

PARCEL TRENDS REVEALED

Part 1: Results of the Annual Best Practices Survey

By Marll Thiede

Along with Morgan Stanley, a global financial services firm and a market leader in securities, investment management and credit services, we at *PARCEL* and sister publication *B2C Express* surveyed our readers on the state of their parcel operations. We analyzed over 250 operations that collectively ship 90 million parcels and receive over 30 million parcels a year. In part one of the survey results, we delve into the transportation side of operations, while Part 2 will take a look at technology, packaging, measurements and management. *PARCEL* has conducted this Best Practices Survey for nine years, and this year, we see shifting trends through the demise of consolidators, rising surcharges as gas prices climb and a host of other developments, all of which can help you see if your operation is on pace with the industry standards revealed in these results.

>> Shippers Rate Carriers Less Favorably — Only FedEx Express increased its scores, improving in four out of six performance questions. DHL, FedEx Ground, UPS and USPS all saw either lower ratings or the same ratings as last year. When asked, “What was the biggest complaint about your primary carrier,” the majority of respondents stated pricing. The next four most common complaints were surcharges, on-time delivery, in-transit damage and difficulty working with the carrier.

>> Projecting Future Rate Increases Causes Concern — Other than the charges from FedEx Ground, shippers expect the next increases to be bigger than this past year, with DHL Ground leading the “charge” with an anticipated 4.1% increase, followed by UPS Air at 3.7%. As Morgan Stanley points out, this is important as DHL has historically set domestic prices five percent to 15% below FedEx and UPS.

>> On-time Delivery Becoming Critical — While delivery pricing is a top concern, our survey respondents are more concerned this year with on-time delivery while negotiating with carriers. There is escalating pressure on shippers to set and meet delivery standards in an ever-increasing competitive marketplace. The demand for on-time delivery is greater for B2B shippers than B2C shippers. Pricing is the number one negotiating motivator for B2C shippers.

>> UPS Volume Discounts Don't Vary Much — For shippers giving UPS 90% or more of their ground volume, the average discount is 26%; while those giving less than 50% receive, on average, a 25% discount. For companies shipping between 50% and 90%, the discount averages 23%.

>> Regional Carriers Are Becoming Viable Competition — Survey respondents reported they give, on average, 1.5% of their next-day volume, 0.02% of their second-day volume and 0.9% of their ground volume to regional carriers. For our survey respondents alone, that represents over two million parcels.

>> B2C Shipments on the Rise — Overall, our readers deliver 65% of their parcels to domestic businesses, 27% to domestic residential/consumer addresses, five percent to international businesses and three percent to international consumers. The jump from 22% (last year) to 27% domestic consumer volume coincides with ever-increasing Internet sales.

Watch for More Results

Don't forget to check out the next issue for more survey results. And thanks to all of our readers who took the time to complete the survey. Your contribution has helped set industry standards and reveal trends which, in turn, can help you improve your operations.

Rate Your Carriers

Scale of 1 to 10 (10 being the best)

	DHL	FedEx Express	FedEx Ground	UPS	U.S. Postal Service
CUSTOMER SERVICE	5.1	7.6	6.4	7.5	5.4
ON-TIME SERVICE PERFORMANCE	5.3	8.2	7.0	8.0	5.7
DELIVERY PERFORMANCE	6.1	8.1	7.3	8.2	6.5
CLAIMS PROCESSING	4.5	6.9	6.3	6.7	4.2
REFUNDS FOR LATE DELIVERY	4.7	6.8	5.9	6.3	3.3
PRICING	5.7	6.9	6.6	6.6	6.0

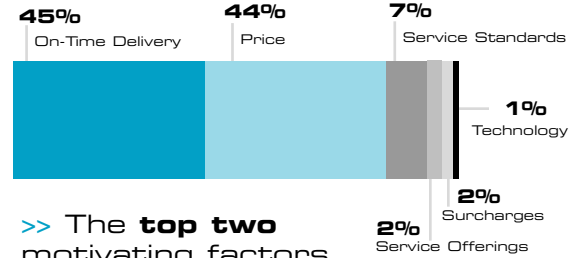
Carrier Negotiations

11%

>> 11 percent of survey respondents use consultants to negotiate rates.



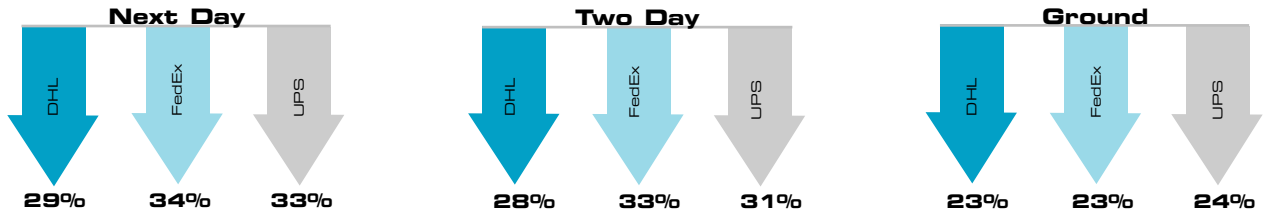
>> Consultants negotiate more favorable rates, driving discounts 49% lower than if the company negotiates.



>> The top two motivating factors for shippers when negotiating with carriers are on-time delivery and price. Technology is least likely to motivate negotiations.

Discounted Transportation Rates

Overall Discounts

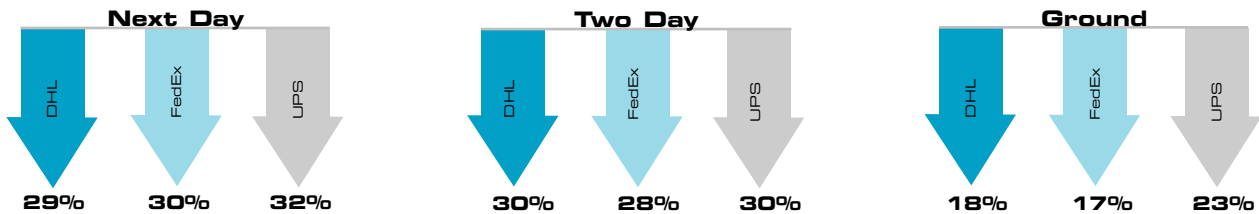


>> Carriers continue to discount expedited shipments more deeply.

>> Discounts off of ground rates are about the same for all carriers.

B2B Discounts

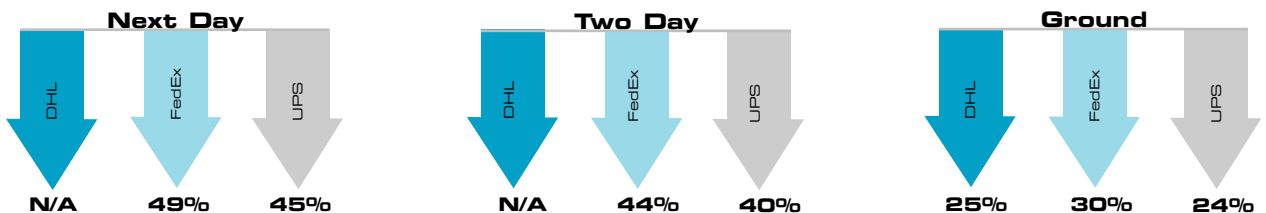
(Businesses Shipping 50% to Business Addresses)



>> Survey respondents indicate UPS is most willing to discount B2B rates.

B2C Discounts

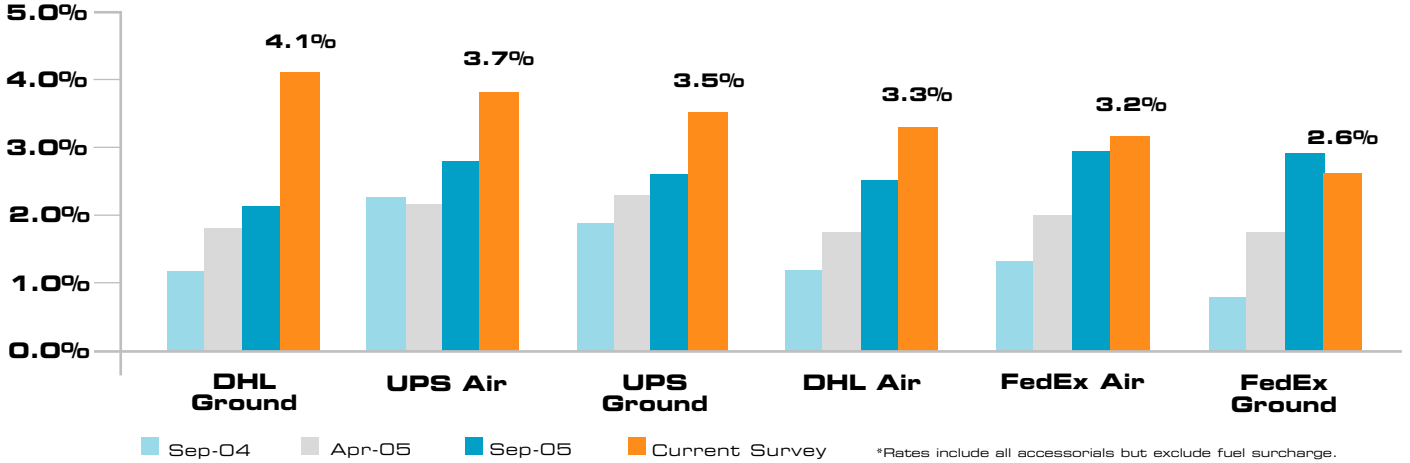
(Businesses Shipping 50% to Residential Addresses)



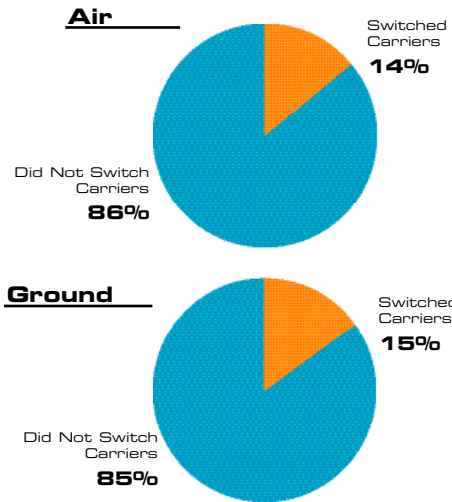
>> Deepest discounts go to businesses that ship most of their volume to consumers. N/A – Data not available

Expected Changes

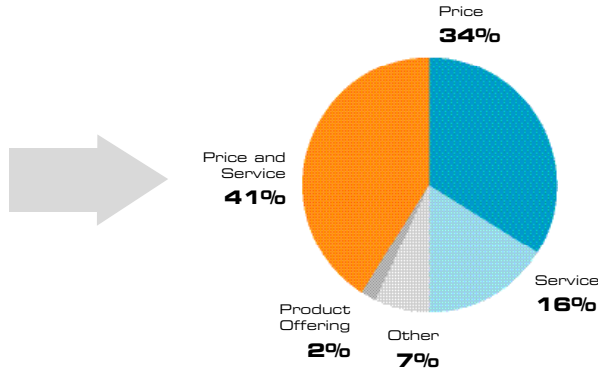
(Charts provided by Morgan Stanley)



>> Shippers anticipate the biggest rate increases in the next 12 months to be in DHL Ground, while FedEx Ground is expected to be the lowest.

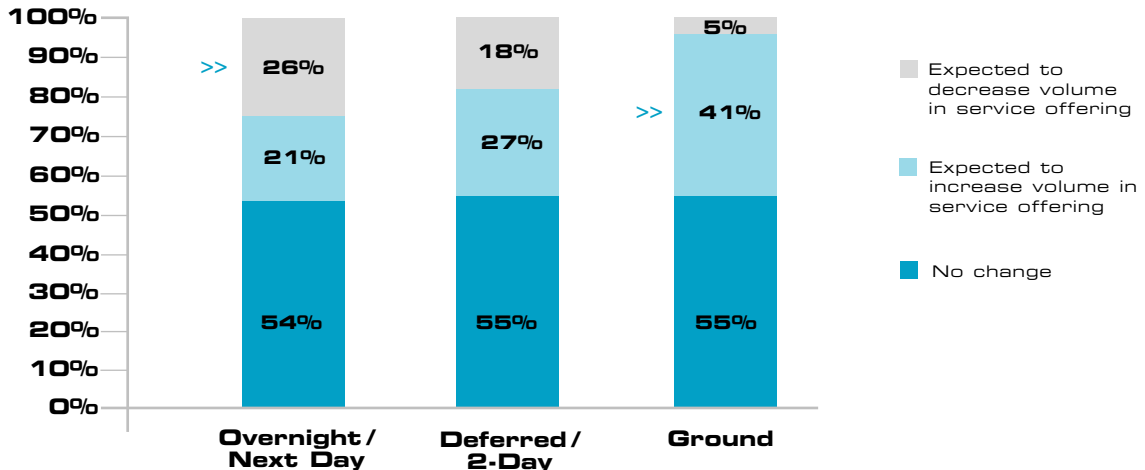


Reasons why shippers changed primary domestic carriers

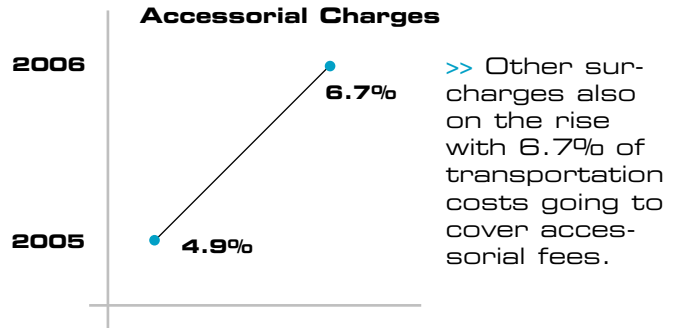
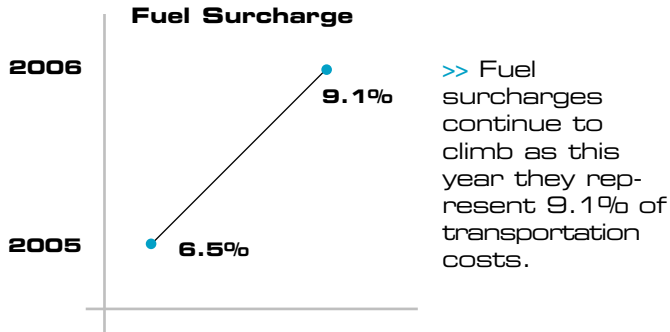


>> Shippers switch primary domestic carriers mostly because of price, then service.

Shippers continue to state they will move more volume to ground



Surcharges

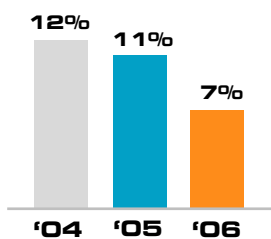


Returns

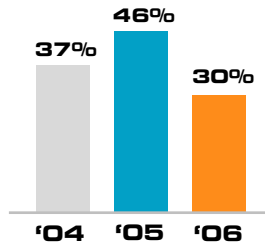
Overall average of who is delivering returns



Consolidate



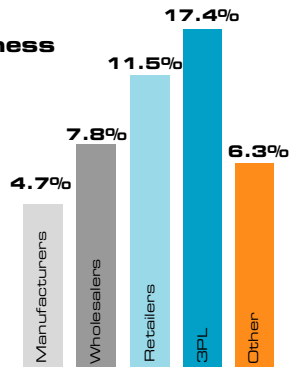
>> Companies using consolidators dropped significantly with the closing of two major consolidators and previous year's buy-ups.



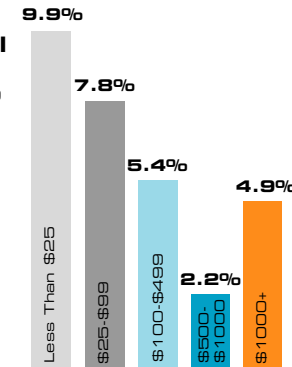
>> For companies that consolidate, 30% of their volume goes to consolidators, which is a large decrease from last year.

Parcel Transportation Cost

By Business Type



By Annual Sales
(in millions)



>> Overall, businesses spend, on average, 8% of total sales/revenue on transportation.

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Along with Morgan Stanley, a global financial services firm and a market leader in securities, investment management and credit services, we at *PARCEL* and sister publication *B2C Express* surveyed our readers on the state of their parcel operations. We analyzed over 250 operations that collectively ship 90 million and receive over 30 million parcels a year. In Part 1 of the survey results, we delved into the transportation side of operations, while in Part 2, we take a look at technology, packaging, measurements and management in 170 operations. *PARCEL* has conducted this Best Practices Survey for nine years, and each year, the findings are revealing that managers of the logistics process face ever-changing market conditions, many external to their operations.

The Number One Management Challenge

In Part 1 of the survey, we saw shifting trends through the demise of consolidators, rising surcharges as gas prices climbed and a host of other developments. That's perhaps why when managers were asked what their number one challenge in managing parcel operations was, the top response was "managing costs." As transportation costs continue to surge upward, managers have to look for every opportunity to cut costs on the operational side. Responding to demands voiced by customers, managers cited making sure deliveries arrived on time as the next most frequently mentioned challenge.

Hiring Experts Pays Off

One way to reduce costs, as revealed in Part 1 of the survey results, is to have a consultant negotiate carrier rates. For example, if a consultant negotiated FedEx ground rates, the average discount was 34%, and for UPS ground, the average discount was 35%, compared to the overall average discount of 23% and 24%, respectively. Those who don't use consultants averaged discounts of 21% and 22%, respectively.

Cutting Claims Costs

But when consultants are used to negotiate contracts, do they have an impact on internal costs? Perhaps so. In companies that use consultants, 60% of claims for service failure are paid by the carriers. In contrast, companies that don't use consultants average only 46% paid. Likewise, there are fewer invoicing errors. For every 100 invoices, only one invoice has errors in those companies that use consultants, while those who don't use consultants average six invoices with errors per 100. It is costly for companies to fund personnel to deal with carrier invoice errors and claims; however, some companies have been able to improve that cost.

Automation

Another cost-saving measure is to automate. Logistics managers hope to reduce errors and improve efficiency throughout the process. Those who have implemented warehouse →

Managers' Roles

63

Workers

815,160

Parcels Shipped

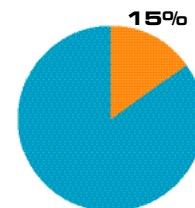
467,440

Parcels Received

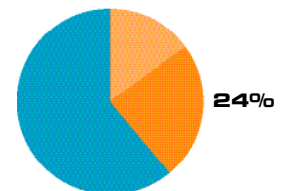
>> On average, survey respondents shipping more than 100 parcels a week have **63 workers** in the logistics process and have almost twice as many outbound shipments as inbound shipments.

- ▶ **1 Managing Cost**
- ▶ **2 On-time Delivery**
- ▶ **3 Accuracy/Quality**
- ▶ **4 Damages**
- ▶ **5 Efficiency/Bottlenecks**

>> Most managers cite **managing costs** as their # 1 challenge, followed by on-time delivery.



Manage All Functions

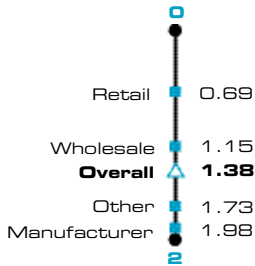


Manage All Except Order Entry and Returns

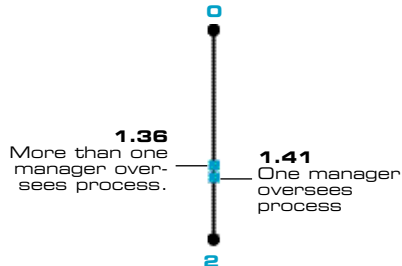
>> **15%** of managers manage the entire parcel process; another **24%** manage everything except order entry and returns.

Performance Measures

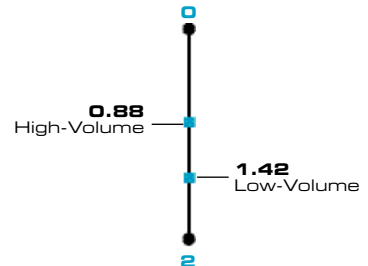
Order Error Rate



>> The overall error rate (number of errors per 100 shipments) improved from 1.85 in 2005 to 1.38 this year.

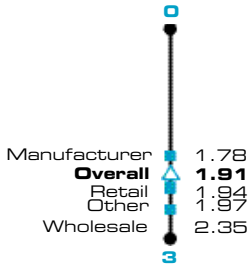


>> Departments must work together well because the error rate varies little by management structure.

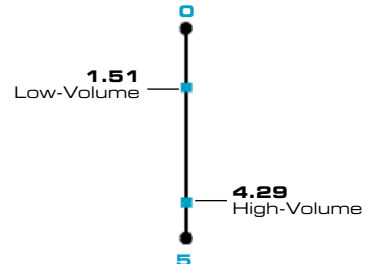
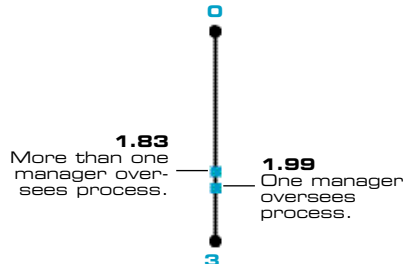


>> The higher the volume of parcels shipped, the lower the error rate.

Return Rate



>> Returns are a costly problem for companies. Overall, the return rate has remained consistent from last year (1.96 average in '05).

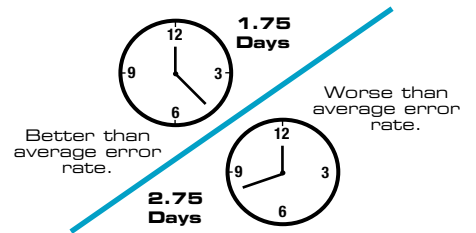


Cycle Times



4.0
Total
2.1
Internal

	Total	Internal
Manufacturers	5.5	3.2
Wholesalers	4.3	2.3
Retailers	3.1	1.5
Other	3.2	1.6

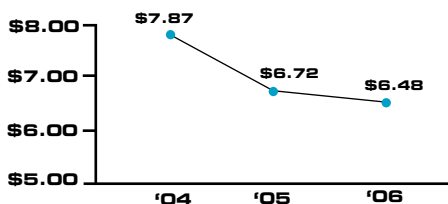


Internal Cycle Times

>> Overall, companies are averaging about 2 days to process an order and another 2 days for delivery.

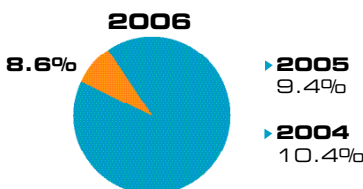
>> As business-to-consumer retailers respond to customer demands for speedy service, they have achieved the best cycle times.

>> Those companies that have a highly efficient parcel processing system also have a better than average error rate.



>> The cost to process an order continues to drop as managers work towards improved productivity.

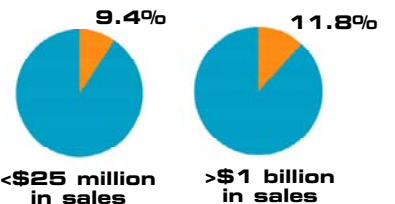
Labor



>> The cost of labor as a percentage of company sales also continues to fall.

▶ **2005**
9.4%

▶ **2004**
10.4%



>> The higher the company's annual sales, the more labor resources are needed to process parcels.

Technology

- ▶ 1 Computers
- ▶ 2 Barcode Scanners
- ▶ 3 WMS
- ▶ 4 Shipping Systems/TMS
- ▶ 5 Forklifts

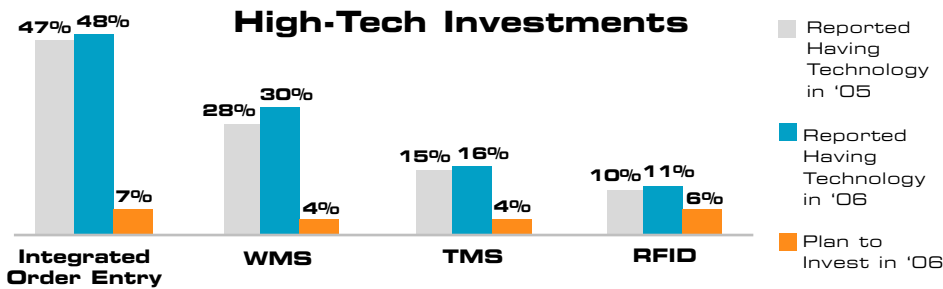
Top Users

Technology	Top User
Internal RFID	Manufacturers
RFID Shipping Tags	Wholesalers
Integrated Order Entry	Retailers
WMS	Wholesalers
TMS	3PL

>> The **top 5 purchases** in 2006 reflect the diversity of investment throughout the parcel process.

>> Manufacturers have been the first to implement RFID, while 3PLs place a heavy emphasis on transportation management systems.

management systems (WMS) have reduced their error rates by an average of 31%. Operations without WMS have an error rate average of 1.58, while those who have implemented WMS have an average error rate of 1.09. Transportation management systems (TMS) and integrated order entry systems also have a positive effect on reducing the error rate.

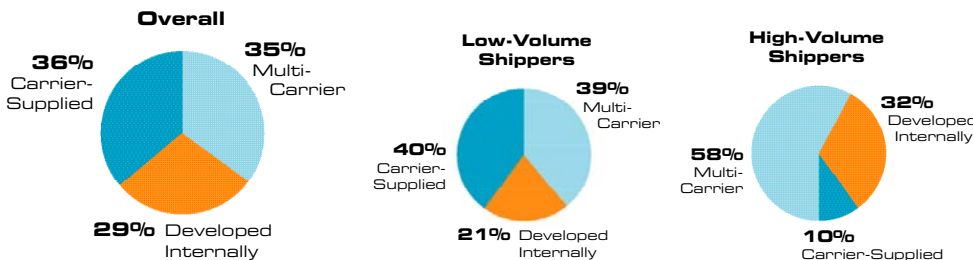


>> Although logistics professionals planned on investing in high-tech systems in 2005, the growth of technology was not that impressive from 2005 to 2006. About the same percent plan on investing in '06 as they did in '05. Next year's results will show if investments improved.

Focus on Transportation

This year's Best Practices Survey results clearly show that logistics professionals have needed to concentrate their efforts on dealing with transportation issues in 2006 rather than operational issues. The loss of consolidators and large increases in surcharges forced managers to shift attention to holding transportation costs while maintaining on-time delivery. With lower gas prices, perhaps managers can refocus on improving efficiencies and reducing costs on the operational side of the parcel process.

Shipping Systems

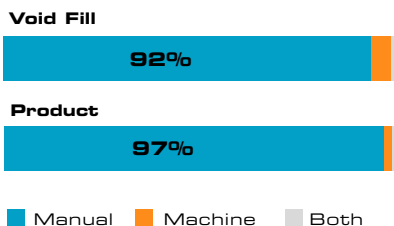


>> The smaller volume the shipper has, the more reliant they are on carrier-supplied systems. But overall, shippers are fairly evenly split on the type of shipping system they use.

Until Next Year

We would like to thank Morgan Stanley for collaborating with us to conduct the Best Practice Survey. Also, a special thanks goes to all the logistics professionals — our readers — who took the time to complete the survey. With your input, we are able to develop benchmarks and identify trends in the parcel industry. Next year, we will again survey the industry and report on a decade of survey results. If there are areas of the parcel process that you would like us to cover, please email your suggestions to our editor, Dan O'Rourke, at dan.o@rbpub.com.

Packing Technology



>> Putting product in shipping packages and adding void fill is very much still a manual process. Only 7% have automated void-fill, while 1% have automated but also do some manual void fill. 1.5% have automated placing product in shipping packaging and another 1.5% have a combined automated and manual process.

▶ For more information on the management aspect of your organization visit www.parcelindustry.com.

Protecting Goods



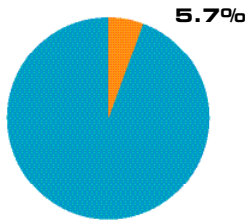
>> For every 100 packages shipped, on average, 1.2 get damaged.



>> Ground Shipments via the USPS had the least damage.

- ▶ Bubble Wrap 1.1
- ▶ Paper 1.2
- ▶ Rigid 1.3
- ▶ Airbags 1.3
- ▶ Peanuts 1.5

>> Managers make good choices of void fill to protect their products as shown by the slight variance in damaged packages per 100 shipments.

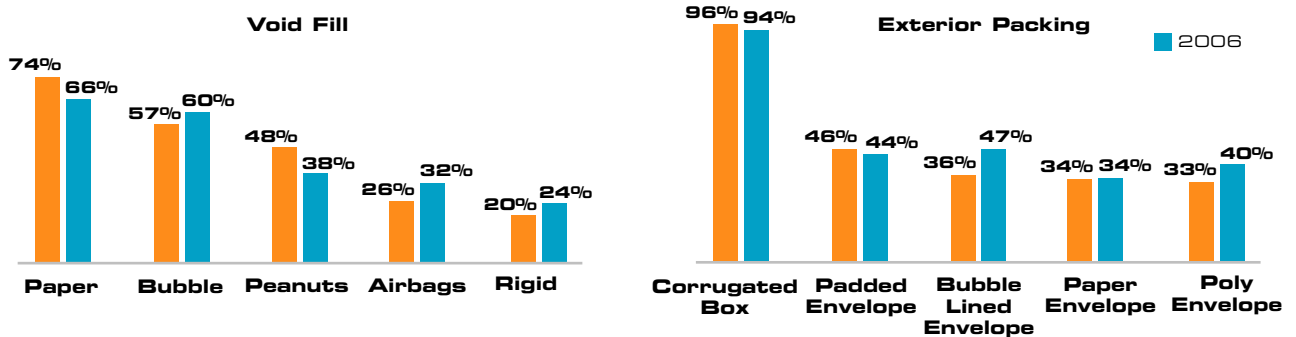


>> Shipment packaging is an expensive budget line item; on average, 5.7% of company revenue pays for packaging.

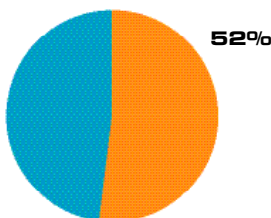


>> Manually adding void fill can add another 1/2 percentile to the cost of packaging as a percentage of revenue.

Packaging Use from '02 to '06



Carrier Claims



>> Of all claims submitted to the carriers for service failure, only 52% are paid.



5.7%

>> For every 100 carrier invoices, 5.7 have errors.



8.5%

>> Companies with revenues over \$100 million have more carrier invoice errors.