Client Connection
News and Updates from Data2Logistics

I Didn't Know That...

On October 5, FedEx announced the net average shipping costs for FedEx Express will increase by 3.5 percent, which comprises a 5.5 percent average increase in standard list rates, offset by a 2.0 percentage point reduction in its fuel surcharge. The new rates will be effective Jan. 2, 2006, and apply to U.S. domestic and U.S. export express package and freight shipments. FedEx Express freight standard list rates are also increasing and will be available by Dec. 3, 2005. The above rate adjustments do not affect FedEx Freight charges.

Many shippers may actually see greater increases based on specific zones, weights and accessorial charges that they incur. There are over 80 accessorial charges that all three integrated carriers have in common. When you consider accessorials that one carrier may assess and another may not there are over 200 accessorials that shippers could incur.

For example, FedEx also announced Delivery Area Surcharges assessed for FedEx Express shipments destined for locations in select ZIP codes will increase by up to 10 cents per package. The new delivery area surcharge for residential locations will be $2.10 per package. The new surcharge for commercial locations will be $1.30 per package. The surcharge for residential delivery will increase from $2.00 to $2.10 per package for FedEx Express shipments.

From an operational perspective, if you call FedEx and they can't tell you the status of your shipment within 30 minutes of your call concerning a commercial or residential package in any of the 50 US states – yes the delivery is free.

Many shippers might assume that when they send a package via FedEx that their package would automatically be signed for by the recipient or someone at the recipient's address as part of the service. If you dig into the FedEx service Guide you will find that there is a cost associated with obtaining that signature. As with all aspects of parcel services these costs are subject to negotiation. Shippers can choose from three FedEx Delivery Signature Options available with FedEx Express® and FedEx Ground® services.

Indirect Signature Required

This service allows FedEx to obtain a signature in one of three ways :

- From any person at the delivery address; or
- From a neighbor, building manager or other person at a neighboring address;
- The recipient can sign a FedEx door tag authorizing release of the package without anyone present.

A handling fee applies in each of the above instances and this service is only available on shipments to residential addresses.

Direct Signature Required

This service insures a signature is obtained from someone at the recipients address:

- FedEx will obtain a signature from any person at the delivery address. If no one is at the address, FedEx will reattempt delivery. Direct Signature Required overrides any recipient release that may be on file for deliveries to nonresidential addresses.

A handling fee applies but there is no residential requirement.

Adult Signature Required

- FedEx will obtain a signature from any person at least 21 years old (government-issued photo identification required) at the delivery address. If no one is at the address, FedEx will reattempt delivery. Adult Signature Required overrides any recipient release that may be on file for deliveries to nonresidential addresses.

A handling fee applies and you receive assurance that special shipments are signed for by appropriate recipient.

Time To Negotiate

Carrier negotiations can be a time consuming, painstaking process and in the end shippers are not always sure if they have the best rates for the services they require, the volume of freight they have to offer, and revenue opportunities they present to the marketplace. All too often they accept carrier proposals because they lack the time and support staff to fully understand and analyze pricing proposals and contracts that the carrier sales reps are presenting.

The Data2Logistics Business Intelligence group can help support you in this process. Our negotiating and contracting staff includes a team of professionals that have sat on both sides of the negotiation table. They understand what drives carrier pricing, have access to Transportation Cost Benchmarking data and can model proposals using your historical data. With changes continuously taking place in our customers' own operations as well as the transportation marketplace we offer advice that pays for itself many times over. To learn more about how we can help you to better control your transportation costs though improved carrier negotiations contract Drew Daly 732.606.7073

Focus on LTL

The transportation industry has seen a continuous change in the make-up of The Less Than Truckload marketplace. A significant number or well known carrier names have disappeared, either through financial failure or consolidation. New entrants of any size have been rare with the exception of acquisitions by Federal Express - American Freight ways and Viking (now know as FedEx East and West respectively) and more recently, the capture of Overnite by United Parcel Service. Where does that leave the shipper community today?

The LTL marketplace is dominated by 10 major players. These companies are clearly recognized as unionized Yellow Roadway, ABF, USF … and non-union FedEx Freight, CNF, Overnite, Old Dominion. It is interesting to look at the costs associated with both groups of carriers. Even though there is a significant cost gap between non-union and unionized carriers, in terms of wages the two groups are comparable. The disparity is found in fringe benefit costs per employee that can be as much as 40% higher for a unionized LTL company. This is primarily due to pension and higher retiree health care benefits that have been growing at approximately 6% per year. But that is only half of the story. The real exposure for many unionized LTL carriers will come from their unfunded multi-employer pension plan. These programs leave remaining union employers facing a growing financial exposure that has resulted from defunct carriers who left their multi-employer pension plan liability to their more successful industry brethren. This situation has been made worse by the decreasing ratio of retired employees to those who are currently contributing to the plan.

The average age of union drivers is increasing to approximately 55 as opposed to non union drivers whose average age has been holding steady in the low 40's. This leaves union LTL carriers with a growing base of employees who will be increasing the amount of liability to pension plans. The aging of drivers also represents a turnover in the composition of union drivers and brings with it challenges of maintaining efficiency as new drivers need to be hired and trained. The need to replace these divers will have a ripple effect on labor throughout the transportation industry.

The positive impact we have seen on earning growth from those LTL carriers that have been merged or acquired represents low hanging fruit that will be harder to repeat in future years as back office consolidations are completed. The segment of the market that is most poised for growth

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Focus on LTL continued

are those carriers that can consistently provide reliable service that is on time, flexible and damage free.

This focus is driven by the business community's attention on reduced inventory levels and faster supply chain throughput. Carriers who excel in these areas will find that they can differentiate themselves, build relationships and increase their pricing power. There has and continues to be a consolidation in market share among the top ten largest LTL carriers. This group now controls approximately 80% of the LTL transportation that is purchased today. Technology is also playing a key role in allowing LTL carriers to reduce transit times, increase efficiency and provide their customers with improved web based tools to track time definite shipments in overnight and two day regional markets.

From our vantage point we do not see the pendulum swinging back to favor buyers of LTL transportation anytime soon. This would be a good time to continue to build on existing relationships and work collaboratively with your carriers to drive out costs wherever possible to the benefit of both organizations.

Fair Balance Needed

A mandatory fuel surcharge proposed to insure that carriers/brokers pass on fuel surcharge revenue they receive to owner operators is dead. On the surface this would have seemed fair. Those who are actually paying for fuel at the pump should be reimbursed for unexpected increases in operating costs. However, when you dig deeper into the proposed legislation and required administration of this process we remember why the industry was deregulated in 1980.

The proposed legislation in the House provision would have required a mandatory fuel surcharge adjusted weekly by carriers, on a regional basis. This would create as many as 364 different surcharges to be tracked on an annual basis.

On the other hand, it not fair that those who are most burdened by rising fuel costs not to be compensated for the amount of fuel surcharges billed to shippers. Now the Owner Operators Independent Drivers Association is taking a more practical approach in a new version of surcharge legislation that they are pushing. This proposal would require carriers to pass along the amount of the fuel surcharge they actually collect. This seems fair, reasonable and not an administrative burden. But as of this writing industry groups like NITL have yet to take an official position on this matter. They have expressed concern about mandating arrangements between shippers and brokers. Owner Operators are vital to our transportation network. These drivers can not be expected to bear a disproportionate share of increased fuel costs while intermediaries pocket the fuel surcharges billed to shippers.

New HOS Uncertainty

New Hours of Service Rules have failed to create a formula that meets the needs of the public at large and the industry. This is the second attempt since 2003 to reach a consensus on this issue. The discontent over the rewritten HOS rule announced in August seems to be growing. Under the new rules drivers must take at least eight consecutive hours off during their ten hours off duty.

Carriers are concerned that the inability for drivers to split time off into two sleeper berth breaks would upset time in transit schedules. After the Federal Motor Carrier Safety Administration issued their new rules they asked state governments to delay enforcement for the rest of the year. Only one thing is certain about the new HOS rules, there is more debate to come.

Box Buying Consortium

A valued customer of Data2Logistics would like to establish a consortium of companies to band together and leverage their ability to purchase corrugated boxes. Their most common box sizes are:

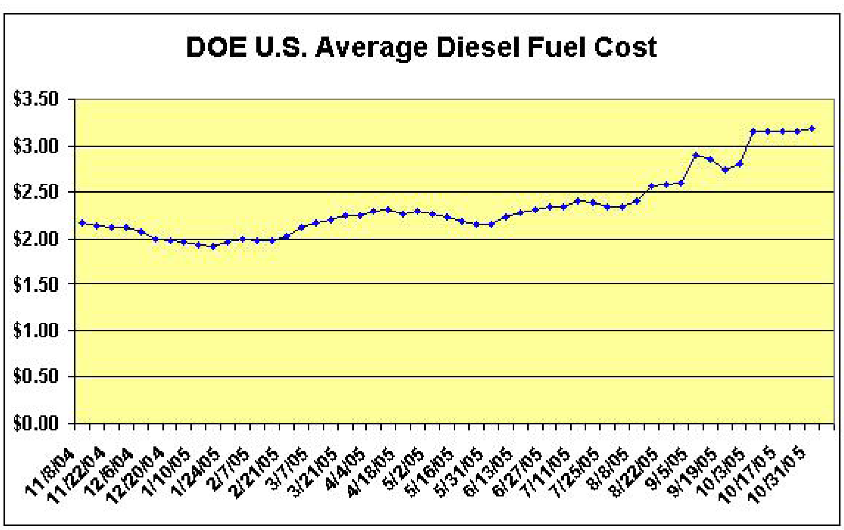
7X7X4	32 ECT C Flute Kraft
10X8X6	32 ECT C Flute Kraft
15X15X6	32 ECT C Flute Kraft
23X3X3	Tri-Tube D/C B Flute Kraft
22X5X5	Tri-Tube D/C B Flute Kraft

Anyone interested should contact Cathy Candia at 609 683 3934.

Quick Tip

Some shippers have negotiated fuel surcharges with stated minimums. This can be costly when TL shippers have short runs that cost $300 or less. It is never in a shipper's interest to negotiate a minimum fuel surcharge.

Diesel Fuel Prices



Contact Us

If you have any questions, comments or concerns, please go to our web site at www.data2logistics.com or contact Harold Friedman at 609-683-3917 or via e-mail at harold.friedman@data2logistics.com.