m. delivery of US domestic letters, documents and packages from most metropolitan areas. In addition, 8:30 a.m. delivery is available from virtually all overnight shipping locations coast to coast. Add \$28.50 to the appropriate Next Day Air rate. This is the same amount as last year.

Next Day Air Saver: 3 p.m. or 4:30 p.m. delivery to commercial destinations where UPS Next Day Air is committed by 10:30 a.m. or noon, respectively. Residential deliveries to UPS Next Day Air Saver destinations receive delivery by end of day.

Letters increased between \$0.50 - \$1.40 (3.6 – 7.5%). Package rates increased an average of 7.2% for 1 – 70 pound packages. The rates for this service average a mere 7.3% off of the Next Day Air rate. Have you noticed that the price difference between Next Day Air and Next Day Air Saver has tightened over the years? It's true! Last year, they were 8.6% off of the Next Day Air rate. UPS is clearly discouraging the use of Next Day Air Saver through its pricing strategy. Table 3 summarizes the impact of the increase.

Next Day Air Saver Hundredweight rates increased in all Tiers from 5.3–6.4%. There is a significant difference in the percentage increase among zones within each Tier. For example, in Tier 1, zone 2 increased 0.9% while zone 5 rose a staggering 9.7%.

2nd Day Air: A second business day delivery of both letters and packages.

Letters increased between \$0.40- \$1.15 (4.4 – 9.9%) depending on the zone. Rates increased an average of 7.1% for 1 – 70 pound packages; but, like last year, there is a large disparity among the various weights and zones. Rates increased at a lesser percentage (4.3%) in zones 202 - 204 where use of 2nd Day Air is unlikely and pricing becomes a non-factor. Whereas, there were substantial increases in zones 205 – 208 (8.2%), which represent the vast majority of volume. (SmartTran's analysis shows that you can expect an 8.0% increase in 2nd Day Air charges.) By reducing rates in low-utilized zones and substantially increasing rates in high volume zones, UPS touts an average increase which is clearly understated. The rates for this service average 42.5% off of the Next Day Air rate. Table

4 summarizes the impact of the increase.

2nd Day Air Hundredweight rates increased in all Tiers from 5.8 – 6.1%. There is a significant difference in the percentage increase among zones within each Tier. For example, in Tier 1, zone 3 increased 3.1% while zone 6 rose a staggering 9.0%.

2nd Day Air A.M.: 10:30 A.M. or Noon second business day delivery of both letters and packages to metropolitan commercial addresses where UPS Next Day Air delivery is committed by 10:30 a.m. or Noon. This service is not available to destinations where UPS Next Day Air delivery is committed by end of day.

There was a substantial increase in all zones for letters and packages. Letters increased from \$0.75 - \$1.30 (6.7 – 9.9%) depending on the zone. Rates increased an average of 8.9% for 1 – 70 pound packages. Like 2nd Day Air, the higher the zone, the larger the increase. The rates for this service average 15.9% more than 2nd Day Air.

2nd Day Air A.M. Hundredweight rates increased in all Tiers from 5.7 – 5.9%. There is a significant difference in the percentage increase among zones within each Tier. For example, in Tier 1, zone 3 had no increase while zone 7 rose a staggering 9.0%.

3 Day Select: A third business day delivery of packages.

There is not a letter rate with this service. There were significant increases in all zones. Rates increased an average of 6.2% for 1 – 70 pound packages. Same principle applies here as with 2nd Day Air. Rates increased 5.5% in zones 302 – 305, while increasing 6.6% in zones 306 – 308. The rates for this service average 32% less than 2nd Day Air but are two and a half times the price of Ground service. Since the majority of UPS' ground packages are delivered within three days, careful study of this service should be conducted prior to its use. If you are using this service for zones 302 – 305, you are spending a



>> Table 1: Ground
(Percent Increase)

lbs./zone	2	3	4	5	6	7	8	Total
1 - 15	5.0	5.2	5.1	5.5	5.2	5.1	4.6	5.1
16 – 70	5.1	5.1	5.2	5.2	5.1	4.0	3.4	4.5
71 -150	1.9	2.1	2.1	2.3	2.6	5.0	4.9	3.1
Total	2.4	2.6	2.7	2.9	3.2	4.7	4.5	3.5

>> Table 2: Next Day Air
(Percent Increase)

lbs./zone	102	103	104	105	106	107	108	Total
1 - 15	4.8	6.2	8.3	8.7	8.6	8.6	8.8	8.1
16 – 70	5.5	6.0	8.9	8.7	8.6	8.6	8.1	8.1
71 -150	7.0	6.0	8.8	8.6	8.4	8.5	8.5	8.2
Total	6.6	6.0	8.8	8.6	8.5	8.5	8.4	8.2

>> Table 3: Next Day Air Saver
(Percent Increase)

lbs./zone	132	133	134	135	136	137	138	Total
1 – 15	1.8	3.4	7.1	7.6	8.4	8.2	8.8	7.2
16 - 70	2.3	1.6	10.3	9.9	10.2	10.4	10.6	9.0
71 -150	2.0	3.5	10.0	10.7	8.8	11.0	11.0	9.1
Total	2.0	3.1	10.0	10.5	9.1	10.8	10.8	9.0

>> Table 4: Second Day Air
(Percent Increase)

lbs./zone	202	203	204	205	206	207	208	Total
1 – 15	4.2	3.7	4.1	4.6	8.0	8.7	8.9	6.8
16 – 70	4.5	4.7	4.6	5.3	8.8	8.6	8.0	7.1
71 -150	4.2	4.2	4.5	4.9	9.5	9.4	8.2	7.4
Total	4.3	4.3	4.5	5.0	9.4	9.2	8.2	7.3

>> Table 5: 3 Day Select
(Percent Increase)

lbs./zone	302	303	304	305	306	307	308	Total
1 – 15	5.5	6.1	5.9	6.3	6.6	7.1	7.4	6.6
16 - 70	4.7	5.6	5.6	6.0	6.3	6.5	6.9	6.2
71 -150	4.6	5.5	5.5	5.9	6.3	6.5	6.9	6.1
Total	4.7	5.6	5.6	5.9	6.3	6.5	6.9	6.2

lot of extra money for this service when Ground service will satisfy your service day requirement. Table 5 summarizes the impact of the increase.

3 Day Select Hundredweight rates increased 6.0 % for 200 – 499.9 pounds and 6.2% for 500 pounds or more. There is no increase for Zone 3 for all Tiers for 200 – 499.9 pounds. There is significant variance in increases between all zones for all Tiers.

Ground Fuel Surcharge applies to all domestic and international transportation charges for the following services:

Ground Commercial, Ground Residential, Hundredweight Ground Service and Standard To Canada. The surcharge also applies to the following accessorial charges (where applicable):

- Pick-up
- Return Services
- International Extended Area
- Delivery
- Residential Surcharge
- Large Package

Air and International Fuel Surcharge applies to all domestic and international transportation charges for the following services:

Next Day Air Early A.M., Next Day Air, Next Day Air Saver, 2nd Day Air A.M., 2nd Day Air, 3 Day Select, Next Day Air Freight, 2nd Day Air Freight, Worldwide Express Plus, Worldwide Express, Worldwide Saver and Worldwide Expedited. The surcharge also applies to the following accessorial charges (where applicable):

- Pick-up
- Return Services
- Next Day Early A.M./Express Plus
- International Extended Area
- Delivery
- Residential Delivery
- Saturday Delivery and Pick-up
- Large Package

As if all of that isn't confusing enough, UPS uses index-based surcharges that are adjusted monthly. Changes to the surcharges are effective the first Monday of each month and posted approximately two weeks prior to the effective date. The Ground surcharge is based on the National U.S. Average on Highway Diesel Fuel Prices reported by the U.S. Department of Energy for the month that is two months prior to the adjustment. For example, the surcharge for January 2007 is based on the November 2006 National U.S. Average on Highway Diesel Fuel Price. The Air and International surcharge is based on the U.S. Gulf Coast prices for kerosene-type jet fuel reported by the U.S. Department of Energy for the month that is two months prior to the adjustment. You can find current fuel surcharges on ups.com.

One last comment regarding the fuel surcharge: it seems unfair to me that shippers must pay the high Air fuel surcharge for those Air packages that are transported over-the-road. As you are aware, a high percentage of so-called "Air" packages never see the belly of an airplane. They simply travel in trailers along with the Ground packages, yet shippers must still pay the high Air fuel surcharge anyway. Don't hold your breath waiting for that refund!

International

While early morning, morning and end-of-day delivery times have become the standard within the United States, importers and exporters have long had only one or two time-of-day delivery options for international air shipments. UPS continues to expand its services in lanes between the United States and Asia, Europe and the Americas, giving businesses three time-of-day delivery options in the world's busiest cities. These services are:

- UPS Worldwide Express Plus (guaranteed delivery by 8:30 a.m. or 9 a.m., depending on destination)
- UPS Worldwide Express (guaranteed delivery by 10:30 a.m. or noon, depending on destination)
- UPS Worldwide Saver (guaranteed delivery end-of-day)

Worldwide Express Plus: Add \$40.00 to the appropriate Worldwide Express export rate.

- **Export Destinations:** More than 30 countries and territories
- **Import Origins:** More than 65 countries and territories

Worldwide Express: Letter export rate increased on average 9.7% and between \$1.90 – \$5.40 (6.0 – 9.8%) depending on the zone. Package export rates increased an average of 6.8% with a range of 3.8 – 8.6%.

- **Export Destinations:** More than 45 countries and territories
- **Import Origins:** More than 185 countries and territories

Worldwide Saver: The export rates for this service average a meager 6.4% off of Worldwide Express packages.

- **Export Destinations:** More than 215 countries and territories
- **Import Origins:** More than 185 countries and territories

Worldwide Expedited: The package export rates for this service increased an average of 6.0%.

- **Export Destinations:** More than 60 countries and territories
- **Import Origins:** More than 60 countries and territories

Accessorial Charges

Many of the Accessorial Charges stayed the same. However, 11 Accessorial Charges have increased, and some of them were hefty. These include Additional Handling, Address Correction – Ground, Declared Value, Delivery Area Surcharge, several Delivery Confirmation Responses, Large Package Surcharge and Air and Ground Residential Surcharges. The Ground Residential Surcharge applies to Standard to Canada packages. Table 6 summarizes these changes.



>> **Table 6**

	2008	2007	% Increase
Additional Handling	\$6.50	\$6.00	8.3%
Address Correction	\$6.00	\$5.00	20.0%
- Ground			
Declared Value			
- \$100.01-\$50,000	\$0.60*	\$0.55*	9.1%
Delivery Area Surcharge			
- Commercial	\$1.50	\$1.40	7.1%
- Residential	\$2.30	\$2.20	4.6%
Delivery Confirmation Response	\$1.50	\$1.25	20.0%
Delivery Confirmation Response	\$2.50	\$2.25	11.1%
- Signature Required			
Delivery Confirmation Response	\$3.50	\$3.25	7.7%
- Adult Signature Required			
Large Package Surcharge	\$45.00	\$40.00	\$5.00
Residential Surcharge			
- Air Services and 3 Day Select	\$2.30	\$2.20	4.6%
- Ground	\$1.95	\$1.85	5.4%

* Per \$100 of declared value, minimum \$1.80

>> Shipper Alert: *Dimensional weighing continues to be a costly price for using UPS to service larger packages shipped via Ground service. The dimensional weight applies to Ground packages measuring three cubic feet (5,184 cubic inches) or larger. Packages measuring less than three cubic feet are billed based on actual weight. It is recommended that an analysis is conducted to measure the impact of Dimensional Weighing on your business.*

FedEx/DHL

Like UPS, FedEx Express, FedEx Ground and DHL announced various rate hikes for 2008. FedEx Ground and DHL follow the lead of United Parcel Service when it comes to base Ground rates; they are virtually the same. Why not? It's easy money. As you know, since its inception, FedEx Ground has been a price follower. As for DHL, they have copied FedEx Ground's playbook and followed UPS' pricing lead. I suggest you visit the FDX and DHL websites to get a copy of their rate tables. FedEx Express maintains its long-term position of offering higher base Air rates than Big Brown. This reflects FedEx leadership position in express deliveries while UPS attempts to undercut its competitor in hopes of gaining greater market share. Bottom line: regardless of where each carrier's base rates fall, all of the carriers choose to differentiate themselves price-

wise in the marketplace through contract negotiations — on an account-by-account basis.

Conclusion

There you have it! What does the rate increase mean to your company? You can find that out by analyzing your monthly package expenditure by computing the incremental cost using the old and new rates plus the surcharges, differentials and accessorial charges. (To help you accomplish that task, don't forget that you can download 2008 UPS rates directly from its website: www.ups.com.) A detailed cost analysis will provide the necessary information to help you decide which service offerings best serve your company's needs. No matter what services you select, understanding how your carriers' rate increases impact your budget and bottom line is a top priority! Have a great 2008! Have a great 2007!

About the Author

Joe Loughran is President of SmartTran, Inc. and an expert in small package carrier rate analysis. SmartTran, in its 12th year, is a transportation consulting company offering services in carrier rate negotiation, guarantee refund service and logistics planning. SmartTran's management team has over 70 years of experience in package transportation management. Joe can be reached by phone at (724) 934-0626 or email loughran@smartran.com