

Shipping Options for Residential Deliveries

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By Tim Sailor



Despite the overall decline in air and ground volumes, one area continuing to grow is residential deliveries. Residential shipments now make up almost 33% of the total ground market. More shippers used to be challenged to look for cost-effective ways to reach consumers, as delivery options in the past were limited and expensive.

That's changed in recent years, though. In fact, shippers today have so many alternatives that the old adage about having to choose between service and price is not nearly as clear cut.

UPS gets basic

Among the private carriers, United Parcel Service has the largest ground market share today, with more than 60%. The courier offers reliable delivery to all residences in the U.S. Typically, depending on the zone, UPS will deliver packages within two to five days.

Many shippers are taking advantage of UPS's reliability to offer their customers next day delivery via ground to short zones. In the past, UPS was unwilling to offer the same incentives to residential shippers as it did for commercial mailers. That's beginning to change, and the gap has been closing.

The other big difference is the residential add-on charge, which is \$2.05 for ground shipments and \$2.40 for air shipments. Depending on your company's annual expenditures, these add-on fees can also be negotiable. UPS has also begun offering some residential shippers alternative services such as Basic. These services have been around for a while, but previously were offered only to extremely high-volume shippers—typically more than 2,000 shipments a day.

While UPS does not maintain an official policy regarding Basic volume requirements, we've seen recent proposals offering the service to shippers with volumes as low as 400 shipments a day.

UPS Basic is a no-frills deferred service that extends the ground delivery window by a day or two. It is designed primarily for less time sensitive residential shipments weighing less than 5 lbs. While approximately 70% of shipments stay within the UPS network, the remaining 30% of shipments are tendered to the U.S. Postal Service for final delivery to the residence.

In addition to longer transit times, there are some additional trade-offs with this option. For instance, UPS does not offer Basic service guarantees or package insurance. And the driver will make only one delivery attempt with Basic, vs. three with standard ground service.

There are also no daily pickups, as UPS customizes pickup based on volumes. The big advantage is that the package rates are substantially less than traditional ground pricing. What's more, shippers don't incur residential add-ons or delivery area surcharge fees. That could save shippers up to \$4.45 per package.

The facts on FedEx

FedEx also offers residential ground deliveries through its Home Delivery network. Unlike UPS, which employs its own drivers, FedEx Home uses outsourced contractors to make pickups and deliveries.

The other main difference is that FedEx delivers Tuesday through Saturday and not Monday through Friday. Many shippers believe this to be an advantage as it allows them to deliver on Saturday without using premium air services.

According to a recent Morgan Stanley Parcel Returns survey, most shippers believe that FedEx is offering more aggressive ground pricing than UPS. They expect FedEx to rely on its lower labor cost and separate Home Delivery network to provide shippers with less expensive rates. Like UPS, FedEx is also offering residential shippers another option other than ground Home Delivery.

Through its SmartPost division, the carrier has been marketing a hybrid delivery service using the USPS for last-mile delivery. With this service, FedEx relies on zone skipping within the USPS network and forwards most shipments to the local destination delivery units (DDU). Once at the DDU, the local post office makes the delivery to the residence and provides a delivery confirmation.

FedEx has 22 SmartPost hubs around the country, and 100% of all SmartPost shipments are tendered to the post office. This product is designed primarily for residential shipments weighing from 1 lb. to 5 lbs., but it will take parcels weighing up to 70 lbs. The typical transit times are two to seven days and are based on zip code pairings.

Again, the big advantage here is cost. Not only are the upfront rates lower, but SmartPost does not apply add-on fees for residential delivery, rural surcharges or delivery area surcharges. These new deferred services are not for all shippers, however. You really have to weigh the balance between longer transit times and potentially reduced shipment visibility with lower costs.

We have also found that the cost difference between aggressively discounted ground delivery and these deferred services may not be that compelling. The carriers seem more willing to negotiate ground contracts to ensure that they maintain volumes and margins within their fixed cost networks of hubs, planes and drivers.

Partnering with the Post Office

Another option for shippers to consider is partnering directly with the USPS. With the Postal Accountability and Enhancement Law of 2006, the Postal Service now has the ability to develop competitive shipping products and pricing initiatives.

It has also developed unlimited weight packaging that features fixed rates regardless of weight or destination. Not only can the USPS customize pricing for high-volume shippers, it now offers other discounts. The USPS this past January rolled out new pricing: Retail, Commercial Base and Commercial Plus.

Retail is for shipments originating at the post office retail outlets, while Commercial Base offers discounts for online users. Commercial Plus is for high-volume shippers with at least 100,000 Priority Mail pieces per year. The Postal Service offers many unique advantages. It delivers to every address and is the only carrier that can deliver items to mailboxes, P.O. boxes and residential mail slots.

USPS also delivers Monday through Saturday, which amounts to 52 additional delivery days a year. Residential shippers must constantly evaluate their distribution requirements and costs. There are many more opportunities to balance service with price. And in today's challenging environment, every penny counts.

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