

Ecommerce Shippers Weigh Q4 Options as Rates Soar, Capacity Shrinks

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

When you talk to industry experts these days about ecommerce and direct-to-customer shipping and delivery, and ask how so many online orders are supposed to get where they're going and on time, the word "unprecedented" comes up a lot, and with good reason.

A massive COVID shift to ecommerce has created peak-like conditions since spring, sending demand and costs soaring. Now comes the actual holiday season, a huge unknown but still expected to generate staggering volumes. The result is a mad scramble for delivery capacity without breaking the bank, and a rethinking of strategies.

"To what degree I don't know, but there will be a sustained elevated demand in terms of parcel volume due to the shift from retail and store to digital," said Nate Skiver, founder of LPF Spend Management and a former shipping executive at Gap Inc., Stella & Dot and Abercrombie & Fitch. "That will be incredibly pronounced in the holiday season in terms of volume, but it's less predictable than usual because we don't know what will happen with stores and shoppers being deterred."

Rate Increases the Order of the Day

First UPS then FedEx imposed first-time midyear peak surcharges in May and June 2020, targeted at large-volume shippers and calculated based on how weekly average volume exceeded February and early



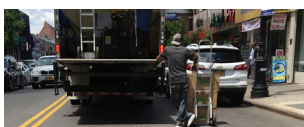
March levels. Thomas Anderson, a partner and EVP with shipping consultants LJM Group, said the unexpected category spikes have made it difficult for carriers to adequately prepare for volume.

"For the first time in decades, they don't have excess capacity," Anderson said. "That is where you're seeing this peak pricing. The larger shippers are getting penalized, with the carriers saying in effect, 'we'll take the burden but we need additional resources to manage it.' Some of the fees are pretty excessive, compared to what's typically paid by shippers."

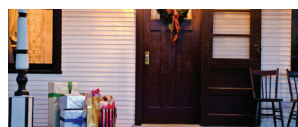
Then in August both FedEx and UPS announced seasonal surcharges, with the unusual feature that they covered all packages on a volume basis, not just those requiring special handling due to oversize. Volume triggers were again calculated against a pre-pandemic baseline. Both carriers also imposed peak surcharges of up to \$4 per package on their last-mile services inducted into USPS and used by many SMB shippers. The

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surcharges will extend into mid-January to offset returns costs, and some predict they may go beyond that.

For the first time, USPS announced its own peak surcharges of up to \$1.50 more per package. "This time-limited adjustment will increase prices for our commercial customers in line with competitive practices without impacting customers at the retail level," the USPS said in a release.



Sam Coiro, SVP of client success for Pitney Bowes, said the major carriers' peak surcharge calculations make it very difficult for shippers to project 2020 Q4 costs.

"It's almost impossible to predict how much they'll pay, if they'll pay, and for how long," Coiro said. "Do they hold off on some seasonal promotions, if cost exceeds budget? Someone said the other day, you literally have to have a PhD in astrophysics to know what you're going to pay or not pay."

Coiro said while Pitney Bowes was also forced to levy what it calls a temporary seasonal adjustment to its shipping fees, like the USPS it's a simple-to-calculate flat rate not exceeding \$1.50 per package for domestic and cross-border shipments and returns. Pitney Bowes, which entered the ecommerce market in 2012 as a provider for eBay's global shipping program and expanded in a big way with its 2017 acquisition of Newgistics, uses a variety of carrier partners to service its customers, including DHL eCommerce, regional carriers and most often the USPS.

"Now if you ship 100 packages, you know it's another \$150 for example, or if you're over by 1,000 packages, it's \$1,500 more," Coiro said. "It's very straightforward, a clear and concise view of what the additional spend is going to be, and we know how critical it is for our clients to have that view."

Coiro did note that forecasting Q4 volumes is going to be a lot tougher in 2020. "In a typical holiday season, a lot of retailers have a general run rate of weekly volume, but we're not in a typical holiday season," he said. "It's

compounded by a lot of people shifting most of their buying online for groceries, essentials and everything else. While some carriers are guessing at this, we work with clients to understand forecasts, tuning them throughout peak. It's a close collaboration that allows us to help plan ahead, making sure client expectations are set properly from the beginning."

In addition to high costs, this year major ecommerce shippers have found themselves cut off when they exceed carriers' weekly contractual volumes, resulting in orders left on docks and disappointed customers. Earlier in 2020, FedEx took the unusual step of capping pickup volumes from about two dozen major retailers in order to prevent its network from being overburdened, negatively impacting overall performance.

Securing Capacity in Q4

Skiver said even large-volume ecommerce shippers won't be able to use leverage to gain additional peak capacity with the majors as before. Instead, he said, they'll have to make concessions on volume and surcharges they might have avoided in the past, using long-term relationships to find the best balance of cost and service.

"Smaller shippers from a rate perspective are in a negative position in terms of leverage," Skiver said. "However, from a capacity standpoint, their volume won't be on the radar of UPS and FedEx. As long as they work closely with the carrier, making sure their operating plan isn't interrupted, I don't see capacity or service risk as much of an issue."

More than ever, the capacity crunch is leading shippers to multi-source carriers to prepare for a massive 2020 peak season. This includes looking to regional carriers like LSO, Ontrac, Lasership, Pitt Ohio and others, as well as DHL eCommerce and major consolidators like Pitney Bowes and UPS Mail Innovations. Many shippers are in this way augmenting the major carriers, although even some regionals are starting to hit capacity limits.

Skiver said regional carriers are definitely a viable option, especially if a shipper has used them in the past and is looking to expand.

"It's a proven step, provided the regional can ensure they'll be supported from a capacity perspective in peak," he said. "I talked to one large shipper that added a regional recently as part of their carrier diversification, to increase capacity and flexibility. The carriers need to

be transparent about their network and capacity, so shippers can be confident they're not adding risk by putting another carrier in place."

Coiro said major shippers using a single carrier approach this peak season can find themselves in a bind, especially if they exceed weekly caps. "Putting the emphasis on forecasts as the fulcrum between nominal and astronomical surcharges puts retailers in an untenable position at a time when profitability often takes a hit at the expense of volume," he said. "Penalizing retailers because they don't know what peak will look like is unfair."

Coiro said consolidators like Pitney Bowes have built multi-carrier networks that can diversify shipping options for retail and ecommerce companies. "When we move parcels through our network, we leverage a variety of different partners, whether it's the regionals or international carriers or in many cases the USPS," he said. "We orchestrate the movement of goods on your behalf. For that reason, we're less likely to find ourselves in a position where we're tapped because we have several outlets and a diverse network."

***"(Demand) will be incredibly pronounced in the holiday season in terms of volume, but it's less predictable than usual because we don't know what will happen with stores and shoppers being deterred."* - Nate Skiver, founder, LPF Spend Management**

The USPS has been criticized by industry observers for reliability issues, but that is changing with a renewed focus on performance improvement and greater efficiency.

In late August 2020, new Postmaster General Louis DeJoy told a Congressional committee that USPS service performance improved across all major categories, after dipping a bit in mid-July and early August as processing and sorting caught up with the new "on time and on schedule" mandate of the transportation operations.

"This recovery took place while still adhering to our existing transportation schedules," DeJoy said. "In other words, we are improving service performance while



more consistently running our trucks on time."

While stating the service declines should not have happened, DeJoy said the changes he is instituting "are fundamental and necessary, and the Postal Service is strongly committed to fixing the problems by identifying and rectifying their root causes."

"While there are a number of factors at play related to service performance, including pressures related to the COVID-19 pandemic, natural disasters, and other unforeseen events, I am confident that the Postal Service's performance will continue to improve overall, and that it will ultimately exceed our prior service performance levels," he said. "This is an organization-wide commitment."

Anderson said for some shippers the USPS can be a less expensive alternative to the other major carriers.

"They can be a nice fit, especially for residential lightweight parcels in the 5-10 lb. range," Anderson said. "There's an opportunity for many shippers to consider them. You lose a bit of reliability, but from a cost savings perspective they can certainly be a good option."

Preparing for a Very Different Peak Season

Retail and ecommerce shippers looking ahead to the holiday peak are implementing different measures to address the extraordinary surge that's expected. For one thing, they're working more than usual to pull demand forward, especially by launching promotions earlier. Also, many companies will signal to customers to expect longer than usual delivery times.

Many major retailers are starting holiday specials and promotions in October, which may lead to a smaller Cyber weekend. Peak season has been creeping backward in recent years, in an attempt to spread out demand, but that's accelerated this year. There were



reports of more consumers adding holiday shopping to their 2020 back-to-school spending, another growing trend. As well, Amazon's Prime Day being held in mid-October is sure to drive more early holiday sales.

With retailers having less flexibility in terms of relying on shipping capacity, reviewing options that involve pulling peak demand forward because of what's expected make a lot of sense. That includes timing promotions that are more dialed into a reworked Q4 demand forecast. They can also offer more delivery options at online checkout, incenting shoppers to choose longer lead times in exchange for discounts or gift cards good for their next purchase.

Looking Beyond into 2021: Are We at a Reset?

One of the biggest questions is, have we seen a fundamental reset of consumer behavior to ecommerce such that it won't revert back to anything resembling pre-COVID days? And if so, how will that impact ecommerce shipping? The consensus on the question appears to be yes.

Satish Jindel, president of ShipMatrix, said he believed two major shifts that aren't going away are older consumers who are suddenly very comfortable shop-

ping online, and those who were only making 10%-20% of purchases online and have upped that to two-thirds or more.

"They're realizing they don't have to go to the store for all kinds of items," he said. "As well, ecommerce will continue to grow 20%-25% for the next year and half or longer. Retailers meanwhile will continue to expand their supply chains, and a lot of brick-and-mortar companies will put more emphasis on ecommerce and investing in those systems."

Indeed, many companies are betting ecommerce demand will remain at a high level. In conference call after conference call, retail executives speak of doubling down on digital in order to remain resilient, flexible and able to meet future demand.

"The step change in demand across our digital platforms is not without its challenges, particularly from a delivery and fulfillment standpoint," said Home Depot CEO Craig Menear on the company's second quarter earnings call. "We've been able to leverage investments we have made in the scale and flexibility of our supply chain network to relieve some of the pressure."

One example of this, Menear said, was temporarily transitioning a market delivery center designed for local delivery of bulky items to a fulfillment center primarily for online orders as that exploded.

Coiro said Pitney Bowes also decided to place its bets on steady acceleration of ecommerce demand, doubling its capacity within a year, investing in automation and increasing throughput by 63% in 2020.

"Companies are deciding whether to invest now or later," he said. "In our view, later is too late. What we don't want is to be caught flat-footed like everyone else was in March, so we pulled capacity expansion forward. This will help us support whatever new floor we're seeing this year and next year."

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