Beware of Carriers Bearing Free Gifts!

In today's cost cutting environment, every business is looking for ways to reduce expenses. Many times, what appears as an opportunity to save money, actually ends up costing the company profits. More and more, small parcel carriers, like United Parcel Service and FedEx, are offering their customers "free" computerized shipping systems with which they can process their parcels.

Thousands of shipping managers across the United States are accepting these systems with intentions of doing their company a favor. On the surface, it appears to be a great offer with an opportunity to save money. Is there a catch? You bet. This chapter details 19 reasons why you and the management of your company should carefully consider the implications of accepting a carrier's "free" gift.

What haven't the carriers told you?

1. "Free Choice"

If you were presented with a choice between the carrier's "free" system or a discounted rate, which would you choose? Of course, they may not present you with a choice, or they may already be offering a discount and the "free" system. The reality, however, is that they would rather give you a system.

As a manager of one of the major carriers told me, "We would rather give them a system than an additional discount because the systems have a limited cost and discounts are forever." The carrier builds the cost of the computer, the software technology, support staff and service into their rates.

Considering these built-in costs, giving away a system is actually more profitable for them.

Most shipping managers who accept the "free" system simply do not see what they could do with the discount. I have heard the following reasoning, "We pass the freight on to our customers anyway; so who cares if we get a discount? A "free" system saves us money because we don't have to make lease payments or buy a computer."

Unfortunately, these shipping managers are not taking into consideration the possibility of not passing the discount, but rather the regular freight charges to their customers, which is the standard practice. After all, if you ship enough to receive a quantity discount based on your volume, why should you give it away? If you have other economies of scale from quantity purchases, do you give those away just because you bought right?

An additional one or two percent savings on your annual freight bill could amount to thousands of dollars in profit. These savings would more than offset the cost of a computerized shipping system provided by an independent third party, who has your interests in mind.

2. Rate Shopping.

When you accept this "free" gift, you are not only giving up a discount with that carrier, but you are giving up the possibility of shopping for the most economical rate for the service used. A shipper with as few as 50 packages a day can save eight percent on ground shipments and up to 50 percent on air shipments through rate shopping. The "free" system probably will not have the competitors' rates on it. If it did, they could be programmed so that the carrier could manipulate service selection to protect their own profits. The carrier is "giving" you their system so that you use only that carrier. That is the hook! By comparison, a gas station could offer you a free car, with the stipulation that you must buy gas from them for the life of the car at the price they designate.

3. Service Shopping.

Carriers offer many different services such as priority, third day, and select delivery. They use their jargon, and their systems are structured so that the operator chooses a service based on that jargon. The consequence is that an operator can pick a service that is misleading or, in fact wrong. They may choose

priority service (at a premium price) thinking that it will be delivered the next day by 10:00 AM, when, in fact, the carrier does not even offer that guaranteed delivery schedule. Carrier supplied systems do not pick the most economical service because it is not in their best interest. But then again, that is why they give you the system for "free".

On the other hand, multi-carrier shipping systems provided by independent suppliers offer the capacity to shop for a service based on a wide range of parameters including need or urgency level. They offer choices based on delivery time, day of the week, and cost. They are designed to use the language that your company uses and provide the choices that are in your best interest. These savings can be significant. As an example, the difference between a next day letter that is guaranteed to arrive by noon and one that is guaranteed to arrive by 5:00 P.M. can be as much as $10!

4. Multiple package discounts.

A company that ships multiple packages to the same destination can qualify for discounts of up to 40 percent. The carrier offers these discounts because they are delivering them to same address. Importantly, most of their "free" systems do not automatically consolidate the packages and apply the discount.

Independently provided multi-carrier systems can actually tabulate the number of packages that were shipped at higher individual package rates that day. If they meet the requirements, they can change the status and apply the discount. The potential savings are phenomenal.

5. Higher insurance rates.

The "free" systems utilize the insurance rates provided by the carrier. The advanced tracking and accounting capabilities of vendor supplied systems, on the other hand, can result in a 50 per cent savings in insurance costs. If your packages are worth over $100, these savings will pay for a system on volumes as low as 20 packages a day. Of course, the carrier, like the car rental companies, would rather have you use their insurance because it is more profitable for them.

6. Zone Skipping.

Sometimes, it is financially beneficial for you to send your packages by truck across a couple of zones, and then drop them off at a carrier's distribution center. This capability is not available in most carrier supplied "free" systems because it undermines their revenue objectives. An independent vendor supplied system is designed around your revenue objectives and can provide manifests of another zone, which can result in significant savings.

7. Integration.

Carrier-supplied systems are limited in their capacity to integrate on a real-time basis with other PC-based systems or host system applications. This limitation prevents the shipping system from becoming an integral part of a company's total information environment. A vendor supplied system can integrate with the company's larger information environment, like the customer service application and provide second-by-second information on the status and tracking of parcels as they are shipped, improving customer service response times.

8. Invoice Automation.

Another loss associated with a carrier-supplied system is the cost of invoicing the customer after the package has been sent. The loss can be substantial when you consider the cost of data entry, data entry errors, postage, labor costs associated with obtaining overdue payments, etc. Vendor systems have a range of options/solutions that integrate with your business accounting application or host system, and can produce an invoice at time of shipment, eliminate these costs and reduce turnaround time, thereby providing increased cash flow.

9. Query/Reporting.

Most carrier-supplied systems provide standardized reports. Multi-carrier systems, however, can provide a report writer from which the shipper may design and customize virtually any type of report. This allows the shipper to combine carrier information and analyze it in a way that is valuable to his or her business.

10. Carrier Performance Auditing.

Vendor supplied systems can offer carrier performance monitoring capabilities. If a package is not delivered by the guaranteed date or guaranteed delivery time, the customer has an auditing function that will report on this information and the amount of refund due. Less than 10 percent of customers claim

refunds when a carrier does not fulfill its guaranteed delivery time. This potential savings is not being taken advantage of with the use of "free" carrier system. Rarely, would your carriers point out these potential savings. A good multi-carrier system offers inbound and outbound carrier auditing capabilities; this important function can save shippers hundreds and sometimes thousands of dollars a year.

Often, carriers do not want to share their performance information with their customers, and therefore, will not offer any auditing features. This represents another lost opportunity for those using a carrier-supplied system.

11. Multiple Applications.

Today, many vendor-supplied systems can provide applications beyond shipping such as receiving, labeling, mail processing, and more. These applications greatly expand the usefulness and the purpose of shipping systems and provide benefits to the entire company. It can integrate a company's entire information environment and provide benefits for the whole company. Such technical functionality is not within the capabilities of the carrier-supplied systems. Companies with these technical requirements should look at the multitude of benefits that a vendor system can provide.

12. System Service/Maintenance.

The technical aspects of any shipping system require timely and responsive service. Because vendor-supplied systems are backed by companies whose main business is to service its systems, they have more resources and are in a better position to respond directly to customer needs. Carriers are not in the computer business. Typically, they do not have sufficient technical staff in the field to service customers adequately. In fact, many carriers must hire a third party, who is not totally familiar with the software, to service their systems. Don't rely too much on the information you are collecting on these systems--or rather, the information the carrier is collecting on you.

13. Adaptability.

In general, carrier-supplied systems are not particularly designed to adapt to the shipper's unique processing environment. Carrier-supplied systems are geared toward the carrier's business environment and billing practices rather than the shipper's. Carrier-

supplied systems help the carrier streamline data entry procedures in its accounting department.

14. Expandability.

Enhancements and new features to your shipping system are not the primary concern of carriers. Their purpose is to lock you into using their services. Independent vendors of multi-carrier systems have the resources and are structured to make ongoing system enhancements to meet the needs of its clients. The vendor's primary focus is on systems development and meeting your information needs.

15. Cost of Marriage.

If you are utilizing a "free" system, you are indeed, married to the carrier who supplied it. Remember the analogy of the "free" automobile. You must use their gas for the life of the car.

Once you have said, "I do", you become a captive audience. You do what the carrier wants. You have been given a system with no monetary investment and are not in a strong position to demand anything. The carrier now has a distinct advantage. Don't look a gift horse in the mouth, right?

There are a few questions you should ask yourself about the "free" system. What happens to your company if the carrier who supplied that system goes on strike? What is the cost of not being able to ship for several days or even weeks? What will the CEO of your company say about the decision to accept a "free" system then? *It might be time for a divorce.*

16. Fox in the Chicken Coop Syndrome.

Once you accept their "free" system, you relinquish some control over your business and the information about your business. The carrier supplied system is oriented toward their interest, their profits and their way of doing business, not yours. It is like letting the IRS do your tax return. The carrier will always be working toward achieving their own financial and logistical goals, more often than not, at your expense.

17. Proprietary/confidential information.

Years ago, manifest systems used to simply print out labels and a report at the end of the day. That's what carrier supplied systems do. Now, shippers have realized that these systems can capture a wealth of information, much of it confidential, about the identity of customers, products, departmental budgets

and invoice amounts. Do you want this information in the hands of a third party who may have regular contact with your competitors?

18. Negotiation Leverage.

Although carrier-supplied systems are "free" of upfront charges, the actual cost of the system is factored into any future discount negotiations. If you challenge the discount program, the carrier will often threaten to remove the system. Greater discounts could more than offset the cost of a multi-carrier system that would provide greater functionality and productivity.

If you are working with a particular carrier try the following strategy: First, beat the carrier down on price, then ask for a "free" system. Lastly, ask them to keep the system and deduct the estimated $50 a day that "free" system is costing them. This sounds like you are actually doing them a favor.

19. Competitive Edge.

History shows us that competition is good. It promotes technological advances and innovation in any industry, including ours. The constant threat of competition keeps carriers on the edge. It forces them to be the best in service, price, and convenience. They are forced to compete in their core competency--delivering packages. If the threat of competition is removed, carriers become lackadaisical and less responsive.

Not long ago, there was very little competition in our industry. At that time, the major carriers typically treated customers unprofessionally and gave few service options. I prefer to keep the carriers on their toes and maintain the high levels of service you deserve.

The threat of removing systems if volumes are not high enough or if other carriers are considered is one of the tactics used by carriers to manipulate customers into becoming dependent on their services. It is easy to be taken advantage of in this manner and to become blind to the hidden costs associated with carrier supplied systems.

CONCLUSION

Although a carrier system can provide basic shipping functions, its technical limitations and associated hidden costs make it a less-than-desirable option for many companies. A full service vendor system can offer advanced functionality, integration and more cost savings in the long run. Vendors are representing your interests. Carefully consider the above points before you make this important business decision.

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