

UPS Finally Announces Its GRI, Leaving No Time for Shippers



With little time left before the new year, or for shippers to plan, UPS has announced its GRI for 2019. The overall rate increase of 4.9% takes effect on December 26, 2018. The announcement comes very late compared to other carriers — the USPS and FedEx announced their increases weeks ago. And, UPS offered no explanation for the timing of this announcement.

The following is our analysis of the GRI and shows in detail how current UPS shippers will be affected.

The bottom line? The GRI has made the overall rate gap larger between the carriers. FedEx now has a greater cost advantage when it comes to many Accessorials and Surcharges, as well as when comparing the carriers' postal solutions.

As is always the case with GRIs, it's necessary to look past the stated average increase, which is meaningless to individual shippers. Keep reading to understand how your company will be impacted.

THE INCREASES

(the following is from the UPS release)

Effective December 26, 2018, the published rates for our services will increase. This supports ongoing expansion and capability enhancements as we strive to maintain the high service levels you expect from UPS. Below is an overview of our 2019 Rates.

The following changes will be effective December 26, 2018:

- The rates for UPS Ground, UPS Air and International services will increase an average net 4.9%.
- Fuel surcharges will apply to Additional Handling, Over Maximum Limits, Signature Required and Adult Signature Required accessorials.
- A processing fee will be charged when Package Level Detail (PLD) is not provided to UPS prior to delivery.
- The rates for certain value-added services and other charges will increase.

LATE NOTICE LEAVES LITTLE TIME

Since the new FedEx rates go into effect on Jan 7, 2019, they

will not affect shippers over the hectic holiday period, but UPS's will hit right at the start of holiday returns. No doubt this is done with the intention of capturing additional revenue from this busy period.

Many within the industry expressed concern and frustration when UPS's GRI announcement did not come in October or November as it typically has in the past. Now, every shipper is scrambling to understand what the GRI means to them and make the necessary adjustments to mitigate the additional costs.

Despite many shipping contracts requiring 30-day notice for any pricing changes, it's unclear if there will be any customers actively countering UPS's rate increases. Most shippers have come to expect a yearly hike, so there was no surprise when this one was announced — just annoyance that it was so late. In any event, as has been the pattern, it's the B2C shippers who are taking the brunt of this increase. The reason for this may simply be that the market is still hashing out the cost structures of many moving parts — labor, ecommerce, operating costs — and this could also be the reason for the unusual delay with the GRI.

ADDITIONAL HIGHLIGHTS

The following are some noteworthy observations from the GRI limited release:

- Domestic services are increasing at a higher percentage, at higher weights, compared to past GRIs
- Among the largest increases are those for SurePost and related Accessorials
- Residential Surcharges are increasing by almost 10%
- Additional Handling and Large Package Surcharges are increasing almost 19%
- OverMax Surcharge is increasing 31%
- 3rd Party Billing Surcharge is increasing to 4.5%
- Declared Value increases \$0.15 per \$100, with the Declared Value Minimum increasing 16.7%
- Domestic Air FSC index will change on Dec 26th

Also note: UPS did not release its full-service guide. Just as with the recent FedEx announcement, this GRI announcement does not include all the details of what's changing for 2019.

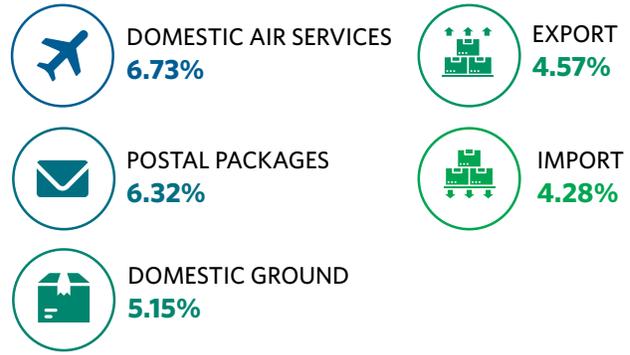
There are more details to come from both carriers in their full-service guides, but it should be safe to say the big items have been addressed.

BREAKING DOWN THE DETAILS

Overall, the increases are directly in line with FedEx's rates for 2019. While 4.9% is the average, there are many specific types of shipments that will increase by more.

See Illustration 1 to the right for a breakdown of the average increase by service grouping for packages up to 99 lbs.

Illustration 1: INCREASE BY SERVICE GROUP



DOMESTIC SERVICES

Like FedEx, UPS has shifted how it will apply rate increases for its domestic services. Historically, both carriers have placed an emphasis on increasing lower weighted packages more aggressively than heavier packages. That notion is flipped in 2019. Packages above 50 lb. will experience rate increases in the range of 6% to 7% (compared to 3.5% to 4.5% in 2018).

Shippers, especially those with heavy package weights or unconventional dimensions, need to monitor the carriers for any mid-year dimensional pricing announcements. It's speculation, but these focused increases may be an indication that a higher DIM factor could be in the works. The goal seems to be to push more packages into higher, and more expensive, cost tiers, whether it's based on actual weight or DIM. Obviously, those shippers with a negotiated DIM factor will be protected, but those subject to market dimensional pricing could be in for a rude awakening.

See Illustration 2 below for a depiction of how the 2019 GRI for domestic services is unique from a historical rated weight

perspective.

SUREPOST

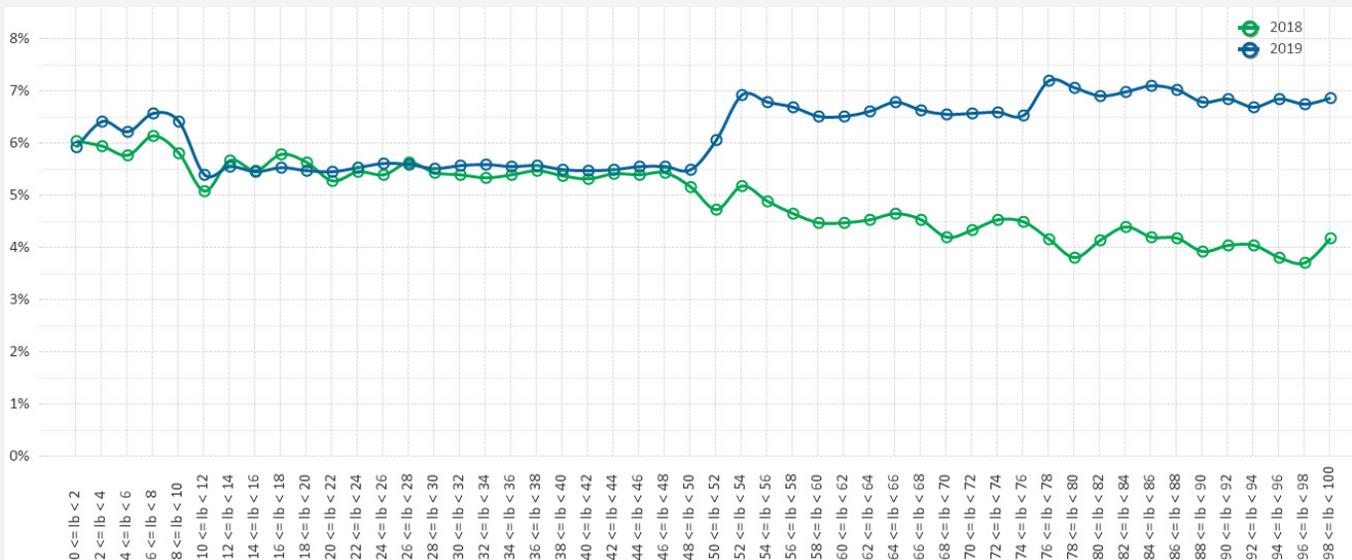
UPS SurePost, a postal product in which the USPS completes the final mile of delivery, is increasing proportionately more than most other services.

For example, the base rate for packages under 1 lb. is increasing by 9.9% to \$8.46, and 10.1% (to \$8.52) for parcels over 1 lb. This is much more aggressive than the advertised 4.9%.

SurePost is a very ecommerce-friendly postal solution and has benefited from the growth in online retail. Unfortunately for shippers, the USPS and FedEx have also raised their rates for these types of shipments.

It's possible the large UPS increases for SurePost are the result of a new pricing agreement with the USPS and/or a result of the Teamsters' negotiation from this past year. It's likely that SurePost is pulling volume from the UPS Ground network (and by extension from the Teamsters), so these higher rates may

Illustration 2: INCREASE BY DOMESTIC SERVICES



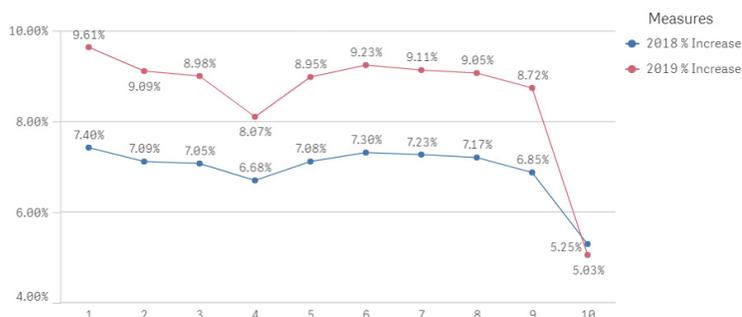
* Details the 2018 vs. 2019 weight break comparison for domestic services. This chart supports our analysis that UPS implemented a larger than normal rate hike for packages over 50 lb., a change from historical patterns.

be partially to cover concessions made in the new Teamsters contract. The 2019 SurePost 1 lb. minimum will be 8.5% more expensive than the 2019 Ground 1 lb. minimum (\$8.52 vs. \$7.85).

Also relevant to SurePost shippers are increases to the Delivery Area Surcharge of 32% and to the Non-Machinable Surcharge of 18%. Note, these increases are in addition to the already large base rate increases on this service.

See Illustration 3 below for a glimpse into the aggressive nature of the 2019 SurePost increase vs. what the market felt in 2018.

Illustration 3: SUREPOST, 2018 VS. 2019



* Details a comparison of SurePost 2018 vs. 2019 packages from 1 to 10 lb. The chart illustrates the more aggressive percentage increase in 2019 for all SurePost weights from 1 to 9 lb.

ADDITIONAL HANDLING/LARGE PACKAGE/OVERMAX

It's become routine to discuss the increases announced by all the carriers (FedEx, USPS, and UPS) as being an attempt to recoup the higher costs of handling oversized packages, which are now commonplace in the market. Larger packages have continued, and will continue, to increase as a percentage of total packages shipped for carriers.

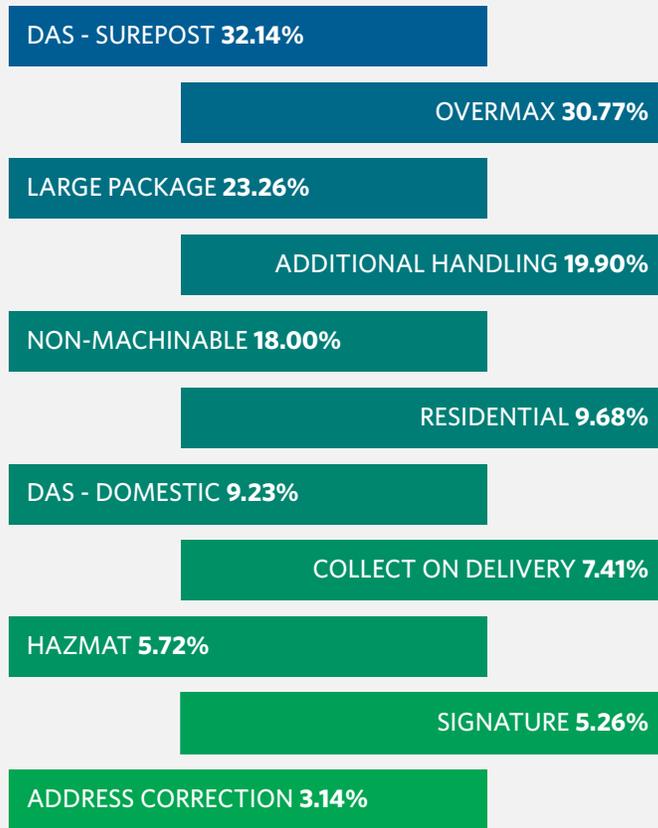
As was highlighted earlier, UPS is implementing an increase of 19% for the Additional Handling and Large Package Surcharges, and a 31% increase in its OverMax Surcharge.

The Additional Handling Surcharge for any U.S. domestic package over 70 lb. will cost an additional \$4.00, while the Additional Handling Surcharge for other packages will go up by \$2.25. As a reminder, the Additional Handling Surcharge applies for orders not shipped in a corrugated box, over 70 lb. in weight, or having a length over 48 inches or width over 30 inches.

In addition, the OverMax Surcharge is increasing \$200 (or 31%) to \$850. The \$200 increase is already on top of the mid-year increase from \$500 to \$650. It has become clear that UPS is quickly raising its margins on packages that have weights or dimensions that are over the maximum allowable thresholds in its parcel networks.

See Illustration 4 below for a detailed illustration.

Illustration 4: INCREASE BY ACCESSORIAL GROUP



Details the overall increase by Accessorial grouping. Note, this includes only what UPS has released so far — there will likely be more listed in its full-service guide when it is published.

THIRD-PARTY BILLING

UPS will also be charging more for third-party billing, raising the surcharge from 2.5% to 4.5% of the shipment price. This will greatly affect drop shippers who use another company to ship packages on their behalf.

The reason for the fee is to mitigate the additional cost of servicing a shipping location that may not have been planned for when a contract was negotiated. Billing third party can also be a way for shippers to take advantage of better rates another company may have. This fee is designed to protect the loss of revenue to UPS when this happens.

DECLARED VALUE

For the first time in years, the cost to insure a shipment via UPS will increase, becoming 16.7% more expensive in 2019. UPS shippers that rely on the carrier for shipment insurance need to take notice, as this is normally not a focus when the market is analyzing carrier GRI announcements.

The 2018 rate for Declared Value is \$0.90 per \$100 of total value declared, with a minimum rate of \$2.70 per shipment. UPS is raising this rate by \$0.15 per \$100 in 2019 and

increasing the shipment minimum rate by \$0.45. The 2019 Declared Value for Carriage will be \$1.05 per \$100, with a minimum rate of \$3.15.

MANUAL MANIFEST PENALTIES

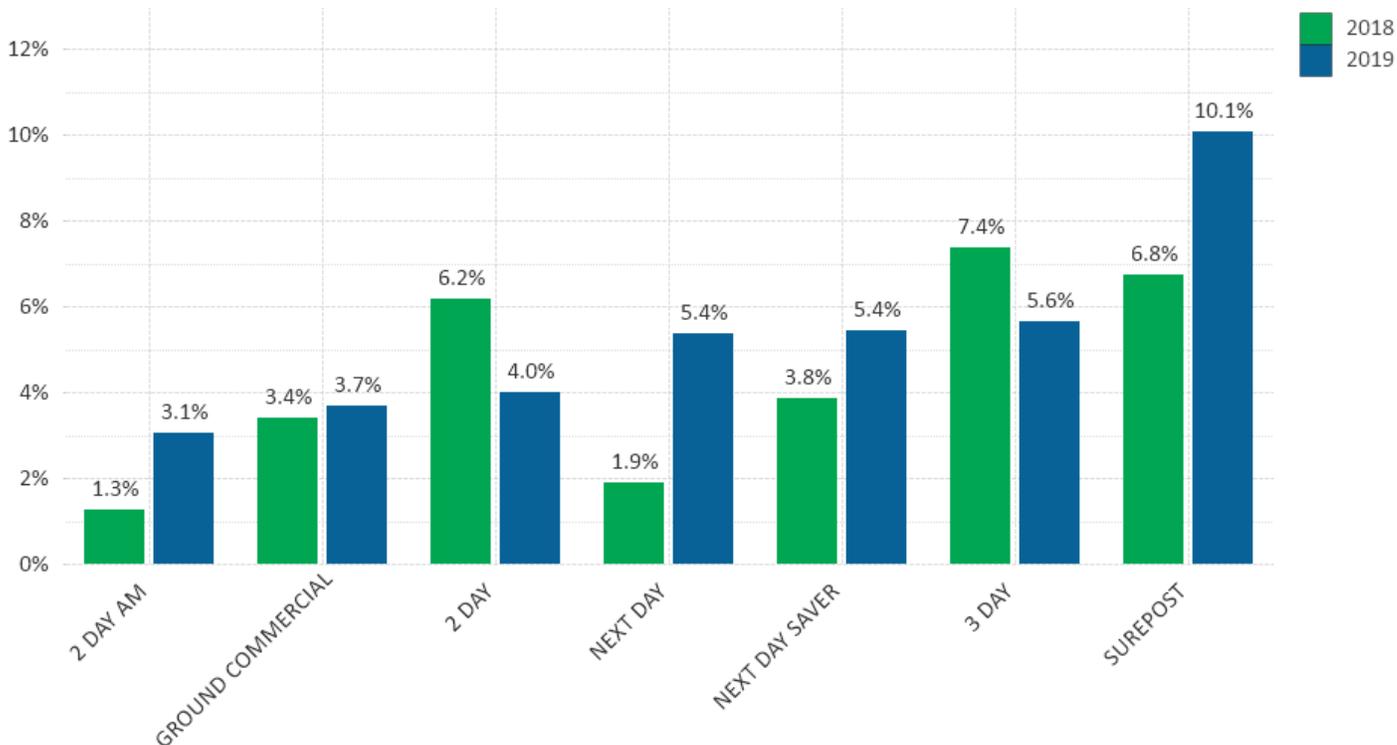
While most carrier agreements include language that states that shippers lose 10% of their discounts for packages that do not contain electronic PLD, UPS is taking it one step further. This year, UPS is implementing a \$2 per package fee for any shipper that does not provide electronic PLD with each manifest. The company wants to cover the time spent manually inputting the information from the manifest labels,

especially when the detail is incorrect or missing. Most large shippers do this electronically, but smaller ones usually do not. UPS is passing on the cost of these extra steps and mis-delivery liability to their customers.

THE CHARTS

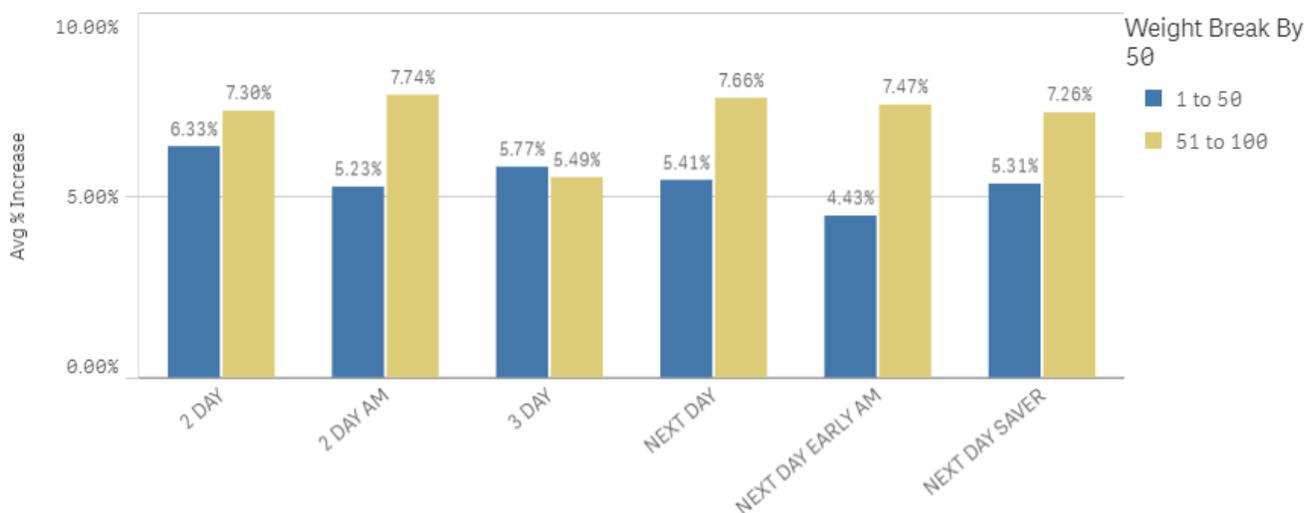
The following five illustrations provide additional explanations on how the GRIs will impact specific service types and situations. Many of these charts support the narrative that UPS is increasing its rates most at higher weights, longer zones, and particularly in the Residential and SurePost networks.

Illustration 5: MINIMUM % INCREASE BY SERVICE



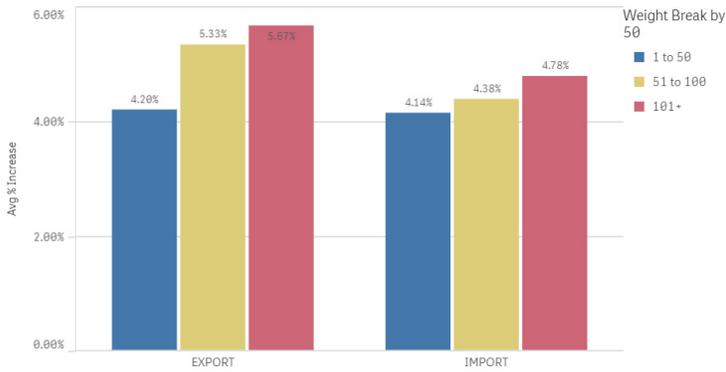
* Details 2018 vs. 2019 comparison of Service Level Minimums for domestic services. This chart shows that every domestic Service Level Minimum increase is greater in 2019 than in 2018, except for 2-Day and 3-Day Select.

Illustration 6: OVERALL % INCREASE, DOMESTIC AIR SERVICE



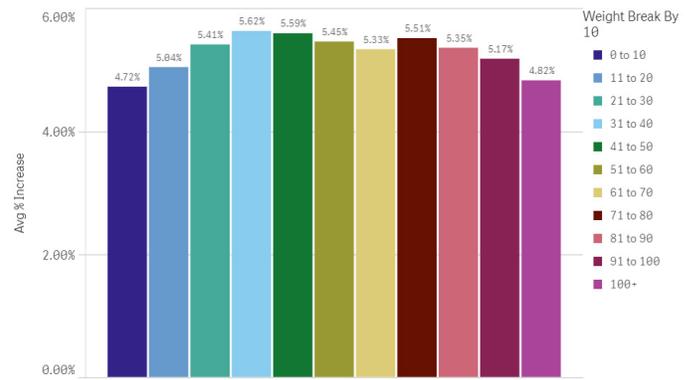
* Details the overall percentage increase for Domestic Air services split by under and over 50 lbs. The chart illustrates the larger percentage jump for packages over 51 lb.

Illustration 7: IMPORT & EXPORT INCREASE BY 50 LB. WEIGHT BREAK



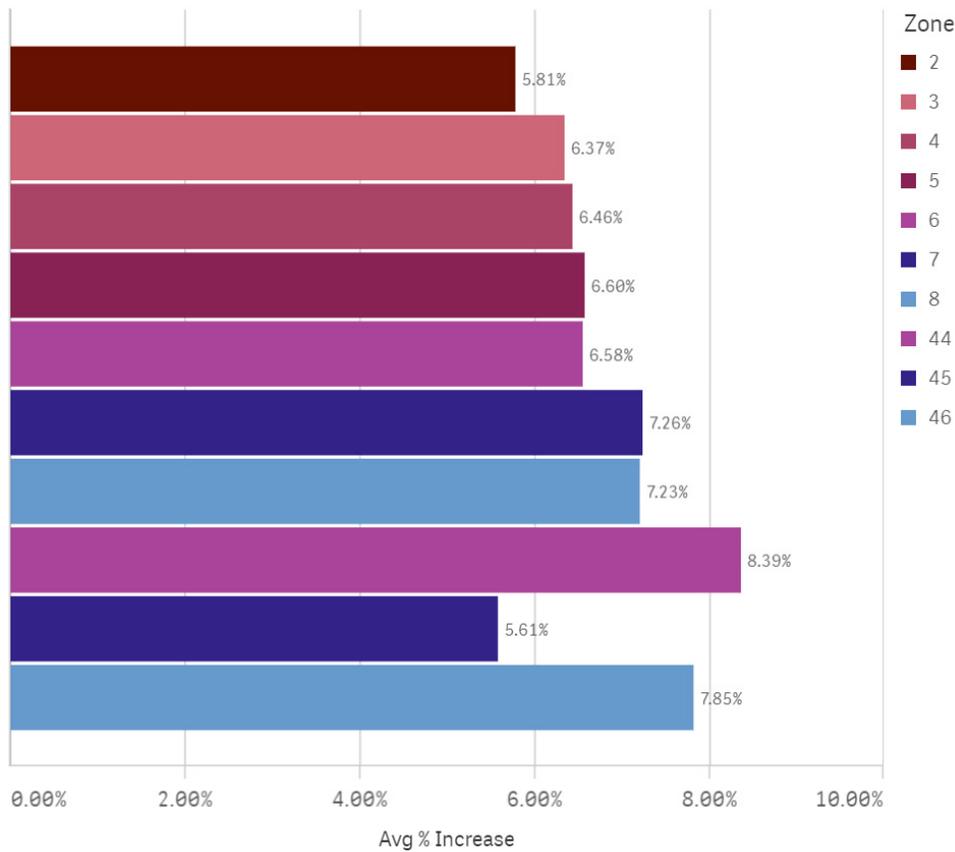
* Details the overall increases by Export and Import at 50 lb. weight breaks. This illustrates a similar pattern to Domestic Air in which the largest percentage increases will be felt on higher-weight packages.

Illustration 8: GROUND SERVICE INCREASE



* Details the overall increase at 10 lb. weight breaks for Ground Service. This chart illustrates that only packages under 10 lb. or over 100 lb. are (just) below the published average increase of 4.9%.

Illustration 9: DOMESTIC AIR SERVICES BY ZONE



* Details the overall increase by zone for Domestic Air Services. This chart illustrates a conservative increase for short zones vs. long zones. This can be deceiving, however, because most shippers don't use Air services for short zones because Ground often has the same time in transit.

CONCLUSION:

All things considered, it appears FedEx will be the cheaper option in 2019. This is largely the result of UPS being more aggressive than FedEx in its minimum rate and accessorial hikes.

We'll soon be publishing a detailed breakdown comparing the 2019 UPS and FedEx rates, so stay tuned.

If you would like a no-obligation analysis of your agreement, with either carrier, to understand precisely what these GRIs mean to you, visit our websites at www.transportationimpact.com and www.firstflightsolutions.com

More information about the UPS 2019 rate increase can be found on the carrier's website. ■