

TRANSPORTATION ABCS

Low Cost Parcel Options for Residential Shippers

By Rob Martinez

Residential deliveries are on the rise. In fact, residential deliveries have doubled from 20% of the overall parcel market to 40% in less than a decade. If you're like most residential shippers, your margins are getting squeezed on both ends. Customers expect free shipping. Carriers keep raising prices.

Challenges of Residential Deliveries

While there are several challenges to residential deliveries, chief among them is that these shipments can cost significantly higher than commercial shipments. Delivering packages to a residence costs the carriers more than a business address. Driver and fuel costs are higher outside of high density commercial routes.

Carriers are forced to recover costs through residential surcharges (\$2.45-2.75), delivery area surcharges (\$1.85-3.00) and other "accessorial" charges that often account for more of the total cost than the freight charges (Figure 1).

Figure 1: 1 Lbs. Ground Residential shipment to Zone 2

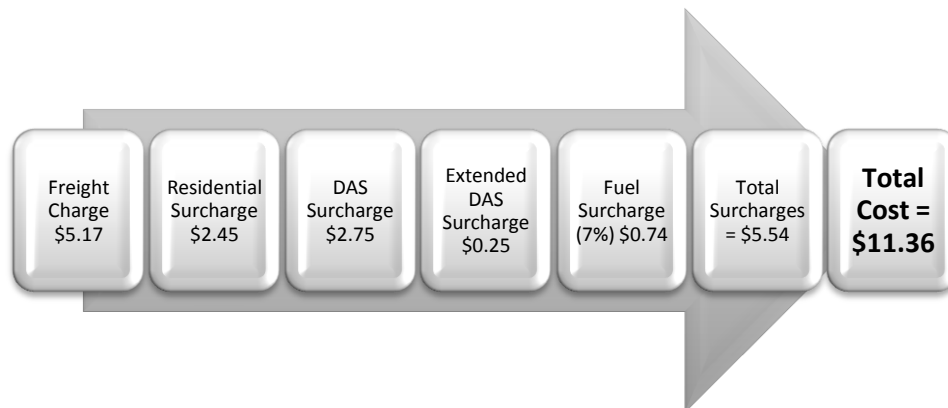


Figure 1

Moreover, residential discounts in most carrier agreements are not as aggressive as commercial incentives. For example, it's typical to see a 36% incentive off published list rates for Ground Commercial packages, but only 20% or so for Ground Residential shipments.

Other challenges include:

- The parcel carriers are not required to obtain a signature for residential deliveries.

- Package tracking is somewhat limited.
- Final package disposition is often “left at door,” which can lead to higher costs through “Where’s my order?” calls to customer service, loss/damage claims, returns and reships.

More importantly, all delivery problems can lead to a poor customer experience, negative publicity, customer attrition and revenue loss. Not to mention reships, restocking and other operational costs.

It’s also challenging to maintain current address information for residential customers. Consider the fact that 40 million people move annually in the US, and nearly three quarters of the population moves an average of once every five years (source: USPS Annual Report).

What’s a shipper to do?!

Residential Shipping Choices

Fortunately, residential shippers have several delivery options outside of the private parcel carriers including the US Postal Service, parcel consolidators and regional carriers.

For lightweight, low value, non-urgent, residential shipments, the US Postal Service and parcel consolidators are hard to beat in price, service and value. And in recent years, the Postal Service has improved delivery transit, reliability, tracking systems and many other areas. The results are paying off. In a recent *Multichannel Merchant* survey, 59% of shippers view the USPS as a competitive alternative to UPS and FedEx. (Figure 2)

Figure 2: Multichannel Merchant Outlook Research on Operations & Fulfillment 2011 Survey

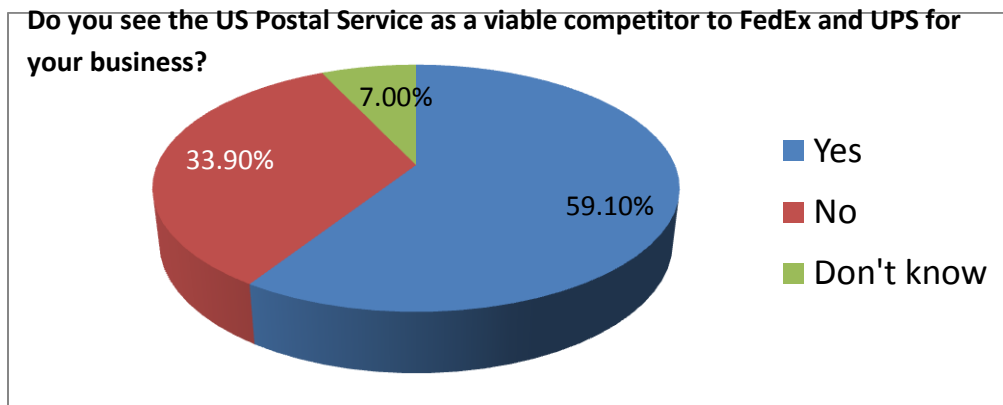


Figure 2

No longer a “one price fits all” shop, the USPS offers a variety of pricing formats including retail, online, volume based, weight/distance based, flat and regional rate products. Moreover, if you spend at least \$2 million annually, you can negotiate custom pricing.

First Class Mail Parcels weighing one to 13 ounces are a bargain even at the retail rates of \$1.71 to \$3.41. With private carriers FedEx and UPS, the residential surcharge alone costs \$2.45-2.75. The Postal Service does not charge for “accessorial” charges like fuel surcharge, residential delivery, area surcharges, pickup service, Saturday delivery, etc.

Residential shippers can lower costs using USPS unlimited weight envelopes and boxes to mitigate higher charges due to weight, zone and surcharge combinations. USPS recently added regional boxes to flat rate options, adding yet another low cost alternative to the convenience and cost advantages of unlimited weight products for inner zones.

Parcel Consolidators

Parcel consolidators market their services as providing delivery times at or near First-Class Mail Parcel service standards, but at lower pricing. Other benefits include improved shipment visibility and less handling and damage.

According to the USPS, the major ground consolidators are FedEx SmartPost, UPS Mail Innovations, Streamlite, Blue Package Delivery, Newgistics, DHL Global Mail, Fairrington Transportation, Kaleidoscope Services, OSM Worldwide, ParcelPool and SP Express.

Each leverages USPS Parcel Select services and workshare discounts. Consolidators handle pickup, sortation, transportation and induction to the USPS hub. USPS handles the “final mile” delivery. The deeper the induction to the USPS, the greater the workshare discounts enjoyed by the consolidator, and in turn, the greater the cost savings available to shippers.

While parcel consolidators are a great cost-savings option for volume shippers, there are millions of online sellers who ship fewer than 50 parcels a day. For these smaller shippers a new carrier called EquaShip (www.equaship.com) is launching in Q3, positioning itself as “the antidote to free shipping.”

With prices expected to be at least 10% to 30% below UPS and FedEx’s, EquaShip is catering to smaller shippers’ unique needs with later cut-off times for pickup and drop-off, 100% track-and-trace and \$100 of bundled “real” insurance on each parcel (as opposed to “declared value” insurance which excludes many items).

EquaShip claims transit times will be faster than USPS Parcel Post, FedEx SmartPost or UPS Basic, and insists that pricing is all-inclusive, in contrast to the many accessorial surcharges that commonly appear on monthly FedEx and UPS invoices.

EquaShip will roll out with major cities first and eventually cover the entire country.

Regional Carriers

Regional carriers such as Eastern Connection, Lone Star Overnight, OnTrac, Spee-Dee Delivery, US Cargo and others offer reliable parcel delivery services at rates as much as 40% less than national carriers.

Many shippers will cite overall value proposition, including cost savings, consistent service performance and innovations that make it easier to ship with regionals. What's more, regional carriers offer multiple delivery options that offer many benefits — including lower cost, flexibility and, in many cases, better service.

In summary, residential shippers are wise to measure current shipping & handling policies and costs, and evaluate alternative residential delivery options. US Postal Service, parcel consolidators, regional carriers and other options could significantly reduce your shipping costs.

Maybe you can offer free shipping after all?

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