

Carrier Consolidation Services: An Inside Guide to UPS Basic & FedEx SmartPost

As shippers attempt to negotiate new parcel agreements or use consultants to negotiate on their behalf, an opportunity that may be overlooked are consolidation services offered by parcel carriers and the United States Postal Service. UPS calls this service “UPS Basic,” while FedEx labels their service “SmartPost.” The value of these services depends on shippers’ parcel characteristics. The below guide explains and clarifies these service options in greater detail.

When did these service options become available?

FedEx SmartPost, formerly Parcel Direct, was founded in 1998 as a subsidiary of FedEx Ground. UPS Basic wasn’t offered as a service level until 2003. FedEx and UPS are not the only carriers offering these services; a full list of carriers offering consolidation services with the USPS can be viewed at <http://www.usps.com/shipping/consolidators.htm>. These service options have been popular with online catalogs and retailers that ship non time-sensitive lightweight packages (typically 1 to 10 lbs.), especially to residences.

How does it work?

With consolidation services, the parcel carrier makes the pickup just like any other parcel package and hauls it to the local terminal. From there, the carrier moves the package on a line haul with other ground shipments to the in-network terminal closest to the final destination. The package is then tendered to the USPS network at the Destination Delivery Unit (DDU).

Finally, the USPS will make the final delivery to the consignee. Note that while USPS handles the final delivery for all FedEx SmartPost packages, UPS keeps urban delivery packages in their network, including final delivery.

What Prompted the Creation of Carrier Consolidation Services?

The idea behind consolidating the services of UPS and FedEx with the USPS was that instead of the parcel carriers making multiple deliveries to residences (often in low density areas), they would make just one delivery with multiple packages to the USPS DDU. A large percentage of the parcel carriers’ total package cost was incurred in the delivery at the end of transit. Leaving the “final mile” to the USPS helps the parcel carriers become more competitive handling packages under ten pounds, with particular benefit for packages of five pounds and under. The USPS must make daily delivery stops to existing



postal customers, so the incremental cost of additional packages is minimal. From the parcel carriers' perspective consolidating services would attract customers who would otherwise ship with the USPS. They found the service offering benefitted both of them and the USPS by attracting more volume. Also, while the parcel carriers' per-package revenue is reduced due to revenue sharing with the USPS, it is offset by the reduced costs associated with final delivery.

Who is eligible?

In the past, the parcel carriers only provided this service to shippers able to meet a certain minimum daily package requirement. In October 2009, FedEx opened the doors and began to offer its SmartPost service to all shippers, regardless of volume. However, negotiated, deeply discounted SmartPost rates are available primarily to high volume shippers. The rates are provided to those shippers on a case-by-case basis. At this time, UPS Basic rates are not published and the service is still offered by UPS to selective shippers. However, this does not mean that shippers cannot ask if they qualify for a Basic or SmartPost proposal during parcel agreement negotiations.

Why is it a lower cost option?

The advantage of using consolidation services lies in the cost savings achieved through lower rates and the elimination of most accessorial

charges (residential and delivery area/extended delivery area surcharges). Depending on a shipper's profile, minimum package charges and accessorial charges can make up a surprisingly large portion of yearly parcel costs. Achieving lower rates on low-weight shipments and eliminating some of the most common accessorial surcharges on ground packages could significantly save shippers on their parcel spend.

Because the parcel carriers do not usually incur the costs of making the final delivery, they are typically able to offer lower rates than those published in the service guide for Ground services. These rate reductions provide added cost savings to customers who ship a significant number of low weight residential packages (generally one to five pounds). Packages that hit the minimum charge with standard ground service will qualify for an even lower minimum with Basic or SmartPost rates.

For companies that ship a high volume of residential packages, consolidation services can provide substantial savings. If UPS or FedEx was making a ground delivery to a residence, they would add a residential surcharge of \$2.20 (as of 2010) to the total cost of the package. However, consolidation services do not include a residential surcharge. So, \$2.20 would be saved for every package delivered to a residence using Basic or SmartPost, in addition

to the savings realized on transportation costs.

Another consideration is that UPS and FedEx will add a delivery area surcharge of \$2.50 on ground shipments to residences located in select zip codes that the carriers have identified and listed on their respective websites. Last year, UPS established an extended delivery area surcharge that applies to over 16,800 zip codes. FedEx followed suit and incorporated the extended delivery area surcharge in 2010. Packages delivered to one of these "extended delivery areas" will incur an additional \$0.25 on top of the \$2.50 delivery area surcharge. This additional residential surcharge would of course not be incurred with a consolidation service. Thus, using Basic or SmartPost could save shippers an additional \$2.50, and in some cases \$2.75, on each residential package.

How can customers track their packages?

Basic and SmartPost tracking have come a long way in the last five years. When these services were first introduced, customers only had visibility to their packages from pickup until the time they were delivered into the USPS network. This tracking information sometimes had a two-week lag time. Today, UPS and FedEx have integrated their tracking system with the USPS to provide visibility to packages from pickup to final delivery.

Potential Disadvantages

Consolidation services do not come without drawbacks. The first downside is transit time. Using a consolidation service such as Basic or SmartPost will generally add one to two days on top of standard ground shipping time (possibly longer to Alaska and Hawaii). Hence, this might not be a viable option for shipping time-sensitive materials. The second drawback goes hand in hand with delivery time in that the parcel carriers do not adhere to delivery commitments. In order to take advantage of the lower rates consolidation services offer, the carrier will not provide a service guarantee. This means that shippers do not have the ability to file claims for service failures.

Conclusion

If you are a shipper planning to renegotiate your parcel agreement in the near future, ask your carrier representative if your company qualifies for consolidating services. If the freight characteristics are right, shippers moving their lightweight, ground residential packages from standard ground service to Basic or SmartPost could see substantial parcel savings. Shippers need to decide if the possible cost savings achieved will be worth the extended transit times with no service guarantee.

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