

# Transforming Parcel Industry at the Speed of Business

## INDUSTRY INSIGHTS

BY SATISH JINDEL

**F**or decades, UPS was the only nationwide private parcel carrier with zoned ground parcel service. Its only competitor of significance until 1985 was the Parcel Post of the United States Postal Service. Hence, the services, prices and transit times offered by private industry, in this case UPS, were basically established to match those of the Parcel Post.

In the late 1980s, this all changed with the entry, expansion and success of RPS Inc., a small parcel carrier that competed directly with UPS for business-to-business shipments. This competition has forever changed the pricing and value-added services offered by private carriers, and UPS in particular. The main beneficiary of these changes has been the commercial shipper.

RPS has eliminated much of the cross subsidy that existed between large and small shippers, and long-distance and short-haul destinations. However, RPS's absence in other market segments and UPS's dominance in this segment still leaves the industry with a few justifiable transformations long overdue. A few changes identified below are likely to occur only through greater awareness among shippers or another competitive development within the industry like that of RPS's startup in the 1980s.

Three transformation issues for both carriers and shippers to consider in the future are:

1. Guaranteed delivery for regular zoned ground service.
2. Cross subsidy for rural addresses.
3. Proof of delivery and claims filing and retention period.

### Guaranteed transit time

**I**n almost every other aspect of business transactions, we are guaranteed satisfaction or offered money back. Retail stores can hardly expect to stay in business without refunding money or giving store credit for merchandise not found suitable by the customer. Most recently, even Eastman Kodak Corp. has guaran-

teed selected products. In the transportation industry, a money-back guarantee (with certain limitations) was first offered for premium air express services, such as same day, overnight by 10:30 a.m. or next day by 4:30 p.m.

In recent years, guaranteed delivery has been a standard feature of less time-urgent or time-definite services. Examples include two-day services, such as FedEx's Economy service, Airborne's Select Delivery Service and UPS's Next Day Air and its 3 Day Select services. If carriers can guarantee timely delivery of services that have to be performed in a shorter time frame, then they should guarantee the regular ground service that has transit time of two to six days for UPS and two to five days for RPS, depending on the travel distance within the continental U.S.

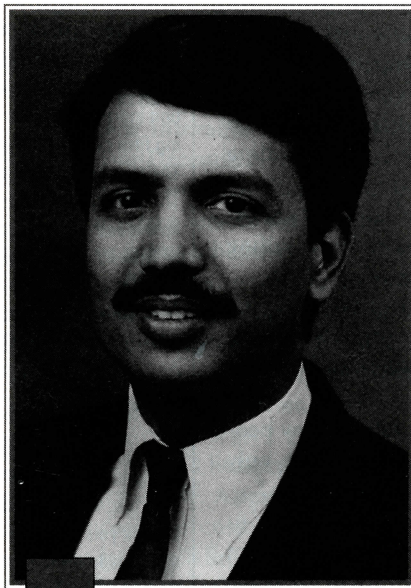
With the shipping community adopting just-in-time practices to streamline the manufacturing process and minimize warehousing costs, time-definite delivery is more critical than ever. Shippers will benefit from a more dependable and time-definite delivery commitment for all service levels. While the guarantee will require a slight premium over current ground rates, the benefits to shippers from savings in both non-transportation and air express transportation costs will far exceed the higher rates.

As UPS admitted earlier this year, most short-haul "air express" parcels are not transported by airplane. Hence, shippers can avoid the enormous premium for short-haul air express services. The base rates of UPS's 3 Day Select service carry a premium of up to 177 percent over those of GroundTrac service. The premium is strictly for the guarantee, because transit time and all other value-added extras are identical for the two services.

Upgrading the normal ground parcel service into a guaranteed delivery service offers several operating advantages for both the shipping community and the carrier.

The advantages to shippers and consignees are as follows:

- It will reduce the cost of back office for customer service, accounts receivable and customer inquiries.
- It will reduce inventory management cost significantly for higher value products.



**U**pgrading normal ground parcel service into a guaranteed delivery service is one of three major changes to improve the parcel business proposed by Satish Jindel of the Pittsburgh-based SJ Consulting Group.



- It will offer savings over two- and three-day air express service with a lower-priced premium ground service for zones 2-5 without increased transit time.

The advantage to the carriers are as follows:

- It will promote greater emphasis on service within the corporation.
- It will simplify the menu of services that have proliferated in the last few years.

### Urban vs. rural deliveries

**P**resently, deliveries to rural areas are being subsidized by consignees in urban areas. Since RPS largely has targeted the business-to-business market in the urban areas, UPS is primarily competing with the Postal Service in this rural market. Hence, there has been no attempt to deal with this cross subsidy. The reality is that with the cost of parcels the single highest component of operating cost, there is a good rationale for a surcharge on rural deliveries.

The difference in operating cost for deliveries to commercial addresses and residential addresses was recognized by UPS with its introduction of residential surcharges in 1991. It started with a surcharge of 45 cents per parcel and now ranges from 70 to 85 cents per parcel. There are several reasons for this surcharge:

- Residential deliveries often require more than one delivery attempt.
- They result in a higher percentage of parcels returned to the shipper due to non-availability of the consignee or refusal to accept.
- Due to higher ratio of driver release, residential deliveries result in a higher claims exposure for parcels left at the consignee address.
- Delivery density in residential neighborhoods in terms of stops per hour and parcels per stop is lower than in urban areas with higher concentration of business.

While these are convincing arguments for a residential surcharge, they also apply to a business operating from a residence. Thus, with the growth of small business and trend towards more corporate employees working from homes, a surcharge for higher operating cost based on the consignee's location is as relevant as that on the distinction between nature of the consignee, i.e., residence or business.

Furthermore, the most difficult part of implementing a surcharge based on residential or commercial address is the administrative task of determining if a particular delivery is to a home-maker or a business at a residential address. In many cases, the surcharge can only be determined after the delivery has been made, which can result in collection problems.

With the growing use of electronic rating and manifesting systems, such as UPS's MaxiShip and RPS's Multiship, most

shippers utilize five-digit zip codes to process shipments. Hence, the industry should study the merits of either replacing or supplementing the residential surcharge with the rural surcharge. A surcharge for rural deliveries may be beneficial to both shippers and carriers because:

- The delivery cost to rural areas is higher due to greater stem miles from the operating centers of the carriers that tend to be in high-density urban areas.
- Delivery density in rural areas is very low due to greater distance between stops and fewer pieces per stop.
- The administrative tasks of identifying the address as rural or urban are much easier. The industry can designate certain five-digit zip codes for later delivery. Canada's postal code uses a special designation — 0 in the first three

digits — for rural areas.

- The cost of living in rural areas is lower in terms of home ownership for residential consignees and labor costs for commercial consignees. Hence, it would be appropriate for these consignees to absorb the higher cost of delivery directly associated with their remote place of business or residence.

The establishment of a rural surcharge would further streamline pricing in the parcel industry started by RPS in 1985 by eliminating the cross subsidy between long- and short-haul deliveries, and between high volume daily shippers and low volume infrequent shippers. Based on past trends, if industry leader UPS takes such action,

it is almost certain that other private carriers, such as RPS and regional carriers, will follow suit.

This change is unlikely to be adopted by the U.S. Postal Service due to its status as a public corporation and congressional mandates to provide same-rate mail service to all residents irrespective of place of business or residence location. USPS's inability to adopt this change should concern private carriers due to other differences between their services that give private carriers a competitive advantage for business-to-business parcel delivery.

Alternatively, if shippers would rather reduce this higher cost of rural area delivery, they should consider working with carriers to modify service standards to rural destinations. One solution would be for shippers to accept one additional day above standard transit time for deliveries to rural zip codes, an approach already practiced by the express industry. Most air express carriers guarantee next-morning delivery to urban zip codes. The less dense zip codes are guaranteed for delivery by next business day, usually by 4:30 p.m. even though the charges are the same. UPS already takes one or more additional days for service to rural zip codes in Alaska. The extra day for deliveries to rural zip codes would help carriers increase delivery density in terms of stops per day and pieces per stop, thereby reducing delivery cost.

**While the defunct  
Interstate  
Commerce  
Commission had  
established the  
nine-month period  
for filing claims,  
UPS took the  
initiative to offer  
proof of delivery  
for up to 18 months.**



## Proof of delivery and claims processing up to nine months

This is an area where the shipping community has overlooked an opportunity than can benefit all parties. Shippers in recent years have become more aggressive in demanding faster service at lower cost. However, they have failed to recognize the cost to carriers for providing proof of delivery. In light of all other changes that have occurred in the industry with greater reliance on technology and computers, the concept of free proof of delivery and the expectation to obtain it for up to 18 months after the delivery date is unjustifiable. In addition to the cost for carriers, shippers are overlooking the cost of this extended period within their own operations.

While the defunct Interstate Commerce Commission had established the nine-month period for filing claims, UPS took the initiative to offer proof of delivery for up to 18 months. While this was done to benefit the shippers, the current need for it in the fast-paced economy is highly questionable. During the last decade, the speed of business transactions has become much faster through growing dependence on express delivery services, fax machines, email, etc.

Furthermore, the industry has moved toward more service-based charges to eliminate some shippers subsidizing services utilized by others. Shippers must be aware of costs associated with providing a POD and retaining this data (date of delivery, signature and address of the consignee) for millions of parcels. UPS alone handled more than 3.1 billion parcels in 1995. It's not in shippers' interest to have such a lengthy retention period for POD and claims.

Most proof-of-delivery requests after the first 30 days following delivery are initiated for reasons other than the carrier's failure to deliver the parcel. Since shippers want to collect accounts receivable within 30 to 60 days after delivery, there's no reason why shippers

can't work with a reduced period for both POD and claim filing. The cost savings for carriers ultimately will benefit the shipper as follows:

- Administrative costs for this service, offered at no extra charge, would drop. This would allow carriers to cut total operating costs and thereby hold down future price increases.
- The smaller carriers in regional markets that often have a manual POD system can continue to offer attractive service at low cost. This would enhance their ability to compete with the major carriers, offering shippers more alternatives.
- Accounts receivable personnel within shippers' organizations would become more disciplined in collecting revenue for products delivered in a shorter time frame.
- The shippers' dock workers and customer service personnel would have a greater sense of urgency in dealing with a questionable delivery.
- The ability to locate a missing parcel by all parties (carrier, shipper and consignee) is reduced with passage of time as people get reassigned, leave the company or memory fades.
- Filing claims within 90 days would reduce claims paid and reduce carrier operating costs.

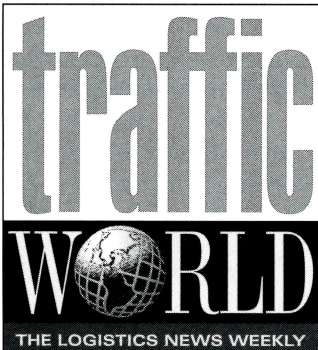
Hence, if shippers and consignees enforce greater discipline within their organizations for this administrative service, the industry could cut the retention and filing period to six months right away and to 90 days by 2000.

The proposed changes recognize economic gains initiated by recent developments in technological and business processes. For the parcel industry to continue to move at the speed of business, it is essential that the transformations in the industry keep pace with other developments in the overall economy.

— Jindel is a principal with the Pittsburgh-based SJ Consulting Group.

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