

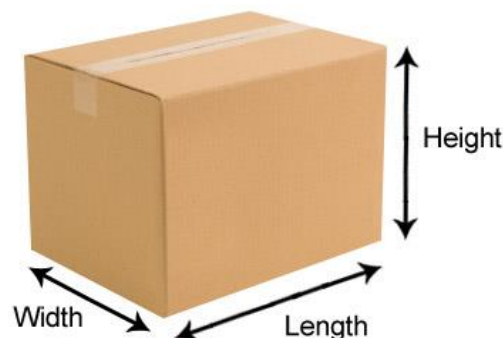
PACKAGING PROCUREMENT IN A DIM WORLD

Containing annual shipping cost increases

has traditionally been the responsibility of Shipping, Transportation, and Logistics professionals.

In 2015 and beyond, packaging and carton procurement professionals, with an assist from warehouse and packing personnel, will play an increasingly important role.

As most shippers are by now fully aware, UPS & FedEx have changed their DIM Weight practices by removing the previous 5184 cubic inch exemption. This change has effectively increased the rates on an entire swath of previously exempt packages. As the calendar turns to 2015 and shippers are beginning to feel the full weight of the increase, they are seeking ways to mitigate a portion of this threat to their bottom line. One very effective tool lies in packaging and carton procurement.



How the UPS & FedEx DIM Weight Adjustments necessitate packaging & carton procurement changes for parcel shippers in 2015 and beyond

Procurement Departments have long kept packaging costs down by limiting the number of box sizes they order. This allows shippers to capitalize on volume discounts, helps speed pick and pack operations, and helps prevent package inventory shortages. This practice often leads however, to packages being shipped with considerable excess space around the product. This space is often filled with packing materials and was previously of little concern, especially for smaller weight shipments. In this new DIM world however, this excess space could prove very expensive.

Let's look at an example. This package was recently shipped via UPS. The outside package dimensions are 18" X 12"X 9", a package that was previously not subject to DIM Weight ($18 \times 12 \times 9 = 1,944$). The package's actual weight was 3lbs. At UPS published



rates, this package to zone 5 would cost \$9.15 without the DIM application. After DIM Weight is applied, this package now is subject to a billed weight of 12 lbs., and will cost \$11.45, a 25.1% increase.

Approximately 50% of this carton's volume consisted of air-filled packing materials and 25% was empty space. Prior to 2015, this practice would probably have proven cost effective, as the unused volume would have had no financial impact. This is no longer the case.

Shippers must now rethink their package procurement practices to reduce the amount of unused space per carton. Increasing the number of cartons available for packaging, reevaluating current product sizes, and more closely coordinating outgoing carton size with actual product size, are effective ways to reduce the burden of the new DIM Weight changes. It is likely this approach will add some level of additional packing purchasing cost, and will cause warehouse and shipping operations to store, monitor and utilize more box sizes than in past years, however the shipping cost reductions should far outweigh these considerations.

In walking the floor at last year's Parcel Forum, it's evident that companies are creating more cost effective, yet robust solutions to offer additional options. As an alternative to doubling or tripling the number of boxes that are stocked, solutions include using corrugated boxes to "cut down" the size of the box, investing in machinery that builds custom boxes on site based on the commodities shipped, and considering alternatives such as padded envelopes for smaller items. Combined with utilizing effective packaging material, these options along with others should all be considered.

So remember, the first line of defense against increased DIM charges in 2015 may not be the shipping department, but packaging procurement. Please feel free to contact Kenneth at 631-844-9500 to learn of additional ways to help offset your rising shipping costs. You can also email Kenneth at kmoyer@myLJM.com.

-Kenneth Moyer serves as Vice President of Supply Chain Strategies with LJM consultants. He brings over 23 years of industry experience, including a 16-year multidisciplinary tenure at UPS. Kenneth spent almost 10 years in the UPS Sales & Pricing Groups; developing, analyzing, and implementing UPS Pricing and Costing Models. He has spent the last 9 years directing audit and contract negotiation activities to maximize client value in every transportation dollar.

