An Amware Viewpoint

10 WAYS TO REDUCE PARCEL SHIPPING COSTS

OPPORTUNITY

For eCommerce and direct selling companies, the lower you drive fulfillment costs, the more profit you drive for the business.

Your biggest savings bang for the buck is going to be parcel shipping costs, which can account for as much as 75% of total fulfillment costs. But too many online sellers view shipping as a commoditized cost of doing business that they have a limited ability to influence. That's a mistake.

There are *many* cost-saving, profit-improving possibilities in parcel shipping. This eBook will cover 10 strategies that can help you cut a sizable chunk of your overhead.

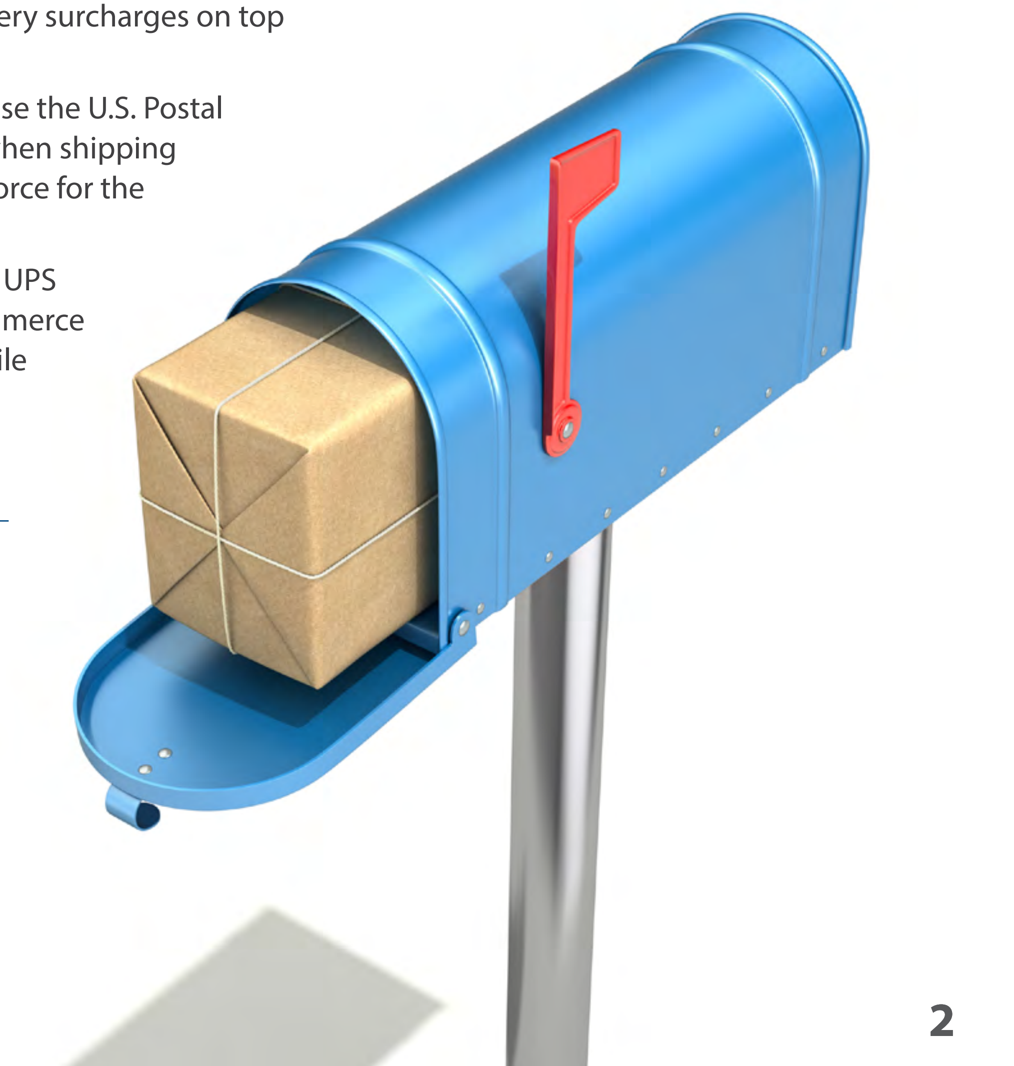
STRATEGY #1:

LEVERAGE USPS FOR FINAL-MILE DELIVERY

Are you shipping to homes using one of the large parcel carrier services like FedEx Home Delivery or UPS Ground Residential? If so, you're paying residential delivery surcharges on top of your regular shipping costs.

In order to avoid these Residential Delivery fees, consider services that use the U.S. Postal Service (USPS) for final-mile delivery. This strategy is most appropriate when shipping items under 15 pounds and when transit times may not be the driving force for the service type.

Using USPS doesn't necessarily mean bypassing the big parcel shippers. UPS (SurePost), FedEx Ground Economy (formerly SmartPost) and DHL eCommerce have programs that ship across the country but use USPS for the final mile delivery. In fact, all of DHL's final-mile deliveries are done by USPS.



SAVINGS POTENTIAL:

By eliminating the current residential delivery surcharge, you could potentially save 20–40% of the total delivery expense. This surcharge typically increases annually.

STRATEGY #2:

MONITOR ACCESSORIAL FEES FROM UPS AND FEDEX

Shippers seeking to reduce parcel shipping costs can get overly focused on negotiating the highest discount off the published rate. But, according to **Reveel Group research**, about 35% of a company's shipping expenses are accessorial surcharges. For instance, you'll pay extra to deliver to homes, and even more to deliver to rural areas. The price impact of residential delivery and delivery area surcharges could be $1.40–$4.65 per package. Nothing to sneeze at.

If you've been using UPS or FedEx for a while, it may be time to audit your accessorial fees to ensure they're in line with what you should be paying. Over the past several years, carriers have expanded or increased accessorial fees. For example, they've expanded the number of zip codes that trigger Delivery Area Surcharges. Also, dimensional weight surcharges can add 30% to the cost of every package if you haven't rightsized your shipping box.

Ask yourself questions like: Are these accessorial fees correct? Which service fees are being charged the most by the carriers? Did the carrier deliver on time? Am I paying any "junk fees" that don't apply to my situation? Many times, shippers overlook how high accessorial fees are as a percent of total costs.

SAVINGS POTENTIAL:

10–30% annually from reducing shipping surcharges by parcel carriers.

STRATEGY #3:

ADD AND/OR CHANGE FULFILLMENT LOCATIONS

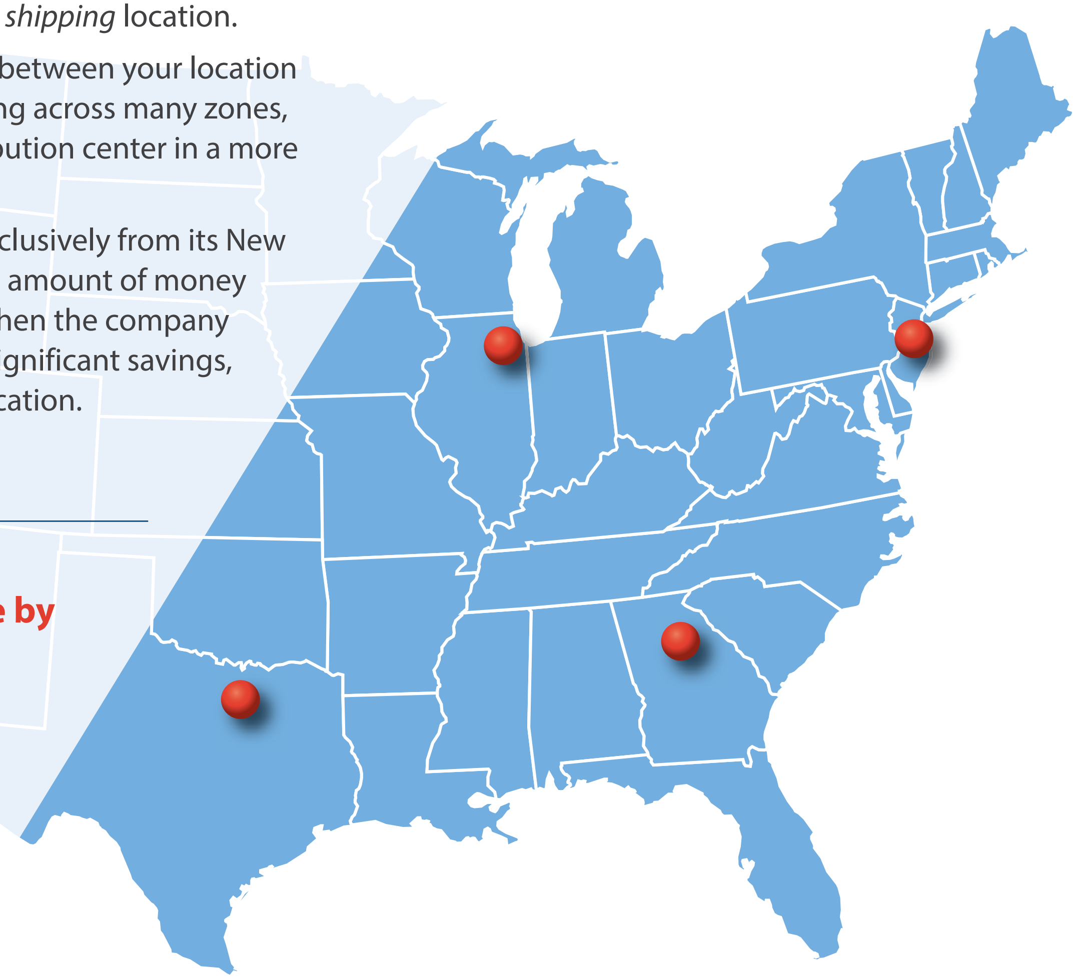
Great ideas and successful businesses are born in every part of this country. But your *headquarters* location isn't always your best *shipping* location.

You need to consider the number of shipping zones between your location and your customer base. If you're going to be shipping across many zones, consider moving your shipping operation to a distribution center in a more central location.

As an example, a Vermont company was shipping exclusively from its New England hometown and was spending an inordinate amount of money shipping across many zones for most of its orders. When the company added an Atlanta fulfillment center, it began to see significant savings, even after incurring the cost of a new distribution location.

SAVINGS POTENTIAL:

Typically, about 10% by going from 1 to 2 shipping locations, and considerably more by going to 3 or 4 locations.



STRATEGY #4:

DON'T OVERPAY FOR PREMIUM SERVICE THAT'S NOT REQUIRED

If a customer wants priority service, there is a substantial opportunity to cut costs if you have a fulfillment center close to the ship-to address. We're talking about shipments within zones 1, 2 and 3. For instance, for a shipment from Dallas to Waco, TX that may have gone Express, you can shift the service to home delivery and still meet the 2-day delivery requirement. Making this subtle change in service could provide substantial savings. Customers don't care how you get it there, only that it's on time.

By shifting inner-zone shipments to a ground service, you can save \$7–\$20 per package.

SAVINGS POTENTIAL:

30–60% annually for packages shipping to zones 1–3.

Note: You can either optimize the shipment on the back-end and keep the money or program your website to present the customer with cheaper options that meet a rapid delivery goal.

STRATEGY #5:

IMPROVE YOUR PACKAGING

When examining shipping-related cost savings, too often online sellers focus solely on the transportation mode, forgetting about potential savings linked to how products are packaged.

Right-size your packaging

Shipping costs have historically been calculated based on actual package weight. But parcel carriers recognized that they were losing money on larger, lighter-weight packages that ate up truck space. So, they started charging based on dimensional weight, or "dim weight." Dim weight is the theoretical weight of a package – what carriers think the package should weigh, given its size, at minimum density.

Since 2015, FedEx and UPS have charged based on what is greater, the dim weight or the actual weight. To combat this, start by rightsizing your packages and providing the exact dimensions of each box to the carrier.

SAVINGS POTENTIAL:

2–5% annually

Change your packaging type

A box that weighs 2 pounds and 4 ounces will be charged at the 3-pound rate—an issue that can be solved by lightening the box by just four ounces and kicking it back to the 2-pound rate. One of the easiest ways to shave off ounces is to switch to a different packaging type, such as a poly bag or jiffy bubble mailer. For instance, Amware Logistics now uses a bagging machine for a major direct selling company to reduce the weight of a package by a few ounces, while still safely accommodating the products that it holds.

The difference of a few ounces can lead to a noticeable cost saving per package. Multiply this savings across thousands (or millions) of packages a year and the overall reduction in costs can be dramatic.

SAVINGS POTENTIAL:

5–10%

Change dunnage type to reduce weight

Seemingly innocuous, the inexpensive waste material used to load and secure cargo during transportation can elevate parcel shipping costs by adding weight to your package. Using less or lighter dunnage allows you to use a smaller package, while more traditional fillers (Kraft paper and bubble wrap) may take up too much space. Air pillows, for example, offer good cushioning, are virtually weightless, and are even available in eco-friendly, biodegradable varieties.

SAVINGS POTENTIAL:

2–4%

STRATEGY #6:

LEVERAGE A 3PL THAT HAS A VOLUME DEAL WITH A CARRIER

One of the fastest and best paths to reducing parcel freight rates is to align with a 3PL that manages parcel transportation for many other companies. They negotiate with carriers using their aggregate spend as leverage.

Some 3PLs can offer discounts in the 10–40% range. Discounts like this allow smaller and mid-sized companies to move up the food chain with carriers and secure rates similar to larger competitors—a huge advantage. 3PLs will add some margin points, obviously, but the parcel discount they can negotiate is still far better than the one smaller shippers will get through direct negotiation.

SAVINGS POTENTIAL:

Up to 10–40%

STRATEGY #7:
ENSURE ADDRESS QUALITY

Undeliverable packages can result in high costs to your company. You'll have to pay for the return postage and the cost of reshipping the goods to the right address. And that's not even taking into account the customer service issues that can arise.

As with many things, it's often the little details that can cause the biggest headaches. Apartment numbers, unit numbers, and phone numbers tend to get overlooked and, if one of these details is missing, incorrect, or invalid, the package may be deemed undeliverable, costing $14–$16 per package.

So, what can you do other than telling your staff to be more careful? You can take human error out of the equation by running your address data through delivery point validation software prior to shipping. Each address will either be deemed ready for shipping or be flagged for correction. And make sure to flag these bad addresses to avoid repeating the mistake.

SAVINGS POTENTIAL:

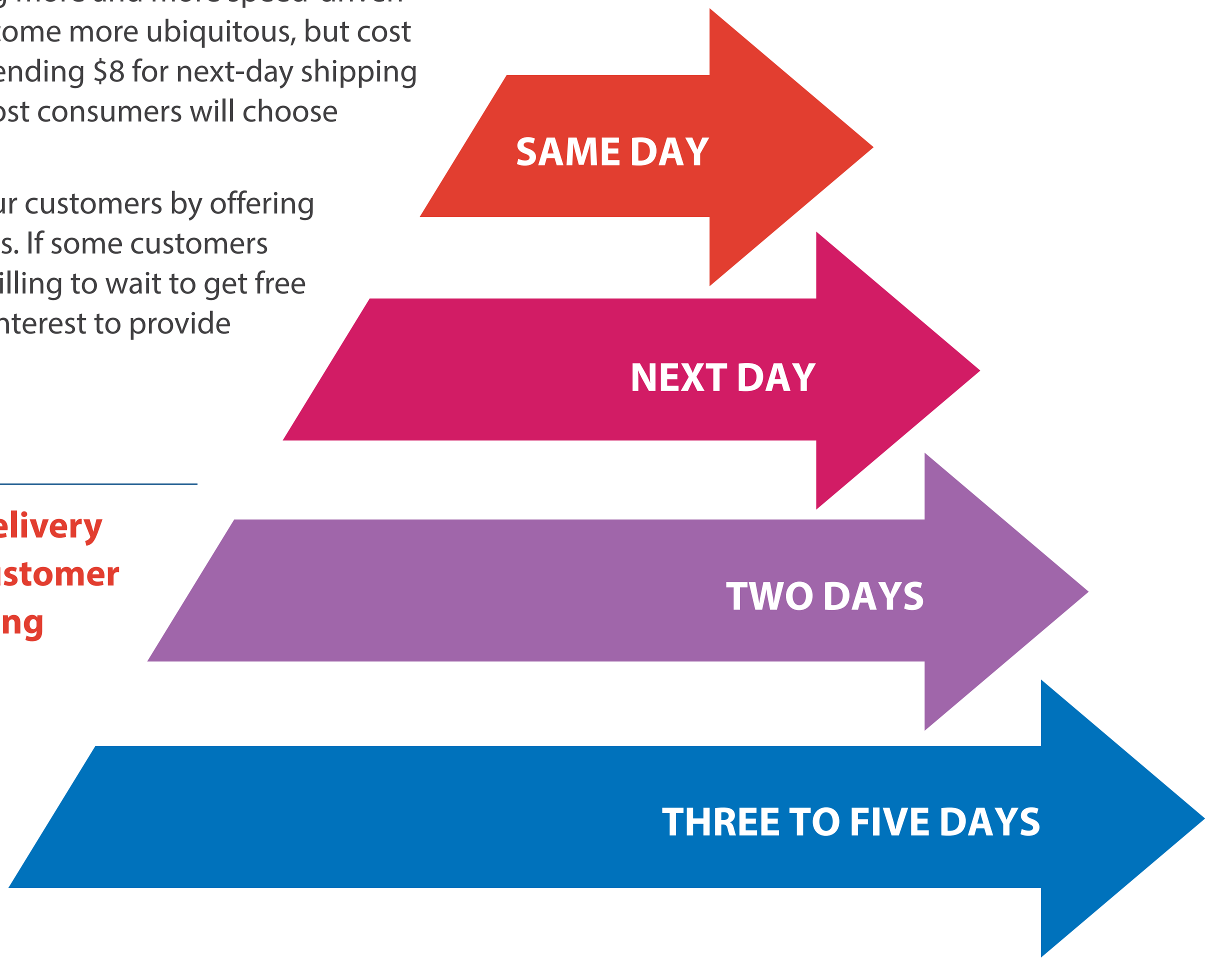
1–2% annually. While the annual savings is not significant, ensuring delivery address quality will certainly provide for a better end-user customer experience and support the critical objective of repeat sales.

STRATEGY #8:

OFFER MULTIPLE SHIPPING OPTIONS AT DIFFERENT PRICE POINTS

We know that consumer expectations are becoming more and more speed-driven as 2-day, next-day, and even same-day shipping become more ubiquitous, but cost is still very important. In fact, given the option of spending $8 for next-day shipping or spending zero for shipping that takes 3+ days, most consumers will choose the latter.

You can increase your chances of satisfying all of your customers by offering shipping options with varying costs and transit times. If some customers want to pay for express shipping, while others are willing to wait to get free or heavily reduced shipping, it may be in your best interest to provide both options (along with others if appropriate).



SAVINGS POTENTIAL:

10–15% savings. By providing different delivery options, you could potentially have the customer pay for expedited services, thereby avoiding the entire delivery expense.

STRATEGY #9:

DIVERSIFY YOUR CARRIER BASE

The pandemic created serious freight capacity challenges for parcel shipments. Some carriers cut back on the number of pickups they would make at distribution centers, and even stopped adding new customers.

To ensure your business has the eCommerce shipping capacity it needs, the first thing you may want to do is diversify your carrier base. Even if you're getting a great rate from FedEx, UPS or DHL, that rate will do little good if the carrier can't take your freight due to capacity issues. In this market, it's best to expand your options by putting your eggs in multiple baskets.

If you use a 3PL to handle your warehousing needs but you ship under your own contract, you may want to rethink that strategy. 3PLs will have relationships with all parcel carriers. A single 3PL relationship gets you the carrier diversity you need and eliminates the risk associated with exclusive parcel shipping arrangements. Whether through a 3PL or your own transportation operation, creating competition may also open the door to better rates.

SAVINGS POTENTIAL:

3–5%. Currently, most carriers are not fighting for market share but are looking to increase their margins on ecommerce shipments. Still, instilling competition with carriers can be an effective strategy to maintain and/or reduce your delivery expense.

STRATEGY #10:

MATCH THE SERVICE DESIRED WITH THE RIGHT CARRIER SOLUTION

Just as shippers can get locked into using a single parcel carrier, they can get locked into a specific service. But there are a wide variety of services available across parcel carriers, each with characteristics that may make it a more cost-effective option for some of your shipments. For instance, you may love USPS Priority Mail, but for certain types of shipments another option could give you that exact service level for 25% less.

One Etailer was shipping a high volume of lightweight packages nationally from two warehouses and paying significant surcharges for fuel, residential delivery and rural delivery. A shift to DHL eCommerce avoided the delivery surcharges, except fuel, and saved as much as $8 per package. DHL would not have worked for larger, heavier packages, but was the right choice for this set of products and distribution requirements. In other cases, a product from UPS, FedEx or USPS could be the optimal choice.

If you are partnered with a 3PL that manages parcel shipping, they should have an excellent knowledge of the available shipping options and be able to identify cost-saving advantages of better matching your shipping requirements (for different products and customer sets) with the right carrier and service.

SAVINGS POTENTIAL:

As much as 25% by matching your delivery requirement with just the right parcel shipping service.

NEXT STEPS TO PARCEL SAVINGS

Parcel shipping is your richest source of savings from fulfillment operations. And each dollar saved goes straight to the bottom line.

If you are already implementing many of the tactics in this eBook, you're ahead of the game. If not, it's never too late to catch up and start saving almost immediately.

Not sure where to start? Many fulfillment companies are experienced with parcel shipping and can help examine where you are today and where you should be.

AMWARE
SCALABLE FULFILLMENT

ABOUT AMWARE

Amware Fulfillment is a national fulfillment services provider that specializes in scalable solutions for companies that are beyond the start-up phase and are in need of professional advice and execution for high-volume fulfillment operations. Amware operates 15 warehouses, coast to coast, for 1-2 day delivery to 95% of the U.S.

Download Company Overview

Contact Amware

Email Amware Sales
amwarefulfillment.com