



Parcel Carriers Should Link Zone-based Pricing To Established Service Standards

by Satish Jindel

United Parcel Service recently announced the introduction of a zone-based pricing system in the air express segment of the industry. The distance-based price structure will be similar to that used for decades in the ground segment by UPS and other major carriers, including United States Postal Service and Roadway Package System Inc.

Both UPS and RPS use seven geographic zones (zones 2 through 8) for distance-based pricing, even though there are eight zones. USPS established these zones decades ago and uses zone 1 for destinations within 50 miles of the origin point. The recent UPS decision to use a distance-based price structure for air express service is driven by the fact that short-haul express parcels travel by trucks, which are less expensive than long-haul destinations that require airplanes.

While UPS states that the basis for using seven geographic zones is to be consistent with the ground zones, one has to question the relevance of seven zones and the distances covered by each zone even for the ground service. While USPS historians may have an explanation of their own, for one possible and logical explanation, one must take a look at the zone and service standard matrix applicable to over 90 percent of parcel post deliveries for past years, and the current ones in use by UPS and RPS. (See chart.)

It is quite likely that zones were established to reflect the longer travel time and the higher transportation costs to farther destinations, e.g., eight days from the origin city to reach locations greater than 1,800 miles within the continental U.S. The quality of highways, travel speed of modes used for intercity transportation and dependence on railroads for certain lanes must have influenced the development of these service standards. Simultaneously, it made the structure simple for the shippers and consignees.

Since those days, we now have improved interstate highways, more direct connections between major population centers and better engineered trucks. Together these developments have provided opportunities for carriers to reduce the transit time to service these farther points such that most destinations over 1,800 miles are now delivered in five days. While the carriers have been swift in modifying the transit times for competitive advantage, the geographic zones for pricing have remained unchanged. This development has distorted the relationship between the service

days and zones. Now, a zone 8 shipment is delivered in five days, zone 6 in four days, etc., thereby taking away the simplicity of the system for shippers and consignees.

For another explanation for a zone-based pricing system, one cannot overlook the impact of distance on total operating cost. There are four major cost components in the parcel industry. Pickup and delivery costs are not influenced by travel distance. Neither is corporate overhead, including the cost of technology for value-added services such as tracking and tracing, instant proof of delivery, etc. However,

the other two components, hub handling and intercity transportation costs, are clearly distance based. While this supports the argument for distance-based pricing, it does not justify the continuation of eight zones, otherwise there should be zone 9 covering destinations over 2,200 miles. Furthermore, the rapid pace of investment in technology for value-added and information-based service has reduced the impact of transportation as a component of total operating cost.

The regional parcel and LTL markets already reflect

some of these changes, with service standards based on travel distance, and with pricing that reflects lower intercity transportation costs. In order to compete with national carriers, regional carriers are traveling farther with better service standards in short-haul zones. Regional small parcel/document carriers such as Eastern Connection and Western Parcel Express, and regional LTL carriers such as American Freightways and the Con-Way companies provide one-day service to points within 500 miles and two-day service to most destinations within 1,000 miles at a lower cost than national carriers. This provides further justification for realignment of the current structure of zone-based pricing.

In the future, shippers should demand a further change in the zone-based pricing system for both ground and express services. For ground, the carriers should establish new zones to match with service standards. Based on current services standards, five zones will still account for differences in transportation costs and avoid cross subsidies between short-haul and long-haul parcels. Both shippers and carriers will benefit from this simplified structure. The shippers can use the zip-zone charts for service standards and the carriers will avoid handling inquiries about service standards to various destinations.

Similarly, for time-urgent and time-definite express ser-

Zone	Distances used for zone-based pricing	USPS Standard Service	Distances for UPS/RPS Service Standards	UPS/RPS Service Standards
One	<50 miles	1 day		1 day
Two	<150 miles	2 days	up to 150 miles	1-2 days
Three	<300 miles	3 days	up to 450 miles	2 days
Four	<600 miles	4 days	up to 900 miles	3 days
Five	<1,000 miles	5 days	up to 1,500 miles	4 days
Six	<1,400 miles	6 days		4 days
Seven	<1,800 miles	7 days		5 days
Eight	>1,800 miles	8 days		5-6 days

vice, using the cost approach argument presented by UPS, the industry would be better off with three zones as follows:

- Zone 1 for parcels transported from the origin city to the hub by truck and then to the destination city by truck. Keeping parcels off the airplanes represents a significant saving in intercity transportation cost, with price per pound for airplanes being five times higher than trucks. This may translate into a zone of 500 miles for next-day and 1,000 miles for second-day guaranteed service.
- Zone 2 for parcels transported by truck for one leg of the journey, either to or from the hub, and by airplane for the other segment.
- Zone 3 for parcels transported by aircraft to and from the hub for both legs of the intercity movement.

With the establishment of regional express hubs by all major national carriers, including Airborne Express, the industry can develop uniform mileage guidelines for geographic zones reflective of the unique operating characteristics and requirements

of the express industry.

Shippers and collect consignees should ask major carriers for a simplified distance-based pricing system that is reflective of the recent changes in the industry with respect to service standards and cost structure. Moreover, the industry will be better off with geographic zones for pricing in each service that relate *more* to the operational aspect of that service.

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