Published on *JOC* (https://www.joc.com)

JOC › Air Cargo › Express Cargo

Satish Jindel | Dec 31, 2013 1:06PM EST

The 2013 Christmas shopping season ended badly for many parties. Consumers, e-tailers and parcel carriers all wrestled with a late rush in orders that overwhelmed the system. But multiple media outlets — ABC, CBS and NBC chief among them — got it wrong in reporting, without proper facts, that UPS and FedEx were responsible for, in essence, ruining the Christmas for a multitude of families. False reporting was so widespread that even The Wall Street Journal fell for it and misplaced responsibility for those late deliveries.

The media overlooked the facts. Because the three parcel delivery outlets — UPS, FedEx and the U.S. Postal Service, which control 95 percent of the market — make their shipping data available to the public, we know they handled a huge spike in volume in the week leading up to Christmas. Some 73 million parcels were delivered on Dec. 24 alone, compared to 37 million on a normal day.

And, because the carriers made deliveries on Dec. 22 — a Sunday — some customers felt justified in expecting deliveries on Christmas day. Amazon even got in on the act, releasing a statement saying it was evaluating the parcel carriers' delivery services — *when it was largely responsible for the problem in the first place.*

The parcel carriers provide unprecedented 99 percent on-time delivery during the year. Even if that drops to 96 percent during peak week, that's still the best of any service industry and compares with 85 percent for the airlines. But that 3 percentage point dip amounts to more than 2 million packages, hence the uproar in the media.

Responsibility for the late deliveries of Christmas gift parcels lies squarely with the online retailers. First, the online retailers should know that the ground services of UPS and FedEx aren't guaranteed during a peak holiday season. Second, although the express and deferred services are guaranteed, most retailers eagerly take a point or two extra in reduction in contract rates to waive the service's guarantee feature. Third, online retailers misled consumers by promising guaranteed delivery by Christmas Eve, forgetting they had waived such guarantees for lower rates. Fourth, some retailers were late tendering parcels to the carriers.

The parcel carriers, including the USPS, developed a pricing system that offers discounts to large shippers based on their shipping profile during the year, creating cost savings from density with pickup and delivery. At one time, residential deliveries for the parcel carriers represented about 20 percent of all deliveries. With the double-digit growth of e-commerce in recent years, residential deliveries now represent about 40 percent of all parcels. And, during the peak holiday season, residential deliveries represent about 65 percent of all deliveries.

When volume increases by 100 percent as it did this past holiday season, establishing an operating network to handle the surge results in higher costs, justifying elimination of any discounts of parcels shipped during that time. The industry likewise would be justified in instituting a peak-season surcharge on volume shipped in December that exceeds the average daily volume for November or such variation.

Consumers also must bear some blame for not getting their parcels by Christmas Eve. Consumers know that Christmas falls on Dec. 25 every year. Yes, Thanksgiving was a week later in 2013 and it will be in 2014. Consumers and online retailers, however, knew that months in advance, too. So if consumers want to procrastinate and place orders during the week prior to Christmas, they can get the deliveries but should be prepared to pay a premium for imposing higher costs on parcel carriers.

Similarly, if online retailers want to promote sales with discounts during the week prior to Christmas, they should bear the higher cost incurred from the surge of volume that results in that last week. It's irresponsible for them to expect their sales growth to be funded by losses for the parcel carriers, whether it's UPS with $54 billion in annual revenue or regional carriers such as OnTrac on the West Coast and Eastern Connection in the Northeast. In addition, shippers who don't contribute to such a holiday surge shouldn't subsidize the higher cost of e-commerce deliveries during the peak week prior to Christmas.

Elimination of discount pricing during the peak week or implementing a peak-week surcharge would provide the resources for network expansion required to handle the huge increase in volume. In return, online retailers would receive guaranteed delivery and consumers wouldn't be disappointed because the carriers would be required to refund those premium shipping charges if they failed to deliver on time — a win-win-win proposition for all three parties.

The concept of higher peak-season pricing isn't uncommon in the transportation industry or the retail sector. Passenger airlines charge a higher fare for flights reaching full capacity or as the actual travel day approaches. Ocean carriers that transport millions of containers apply a peak-season surcharge. And as every consumer should know, retailers don't discount products that are in short supply.

A peak-season surcharge for shipping on e-commerce retailers is necessary to encourage online retailers and consumers to manage peak volumes and to increase accountability on the parcel delivery companies so that no child is disappointed at Christmas time.

Since going public in 1997, Amazon has failed to generate an annual profit, yet its stock trades at a dizzying 1,400 times its price-to-earnings ratio even though it's mainly an online retailer. In contrast, retailers such as Wal-Mart trade at 15 times their P/E, high-tech companies such as Google trade at 30 times and delivery carriers such as FedEx trade at 27 times. Amazon and other online retailers shouldn't look to UPS, FedEx and the USPS to deliver parcels at a loss, because online retail sales growth is driven by unsustainable free shipping.

Satish Jindel is president of SJ Consulting Group, with offices in Pittsburgh and India.

Air Cargo › Express Cargo
Air Cargo › Express Cargo › FedEx
Air Cargo › Postal Service News
International Logistics › Logistics Providers › UPS
North America
North America › United States

Source URL: https://www.joc.com/air-cargo/express-cargo/christmas-wish-solving-delivery-debacle_20131231.html