

SIZING UP RATES

WITH E-COMMERCE RETAIL growing at more than 15 percent a year, and with the parcels moved by UPS and FedEx becoming lighter and bulkier as a result, a change in pricing for bulky packages was necessary to align shipping charges with the cost of delivery.

UPS implemented dimensional weight pricing last December, and

FedEx followed a month later on Ground packages measuring less than three feet in cube. The shift was expected to drive major changes in shipping practices.

The goal was to induce shippers to eliminate inefficient packaging and enable more packages to be moved on line-haul and pickup-and-delivery vehicles,

lowering costs for the carriers. Shippers would alter their packaging practices by reducing filler (and thus lowering the package cube) or

Although the published dimensional divisor for ground packages is 166 — meaning the minimum billable weight is determined by dividing the package's cube (in inches) by 166 and rounding up — many large shippers have negotiated divisors as high as 500, thus reducing the minimum billed weight compared to the published divisor. In doing so, shippers can mitigate the impact of dim pricing.

Consider a shipment of toilet paper (24 rolls) with an actual weight of five pounds and package cube of 3,240 inches. With the published divisor of 166, the billed weight of the package would be 20 pounds, representing a 300 percent increase in billable weight. However, with a dim divisor of 250 or 500, as some shippers secured, the billed weights are reduced to 13 and seven pounds, respectively, representing billed weight increases of 160 percent and 40 percent.

The impact of these concessions was real and substantial when benchmarked against the full potential impact in the scenario where all shippers are subject to the 166 divisor. An

off the published rates, with lighter-weight packages subject to a minimum charge based off the Zone 1 pound rate. The minimum charge supersedes the overall discount such that a package is rated at the maximum between the calculated discounted rate and the customer's minimum charge.

So, for certain lightweight packages, the billed weight may increase, but the rate doesn't change, such that a shipper is billed the same rate (minimum charge) for a Zone 2, one-pound package as a Zone 2 20-pound package.

Despite these two factors weighing against the full impact of dim pricing, FedEx and UPS experienced top-line gains attributed to the pricing initiative. UPS ground yields increased 3.1 percent in the first quarter of 2015 and 1.2 percent in the second quarter, after experiencing year-over-year declines in the previous four quarters, with management noting that the impact of dim pricing was felt primarily on the revenue side compared to the cost side. FedEx Ground's yields increased 2.3 percent in the quarter ending May 31, though gains were partially offset by lower fuel surcharge revenue.

Although shippers certainly have felt the impact, as evidenced through the ground yield growth following the dim pricing implementation, many shippers haven't been fully exposed to the initiative, creating opportunity for additional revenue and cost-side benefits for UPS and FedEx. As legacy contracts expire and shippers face less friendly dim-pricing provisions, they will be induced to further optimize packaging, in alignment with the initial objectives of the pricing change.

Otherwise, the packages may be given to the U.S. Postal Service, which doesn't use volumetric pricing. The delivery vehicle capacity constraints facing the USPS, however, will limit the volume that can be converted, forcing shippers to absorb the rate increase or lose the sale of such light but bulky products (such as toilet paper) to brick-and-mortar sellers. **joc**

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they'd see a rate increase on ground shipments arising from an effective increase in billed weight.

The timing of the announcements by the two parcel giants (May 2014 for FedEx and June 2014 for UPS) was intended to provide shippers with ample time to implement the changes in packaging to mitigate the rate increase. Even with the seven-month window between the announcement and implementation, however, some shippers instead secured concessions in the form of dim pricing waivers on packages under three cubic feet (status quo prior to January 2015) or higher dim weight divisors that were newly negotiated or established in older contracts. These concessions delayed the initiative's full potential impact.

analysis of ground packages smaller than three cubic feet tracked by ShipMatrix in 2015 suggests the net impact of dim pricing in 2015 on the newly eligible packages has been an 8 percent increase in billed weight.

The impact is greater for lighter packages, as one-pound and five-pound packages increased by 50 and 24 percent, respectively. In the absence of concessions, however, billed weight would have increased 41 percent on average, with much larger increases of 243 percent and 107 percent for packages with actual weights of one and five pounds.

A second aspect of carrier contract pricing that further dampened the overall impact on rates is the minimum charge. Ground contract rates typically are calculated as a discount percentage