

## TAKE CHARGE OF YOUR CARRIER NEGOTIATIONS

By  
Tim Sailor

Do you feel that your carrier representatives have the upper hand when it comes time to negotiate a new freight contract? If so, you are not alone. Most transportation managers don't have the tools and information they need to effectively negotiate new contracts and reduce costs.

Before you begin any negotiations, you must have a thorough understanding of your shipping expenditures. This should include a distribution analysis as well as contract and rate benchmarking. (See accompanying article on transportation benchmarking.)

One of the most effective things you can do is initiate the renegotiation process. This will allow you to establish the goals of any new contract. We always recommend that shippers begin by telling the carrier that they want to lower transportation costs and improve the service they receive from the carriers. Too often, shippers spend time trying to minimize carrier increases instead of focusing on broader cost reduction.

If you take charge of the process and state your savings goals, more than likely you will influence the carrier pricing before it gets presented. You can tie it into broader corporate cost savings goals and make the focus your company's bottom line and not the carrier's margins.

Your agenda should also target many other important concessions that sometimes get overlooked, such as carrier provided packaging, modal optimization, automation, electronic invoicing, service guarantees and other value-added carrier solutions.

By setting your own negotiation schedule, you will have the opportunity to implement any new contract at the peak of your shipping. This will allow you to start any new contract at the top incentive tier, which will maximize revenue incentives.

With accessorial charges accounting for up to 40% of total freight charges, it is now even more essential to know the slightest details of your expenditures. Currently, there are over 80 carrier add-on charges. Quantify which accessorial charges impact your company the most and try to negotiate waivers or reductions. Regardless of what your carrier representatives tell you, ALL accessorial fees are negotiable.

To increase the leverage you have over your incumbent carrier, you should open up the negotiations to all carriers. Too often, shippers get locked into a proprietary relationship with their carrier and don't adequately explore alternatives with different carriers. While it is not always easy to switch carriers, today all the major carriers offer a full range of services that should meet your requirements. It is important to establish service standards and be objective when comparing the carriers.

An effective way to compare carriers is to implement a shipping trial with a prospective carrier. This allows you to develop a service track record and puts your incumbent carrier on notice that you are actively negotiating with another carrier. It is important to notify your incumbent carrier ahead of time and explain the rationale of the trial. The trial should be representative of your volume and should run at least 30 days.

Throughout the year track and monitor your expenditures to determine whether or not you are hitting the revenue targets in your contract. If your revenue is trending upwards, make sure any new contract rewards you for the additional revenue you have given your carriers.

Since shipping rates and contracts are fluid and market driven, it is also important that you follow industry trends. When carriers are introducing new services and trying to expand market share, their pricing tends to be more favorable. When the carriers are focused on earnings and margin improvement, pricing tends to go up.

We recommend that transportation professionals attend industry conferences, follow financial analysts reports, and sign up for email updates from all the carriers. There are also numerous industry publications that will give you significant industry changes.

If you can take advantage of these cycles, you can really impact your bottom line by locking in long-term lower rates.

Share information with the carriers. Typically, non-incumbent carriers don't have the same knowledge of your traffic as your existing carrier. It is crucial to develop a representative shipping database that provides the carriers with shipment level detail. This information allows the carriers to extend their deepest discounts and offer you a contract and rates that match your unique shipping characteristics.

The carriers have sophisticated pricing models that take into account factors such as pick-up and delivery density, weight, zone, commercial/residential destinations, etc. The

carriers all try to extend pricing that reflects their "cost to serve" along with a profit margin.

With UPS, FedEx, and DHL all acquiring new services and capabilities, look to see if you can't offer your carrier new opportunities with additional shipping areas such as expedited mail services, LTL, or international freight forwarding. Sometimes, it isn't as much about the revenue, but the willingness to let the carriers handle new business.

To achieve the best results, negotiations should be collaborative. Make sure that you have ongoing dialogue with your carriers so that they always know what your requirements are and you know what their capabilities are. We have also found that it pays dividends when shippers develop good carrier relationships and high-level contacts before beginning any negotiations.

Finally, remember that negotiations are not an event, but a process that requires your ongoing commitment.

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*Tim Sailor is the founder of Navigo Consulting Group. Navigo specializes in contract benchmarking, distribution analysis, and carrier negotiations. Since 1995, Navigo has reduced its clients shipping costs by more than 30%. Tim was recently recognized as a Distinguished Logistics Professional by the American Society of Transportation and Logistics, Inc. and has been in the transportation industry for over 20 years. He can be reached at (562) 432-2299 or [tsailor@navigoInc.com](mailto:tsailor@navigoInc.com).*