

Survey

on Shippers' Regional Carrier Usage —

Results Unveiled

By Rob Martinez

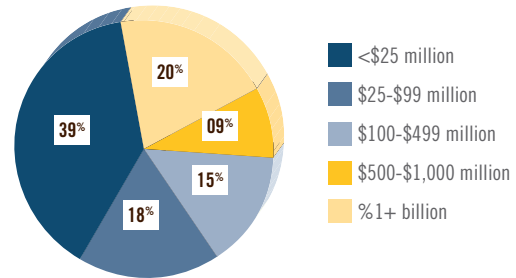
When it comes to parcel delivery, FedEx, United Parcel Service (UPS), and the United States Postal Service (USPS) are clearly the dominant players in the US. However, a growing number of shippers are using regional parcel carriers to complement the service of the national providers.

The regional parcel carriers advertise many benefits over national carriers including cost savings, additional service options, and same day delivery as well as custom/specialized solutions. Is your business a candidate for regional carrier services? What is the service experience and how much can you save? Are there any downsides to consider?

To better understand the regional carrier market, its advantages and potential disadvantages, Shipware and PARCEL teamed up to survey PARCEL readers.

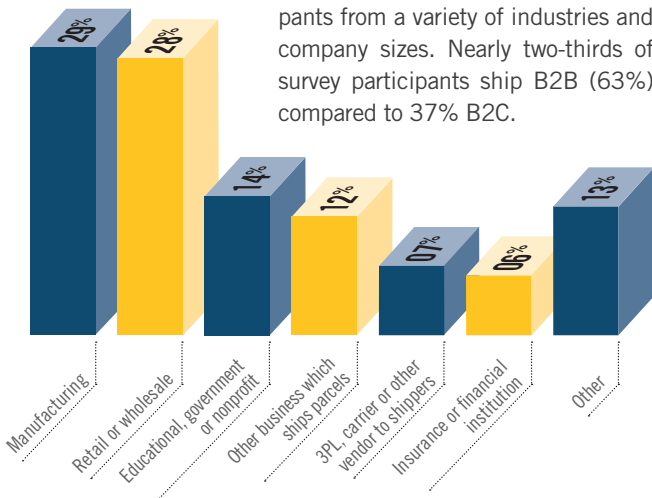
What is your company's annual sales/revenue?

Thirty-nine percent of survey participants come from smaller businesses with revenues under \$25 million, 32% between \$25-\$99 million, and 29% greater than \$500 million.

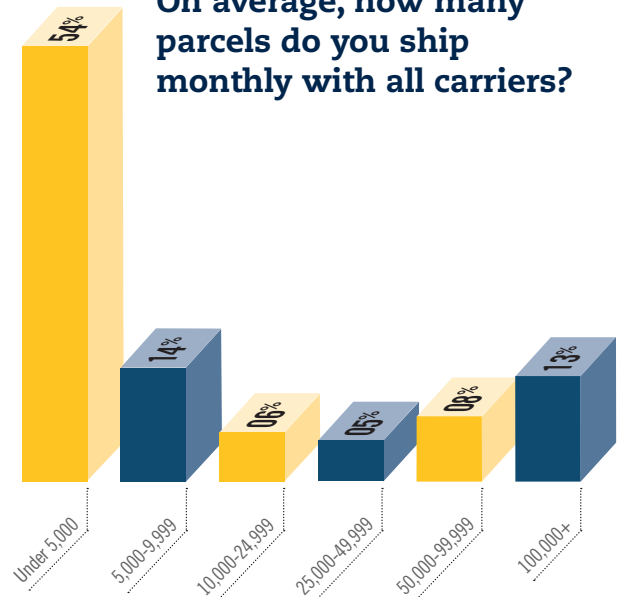


What best describes your company?

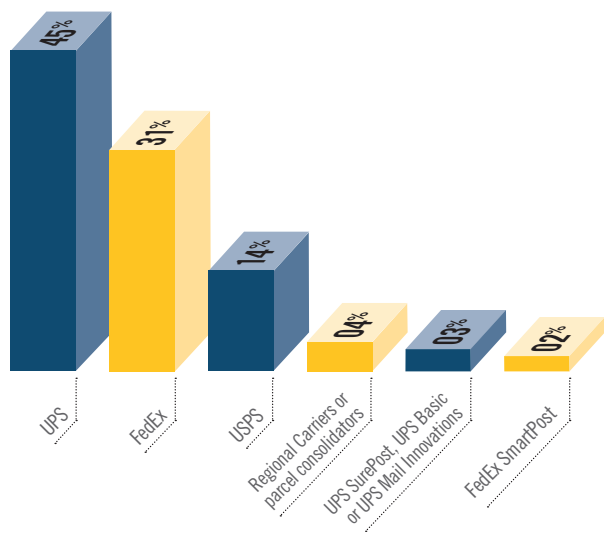
PARCEL's survey on regional carrier usage generated hundreds of participants from a variety of industries and company sizes. Nearly two-thirds of survey participants ship B2B (63%) compared to 37% B2C.



On average, how many parcels do you ship monthly with all carriers?



Who is your primary parcel carrier (greater than 51% of outbound shipments)?

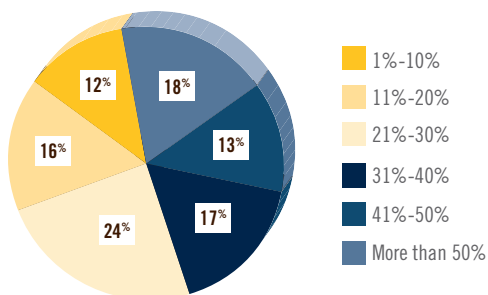


Migration from long- to short-haul distribution has long been a secular trend in distribution. This trend is based in part on the supply chain strategy of moving distribution facilities closer to end customers to meet increasing customer demands of faster delivery at lower costs.

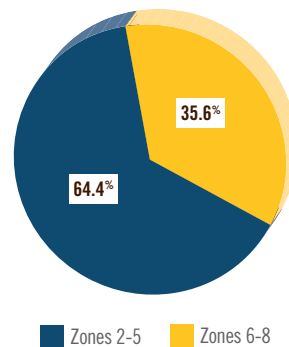
Since regionals operate in a concentrated geographic market, many are able to offer transit improvements over FedEx and UPS. As an example, regional carrier Eastern Connection, based in Woburn, MA, handles deliveries from Maine to Virginia, all included as “next day” delivery points. Using FedEx and UPS Ground service, the same coverage area extends to five zones for 1-4 day delivery.

We asked survey respondents to report the percentage of parcel shipments delivered within 500 miles of origin. Nearly half of survey respondents (48%) ship at least one third of all packages within 500 miles of origin. Only 12% of respondents ship less than 10%, and 18% ship more than 50% of parcels within 500 miles of origin.

Approximate % of all parcel shipments delivered within 500 miles of origin?

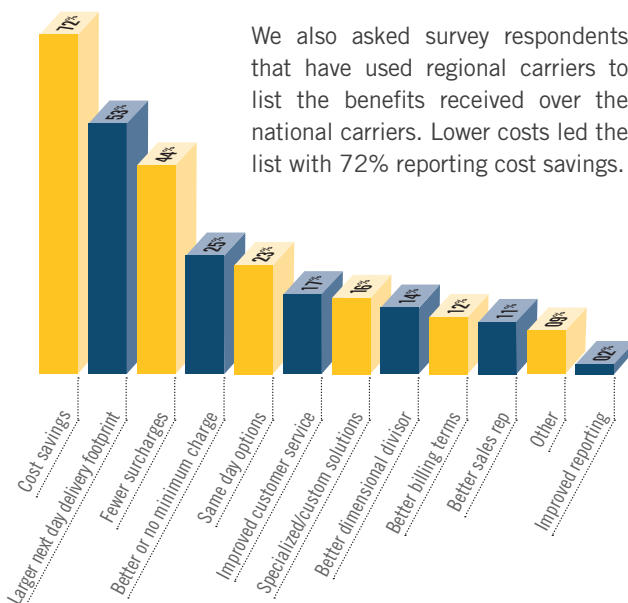


National Ground parcels by zones (Source: Shipware, LLC)



The numbers of inner zone distribution for Shipware’s customer database are even higher. Of the hundreds of millions of shipments in our customer database, we found that 64% are shipped between Zones 2-5, and only 36% to Zones 6-8.

What benefits have you realized from regional carrier usage?



We also asked survey respondents that have used regional carriers to list the benefits received over the national carriers. Lower costs led the list with 72% reporting cost savings.

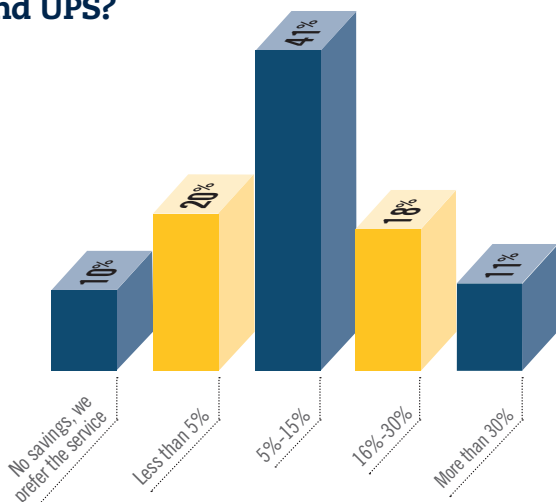
How are regional carriers able to undercut deep-pocketed competitors like FedEx and UPS? While national parcel players operate costly airline fleet and multibillion dollar hubs, regional carriers maintain a lower cost of operation through their regional focus, direct loading and transportation primarily via truck.

As a result, regional carriers are able to pass along to their customers cost savings as much as 40% over UPS and FedEx. As an example, St. Cloud, MN-based Speedee Delivery Service’s pricing starts at \$3.79 for next-day delivery of a one-pound package. Compared with minimum charges of \$5.49 for UPS and FedEx ground services, shippers would save 31%. Compared with FedEx Priority Overnight and UPS Next Day Air — even taking into account a 50% discount — savings are approximately 65%!

Moreover, regional carrier pricing often includes lower minimum charges, better dimensional divisors, and far fewer surcharges — an important point of comparison when you consider that “accessorial” fees can make up to one-third of all UPS/FedEx costs. In general, regional carriers are less likely to assess charges common to UPS/FedEx like weekly service fees, Saturday delivery, additional handling service, large package surcharges, residential delivery fees, and delivery area surcharges. Moreover, it may be easier to negotiate discounts and/or waivers with the smaller and hungrier regional carriers.

We asked survey participants to report cost savings with the regionals. An interesting point is 10% of shippers do not derive any savings, but use regionals because they prefer the service over the national providers.

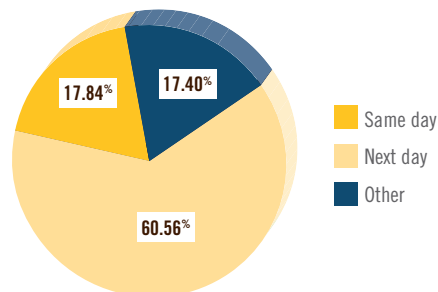
If you use regional carriers, what kind of cost savings are you realizing over FedEx and UPS?



Shippers that make the switch to regionals report better customer service and a “try harder” attitude. “When it comes to customer service, the national carriers simply cannot compete,” said Jacob Day of Natura-Like Dental Lab in Bedford, TX. The company uses Lone Star Overnight (LSO) for all shipments within the LSO delivery footprint. Jeff Carpenter, Distribution Manager at restaurant supplier AceMart in San Antonio, agrees. “We think that the regional carriers notice our business more day in and day out. The national carriers tend to forget about accounts that are working well.”

Several shippers reported lower damage rates with regionals, the result of reduced package handling. AceMart’s Carpenter concurs. “The advantage of using a regional carrier like Lone Star Overnight as opposed to a national carrier is the fact that the packages are handled less and more carefully. We ship products like glassware, china, appliances that could be damaged if the boxes are thrown from truck to conveyor or into a truck that is being loaded. We feel that a regional carrier will handle our shipments better.”

If you ship via regional carrier, indicate % of shipments that are ‘Same Day’ vs. ‘Next Day’



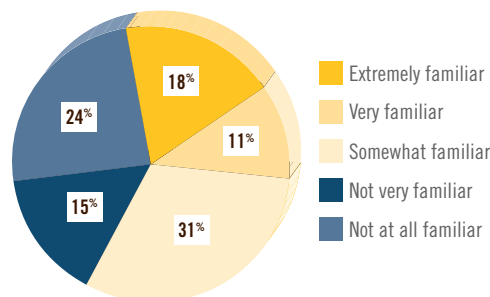
In addition to next day service, many regional carriers also offer same day delivery solutions. While the majority of survey participants (61%) use regionals primarily for next day service options, 18% utilize same day delivery services, and 17% use “other” services including lockbox deliveries and inbound freight.

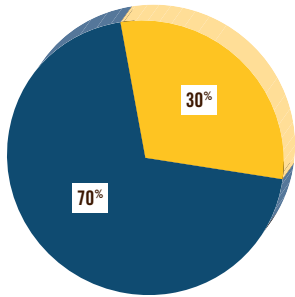
Seattle-based health and beauty products retailer Super Supplements partners with OnTrac for faster West Coast deliveries. Kyle Faino, Director of Marketing & Ecommerce, views OnTrac’s same day and next day delivery as a competitive advantage. “There are very few ways to differentiate ourselves between our competitors. Just keeping pace with ‘free shipping’ incentives is not enough,” Faino said. “We now have to offer faster shipping to be able to compete.”

Despite the myriad advantages of regionals, shippers are largely unaware these carriers exist. Despite the fact that many regionals are growing 9-10% annually, they still make up less than five percent of the overall parcel market.

FedEx and UPS spend billions to build and maintain brand awareness. In fact, both brands cracked the Top 100 Global brands in the 2012 SyncForce ranking (UPS was #65, FedEx was #89). With limited budgets, regional carriers struggle with limited brand awareness. Thirty-nine percent of shippers in our survey were “not very familiar” or “totally unfamiliar” with regional parcel carriers. Only 29% were “extremely” or “very familiar” with regional carriers (as shown below).

Are you familiar with the services offered by regional parcel carriers?



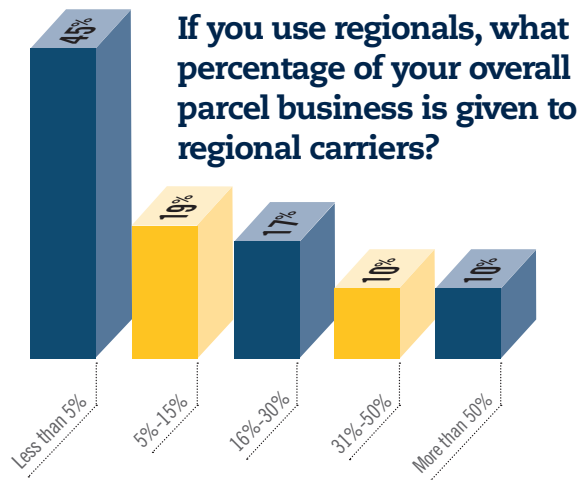


Do you use regional carriers today?

Yes No

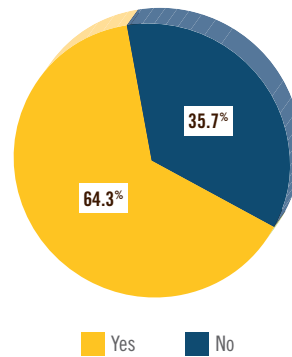
Only 30% of our survey respondents currently use regional carriers.

Even more surprising are adoption figures: of the 30% of survey respondents that use regionals, nearly half (45%) ship less than five percent of their overall packages via regionals. Only 10% of that group — that's a mere three percent of all survey respondents — gives more than half their volume to regional players.



If you use regionals, what percentage of your overall parcel business is given to regional carriers?

Are you open to exploring the use of parcel regional carriers for your business?



Despite poor market adoption, the future looks bright for regional carriers: two-thirds of shippers not presently using regionals are open to exploring them as a replacement or complement to the national carriers.

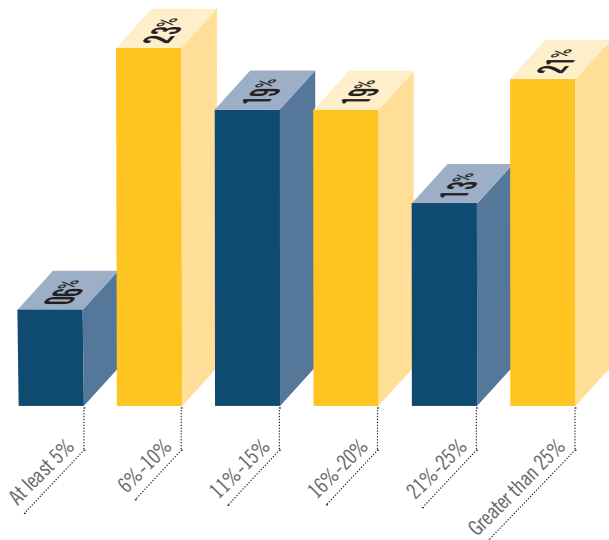
Rank the factors that drive your parcel procurement decisions

We asked shippers to rank the most important factors in their purchasing decision regarding parcel services. Cost and service were the top drivers with 97% of participants designating the factors as “important,” “very important,” or “most important.” Convenience was the third most important factor (68% of respondents). Interestingly, single source solution was “not very” or “not at all” important to 59% of shippers.

Category	Most Important	Very Important	Important	Not Very Important	Not at All Important
Service	47%	38%	11%	3%	0%
Cost	50%	42%	5%	2%	1%
Single-source solution	4%	7%	28%	51%	8%
Convenience	3%	15%	50%	30%	2%
Other	4%	1%	7%	9%	79%

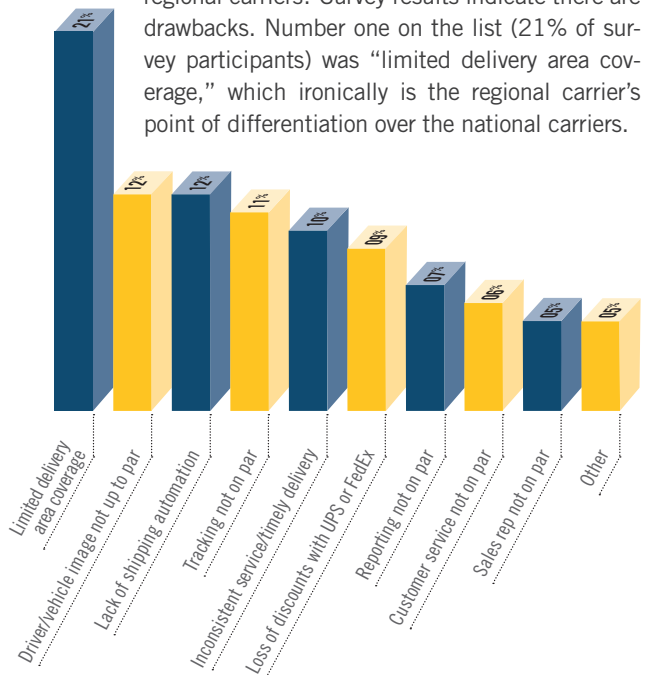
Cost savings required to switch some or all business to a regional carrier?

When asked to specify the cost savings required to switch business to a regional carrier, 29% of shippers require at least 10% savings, 38% want to save 11-20%, and 34% would justify a switch if the cost savings were greater than 21%.



Has there been a downside to using regional carriers?

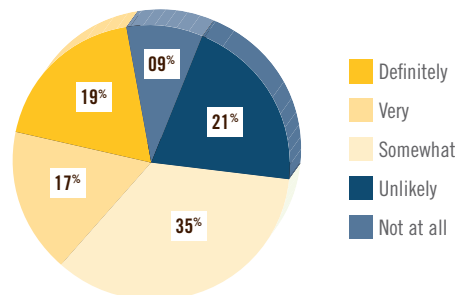
Are there potential disadvantages to parcel regional carriers? Survey results indicate there are drawbacks. Number one on the list (21% of survey participants) was “limited delivery area coverage,” which ironically is the regional carrier’s point of differentiation over the national carriers.



While a regional delivery specialization offers advantages for many shippers, conversely it might eliminate potential shippers that prefer the “one stop shop” convenience of single source options. The chart at the top of the page corroborates this finding, with 68% of participants naming convenience as an important driver of their purchasing decision.

It would almost appear that shippers would prefer if the regional carriers weren’t so... well, regional. On the prospect of a “super regional alliance” in which regional carriers would in essence merge to provide a near national solution, 70% of survey respondents would be “somewhat,” “very,” or “definitely” interested in exploring the solution.

“Super-regional” alliance... How likely would you be to explore that as an alternative to FedEx and UPS?



When it comes to bank balances, it's not a fair fight: the top several regional carriers generate a combined \$500 million a year (Shipware estimate). Contrast that with the \$96 billion in revenue between FedEx and UPS, and it's easy to understand why many regional carriers struggle to compete with their deep-pocketed national competitors on brand recognition, driver/vehicle image, technology, manifesting automation, website integration, reporting, product sophistication, and service consistency.

While all carriers — regional as well as national — incur shipment delivery delays, package damage, misdeliveries and/or lost packages, FedEx and UPS consistently deliver millions of packages every day with service reliability into the high nineties. In spite of recent FedEx and UPS videos (that went “viral” on the Internet) of isolated instances of obviously unacceptable delivery practices, both FedEx and UPS are widely admired for their professional drivers and consistent delivery service.

To keep costs down, many regional carriers use contracted drivers for pickup and delivery. These drivers may or may not be uniformed, and may lack the intensive training for which UPS is famous. Contract vehicles may or may not include the regional carrier's company logo decal. Twelve percent of survey respondents indicated the regional carrier's “driver/vehicle image was not up to par” with the national carriers.

FedEx and UPS sales reps are trained to emphasize the value of their brand and to raise the question, “When your customer receives a package in a purple (or brown) envelope, what does that say about the quality of your company?” Of course,

the less than subtle message is: “If your customers get a delivery from an unknown delivery company, the driver is chewing gum and not in uniform, and the rusty van he's driving isn't marked with a decal, what does that say about your company?”

Nine percent of survey respondents expressed concern that they could lose revenue-based discounts with FedEx/UPS if they siphon off a percentage of their packages to a regional carrier. FedEx and UPS encourage single sourcing by tying pricing incentives to revenue thresholds: the higher the revenue, the greater the opportunity to improve discounts. However, the opposite is also true: if volume decreases, incentives will decrease.

Shippers should carefully evaluate the potential impact on discounts of package migration to a regional carrier. Conversely — as competition enhances leverage — it is also possible that engaging regional carriers may be an effective strategy to obtain better pricing with the national carriers.

Unfortunately, many shippers are totally unfamiliar with regional carriers, a reflection of the limited marketing budgets of many regional carriers. But shippers could be missing an opportunity: 72% of survey respondents that use regionals listed “cost savings” as one of the top three benefits with savings up to 40% over FedEx and UPS, not to mention the other benefits discussed. ■

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