



checking out the package (services)

It used to be a question of USPS or UPS. Today, even LTL carriers want to be contenders in the small package delivery market. What's a shipper to do?

THE CHOICE WAS MUCH EASIER A QUARTER CENTURY ago. If you had a small package to ship, you went with either the U.S. Postal Service (USPS) or United Parcel Service (UPS).

Then along came Federal Express, with an overnight delivery service, and Roadway Package System (now called FedEx Ground), which was the first to offer ground parcel service with package-tracking capability. Lured by the prospect of money to mine, others—most notably Airborne Express and DHL Worldwide Express—quickly jumped into the domestic express service game.

But that doesn't mean small package carriers own the market. Today, they're getting some competition from an unexpected quarter—the less-than-truckload (LTL) carriers. LTL haulers, which have adjusted their networks and upgraded their systems so they can offer time-definite delivery and tracking, are gearing up to beat small package specialists at their own game, especially in business-to-business shipping.

As a result of all the competition, shippers looking to move

small packages today can reach any address in the nation, choose how fast the goods get there and obtain notification of their exact time of arrival. Also as a result of all the competition, shippers now have a lot more options to investigate—not only among the traditional small parcel carriers, but among LTL competitors and consolidators as well.

So many choices, so little time

The pantheon of small-parcel carriers is pretty familiar to most shippers by now. The granddaddy, of course, is the USPS, often the choice of customers who are interested in saving money. What's noteworthy about the Postal Service's offerings is the absence of extra charges: There is no extra charge for delivering to residences or for making Saturday deliveries, and there's no fuel surcharge. And even though the USPS does impose a fee for its pickup service, that fee is charged for the visit, not the number of pieces as is the case with many of its competitors.

Then there's FedEx, which offers a wide variety of services. Domestic offerings range from same-day, overnight, and two- or three-day delivery (FedEx Express U.S.) to one- to five-day ground delivery (FedEx Ground U.S.). International offerings include FedEx Express International (one- to three-day or four- to five-day service to more than 210 countries) and FedEx Ground International (day-definite service to business addresses in Canada and Puerto Rico).

Meanwhile, megacARRIER UPS, already a huge player in both the domestic ground and air-express business, is looking to strengthen its foothold in the international small package market. The carrier, through its UPS Supply Chain Solutions division, launched its "Trade Direct Ocean" service in Brazil and China late last year. Under that program, which is popular among shoe and apparel manufacturers, the company works with vendors and manufacturers to prelabel small packages, which are then moved via ocean container to the United States. Upon arrival, UPS unloads the packages and immediately places them directly into its small package network.

Another major player is Airborne, which offers overnight, next-afternoon, second-day, and ground service as well as a deferred one- to five-day service. The company's recent focus has been on expanding its Web site, Airborne.com, to include a number of transactional capabilities. Shippers now can print their own labels, track shipments, schedule pickups and pay bills—all online.

Along with the national players, there are a number of regional parcel carriers. Eastern Connection, for example, provides parcel delivery services in cities from Maine to Virginia. Small by comparison to UPS or FedEx (it handles about 8,000 packages a day), Eastern Connection provides next-day service to most of its destinations.

Raising returns

Parcel carriers, like most other businesses, suffered some setbacks under the double shocks of a stalled economy and the 2001 terrorist attacks. FedEx Express's average daily volumes, for example, grew by a scant 0.3 percent in its 2001 fiscal year (which closes at the end of May) and dropped by 5.8 percent in its 2002 fiscal year.

Though there are signs that some of the business is rebounding—FedEx Corp. reports that average daily package volume for FedEx Express and FedEx Ground was up 13 percent in the quarter ended Nov. 30—it's definitely not a universal. If you look at stats through the first nine months of last year, UPS's average daily volume of 12.9 million domestic packages lagged 1.8 percent behind the previous year's.

One way to offset falling volumes, of course, is to raise prices. And indeed, most of the small package carriers have announced rate increases recently. In November 2002, UPS raised its rates an average of 2.9 percent. FedEx raised its express rates by 3.5 percent and ground rates by 3.9 percent. Airborne followed suit, announcing rate hikes of between 3 and 4 percent for its various services. Those followed a 10-percent increase by the Postal Service for Priority Mail earlier in the year.

But that doesn't immediately or necessarily translate into a rate increase for all customers, says Donald Broughton, a transportation equity analyst with A.G. Edwards of St. Louis. "For example, customers who have contracts with small package carriers won't see increases for up to a year," he says, "and those who already have discounts will continue to get those discounts off the base rates."

Does a rate increase among parcel carriers give a pricing edge to the LTL carriers? No, says Broughton. "Small package carriers' decisions to raise rates won't hurt them in terms of going up against regional LTLs because the LTLs have been raising their rates, too."

Overall, LTLs have tended to use far less discipline in terms of not negotiating back all of their rate increases through discounts, he adds. "In other words, if you have a discount with a small package carrier that raises its rates, you will still continue to receive that discount. However, this isn't always the same with LTL carriers. For example, if an LTL carrier announces a 5-percent rate increase, a customer with a 50-percent discount may end up with a 52-percent discount."

Grounded

But the regionals are not the only carriers nipping at the traditional parcel and express carriers' heels. The LTL haulers are making headway among shippers that move large volumes of small packages to business consignees. The major carriers in the marketplace have reduced transit times on thousands of lanes and have tracking capabilities comparable to the parcel carriers'. For example, Roadway Express, one of the nation's largest LTL carriers, now offers services that historically have been associated with parcel and express specialists, such as delivery within specific time windows and tracking by its own PRO number, by bill of lading and by purchase order or booking number.

Yellow Transportation, another national LTL carrier, offers what it calls Exact Express, which provides time-specific delivery the same day or the next day. Its Definite Delivery services offer guaranteed on-time delivery for non-expedited shipments. As an added bonus, shipment status information is available 24/7.

Con-Way Transportation Services, a group of regional LTL carriers, also offers time-definite and day-definite delivery services. It provides a number of tracking options, including tracking via its Web site and tracking by bill of lading, purchase order, PRO number or shipper-specific identification number. Last month, the company introduced a service offering tracking information via e-mail.

Another player is national LTL carrier ABF Freight System, which provides a premium delivery service it calls Assured Service. That service guarantees delivery on the advertised service date by the shipper's choice of noon or 5 p.m. ABF also offers a non-guaranteed express service providing next-day, second-day or third-day delivery.

Even the multi-regionals have gotten into the act. For example, Old Dominion Freight Lines, a multi-regional carrier with direct service in 38 states, offers three levels of guaranteed delivery service. Its Speed Service Guaranteed provides a guarantee of delivery within regular transit times; Speed Service On Demand provides expedited service; and Speed Service Next Day Air provides next-day service in the United States.

Getting PO'd

But the traditional parcel carriers and their LTL competitors do not have the field to themselves. Companies that ship the bulk of their small packages to residences also have the option of using consolidation and mailer services. These services arrange for packages to move most of the way by truck before being deposited into the U.S. Postal Service's system for final delivery.

This can mean big savings for shippers. R.R. Donnelley Logistics Services, which is probably the largest of the consolidators, handling more than 150 million packages a year, says the service can save shippers up to 25 percent over other ground delivery services. This service is a variation of an older concept called zone-skipping, in which consolidators placed packages into either the UPS or the Postal Service delivery network at the end of the linehaul and near the point of delivery.

One event that has spurred the growth of the consolidation and mailer segment has been the development of tracking capabilities up to the point of delivery. Historically that was the weak point in the zone-skipping model. But in October 2001, Donnelley Logistics and the Postal Service integrated their tracking systems, allowing shippers to follow packages for which they had requested delivery confirmation.

Though Donnelley may be the biggest player in the market, it doesn't lack for competitors. Parcel/Direct, another package consolidator serving companies that ship to residences, began operations in 1998 and now runs seven distribution centers around the United States. Other players

include Parcel Corp. of America, which began as a zone-skipping consolidator and now offers fulfillment services on the West Coast to direct marketers. PFI, also on the West Coast, specializes in daily delivery of parcels directly

to 1,500 post offices (called "destination delivery units" in Postal Service jargon). Established in 1999 as PaQFast Inc., it has aimed from the outset to establish a joint venture with the Postal Service to provide expedited parcel delivery.

What shippers want

Given the wealth of options out there for moving small packages, the question on everybody's mind is what shippers really want. You might think that all small package shippers want pretty much the same thing. But you'd be wrong. According to a recent survey by J.D. Power and Associates, what shippers are looking for varies markedly with the type of shipment. For example, the survey found that where ground service was concerned, shippers ranked "shipping & delivery" (that is, consistency of delivery and damage-free delivery) highest (51 percent), with "invoicing" a distant second (11 percent). Where international service was concerned, "shipping & delivery" again ranked highest (42 percent), followed by "value" (24 percent). But those survey respondents using air service saw things differently. With this group, "value" ranked highest (23 percent), with "shipping & delivery" a close second (19 percent) and "driver relationships" a close third (16 percent).



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Other factors included in the survey were reputation, account executives, tracking information, communication, special services and customer service reps.

Though both air and international shippers gave “value” a lot of weight, that wasn’t the case among ground

shippers, who relegated it to seventh place (3 percent). Surprising? Not necessarily, says Curt Carlson, director of custom research for J.D. Power and Associates, which is based in Westlake Village, Calif. “Costs for ground service,” he points out, “tend to be lower than they are for air and

international services, which typically lowers expectations as well.”

Not only did the J.D. Power survey look at attribute rankings, but it also asked its shipper respondents which carriers they preferred—though the research included only the traditional small package carriers. The survey found that participants (almost 1,000 shipping managers in companies with more than 10 employees that spent \$10,000 or more a year on small package shipments) preferred the following carriers in this order:

- *Ground service:* FedEx, UPS and the USPS. (Airborne did not have a sufficient sample to be included.) “Ranking between FedEx and UPS was reasonably close in this area,” reports Carlson.

- *International service:* FedEx, then UPS. (Airborne and the USPS did not have a sufficient sample to be included.)

- *Air service:* FedEx, UPS, Airborne and the USPS.

Suit yourself

Though the shippers surveyed by J.D. Power had definite ideas about which carriers deserved a place on their “preferred” lists, patterns of usage in the industry are much less clear cut. Some companies use different carriers for different DC locations, and some even use different carriers within the same site.

One such company is Acme Distribution Centers in Denver. “Our decisions in selecting small package carriers vary depending on the physical location of our distribution center and the physical attributes of the product,” says Doug Sampson, senior vice president. “In making the decisions, we look at service, price, technology and support. In other words, everything is customized. Certain carriers perform better in certain areas than others, and certain carriers handle certain packages better than others.”

The J.D. Power survey confirms that Sampson is not alone: “While there were a few surprises in the survey overall, the biggest one was that one size doesn’t fit all,” notes Carlson. “The industry works hard at creating a combination of services designed to meet everyone’s needs. However, as seamless as carriers try to make those services, our survey has shown that shippers have many different expectations.” □