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# Catalog Success

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## 7 Ways To Cut Parcel Shipping Expenses Right Now

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By Jeff Kline

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Add a note...

Parcel shipping costs are on the rise, with UPS, FedEx and the USPS all recently increasing general rates. While costs are going up, successful catalog/multichannel companies are finding ways to reduce expenses and improve their bottom lines. What about you? Here are seven keys to getting started.

**1. Understand your shipment profile and costs.** Know your breakdown by weight, carrier zone and service. The recent FedEx Ground increase was announced as an average of 5.9 percent, but low weights (1 pound to 9 pounds) have increased to 8.9 percent for zones 2 and 3, while heavier weights for zone 8 are as low as 5.3 percent.

The residential and delivery area surcharges (residential) both increased 10 cents per shipment, or about 4.3 percent. Do your homework, and determine how changes in carrier pricing impact your freight costs. Take a sample of six to 12 months of actual shipments, and calculate them at 2008 rate levels vs. 2009.

**2. Substitute ground for air.** Both FedEx and UPS offer guaranteed delivery for ground service as well as air/express. Save money by using ground instead of air when guaranteed on-time delivery still can be made by ground.

Talk to your parcel carrier, and request ground delivery standards by ZIP code. Update your shipping system to “downgrade” overnight and two-day air services that can be served by ground in one to two days.

While implementation may require a system upgrade, or even a new shipping system, the payback should be worth it. For example, the FedEx published rate for a 5-pound parcel going to zone 3 is \$27.55 via standard air, \$11.95 via two-day air and \$5.44 via ground. Do the math and use ground when possible.

One final caution: Rewrite your shipping and handling policies. Avoid using terms like “Overnight Air” or “2-Day Air.”

**3. Negotiate costs, not discounts.** During parcel carrier negotiations, many catalog companies focus on maximizing discounts. On paper this approach looks good, but it often fails to minimize costs.

Most carrier agreements are subject to “minimum charges,” which mitigate discounts, particularly on lightweight and nearby zones. Also, it doesn’t help to get huge discounts on heavy shipments if you ship mostly lightweight goods. Analyze the impact of discounts and incentives, and look at all cost components, including access charges.

What’s more, share information to help carriers understand your business goals, and look for ways both companies can gain. Treat carriers like partners, not opponents. Promote your company, and emphasize how carriers can benefit from your parcel business. If carriers better understand your business, they can work with you to find innovative ways to reduce costs.

**4. Don’t forget inbound pricing.** Outbound shipping drives most catalog parcel negotiations, but make sure your parcel carrier pricing applies to inbound shipping from vendors, too.

Take charge of your vendors. Establish weight and size limits for vendor parcel shipments. Require vendors to ship parcels using your account number so you avoid losing discounts and excessive freight markups. Don’t allow vendors to ship “prepay and add”; they can charge up to 25 percent more and pocket the discounts themselves.

**5. Audit bills.** After negotiating your carrier agreement, audit some bills to make sure your pricing has been applied correctly. Agreements are so complex that honest mistakes can be made. A monthly or quarterly compliance check should work well. Your audit shouldn’t be limited to

discounts.

Make sure all shipments and all locations are priced correctly. One of my clients discovered during an audit that its new retail stores weren't getting the correct pricing. Once the error was identified, it was quickly resolved by the carrier, and credits were issued.

**6. Conduct a service audit.** Up to 5 percent of all small parcel deliveries arrive late. Both UPS and FedEx offer money-back guarantees on service failures. But most catalog/multichannel companies don't know if a delivery is late unless their customers complain.

If you don't audit on-time delivery, you're missing an opportunity to reduce expenses. You can audit your own shipments or outsource to a third party.

Depending on your volume, a do-it-yourself audit may be onerous. Many catalogers prefer to use a third party that specializes in service audits and has developed automated systems. Most outside of these firms work on a contingency basis and take a percentage of savings.

**7. Review packaging and dunnage.** By monitoring packaging and dunnage, you can save a bundle by using different dunnage and reducing parcel weight or size. Parcel carriers round up weight when they bill. So a 2.1-pound parcel is billed as 3 pounds. Based on FedEx's published ground rates, a 3-pound package (zone 8) costs 68 cents (11 percent) more than a 2-pound package.

As a general rule, try to use the smallest bag/box with lightweight dunnage that still protects the contents. Parcel carriers penalize shippers that use large boxes for lightweight parcels by applying "dimensional weight."

Air and ground shipments 3 cubic feet or larger via UPS and FedEx are subject to dim weight pricing. Billable weight is based on either the actual weight or dimensional weight of your package, whichever is greater. The USPS also uses dim weight for Priority Mail zones 5 to 8.

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