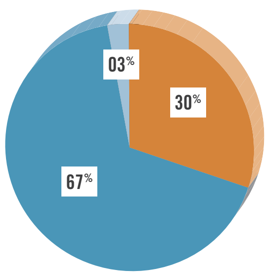
Calculating Shipping Charges

How to figure these costs — and what to actually charge.

By Tim Sailor

In today's shipping environment, many shippers struggle with controlling and allocating their shipping costs. In an effort to identify an industry standard, PARCEL and Navigo Consulting Group recently conducted a survey asking shippers how they calculated their shipping costs and developed policies for charging customers for shipping.

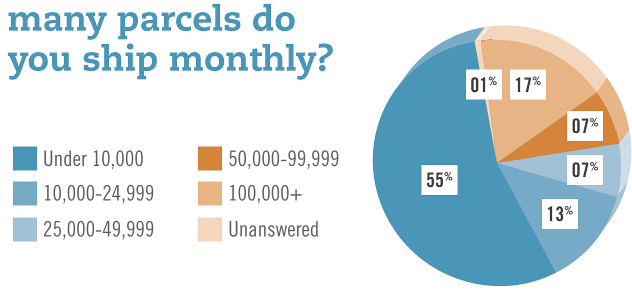
What we found was that there was no clear industry standard or methodology. However, we found a cross section of approaches to these issues. The one thing that did stand out was that overwhelmingly, respondents saw shipping as a cost center for their organizations.



Is shipping a cost or a profit center for your company?

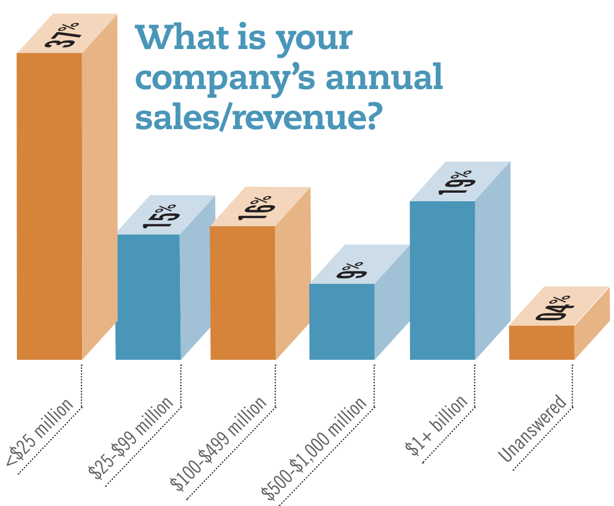
The overall responses ranged from companies with $25 million in revenue to companies over $1 billion with shipment count ranging from under 10,000 parcels to over 100,000 parcels. Our respondents were predominantly B2B shippers (61%) with 35% B2C shippers.

On average, how many parcels do you ship monthly?

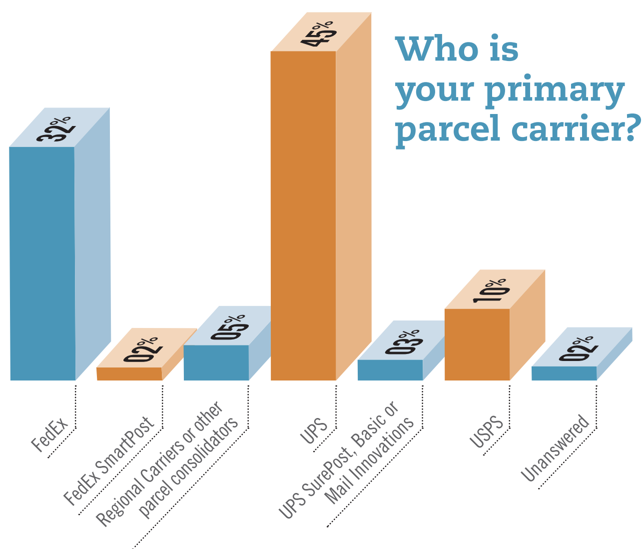


The carrier mix was also fairly consistent with overall market trends. Forty-eight percent of the respondents use UPS services while 34% utilize FedEx and 10% use the USPS.

What is your company's annual sales/revenue?

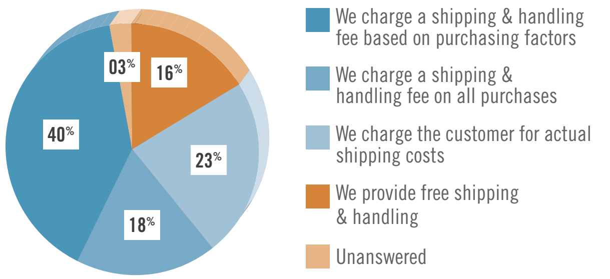


Who is your primary parcel carrier?



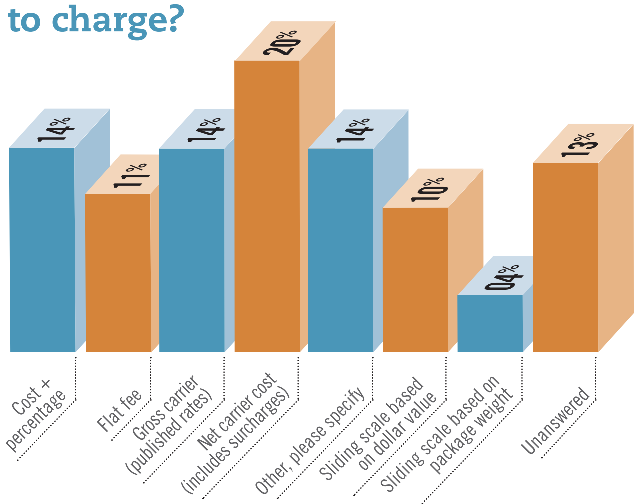
Despite the wide variances in size, carrier mix and other characteristic, 2/3 of the respondents confirmed that shipping was a cost center for their organizations. While many people might think that "free shipping" offers were to blame, our findings did not reflect that. Only 16% of our respondents provided free shipping. When asked how they would describe their customer shipping policy, 40% based their policies on purchasing factors, 18% charged shipping on all purchases, while 23% charged the customer for actual shipping costs.

What statement most closely describes your customer shipping policy?



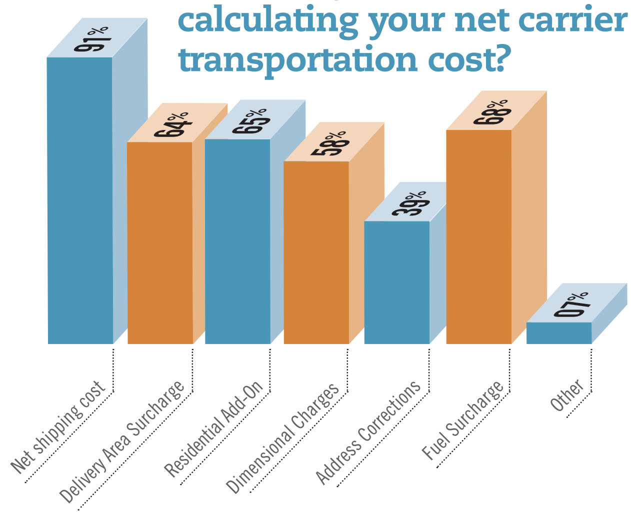
What we also discovered was that there was no one clear methodology for how to calculate shipping charges but rather many across the board calculations. This suggests that the way shippers arrive at shipping charges may have less to do with shipping being a cost center than other factors.

How do you arrive at the amount to charge?



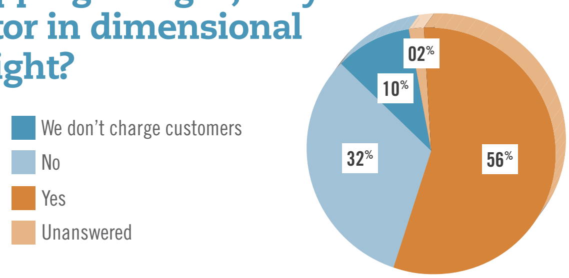
While it seems there is no right or wrong way to establish policies for charging customers, it does seem that shippers need to do a lot more calculations if they don't want shipping to become a cost center to their organizations.

What do you include when calculating your net carrier transportation cost?



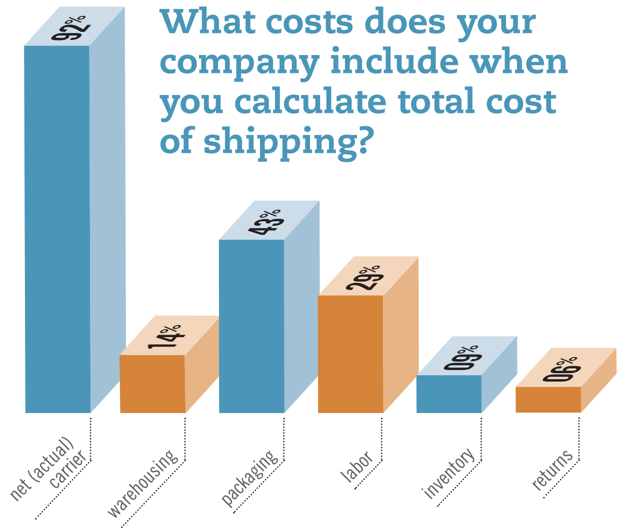
While the vast majority of shippers may think they are calculating total cost of shipping using net carrier charges, they may not be. As the chart above shows, there are a significant number of shippers who don't include some costly accessorial charges. Only 64% of shippers include Delivery Area Surcharge, but this add-on charge is applied to 54% of all ZIP Codes and costs an additional $2.00 to $3.25 per shipment. Only 68% of shippers factor in fuel surcharges, which fluctuate monthly and hit a high of 34.5% in 2008. Another critical area is dimensional weight charges. Only 58% of shippers include dimensional weight charges in their net carrier transportation cost. Similarly, when establishing customer shipping charges, only 56% of shippers factor in dimensional weight costs.

When establishing customer shipping charges, do you factor in dimensional weight?



This could be a major contributor to shipping becoming a cost center. Not only are these charges applied after shipment processing, but the carriers continue to increase the cost of dimensional charges by lowering the dimensional factor for both domestic and international shipments. In 2011, carriers lowered the domestic dimensional factor from 194 to 166 and the international dimensional factor from 166 to 139. This increased shipment costs on average by 18%.

Shipping costs may be a broader issue than some realize. While most shippers seem to struggle to figure out net shipping costs, they may be missing the bigger picture.



Only 43% of shippers include packaging in calculating total cost of shipping, and only six percent include returns. Both can be significant spend areas and should be considered when calculating shipping costs and when establishing shipping policies.

KEYS TO SUCCESS

Given that there seems to be no consistent and obvious way to establish shipping costs or policies for charging customers, how can shippers avoid making shipping a cost center? One possible solution is to more regularly review and update your customer shipping and handling policies. When surveyed, over 26% of shippers only changed their policies after more than one year. Given that the carriers impose GRI rate increases and other accessorial changes every January, shippers are almost guaranteed to lose money if they don't update their policies at least annually.

Another possible approach is to make sure your organization involves finance people when establishing policies for charging customers. Our survey found that only 38% of respondents utilized the expertise of their finance department. Getting their help up front in setting policies may help mitigate un-recovered shipping costs down the road.

Perhaps the best way to ensure that you are balancing shipping costs with your policies for charging customers is to reconcile your customer shipping charges with your carrier invoices. By doing so, you will discover any disconnect between what you think you are paying the carriers and what your true costs are. This will also capture all the accessorial charges such as re-weighs, DAS fees, Address Corrections, Residential add-ons, etc. which can contribute as much as 20-30% to your overall transportation costs. ■

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