

For many parcel shippers, a major concern once the goods reach their destination is not merely the basic shipping costs but how those costs are handled in the organization. Many shippers are anxious to get that parcel business away from being a mere cost center to one that can actually reap profits and highlight the integral role parcel distribution plays in a company.

This past fall, Navigo Consulting Group, *Traffic World* and PARCEL surveyed more than 660 shippers to find out how shippers are confronting rising shipping costs and to provide benchmarks for readers to measure and evaluate their own chargeback methods.

The results demonstrated that shippers are primarily trying to control shipping costs by using different chargeback methods, changing their shipping modes and directly negotiating with their carriers.

Although 78 percent of shippers said that they passed on the cost of shipping and handling to their customers, only 51 percent said that shipping was a profit center, 26 percent said that it was a cost center, and 23 percent indicated that they didn't know. The majority of respondents shipped few-

Part and



Operational

differences divide

shipping profit

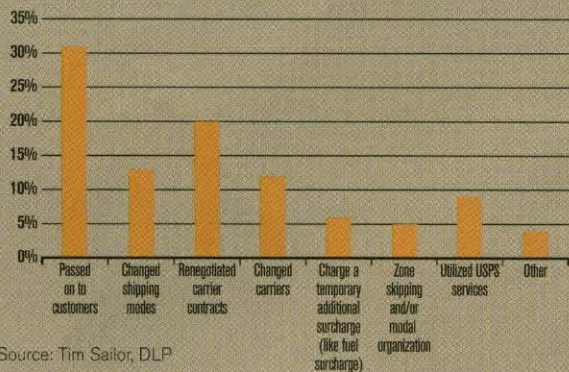
winners from losers

Parcel

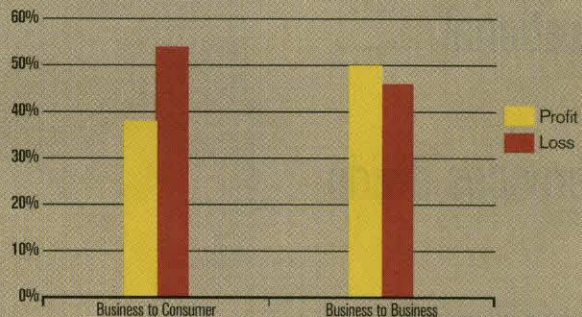
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Special Report AIR CARGO: PARCEL SHIPPING

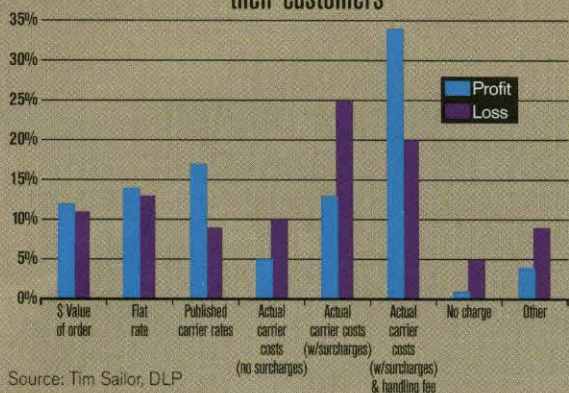
A breakdown of how companies are dealing with higher shipping costs



A breakdown of the percent of parcels shipped by the survey respondents



Indicates the basis on which shippers charge back to their customers



When shippers last renegotiated their private carrier contracts



er than 500,000 parcels per year and 53 percent were primarily business-to-business, 35 percent were business-to-consumer and 13 percent were divided equally.

Today's rapidly rising freight costs have become a challenge for shippers. Not only have the carriers implemented record tariff increases and fuel surcharges, but they are constantly adding new accessorial charges as well. In the last six years, the parcel carriers have added or increased surcharges on 22 occasions, resulting in increased overall accessorial costs of 128 percent.

This means that increasingly, shippers are also trying to utilize carriers' services to control shipping costs. As such, 13 percent of respondents say they have changed shipping modes, 5 percent have implemented zone skipping and modal optimization, and 9 percent have used the U.S. Postal Service. Primarily, accessorial charges like fuel surcharges have motivated shippers to find less costly modes of transportation.

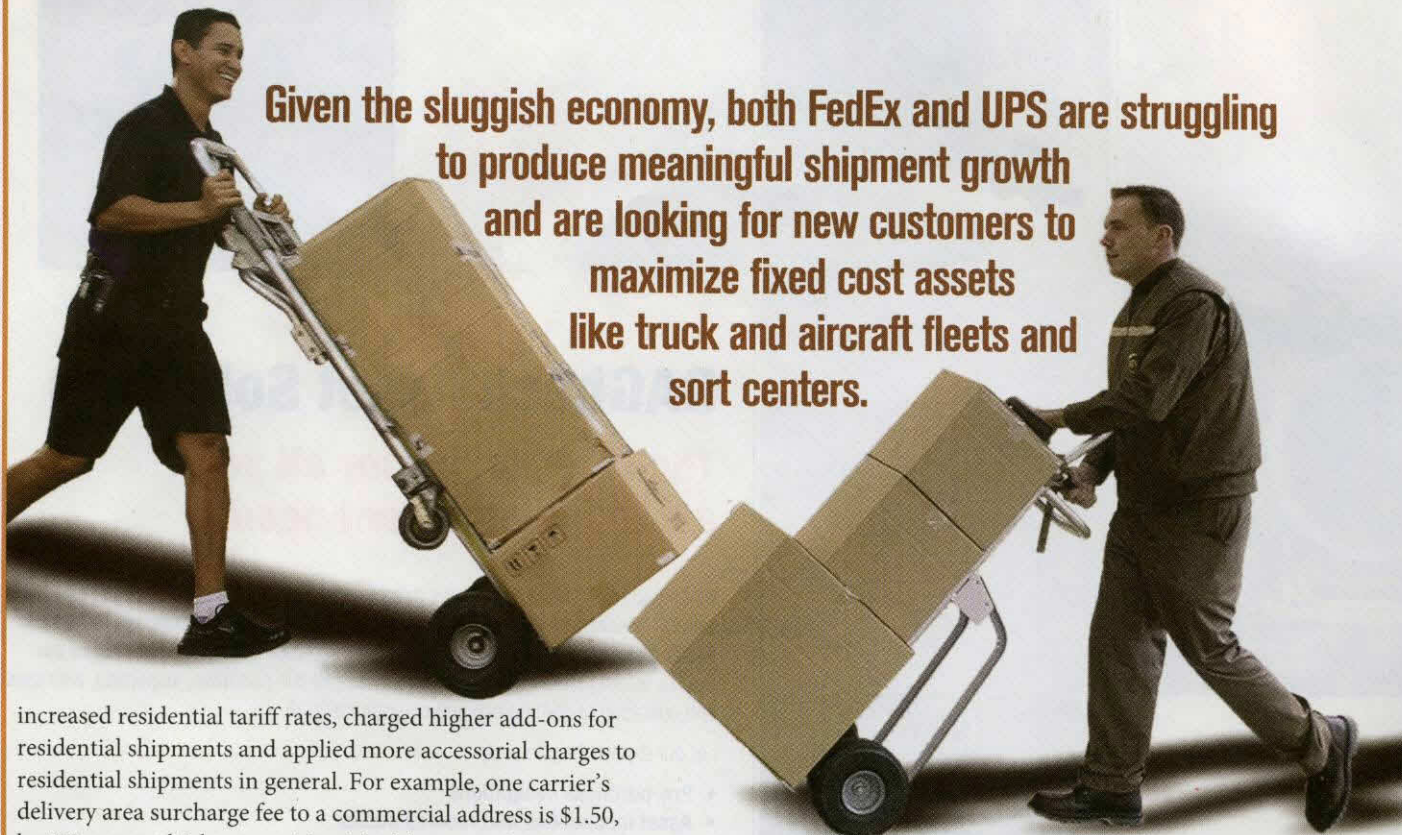
There are significant cost differences between air and ground shipments. However, many shippers have also found that there are fewer service differences between air and ground shipments and have been able to take advantage of

the carriers' next-day ground guarantee for shorter zones. In addition, the USPS offers many attractively priced products that can reduce overall shipping costs.

Another approach many shippers have taken is to renegotiate their contracts with the carriers — 32 percent of responders said they have done that or have switched carriers altogether. It is an extremely competitive marketplace today, and many shippers have been able to take advantage of these circumstances. Given the sluggish economy, both FedEx and UPS are struggling to produce meaningful shipment growth and are looking for new customers to maximize fixed cost assets like truck and aircraft fleets and sort centers.

The survey also found that shippers who have renegotiated their parcel contracts within the last six months were more likely to report receiving profits from shipping. Conversely, the majority of shippers who have not renegotiated their contracts within the last 18 months are losing money on shipping.

While all shippers struggle to make profits on shipping, it becomes clear that business-to-consumer shippers are having a much more difficult time recapturing shipping costs. This is not too surprising as the carriers have consistently



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increased residential tariff rates, charged higher add-ons for residential shipments and applied more accessorial charges to residential shipments in general. For example, one carrier's delivery area surcharge fee to a commercial address is \$1.50, but 53 percent higher to residential addresses at \$2.30.

Shippers are utilizing a wide array of chargeback methods in their efforts to make shipping a profit center. The most common method was to charge back using actual carrier costs that included all surcharges as well as a handling fee (29 percent). Although this may seem like a failsafe way to create a profit center, 20 percent of these shippers stated that they were still losing money on shipping.

There are a number of reasons that this could happen. First, it is very difficult to truly know that you are passing along all of your actual carrier costs. Fuel surcharges change monthly and have fluctuated wildly. Also, if you charge back at the point of order entry, you will not capture back-end charges like residential surcharges, dimensional weight, reweighs and address corrections.

The next most popular chargeback method (17 percent) was to apply actual carrier costs, but without a handling fee. However, with this scenario, 25 percent of shippers reported their shipping was losing money.

Clearly, chargeback methods affect the profitability of shipping operations. Survey respondents who claimed that shipping was profitable utilized the following three methods: charging a flat rate (14 percent); applied published carrier rates (14 percent); and charging based on the dollar value of the order (14 percent).

More importantly, the survey showed that shippers who adjust their shipping and handling more frequently have the best chance of making a profit from shipping. 95 percent of shippers who believed that shipping was a profit center actually reviewed and adjusted their rates annually. The majority of these shippers (52 percent) made corrections every six months or less.

Despite your chargeback method, there are a number of actions shippers can take to ensure that shipping doesn't become a cost center. One recommendation is installing Residential Delivery Indicator software on your order entry system to identify higher cost residential shipments on the front end. Typically, the carriers do not extend their deepest discounts for these shipments and they apply an add-on charge of \$1.95 (ground) or \$2.30 (air). Another mistake is to rely on the carriers to apply the correct commercial/residential designation. This leads to higher costs and doesn't allow you to really determine true upfront costs.

If you are an oversize shipper, or have been experiencing carrier reweighs, it is important to accurately capture shipment characteristics at shipment origin. Invest in accurate scales and cubing equipment so you can precisely determine the billed weight of the shipment. This is one way to ensure that there won't be any surprises when the carrier invoice arrives.

Depending on your manifesting system, you may or may not capture delivery area surcharge fees on the front end. This can increase a shipment cost by \$1.50-\$2.30. Overall, the carriers apply delivery area surcharges to shipments going to nearly 24,000 ZIP codes out of approximately 43,000. And, more than 25 percent of the U.S. population lives in a delivery area surcharge ZIP code. The carriers can provide tables of delivery area surcharge ZIP codes. Download the table to your order entry systems or use the carriers' own pricing application for accurate ratings.

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