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Most parcel shippers are painfully aware since the start of the COVID-19 pandemic that along with higher costs for transportation, the on-time delivery performance of their shipments dropped from the high 90's percent to low 90's percent.

Along with that, they lost the guaranteed service feature that was suspended by both FedEx and UPS, citing COVID-19-related developments. Since then, both UPS and FedEx have reinstated the guaranteed feature for the express services, but do not automatically issue refund for parcels that fail to make the commitment.

An automatic refund feature for the guaranteed services will win great kudos from the shippers, and eliminate the challenges experienced by the pricing and sales teams at the carriers who have to strong-arm the shippers to waive the GSR feature of their services.

While the guarantee delivery feature was first introduced to the transportation industry in the late 1970s by an overnight document carrier, a LTL carrier has taken it to a new level of customer satisfaction.

In 1999, Pitt Ohio Express was the first in the industry to offer automatic refund for its Fast-Track service. The feature is offered with total visibility whereby the shipper is not even invoiced for Fast-Track shipments that failed to meet the guaranteed commitment. Such refund approach created confidence in the automatic feature and created a win-win for Pitt Ohio and the shippers.

As a new entrant in overnight delivery, Federal Express introduced the guaranteed delivery to unseat Emery as the market leader. At that time, there was no internet and it was very laborious for shippers or audit firms to monitor late deliveries to seek refunds. It was a brilliant idea, as FedEx experienced huge gain in volume without having to pay out for the service guarantee feature.

Then, in January 1997, Traffic World (since acquired by JOC) published a commentary that urged the parcel carriers to guarantee the Ground Service. So, in May and July of 1998, UPS and FedEx, respectively, guaranteed their Ground Service. However, both failed to incorporate a premium for adding such value in their prices for Ground Service.

In addition, they also failed to realize that it would lead to cannibalization of their express and deferred services as many parcels were shipped via premium services for certainty of delivery, and not the speed. As a result, the shift from express and deferred to ground service has saved the shippers over \$40 billion over last two decades.

The carriers' response to such decline in express/deferred shipments and more Internet-enabled

refund filing has been to make it very painful for the shippers to collect refunds for service failure, and strong arm the shippers to waive the GSR feature in the contracts, which created ill will with the shippers.

It also added enormous administrative costs for shippers, whether handled internally or outsourced to audit firms, to file for refunds knowing that the carriers are themselves fully aware of the parcels that failed to meet the commitment time.

While other industries offer guaranteed satisfaction or warranty for their products, those manufacturers or retailers have no ability to know when the product has failed to meet the quality standards. Thereby, they have to rely on the buyer to alert the manufacturer to avail the guaranteed feature.

## **Performance visibility**

However, with the delivery services, the carriers are fully aware if they met the delivery commitment. Furthermore, they also know if the failure resulted from numerous exemptions to the guarantee such as weather, bad address, etc. Hence, it is a reasonable expectation that the carriers would automatically refund the charges for service failures.

The carriers should have handled the guaranteed feature in the same manner as retailers did decades ago when they removed discounts for cash payments and incorporated the charges paid to credit card processing companies for everyone, irrespective of the payment method used.

And now it is happening with free shipping for online sales whereby in-store shoppers are subsidizing the free shipping for online shoppers since the prices are the same for in-store purchase that saves the retailer the cost of shipping.

So, if the parcel carriers had guaranteed the Ground Service with a one-time annual rate increase of just 2 percent higher than what it took in 1999, it would have been well-received by the shippers and added billions to the carriers' bottom line.

That one-time higher rate increase would have generated over \$13 billion in additional revenue over the last 21 years for FedEx and UPS. And, even after payout via automatic refund for the eligible ground service parcels, they would have still kept a few billion dollars of that additional amount as profits.

Since FedEx has already announced its rate increase for 2022, UPS has the opportunity to upset the apple cart with an automatic refund feature to gain market share and win the hearts of many shippers.

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