

Twelve Best Practices for Managing Overnight Delivery

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In July 2001, a team of analysts and researchers from Executive Consulting Services launched a one-year project to study the overnight delivery market. This \$56 billion industry includes the world's leading air and ground transportation organizations responsible for the collection, distribution, tracking, and delivery of business documents and packages. Included in this study was an examination of industry leaders, DHL/Airborne, Federal Express (FedEx), and United Parcel Service (UPS), which together handle 98 percent of all "expedited" document and package shipments in the United States. These carriers connect and support their business customers through the Internet and with state-of-the-art tools and communications networks, which have become fundamental to expedient document distribution in the modern economy.

What follows are excerpts from the study that reveal the 12 best practices for managing overnight delivery costs. When these practices, such as audits and contract reviews, are deployed organization-wide, they improve vendor performance, reduce and contain costs, and ultimately improve value.

1. **Say goodbye to traditional overnight notions.** Traditional notions of "absolutely, positively overnight" are changing. The original 10:30 a.m. overnight delivery model has expanded to include significantly lower price points for noon, 3 p.m., and even 5 p.m. next-day delivery. Recent studies indicate that more than 59 percent of all overnight items are not opened the same day they arrive. Business travel, off-site meetings, and vacations mean the intended recipient doesn't always receive "urgent" items on time. Also, carriers such as DHL/Airborne, FedEx, and UPS don't offer guaranteed delivery to many remote areas of the country.

Organizations should select service options wisely based on real versus perceived need. The main reason: cost. The cost difference between 10:30 a.m. next day and 3 p.m. next day can be as much as 25–33 percent. Ground shipments also provide guaranteed next-day service to local Zone 2 for as little as \$3.45.

2. **Smart packaging is smart business.** Overnight carriers base their charges on four key components:
 - package weight
 - destination zone
 - service level (a.m. or p.m. delivery)
 - packaging

Next to the package weight and destination zone, the packaging (envelope or Pak) selection is critical since it determines the rate. For example, three standard 8 1/2 x 11-inch documents (8 ounces) sent Priority overnight (10:30 a.m. delivery) from Chicago to Los Angeles in a FedEx envelope costs \$20.68 at the published FedEx rate. The same shipment sent in a FedEx Pak cost \$31.92—a difference of 35 percent. One reason: FedEx Paks are automatically charged at a minimum 1-pound rate, regardless of the actual weight. Pack smart and save.

3. **Flat-rate document distribution saves 290 percent.** The overnight industry bases its rates on destination zones—the longer the distance, the higher the cost. To reduce costs, leading organizations are moving their overnight documents to a flat-rate fee structure. Flat-rate envelopes and packs are generally lower in cost than those based on distance and often better accommodate the diverse needs of organization workgroups that need to send urgent items of mixed weights over long distances without the worries of higher zone-based costs. Best-practice flat-rate products

include DHL's Ship Ready Prepaid (formerly Ship Ready), which offers guaranteed next-day domestic service with no weight limit, and Express Mail from the U.S. Postal Service (USPS), which provides guaranteed next-day service for packages up to 8 ounces shipped anywhere in the United States for \$13.65. Ship-Ready Prepaid saved one business 290 percent compared to one leading carrier's published rate. For non-guaranteed two- to three-day service, the USPS also offers Priority Mail flat-rate envelopes at \$3.85.

4. **The total cost of overnight- hidden costs revealed.** Embedded in the cost of overnight shipments are many hidden fees that can add to your total bill. These "extra" fees can equal or even exceed the base shipment cost and, if unnoticed, can quickly spiral out of control. Saturday delivery costs \$12.50; address corrections cost another \$10.00; and carriers charge \$3.00 for on-demand pickup. To better understand and manage these hidden fees, organizations should conduct quarterly and annual review meetings with service providers. Many companies have eliminated Saturday delivery altogether. To reduce address correction fees, use preprinted airbills and provide your vendors with monthly electronic updates of any address directory changes.
5. **Oversize, overnight, and overpriced.** Carriers charge extra to send oversize items overnight. Dimensional weight charges are applied to items greater than 108 inches in length and girth combined. These items are charged at 70 pounds or the actual weight, whichever is higher. Sending oversize items overnight costs significantly more than using ground service. For example, a 30-pound item sent to Zone 2 Priority overnight with dimensional weight charges costs \$78.25. The same item sent to Zone 2 via ground costs \$11.62, a 360 percent savings. Ground service offers day-definite delivery for oversize items at significantly lower cost.
6. **Carrier invoice audits identify poor practices and harness costs.** A growing number of organizations are conducting invoice audits to better understand shipment transaction costs, rate design, and service fee management. Invoice audits should become a standard practice and the responsibility of multidisciplinary groups who use overnight and ground services to communicate with their customers, employees, and stakeholders. Audits enable business units to identify patterns, collaborate, and share information on poor decision-making practices that lead to higher distribution costs.
7. **Consolidate multiple (same day/same location) shipments.** Organizations that send multiple packages to the same destination can reduce costs by 30-40 percent through consolidated package pricing. Small documents and large products individually packaged and priced can be price-consolidated automatically with PC-based manifest systems, provided to delivery carriers at no cost. These automated systems can tabulate the total number of same destination packages—sent at higher single-package rates—and modify the shipment status to "consolidated" in order to apply the discount.
8. **Use intranets for best-practice information sharing.** Leading organizations are using intranet portals to facilitate best-practice information sharing. The federal government spends \$50 billion a year on IT to ensure that knowledge and information is shared in a timely and efficient manner. Your intranet should accelerate communication by routing critical information about low-cost mail, print, and overnight document solutions throughout the organization. Use the portal to post department-specific service guides. This is a quick and effective method for communicating best-practice information to large communities of users.
9. **Review and renegotiate overnight contracts.** The overnight market is a \$56 billion industry. DHL/Airborne, FedEx, and UPS raise rates an average of 3.5 percent every year, which means that regardless of organization discounts, your rates will increase nearly 18 percent over a five-year

period. Carrier contracts are complex and often structured to provide varied discounts for ground, overnight, and second-day service. Real expertise is required to effectively review these types of contracts. Consider hiring a consultant to assist in reviews and renegotiations. Outside experts can conduct invoice audits and provide detailed analysis of volume activity and shipment trends. Also, they can point out poor practices that lead to increased costs. Healthy competition between carriers can greatly reduce your costs. When you're armed with the right data, renegotiating can reduce your overnight rates by 30 percent or more.

10. **Overnight meets the Web.** Organizations with shipment volumes that don't qualify them for discounts should use the Internet to send urgent letters and packages. All major carriers, DHL/Airborne, FedEx, and UPS, offer integrated Web-based tools that enable companies of all sizes with diverse volumes to manage shipping online and receive a 10 percent discount. Industry leader UPS reports 115 million hits per day on UPS.com—including 7.9 million online tracking requests daily. FedEx reports 6 million online tracking requests daily. These tools underpin corporate activities and should be used by organizations to manage the information flow between groups and their customers.
11. **Guaranteed overnight or it's free.** (But only if you ask for it!) Overnight carriers offer guaranteed performance or your money back. All expedited service levels, overnight, two-day and three-day delivery, and even ground, are guaranteed with monetary compensation and day-definite delivery objectives, which are clearly defined based on the package weight and the destination. However, when their carriers fail to meet the delivery times, over 90 percent of organizations don't apply for refunds, which must be requested within 15 days of the invoice or shipment date, depending on the type of payment. Refund requests, which average \$15–\$100, are finally gaining endorsement in corporate environments.
12. **Manage the supply chain—choose partners wisely.** Organizations must choose a delivery carrier based on their specific business needs and long-term goals in communicating with their customers, stakeholders, and employees. Determine your shipment requirements before deciding on a carrier. Do you need to send letters to international locations? Will you primarily send small, 1-pound letters; large boxes over 50 pounds; or both? UPS, a \$31 billion company moves 13 million packages daily, roughly 11 million via ground. FedEx delivers 5.3 million packages daily, 80 percent of which are overnight. DHL, a strong international player who acquired Airborne in August 2003, handles 386 million packages each year.

These emerging practices are neither radical nor entirely new. Nevertheless, few organizations have adopted many of them. However, this will change in the near-term for the simple reason that they serve basic corporate needs: maximum cost containment, efficient document distribution, and best-practice agility. The challenge of adopting these practices is compelling and will fall equally on C-level executives and front-line managers of corporate and facilities services as well as the many people who create, request, and send documents within an organization. These groups hold the keys to change. Working together, they can build and operate more productive and cost-efficient workplaces that leverage best-practice innovation to reduce cost and improve shareholder value.