MULTICHANNEL MERCHANT
OPERATIONS SPECIAL REPORT

7 Ways to Keep Parcel Shipping Costs Down

By **Tim Parry,** Multichannel Merchant

In January, retail giant Walmart scrapped its $50-per-year ShippingPass program, a fee-based, two-day shipping service it was testing to compete with Amazon's more-costly, bells-and-whistles infused Amazon Prime service.

Instead, Walmart felt it would better compete with Amazon by lowering its threshold for free two-day shipping from $50 to $35 – the same threshold as the marketplace it recently bought, Jet.com.

While Walmart's announcement will probably not place a big dent in Amazon's sales growth, low-threshold free shipping programs by Walmart and other large retailers like Bed Bath & Beyond, Pier 1 Imports, Target and more could cripple small- to medium-size merchants who hope to fend off the behemoths.

While Pier 1 CEO Thomas Toomey said on a recent earnings call that it had shifted a portion of its promotional spend away from discounts and towards shipping offers, Boot Barn CEO James Conroy said on its analyst call that free shipping just erodes profitability a bit more.

Free shipping offers may not be a reality for all merchants, and that's not just because of promotional budgets or shipping costs. Merchants need to look deep into their operations and determine ways to keep their parcel shipping costs down.

Here are seven ways merchants can do that.

Understand DIM Weight and the DIM Divisor

FedEx and UPS reduced their dimensional weight pricing (DIM) divisor from 166 to 139 in January, effectively increasing the shipping costs on millions of ecommerce parcels, although UPS has exempted domestic air and ground parcels under one cubic foot from its policy. Both carriers are also assessing an additional handling charge on any package whose longest side exceeds 48 inches, down from the previous 60 inches.

Inefficient packaging leads to higher transportation and material costs, and contributes to the mitigation of carrier discounts due to oversize charges and dimensional weight adjustments.

Kenneth Moyer, a vice president with LJM Consultants, said the carriers' DIM weight policies, in effect since 2015, have not caused all shippers to right-size their packages.

"I received a shipment [in January] that contained 60% to 70% air bags, and the shipper paid an extra $4 to $5 to ship it," Moyer says. "Some merchants have made big strides in adapting to DIM weight and are seeing significant improvements in their parcel bills, but many have not."

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Knowing the size and weight of every item in your inventory allows orders to be designed for specific carton sizes. Using this technology requires every SKU to be in the database of your host software system.

Orders shipped in bags rather than boxes seem to be unaffected by the new rates, which means you may want to look at your inventory and order profiles to see how many items can be shipped in bags. A flag placed in the WMS can be created to determine whether a specific SKU can be placed in a bag or not.

Don't Tip the Scales

DIM weight matters, but so does all the stuff you pack in that package.

Angie Stocklin, co-founder and COO of online eyewear seller One Click Ventures, says it's not just about using the right size box but also about making sure the packaging is the lightest weight possible.

That includes limiting the number of inserts per package – Stocklin says she's gone as far as working with the marketing team to limit inserts to one per package, because every sheet of paper counts.

In One Click Ventures' case, that also means not including a return label in the shipment. If the customer needs to make a return, they can print a return label; if the item received is damaged, they are issued a refund.

But another thing Stocklin does is makes sure its scales are reset at least once a day.

"Our products are so lightweight that every ounce costs money," Stocklin says. "If someone forgets to reset the scale, that's money."

But there's also some common sense involved, like making sure nothing other than the shipment is on the postal scale when it's in use. There have been times that a box cutter has been left on the scale, or that papers or an electrical cord are touching the edge of it. And those little mistakes can add up to higher parcel costs.

"We have a maintenance team that will calibrate the scales, multiple times a day, but it's so easy [to make a mistake] when you are dealing with ounces," Stocklin says.

Don't Forget the U.S. Postal Service

If you're shipping parcels that weigh from 1-3 lbs., the U.S. Postal Service can be the most cost-effective way to get your customer's package to them. The value proposition for the USPS vs. the major carriers starts falling off when parcel weights go above 3 lbs., shippers and experts say. But the great majority of ecommerce shipments are still in the lower weight range.

Peter Marlenga, director of global operations for mobile accessories seller Tech Armor, says it uses the USPS for shipping a lot of screen protectors.

"Pretty much everything we sell is light and small," Marlenga says. "In that case, we look for the cheapest option, and service level is pretty much the same (as the major carriers) for those kinds of shipments."

One Click Ventures' Stocklin says the majority of its packages are in the 3-6 ounce weight range, and "no other shipping service competes with USPS First Class in terms of delivery time and cost."

"That drove most our decision on why we started with and continue to use the USPS for most our packages," Stocklin says. "The USPS price change this year did impact us more than any other, though – we saw a 60 cent increase on a lot of packages. But it's no comparison, even with that. We're still paying a lot less than with the major carriers."

Shipping from Indianapolis, Stocklin says she can also get First Class packages anywhere in the country in a similar delivery time as sending via Priority Mail – an average of 2.8 days.

Touch of Modern CTO Steven Ou notes the USPS is known to be a reliable delivery partner and can deliver to places others carriers cannot, such as PO boxes and rural addresses.

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Ou adds that as a shipper, you know what your true upfront shipping costs are going to be when you deal with the USPS, without hidden fees. For example, if you're shipping a first-class package weighing 8 oz. or less, it will cost $2.60. But FedEx may apply additional surcharges may, and you can't predict when the package will go out for delivery.

Don't Forget SurePost and SmartPost

UPS SurePost and FedEx SmartPost can provide considerable savings over traditional ground services by eliminating significant delivery area, residential and Saturday delivery surcharges. SurePost and SmartPost offer an option for merchants who are looking for a low (or free) delivery alternative and are not concerned about express delivery.

SurePost and SmartPost are consolidated delivery services which use the extensive logistics of UPS and FedEx, partnering with the USPS for final-mile delivery. Pricing is lower than conventional ground service and UPS and FedEx residential areas surcharges are eliminated because the parcel is shipped to a local USPS delivery point, and then delivered by its carriers.

FedEx SmartPost collects packages at various consolidation sites around the U.S. and delivers them to the USPS only when it has met an unpublished volume requirement, says Thomas Anderson, vice president of supply chain and logistics services with LJM Consultants. This can result in SmartPost delivery times being less consistent than UPS SurePost. The delivery time of a SurePost package is typically a day slower than UPS Ground because of that extra step between the post office and the customer's front door.

Put in Least Cost Routing Software

Choosing the right carrier to derive the fastest delivery at the lowest cost requires enabling technology. The right technology will take the guess work out of routing packages.

The carriers provide free automation solutions not only so customers can efficiently use their services, but also to lock them into exclusively using its services, says Shipware President and CEO Rob Martinez. The more integrated the carrier is in company operations, the stronger the lock becomes. The ability to ship with any carrier on a minute's notice offers significant leverage in negotiations, promotes multi-carrier solutions, and provides a backup plan.

While carrier-provided automation might be adequate for some shippers, third-party automation options should be evaluated periodically to ensure maximum productivity and efficiency.

Martinez says merchants should explore enterprise resource planning software, transportation management systems and/or multicarrier manifesting options that allow for multiple carrier rate shopping.

Be sure the technology searches includes package dimensions, weights, zones and surcharges, and includes the unique terms and incentives of your parcel pricing agreement.

Conduct Regular Parcel Invoice Audits

Each year, more than $3 billion in guaranteed service claims are not refunded because claims are never filed, Martinez said. Shippers that take the time to audit invoices can tap into this often overlooked source of cost savings.

In addition to late shipments entitled to money-back guarantees, Martinez says shippers should audit for missing discounts, incorrect fuel surcharges, overcharges, shipments manifested but never shipped, and other erroneous charges common with parcel invoices.

The carriers don't make it easy for the shippers to audit parcel invoices, notes Tim Sailor, founder of Navigo Consulting Group, with some invoices containing up to 240 data fields. But Sailor adds that knowing where your shipping dollars go helps you demonstrate your growth.

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"There is always some disconnect between the carrier agreement and the usage," Sailor says. "If 95% of my packages were going residential ground when I signed agreement, and a lot of my customers are suddenly asking for two-day air and that goes up to 15%, then you really need to address and amend that carrier agreement."

Sailor says he's often seen shippers maximize their thresholds, and that they need new rates that reflect the size of shippers they have become.

Companies unable to audit internally might consider outsourcing to audit firms that specialize in parcel spend management. Martinez says a qualified freight audit firm can produce weekly savings between 1% and 15% of the total weekly parcel invoice.

Pay Attention

Shippers can derive tremendous value in scheduling routine meetings with their carrier reps.

Carrier reps work with many other companies and can help you better manage your spend through best practices, leveraging value-added services and technologies, and integrating additional product offerings like LTL, mail, ocean, warehousing and other carrier services, Martinez said.

"I've heard many carrier reps complain that some customers don't make time for account reviews which allows the rep to demonstrate additional value, new services and cost savings opportunities," Martinez says. "Many shippers only contact the rep when there's a problem, to resolve a billing issue or address the occasional late or lost shipment."

Navigo's Sailor says he advised a client who signed a carrier agreement in December 2015, but suddenly saw its rates rise 22% in less than a year because the carrier implemented rate changes. The first change added a handling charge, and the second had to do with the size of packages it regularly ships.

While carriers used to announce rate changes just once a year, Sailor says they can now make tweaks to their rates and add new charges for services they are already providing, and that merchants need to basically pay attention.

"Be proactive," Sailor says. "Knowing what's coming down the pike is very important. Staying engaged with all your carriers gives you the best shot of staying on top in a duopoly environment."

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