

Multiple Factors Weigh into Parcel Carrier Choices for Ecommerce Shippers

by **Mike O'Brien**, Multichannel Merchant

A major factor in delivering consistent customer satisfaction for ecommerce companies is their shipping strategy. Consumers expect a range of shipping options at checkout, and want their orders to arrive on time and intact.

Increasingly, Amazon, with its Prime promise, is raising the bar on customer expectations for fast and free shipping, placing pressure on ecommerce companies to speed up delivery times and offer free or discounted shipping.

According to the 2019 MCM Outlook survey from Multichannel Merchant, 53.3% of respondents said the so-called "Amazon effect" meant pressure to ship faster, while 40% said it meant pressure to offer free shipping.

For these reasons, parcel carrier selection is a critical piece of the shipping strategy. There are many factors to consider, including first and foremost cost but also services offered, pickup times and cutoffs, geographic coverage, service levels and reliability, to name a few.

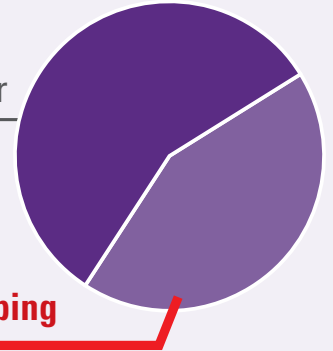
Many companies still like the single carrier approach, making management of the shipping partner relationship simpler and enabling greater volume discounts. Others may opt for using more than one partner, for instance by cobbling together national coverage through use of regional carriers or some other multi-carrier approach.

Whether companies opt for regionals, one of the

What Impact Has the "Amazon Effect" Had On Your Business?

53.3% Pressure to Ship Faster

40% Pressure to Offer Free Shipping



"duopoly" major carriers – UPS or FedEx – the U.S. Postal Service, a hybrid postal offering or a shipping consolidator, the common denominator is rate increases. This has been more pronounced with the major carriers, which in addition to annual or general rate increases have added on a variety of so-called accessorial fees like fuel surcharges, delivery area surcharges and peak season surcharges to cover rising network costs.

For 2020, FedEx and UPS both announced an average or general rate increase (GRI) of 4.9%, which varies greatly by service, weights and zones and doesn't include the many accessories. The USPS has proposed increases for parcel services ranging from

CONTINUED ON PAGE 2

FEATURED IN THIS REPORT



Page 2
Keeping an Eye on the Bottom Line, Managing Customer Expectations



Page 3
Setting Shipping Charges in the Context of Costs

4.9% for medium flat-rate boxes to a 6.3% increase in APO/FPO large flat-rate boxes, subject to approval by the Postal Regulatory Commission (PRC). Rates are of course negotiable on a case-by-case basis, and volume discounts are common.



Keeping an Eye on the Bottom Line, Managing Customer Expectations

The ideal for ecommerce shippers is to take a shipping approach focused on managing and meeting customers' delivery expectations while at the same time keeping a sharp eye on the bottom line. Yes, Amazon Prime, its 100 million-plus U.S. member and its new next-day promise are ever-present, but not everyone needs to have everything arrive in a day or two. So, you need to know your audience and what will keep them satisfied and loyal. The main thing is providing shipping service level options at checkout, and consistently meeting your delivery promise.

"In today's world of evolving ecommerce expectations for delivery, we try to find a niche that balances out the need for speed while also containing costs to the amount merchants can afford for delivery," said Rob Glover, vice president of sales for OSM Worldwide, a shipping consolidator for the USPS. "People are looking for relatively expedient delivery and cost effectiveness."

Across the broad spectrum of the fastest, most expensive shipping options and the slowest, cheapest ones, Glover said OSM plays in the middle, offering one to five-day service nationwide, which it finds is a natural fit for many ecommerce shippers. OSM is a workshare partner of the USPS, meaning it hauls mail and parcels for induction into USPS distribution facilities, bypassing processing steps while reducing cost and transit times.

Greg Dahlstrom, vice president of operations and supply chain for Bodybuilding.com, a seller of nutritional supplements and fitness apparel and accessories, agreed that customer delivery expectations generally have risen. He quickly added, however, that

most of his customers understand "Amazon doesn't sell everything" and thus they're good with shipments taking a little longer.

According to the 2019 MCM Outlook survey, 70% of merchant respondents said they offer free shipping in some form or fashion, and another 10% are considering it.

"Fast and free comes with a cost, so you have to balance it out," Dahlstrom said. "There's a certain amount of business we don't get because we don't offer that. But you have to look at how much the trade-off costs you, and that's not easy information to come by. If you look at the data and see that when you give customers longer lead times there's a significant drop off in repeat purchases, you have to use that information to make a business decision."

Dahlstrom said Bodybuilding.com uses five days as its maximum time in transit. "We'd like to continue to move it down, but we have to analyze how much of a cost to the business it will be to do so."

Aaron Moore, director of operations at online eyewear seller One Click, said he hasn't seen much difference overall in terms of customer expectations for delivery speed. "Everyone is pushing toward the fast and free mindset, largely driven by the Amazon effect," he said. "The fact that shipping is free for Prime members is hard to compete with. So, we try to balance cost effectiveness and speedy delivery."

One Click offers standard USPS shipping of five business days, with expedited, priority and express shipping options from USPS or UPS available for an additional fee. Orders over \$30 get free standard shipping.

"Amazon did us all a favor, changing delivery expectations to be faster," said Cheryl LaRobardier, vice president of distribution at Kendra Scott, tongue firmly in cheek. "But what's more important is telling the customer the specific day it's going to arrive, instead of just saying it will be there Tuesday or Wednesday."

LaRobardier said it wasn't realistic to try to compete with Amazon now next-day promise. "We don't have the bandwidth or distribution operation to reach the country that way," she said. "The challenge is to balance the expectation Amazon created for us. It's

something we really spend a lot of time on, balancing cost and time.”

She said Kendra Scott now has a range of 2-5 days for time in transit, something she wants to get down to two days across all orders. The company just began a 3PL partnership in August 2019, adding fulfillment from a facility in Memphis to help it up its delivery game. “They have multiple facilities, but we’re only utilizing the East Coast one now,” LaRobardier said. “They also have international operations, which was part of our rationale in selecting them. Where you put your facilities and who you partner with is very important.”

Tim Holody, COO of Palm Beach Jewelry, said customer expectations haven’t changed that much for him over the years. “If they want something delivered faster, they’re willing to pay for it,” he said. Palm Beach offers standard shipping (7-10 business days), UPS two day (2-3 business days) and UPS overnight (1-2 business days), with rates increasing at each level. Closer to Christmas, the company does offer reduced rates for expedited shipping.

In general, Holody said, Palm Beach’s marketplace customers have higher expectations for faster delivery than his traditional catalog or .com buyers.

Glover of OSM said while there are advantages to marketplace selling, the fact that they dictate the shipping and delivery terms for sellers is one major drawback.

“Certainly, retailers have to evaluate the shipping options they give to customers based on how they’re selling,” he said. “If it’s on a marketplace, they tell them everything has to be delivered based on these

criteria, and then they select carriers who can support that. Companies with their own ecommerce sites, on the other hand, have more control over those decisions and options to give to their customers.”

Setting Shipping Charges in the Context of Costs

Moore said One Click doesn’t offer free shipping across the board but does make it available at thresholds. For instance, for its Readers.com brand there is free shipping on orders over \$30, and the average order value is \$27. In the recent past, about 50% of customers qualified for free shipping, but since a price increase this fall that number has bumped up to 60%.

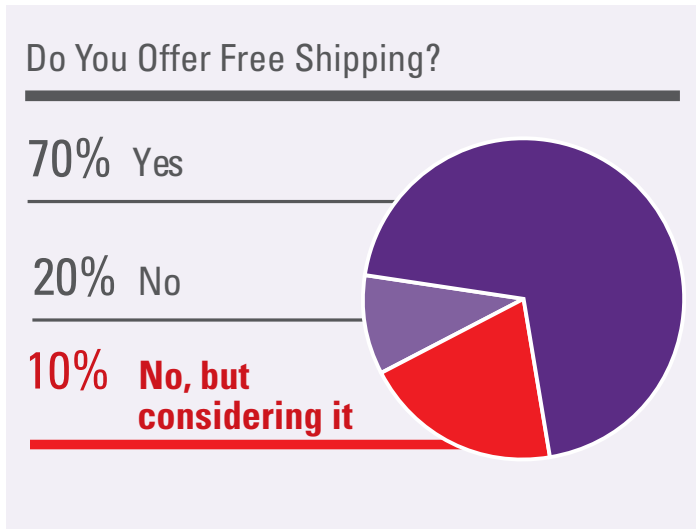
If an order doesn’t qualify for free shipping, One Click charges \$3.95 for USPS First Class delivery. It also offers expedited shipping at higher rates such as priority and express in one or two days.

Moore said all of One Click’s deliveries happen in two to five days, with three days being the average. “We did study our Net Promoter Score (NPS) comments, and found 30% to 33% mentioned quick delivery as being a key element of customer satisfaction. It’s all about setting the expectations. Most of the time we land within the delivery day promise.”

Holody said about 30%-40% of his business is direct to customer from its website and catalog, with the rest drop shipped and sold through marketplaces and partners like Amazon, Overstock.com, Walmart.com, Sears, eBay and Groupon. Nearly all its orders (95%) are packages under 1 lb. sent in soft packs.

One thing that has been a major change in 2019, Holody said, was the introduction of flat-rate shipping from UPS and FedEx. Competitive offers from the carriers allowed him to get a better rate, and now that the programs have met Amazon’s stringent requirements, he’s been able to increase the percentage of items eligible for Prime’s two-day guarantee from 25% to about 75%, driving better conversions.

“In our case, the other option to mitigate shipping costs was to set up multiple distribution centers,” Holody said. “That wouldn’t work for us with 25,000 SKUs – the advantage of more facilities would be offset by the inventory management nightmare. If we had just 1,000 SKUs maybe it would make sense. But



for what we're doing, shipping across the country from south Florida, one-rate pricing has been a game changer for us."

Dahlstrom of Bodybuilding.com said while his company can't afford to offer free two-day shipping a la the Prime promise, they're always evaluating ways to reduce delivery times within the bounds of economics.

"Until we can find options that match a good price and service point, we can't make any additional changes (in service levels)," he said. "We're optimized for where we are now, and we can't speed up without spending more. We'll decide at what point it's worth it, or find partners who can do it faster at equivalent price to what we're doing today."



What to Look For in a Shipping Partner

David Kravetz, co-founder of Fairytale Brownies, said the fact that it's largely a gifting business leads to delivery driver messages back like "recipient has moved," "wrong zip code" or "missing suite number."

"When a package is undeliverable on the first attempt it's important that we have time to contact our customer or research the address rather than just have the package returned to us," he said. "We work with UPS to ensure there's a system in place for us to be notified quickly of the delivery problem, and for the package to be held long enough for us to provide a corrected address if possible."

Other important carrier selection factors for Fairytale Brownies are the ability to have later pickups and Saturday pickups during the critical peak holiday season, advance communications about extended transit times at the ZIP code level, service guarantee limitations and sort requirements.

Holody said single-carrier volume consolidation, and the lower rates that go along with it, is why Palm Beach went from a dual-carrier approach of FedEx and the USPS to using just UPS, including its Mail Innovations offering, about 15 years ago.

He said selling on the major marketplaces, with their stringent requirements for providing verifiable tracking information on very tight timeframes, was another reason Palm Beach decided to stick with UPS.

While there are a number of USPS workshare partners on the market, Glover said not all of them are created equal.

"By definition, a workshare partner is using the USPS in some way for a part of the process, but not all of them are using the USPS in the same way," he said. "What happens from the point of picking up a shipment at the dock to when it's handed off to the USPS is very different. Total time in transit, visibility to the movement of the shipment, consistency of delivery time and rates charged for the service can also vary greatly with each solution."

Moore said USPS First Class suits One Click's business needs very well, mainly because its packages are lightweight and small, and it's utilized for 95%-98% of the company's orders. Customers are given the option of UPS at an upcharge. "We will use (UPS) sometimes as a way of quickly getting items to a customer if we mess up an order," he said. "But the cost-to-service ratio (of USPS First Class) is perfect for our product."

While cost is a primary consideration when weighing potential carriers, Moore said service and dependability are the two most critical factors. "Are they going to live up to what they promise?" he asked. "Do they provide ample tracking information, and how responsive are they when we do have an issue? Those are key areas we focus on."

MULTICHANNEL MERCHANT

MULTICHANNEL MERCHANT delivers in-depth analysis of trends and best practices, as well as news, research, tactical/how-to and resource information to help marketing, ecommerce, operations and senior management at companies that sell merchandise through multiple channels and deliver the merchandise to the customer wherever they choose- at home, work, store or other locations.