SMALL PARCEL SHIPPING COVID RESPONSE

Recently Util Auditors hosted a webinar to provide valuable insight on how companies can be prepared to manage costs as a result of the changes from Covid-19. Here is a brief overview of some of the highlights from this call:

Ken is the Lead Small Parcel Shipping consultant to Util Auditors with over 20 years of experience in shipping contract audit and negotiation.

Ken, what are the changes in the industry since Covid -19?

The most common concern we are experiencing from our client base, which varies from $500k a year shippers to $200mm a year shippers, is the impact their changing shipping behaviors are having on their transportation costs and supply chain capabilities.

As many shippers have shuttered or severely restricted brick & mortar operations, their shipping volumes have undergone a transformation. Many shippers have seen a significant decrease in volumes, which is causing their shipping cost per package to increase as they fall down their carrier contract revenue tiers (the "Self-regulating" portion of a carrier contract which offers better discounts for higher shipping volumes and worse discounts for lower shipping volumes). This is causing additional pain on top of already decreased sales. These same shippers are experiencing a dramatic shift in their shipping characteristics. Where traditionally most of their shipments were large and went to mostly their retail locations, these shippers are now making many more, smaller, and residential shipments as a percentage of their business moves from brick & mortar to eCommerce. This shift is often not supported well by their carrier contracts or their current operational configuration.

What are the vendors responses?

UPS & FedEx have had no "official" response yet on these challenges, though we are receiving a good bit of market intelligence on what they are doing on a case by case basis. For UPS, for shippers who are indicating they need assistance due to a downturn in business caused by COVID-19, they are freezing the shippers' Portfolio Tier calculation on March 7th, and will restart the calculation when volumes return to normal. This is a significant concession to current shippers. FedEx has not yet conveyed an overall plan, preferring to deal with shippers on a case by case basis. It should be noted however, FedEx contracts in general are less punitive for lower shipping volumes, so the need is not as great.

What do these changes mean for businesses?

In the short term, these issues may lead to incrementally higher shipping costs. In the long term, depending upon the permanence of the shift to eCommerce, it may lead to significant changes throughout the supply chain.

UTIL AUDITORS LLC

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What are the recommended steps a business can take to protect itself/mitigate risk/stop losses/save money/cut cost?

Our council to clients has been 3 fold:

1. Contact your carriers for short-term help with your Performance Tiers or Earned Discount Tiers.

2. Assess the changes in your supply chain; which changes are long term and which are temporary (Ecommerce shifts, new sourcing channels, etc.)

3. Review your current contracts and supply chain operations to see if they support the long term changes or need to be adjusted to take advantage of the new normal. We are hearing few shippers expect to look the same when this is over, the folks who plan for that change the fastest will be the best positioned to take advantage of the situation once we emerge.

Listen to the audio for this segment of our webinar