TRANSPORTATION ABCs

with **Tim Sailor**

Does Shipping Really Have to Be a Cost Center?

Most shippers believe that shipping is not and cannot be a profit center. Many assume that by offering free shipping, they will drive additional revenue to the bottom line that will more than offset the expense. Even many shippers who try to recapture their shipping costs end up losing money.

As an outside consultant, I have had the opportunity to work with hundreds of shippers to reduce costs. My experiences have shown me that there are several tried and true techniques to allow shippers to stop losing money on shipping.

While there are many ways to charge back for shipping, i.e., weight, dollar value, "free," etc., the only surefire way to know is to charge back based on billed shipping charges. With the right software, it is possible to capture these charges at order entry. Work with your carriers to install RDI software and load the DAS ZIPs into your systems.

A second solution is to more actively utilize your carriers' full array of services and capabilities. In recent years, more and more shippers have taken advantage of the reliability of UPS and FedEx's ground services to offer next day delivery to short zones at a much lower cost.

Another emerging trend is for the carriers to offer a deferred hybrid solution with the USPS. These services have slower transit times than traditional ground but substantially lower rates. In an effort to build volumes, both FedEx and UPS are offering lower-cost services that in part rely on the USPS for final mile delivery.

In the past, only huge shippers had the option of utilizing FedEx Smartpost and UPS Basic/Basic Plus. We are beginning to see both carriers lower their volume requirements and offer these services to more and more shippers. There are some restrictions and service trade-offs here, but it may be worthwhile to include these services in your distribution mix.

Another option is to negotiate with your carriers and take advantage of current market conditions. Having been in this industry for over 24 years, I have never seen a more competitive small package environment. The current recession has had a twofold effect on UPS and FedEx. As the overall economy has contracted, so have shipping volumes from most of their largest customers. And many, if not all, of those shippers have migrated away from premium, high-margin air shipments to less expensive modes like surface and ground.

All of this has put enormous pressure on the carriers' margins and revenues as they have had to continue operating their fixed cost networks of planes and hubs to provide reliable service. In the fourth quarter ending in May, FedEx announced a loss of $876 million. In their last quarter, UPS saw earnings decline 41% over the prior year.

In a recent UBS survey of Fortune 500 shippers, over 50% felt that it was likely that UPS and FedEx might get into a price war over market share. This could mean that the carriers are more willing to offer you pricing at much lower margins than in the past.

Given all the options and alternatives that shippers have, it is no longer a clear-cut choice between service and cost. Take advantages of these new approaches to offer your customers good service at competitive prices. And while you are doing so, let's make shipping look more like a profit center than a sinking ship. ■

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FACT:

In last year's **Navigo/PARCEL survey**, we uncovered some interesting findings. Most shippers who had **negotiated within the last six months** thought that shipping was **a profit center**.

Conversely, the majority of shippers **who hadn't signed a new agreement** within the last 18 months were **losing money on shipping.**