

Part 1: Preventable Transportations Costs in Small Parcel Shipping

Abstract

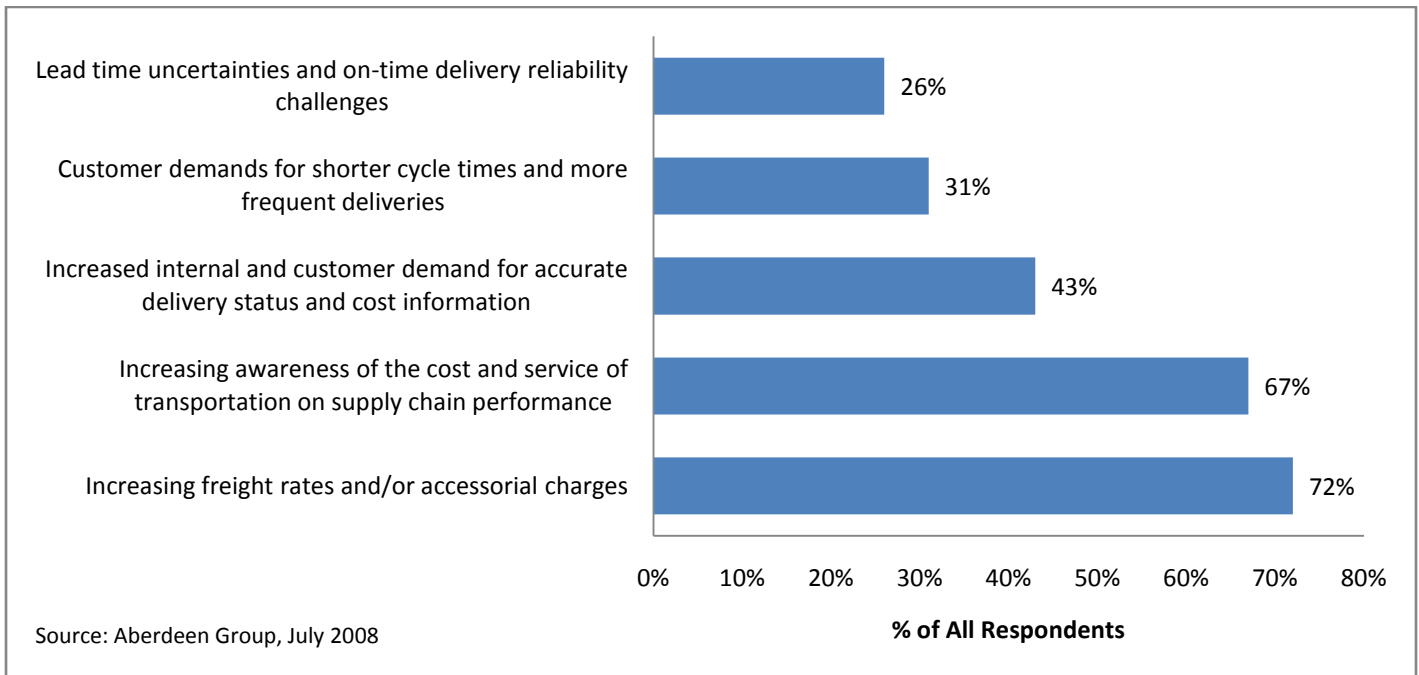
Despite best efforts, most businesses today spend more on transportation-related costs than budgeted, or are necessary. In this white paper, we discuss how some simple changes or additions to your small parcel processing will help you; 1) reduce freight costs; 2) eliminate errors that result in carrier accessorial charges; and 3) improve the on-time delivery of customer orders.

In doing so, we hope to increase your understanding of how enhanced small parcel processing technology can empower better shipping to

- reduce transportation costs
- enhance customer service by getting the right item to the right customer, at the time and place they need it

Today's Pressures on Transportation and Logistics

A recent Aberdeen Group survey of 200 logistics executives who help manage their organizations transportation management group cited the following as the greatest pressures facing today's transportation managers:



With rising fuel costs and ever increasing carrier tariffs and accessorial changes, today's transportation managers are being asked to accomplish something that appears at times to be at odds; reduce transportation spend, but exceed customer expectations on delivery. While it is not the intent of this white paper to address all the problems facing transportation executives, we hope to share a few insights into areas that have helped shippers reduce transportation costs while at the same time enhance service levels to their customers.

Costs of Preventable Shipping Errors Add Up Quickly

Most shippers use some type of automation to process small parcel shipments. Some businesses use carrier-provided systems to weigh, rate, print labels, and transmit communicate daily shipping activity to their carriers, and others use third-party applications to accomplish the same ends. While both solutions provide the basics, what they lack is the extended processing capabilities that can have a real impact your bottom line.

We have found that the most preventable shipping errors, cause the highest percentages of carrier accessorial charges. If you are not aware; overall there are 90+ accessorial charges that can be applied to your UPS and FedEx contracts. This white paper will address those shipping errors (and associated accessorial charges) that can be averted by bringing together technology and process improvement.

How do you find out if manual processes and/or the current technology you have in place may no longer be adequate? Look no further than your weekly carrier invoices. What you're likely to see is four common costs

that can be easily driven out of your shipping operation. These include: 1) address correction fees; 2) undeliverable package return charges; 3) residential delivery adjustments; and 4) dimensional weight adjustments.

The Problem with Bad and Incomplete Addresses

The on-time delivery of a customer's order begins with a valid and deliverable address. The quality of shipping addresses is critical element to the fulfillment process. While seemingly obvious, most businesses don't have processes in place to ensure that, at some point during the order creation or order fulfillment process, a customer's address is corrected, standardized, validated, and properly formatted. As a result, rather than preventing bad data from impacting their customers, these businesses spend unnecessary and costly resources fixing it.

First, let's define what constitutes a bad or incomplete address. The most common errors are misspellings or "typos." Leaving the correct spelling of street and city names to the individual is risky process. If your company ships to international destinations, correctly entering an address like – *Frauenauracher Str. 80, Erlangen, Bayer 91050, Germany* - can be challenging at best. Are the addresses that are being entered into your order management system and/or web site being manually key in?

The next most common type of error is an "omission." Not including correct address data such as a suite, apartment, or building number; street extensions (Rd., Ave., Blvd., Hwy., Expy., St., etc); or directionals (W, S, SE, SW, N, NW, NE, E) ensures that at best your customer's package will be delivered late, and at worse will result in a return.

Which Address (Package) Got Delivered On Time?

*John Smith Company
55 Wacker Dr.
Chicago, IL 60601*

*John Smith Company
55 W. Wacker Dr
Suite 1000
Chicago, IL 60601-1608*

So what are the costs? Address correction fees for one. Beginning in January 2009, UPS will begin charging \$7.00 per address correction for Ground shipments and \$ 10.00 for Expedited. FedEx is following suit and increased its address correction fee to \$8.00 for Ground and \$10.00 for Express. If you ship any volume at all, these fees can add up quickly. What do your carrier invoices show?

Another fee you're like to see is the cost for the return of undeliverable packages. If you are not aware, for example, UPS charges you a UPS 3Day Select rate for Next Day Air packages return, and a UPS Ground rate for Ground shipments. Since many returns are attributable to bad addresses, the same technology that helps reduce of the frequency of these accessorial charges also helps eliminate return fees

Other costs are more substantial. The negative consequences of incorrect addresses go well beyond address correction and return fees and include:

- Cost of Processing Returns
- Expedited Costs for Re-shipping
- Reduced Customer Satisfaction
- Wasted Time and Material

There is one hard-learned truth for companies that manufacture and/or distribute products to business or consumers; customers will not tolerate late package deliveries or returns that result from shipping errors.

Shipping to Residential Addresses?

Carriers invoice shippers a surcharge for delivery to residential addresses. When you consider that 91% of the 140 million delivery points in the United States are classified as residential, the ability to identify residential deliveries upfront can add up to substantial savings throughout the year.

How do you realize these savings? As each new address is entered into your order management system, web site, or shipping system, a process (supported by address validation technology) needs to be put in place that identifies them as either commercial or residential. By not doing so, incorrect shipment rating will result in non-recoverable billing adjustments.

Here is how it typically happens. When you ship a package using a carrier-provided or third-party shipping application, if the address has not previously marked as a residential address, the end-user operator must know it is a residential address and mark it as such. If this does not happen, the package being processed will generally ship at the default commercial rate. If you're billing customers freight (Prepaid), this error will result in billing them at a lower rate than you, in turn, will be invoiced by the carrier.

Problematic Shipping Scenario

10 Lbs. package shipped from Dallas, TX to Fremont, CA using UPS 2nd Day Air:

Residential Rate	\$ 55.19
Commercial Rate	\$ <u>52.45</u>
Billing Adjustment	\$ 2.74

This type of error is easily preventable. Included in most standard address validation software is Residential Delivery Indicator (RDI). RDI is a data product from the U.S. Postal Service that helps you reduce shipping costs by verifying whether a delivery type is classified as residential or business. Other small parcel carriers provide tools that can be integrated into your business processes to accomplish the same ends.

Additional savings by correctly marking addresses as residential or commercial can be realized if you rate shop between your small parcel carriers. For example, one carrier may apply a surcharge for residential delivery, and another not. When you factor rate shopping (see below) into the equation, additional savings add up quickly.

Dimensional Package Rating

In 2007, most small parcel carriers moved away from a flat Oversize surcharge for larger packages, to a simpler rate calculation based upon dimensional weight. If any of your packages have a large size-to-weight ratio you need to consider the package's dimensional weight when calculating shipping rates. Not doing so can cost you plenty (as shown in the Problematic Shipping Scenario below).

While all carrier-provided and third-party shipping applications dimensionally rate packages, we have found in our survey of small parcel shippers that shipping system operators don't always take the time to correctly enter the dimensions for packages. Again, data omission during a shipping transaction can mean the difference between profit and loss on a customer's order.

How do you know if you have this problem? Look at your weekly carrier invoices and note if you have dimensional rate billing adjustments. Like with a residential delivery, these adjustments are typically non-recoverable. Most small parcel carriers will tell you that best practice is to dimensionally rate every package. By doing so, you will be able to reduce the frequency of these costly billing adjustments.

Problematic Shipping Scenario

An oversize (L48 x H24 x W24) 21 Lbs. package shipped from Dallas, TX to Burlington, NC using UPS Ground:

Dimensionally Rated (Correct)		Not Dimensionally Rated (Incorrect)	
Base Rate	\$ 46.34	Base Charge	\$ 9.91
Large Charge	\$ 45.00	Fuel Surcharge	<u>\$.81</u>
Fuel Surcharge	<u>\$ 7.49</u>	Total Charge	\$10.72
Total Charge	\$ 98.83		

In the scenario above; had you invoiced your customer the published tariff rate for this package, and later received an adjustment from UPS for incorrectly processing this shipment, your realized loss would have been \$ 88.11. This error is easily preventable by ensuring your shipping system enforces dimensional rating of your shipments. As with address validation, omitting relevant data from your shipping transactions can cost your dearly. When it comes to shipping, the old adage "an ounce of prevention is worth a pound of cure" is truer than ever.

Not All Carriers Are Created Equal

They are out there competing for your small parcel business. Are you restricting your cost savings by using only a select number of carriers, or augmenting it by using all available carriers? By incorporating technology into your shipping operation that allows you to compare and choose the best carrier option for a particular destination, you can reduce the amount you pay, and then may charge your customers, for each package shipped. Some industry analysts have suggested you can save between 3-7% of your annual freight cost by rate shopping. So, if your annual transportation budget for small parcel shipping is \$ 850,000, then your savings could range between \$25,500 and \$59,000. Not bad.

For businesses using carrier-provided shipping systems, rate shopping can be difficult. Third-party, multi-carrier shipping applications overcome many of the restrictions imposed by carrier-provided technology. While these systems allow you to rate shop across supported carriers, they do not always factor in time-in-transit, when making a “best way” selection. Nor do they automatically alert you to opportunities where using a Ground service will get it there as fast, or faster than using an Expedited service?

One thing to keep in mind when considering rate shopping; all carriers (and their associated services) are not created equal. For example, one carrier may service a destination zip code in one day if you ship it Ground, while another may require two delivery days. Another example would be one carrier applying an accessorial charge to a particular destination, and another not.

When designing your rate shopping logic, factor in rates, applicable accessorial charges, and time-in-transit data. When used together, savings can add up quickly

About Nexxio

Since 2002, Nexxio has been a pioneering developer and vendor of high quality logistics software and services; with focus on providing complimentary and supporting technology to help our clients better leverage their investment in existing enterprise applications.

A privately held company located in Plano, Texas, Nexxio’s clients range from small, privately held businesses to large, globally located, public companies. Common to all our clients, however, is the need to automate and streamline logistics processes, re-purpose logistics data to multiple front-line business operations and enterprise applications, and improve their bottom-line on costs and profits.

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