Title: A Holistic View of Transportation Spend for Parcel Shippers

Subtitle: It's not enough to focus on only one aspect of your transportation budget; here's how to get a full picture.

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High Volume, Small Package Shippers

Parcel shippers with high package volumes tend to focus inwardly, primarily on optimizing the pick, pack, and ship process. Resources are focused on systems to manage the inventory, match customer orders for fulfillment, automation in the warehouse to facilitate the throughput of the process and manifesting systems to interact with the parcel carriers. In many cases, delivery requirements are time definite, and shipping times are short. Expectations have been communicated to the customer, and delivery commitments have been made. When shipping to a consumer, the requested delivery service has been paid for in advance and cannot be changed. Shippers sending packages through the supply chain are frequently in a just-in-time-mode, or in situations where demand forecasts have been understated, where the requested delivery date must be honored.

For these situations, reducing freight spend is focused on improving the selection process for parcel carriers and their offered services to meet the delivery requirements. Shippers who have contracts with multiple parcel carriers, or even using only a single carrier, need to be able to select the carrier with the lowest cost and the best delivery service. This involves utilizing parcel rating systems designed to evaluate and select within those contracts.

Direct ship programs, where orders are shipped straight from the vendor, is another approach used by shippers to reduce their transportation costs. Rather than shipping the product inbound from the vendor, and then paying again to ship the product outbound to the end customer, product is shipped directly from the vendor to the customer. Managing the complexities of a direct ship program requires the appropriate technology, namely the ability to maintain EDI trading partnerships with vendors in the supply chain.

Another way to reduce cost on the outbound shipment is to employ the services of bulk consolidators. While this choice is not feasible in all shipping scenarios, there are many types of products shipped as parcel, which have a great deal of leeway in the delivery time. Even with the level of technology integration available today, many products are still advertised with a delivery window two weeks wide. One example is a direct marketer advertising four to six week delivery times. This two week window provides opportunities to group those shipments and send them with a more economical carrier and service.

Freight Optimization

Many small package shippers grow accustomed to working with a single type of transportation, which is parcel. While parcel packages may travel by truck, air, or rail, there is a single interface from the shipper to the carrier. All packages leave the shippers facilities in one or more trailers. For consumer-based shipping, this is almost always the least costly way to deliver packages. When the objective is to service the supply side of a retail operation, additional cost savings can be realized by utilizing other types of transportation.

Freight optimization is simply a means of consolidating individual packages to get the desired service at the best rate, regardless of who the carrier may be. Packages, or freight, with the same pick-up and delivery dates are grouped together to increase the total weight and therefore get a better rate. While parcel might be the most cost-effective way to get products to a consumer, there are opportunities to reduce freight costs for shippers supplying stores or distribution centers. Sending a collection of individually-labeled packages on one or more pallets, using standard ground service delivery times, will most often be more economical when optimizing to use a less-than-truckload (LTL) carrier. The rate will most certainly be cheaper, and even when considering the additional handling costs and floor space for managing pallets, in most cases it will still be worthwhile.

Most shippers use parcel carriers for obvious reasons, such as the weight of the product being so low there is no better way to ship. If there is some flexibility in delivery dates, and the product has some weight, the opportunity to consolidate outbound packages increases. Major retailers with announced street dates are also candidates for experiencing a higher rate of freight optimization. While the rate for consolidation may be low, large retail shippers can easily experience between five and 10% of packages being optimized to LTL without changing their current process.

Obviously, there must be enough packages going to the same destination with the same delivery date requirements to be able to consolidate. For outbound parcel shipping to consumers, the likelihood of being able to consolidate is almost non-existent. On the other hand, when shipping to stores and distribution centers, the situation is different. Rather than shipping as soon as the product is available, orders can be grouped and staged to ship on a different interval, say once per week. In other words, the rate of consolidation increases based on planning, product mix, and availability.

LTL: A Viable Option

Depending on the parcel carrier contracts for a shipper, LTL can be a very viable option at a surprisingly low weight threshold. The primary parcel carriers both offer hundredweight, or multi-weight, pricing for parcel shipments. These rates are for contracted customers and are tier-based depending on volume. As is the case with LTL shipments, there are required minimum charges that must be met.

Using 2012 standard list rates for a Tier 1 shipper as compared to a typical LTL rate shows that at around 270 pounds of billable shipment weight, LTL becomes a better choice. Typical minimum floor charges for LTL shippers is around $65 for distances of up to 500 miles and $80 for more than 500 miles.

	Zone 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Ground - Single Package	109.58	125.60	135.91	158.49	195.80	233.18	266.27
Ground - Hundredweight	65.31	81.54	88.83	103.95	130.35	150.43	175.31
LTL Min Floor	65.00	65.00	65.00	65.00	80.00	80.00	80.00

Table 1

The information in Table 1 shows comparisons based on a total billable weight of 275 pounds. For the purpose of this comparison, there were 11 packages in the shipment. The weight distribution was three packages at 15 pounds, five packages at 20 pounds, one package at 30 pounds, and two packages at 50 pounds. The package distribution was used to calculate the cost for shipping the packages individually, and for determining package-level minimums for hundredweight service. Of course, this comparison is based on standard list pricing, and high-volume shippers usually try to negotiate aggressive discounts on their carrier rates. Even with good discounts on parcel rates, at the right weight levels, LTL is a better economic alternative.

There are advantages for shipping packages with a parcel carrier. One significant advantage is that they have service to just about every possible destination. Secondly, there are fewer carriers to work with. For LTL, there are national carriers servicing commercial addresses throughout the 48 states in the continental US. In order to get the best rates for a given service, regional and sometimes local, carriers should be considered. Increasing the carrier mix increases complexity because there are more relationships to manage. Many parcel shippers have good technical integration with the parcel carriers for manifesting, tracking, and paying carrier invoices. Moving into an LTL world introduces the requirement to support multiple trading partner relationships - one for each carrier.

The bottom line for freight optimization is that improvement will not change shippers from parcel to LTL as their preferred carrier. With that said, there are many examples where incorporating LTL as another way of shipping is a choice that can reduce the overall transportation spend. Realizing a savings of 50% on five to 10% of inbound and outbound shipments while adding minimal costs and having a low operational impact can make a meaningful result on the financials for a shipper.

Consolidation for Outbound

Zone-skipping is the process of consolidating individual packages going to different destinations, and shipping them to a parcel carrier facility where they are then shipped to the final destination. An example of this is consolidating enough parcel packages with a destination of a parcel carrier facility where the packages can be dropped into the delivery stream and shipped to the customer at the lowest rate. This technique requires that the delivery window allows enough time to accommodate an additional route from the shipper to the parcel shipping facility. For instance, if normal parcel ground delivery time from the shipper to the end customer is five days, the delivery time to include zone-skipping must also fit that five day window.

Individual packages are picked and packed as usual, including generating the parcel carriers shipping label. Packages are grouped based on density of customer orders for a given parcel zone. Optimization algorithms are used to determine the best carrier facility as a destination. Instead of putting the packages in the parcel carrier’s trailers, they are placed in the trailer for the selected carrier servicing the initial outbound leg.

The payback is realized in an overall lower freight cost, while still meeting the delivery requirements. The cost for shipping an individual package would include the final delivery leg from the parcel carrier, plus an allocated portion of the freight charges. The ability to incorporate the parcel carrier’s hub into a shipper’s logistics network is almost like having facilities located in key areas of the country based on the distribution of your customer base.

While this method of shipping is not for every shipper, it works best for high-volume parcel shippers with a concentrated distribution of customer endpoints. With minimal investments in infrastructure, in terms of floor space and materials handling, the technique can be used as needed by the business. Seasonal shippers with high peak volumes can also take advantage of the cost savings afforded by consolidating shipments and using freight optimization techniques.

Parcel carriers even use this service for their own business. For instance, FedEx offers a delivery service called SmartPost that utilizes FedEx facilities up to the final leg, where the packages are delivered to a US Postal Service bulk facility. Shippers receive a very low package price, while still getting many of the same features offered to all FedEx customers. One good application for this service is a retailer using it for returns and repairs. This works very well for small replacement parts because pricing can be done on a per ounce basis, rather than starting at one pound.

Conclusion

To optimize freight spend, you have to look at all aspects of the retail chain, including the supply side. Taking advantage of other types of transportation, such as less-than-truckload, full truck, or even intermodal, is an effective way to reduce cost without sacrificing service. There are effective tools and services available in the marketplace to make the selection and optimization process a realizable goal. Some of the required technology, such as EDI, is quite likely already part of a high-volume shippers toolbox. There are service providers who can assist in managing the carrier relationships for the other types of transportation. These services reduce the burden on the shipper to be able to maintain relationships with enough carriers to ensure the best pricing and service. In order to squeeze the last few dollars out of transportation spend, shippers need to expand their horizons — and increase their choices.