

The Story on Shipping with USPS

May 2009

By Rob Martinez



Shipping parcels to consumers and businesses is never cheap. But it got more expensive after DHL Express dropped out of the U.S. market and ceased most domestic express and ground operations in late January. Then FedEx and United Parcel Service imposed the highest rate increases in history.

What can you do about it? You might consider adding the U.S. Postal Service to your carrier mix to help drive down costs. Of its \$75 billion in fiscal 2008 revenue, USPS generated about 11%, or \$8.35 billion, from shipping services. But it's only getting started.

Thanks to the Postal Accountability and Enhancement Law of 2006, which lifted the mandate for uniform pricing for all, the USPS now has the autonomy to develop competitive shipping products and pricing initiatives. And it's going after the express and ground business market segment in a major way.

UNIQUE ADVANTAGES

There's no question that the Postal Service has some unique advantages. For one, it already goes to every door, every day.

And USPS is the only carrier that can put items in mailboxes, P.O. Boxes or residential mail slots. It offers free package pickup six days a week, and has the most package drop-off points in the country.

The prospect of Saturday delivery is another bonus — assuming the Postal Service sticks with its six-day delivery week. Free Saturday delivery amounts to 52 additional delivery days a year. The USPS is also the only carrier that offers pricing for parcels that weigh 13 oz. or less (First-Class Mail Package) with delivery service standards within three business days. Retail pricing

ranges from \$1.17 to \$3.21 — a bargain compared to \$4.57 (plus fuel and other surcharges) for UPS and FedEx Ground service (1 lb., Zone 2 minimum charge).

Here are a few more of the specific products and services the Postal Service is dangling before parcel shippers.

Flat rate products

The USPS has developed unlimited weight products that feature predetermined rates regardless of weight or destination. Flat rate products are available in multiple sizes and shapes:

- 12-1/2" × 9-1/2" — Envelopes
- 8-5/8" × 5-3/8" × 1-5/8" — "Video" box
- 11" × 8-1/2" × 5-1/2" — "Shoe" box
- 13-5/8" × 11-7/8" × 3-3/8" — "Shirt" Box
- 12-1/4" × 12-1/4" × 6" — This "Large" box is 50% larger than other flat rate box options

Competitive pricing

Effective January 2009, the USPS unveiled competitive pricing tiers for Express Mail and Priority Mail as follows:

Retail

Standard pricing at Post Office retail outlets

Commercial Base

Discounts for online users (approximately 5% off retail for Express Mail, 4.7% for Priority Mail)

Commercial Plus

Discounts for high volume shippers (approximately 14.5% for Express Mail, 7% for Priority Mail). Commercial Plus replaces the quarterly volume rebate program. Shippers can qualify for Commercial Plus discounts on Priority Mail (100,000 pieces/year) and/or Express Mail (6,000 pieces/year) and receive discounts immediately instead of waiting until the end of the quarter.

New services

In addition to creating new competitive pricing tiers, the USPS has developed customized shipping services, including a new letter-size overnight envelope as well as an Express Mail overnight service.

Through enhancements to Priority Mail Open and Distribute services, drop-shippers can send other classes of mail in two days at a lower cost. Other recent innovations include

an asset recovery service, soft packaging for Priority Mail for items such as apparel and other soft goods, and a new induction process for Priority Mail.

The USPS's initial marketing approach to negotiated agreements was to provide incentives based on volumes. Its strategy today is more customized. While the USPS will not disclose details of customized programs, third-party sources report discount ranges of 5% to 20% off retail pricing for Express, Priority and Global Mail products.

AREAS FOR IMPROVEMENT

The Postal Service clearly boasts many strengths as a parcel carrier. But as the USPS freely admits, it still has many opportunities for improvement. Here are a few:

Tracking/reporting

While USPS Intelligent Mail Barcode initiatives promise better package tracking and information in the future, its tracking and reporting capabilities today significantly trail UPS and FedEx.

Service performance

While service performance has improved, USPS on-time delivery performance is not on the level with UPS or FedEx. And guarantees are different.

UPS and FedEx publish delivery times as early as 8:00 a.m. with money-back guarantees. Express Mail offers next-day delivery as early as noon to most major metropolitan areas or your money back. Outside of Express Mail, delivery times for postal products are not guaranteed.

Billing

The USPS billing options do not match the rich detail of weekly electronic invoices and convenient online claims processing of FedEx and UPS.

Permits

Unlike UPS and FedEx, USPS shippers must apply for annual permits and prepare packages (sortation, metering, etc.) within USPS guidelines.

Automation

Outside of its online shipping application, the USPS does not provide shipping automation hardware or software. Many UPS and FedEx shippers enjoy automation for manifesting, labeling, rating, tracking, reporting, address storage, etc. at no additional charge.

Pricing

While the USPS is beginning to roll out custom pricing, it has been offered only to the largest shippers in the U.S. In the meantime, smaller shippers can take advantage of marginal incentives to ship online at www.usps.com.

While many of the USPS products offer a value over FedEx and UPS published charges, most volume shippers have negotiated steep discounts with the private carriers — which can wipe out any USPS cost advantage. (To ensure an apples-to-apples comparison, evaluate all costs including accessorial charges.)

And given the pricing authority afforded to the USPS under the Postal Law, shippers could realize significant annual rate increases in the future. For example, machinable parcels shot up 20% in January 2009 after a 10% increase in May 2008 and a 35% increase in 2007.

MAKING PROGRESS

To compete with FedEx and UPS, the USPS realizes improvement is necessary and has focused resources to improve service performance, billing and tracking options, and customer convenience:

Improved delivery performance

Thanks largely to transportation subcontractor FedEx, Express Mail and Priority Mail service levels are at all-time highs.

Web functionality

Customers can ship online, look up Zip Codes, compare services, calculate shipping costs, track packages, order supplies, print postage or schedule a pickup.

Billing convenience

With an Express Mail Corporate Account (EMCA), you can charge your Express Mail shipments to one account. You can deposit shipments paid through an Express Mail Corporate Account at any Express Mail collection box, at the Post Office, or with a postal letter carrier.

Web tools

USPS also provides free application program interfaces (APIs) to integrate a variety of Web tools into your Website, shipping operation or customer service center.

The USPS has also developed a residential delivery product called Parcel Select Service, which provides incentives for consolidators to induct packages deep within the postal delivery stream, with the Postal Service handling the final-mile delivery to the residence.

What does all this mean to you? The USPS now has the authority to develop competitively priced products. Although some services lag behind those of UPS and FedEx, it's probably worth your while to consider the Postal Service for at least some of your parcels.

Rob Martinez (rob@NavigoInc.com) is a partner at Navigo Consulting Group, which provides contract benchmarking, distribution analysis and carrier negotiations.