The myth of the carrier discount

How to balance your small parcel shipping volumes across carriers while mitigating accessorials and extra fees — and keep your discount.

The volume discount: what it's really worth?

The two major parcel carriers make a big deal about the discount they give their customers. Doesn't Xx% off your shipping rates sound good? Then, of course, as your business expands, so do the discounts. Take some of your business elsewhere and your discount will likely shrink.

Most retailers budget their shipping costs based on the base rates and discounts. They don't factor in all the surcharges charged by the carriers. Yet, they really add on to the total cost of a shipment.

In this ebook, we'll review the current state of small parcel accessorials from FedEx and UPS, the potential impact of moving volume to other carriers, as well as roadblocks and advantages of carrier diversification.

Maybe you won't lose as much as you think…and just quite possibly, the soft savings and service advantages of a multicarrier approach will outweigh the volume discount.

The volume discount: what's it really worth?

Below is a scenario developed by Nate Skiver of Level Playing Field Spend Management to illustrate the impact to earned discounts on FedEx Ground and Home Delivery if a shipper moved some volume to another carrier.

FEDEX EARNED DISCOUNTS

Service (s)	Annualized Transportation Charges	Earned Discount
	\$902,500 - \$1,402,499.99	15%
Ground Domestic Single Piece (OB, IB, RB, 3P)	\$1,402,500 - \$2,104,999.99	19%
Home Delivery Domestic Single Piece ZJ (OB, 3P)	\$2,105,000 - \$3,199,999.99	21%
Home Delivery Domestic Single Piece (OB, 3P)	\$3,200.000 - \$4,199,999.99	21.1%
Ground Domestic Single Piece ZJ (OB, IB, RB, 3P)	\$4,200,000 - \$5,499,999.99	22%
	\$5,500,000 - \$6,799,999.99	22.5%
	\$6,800,000 +	23%

Invoiced Transportation Charges (April '20–Mar '21)

Service	Transportation	Discount	Surcharge	Net charges
Express	\$625,274	-\$430,807	\$25,131	\$221,840
Ground	\$4,547,532	-\$1,571,008	\$1,236,354	\$3,212,895
Grand total	\$5,172,806	-\$3,001,815	\$1,261,485	\$3,434,735

A 50% revenue reduction results in only a 1% discount decrease

The percentages in the earned discount are incremental to what is in the contract and measured over a period of 52 weeks rolling.

Based on revenue measured (undiscounted transportation), there is a range of additional discounts that are gained. If a retailer falls below the initial discount level, they stand to be penalized quite a bit. As the volume/revenue increases, the bands get wider, so it's harder to achieve a higher discount.

In this example, the retailer decreased its spend from \$5 million to \$2.5 million. While the discount decreased by 1%, it's not nearly as impactful as what many fear, and it is likely mitigated by incurring fewer accessorial fees and surcharges.

The current state of small parcel accessorials from FedEx and UPS

It could be argued small parcel shipping has been impacted more by COVID than any other shipping mode. And the changes have been systematic and foundational, with the major parcel carriers UPS and FedEx changing their behavior along with it.

As the carriers have dealt with these pressures, part of the response has been a continual drip of new fees and surcharges. Here are three significant examples.

1. New Peak Surcharges (not to be confused with other annual Peak SEASON Surcharges) were implemented in April 2020. And since, there have been over 25 additional rate announcements made. At the time, the new pandemic-related peak surcharges were labeled as "temporary". Later, the word "temporary" was dropped, and they're now just Peak Surcharges — an indication they're here long-term.

2. FedEx has made major increases to surcharges for Additional Handling (AHS). They also added additional surcharges on top of those two fees for the 2022 holiday season, pushing prices for these packages up higher through peak.

3. In addition, FedEx made permanent its $1 "peak surcharge" for Ground Economy services (its cheapest, most deferred residential service) and renamed it a Ground Economy surcharge in the FedEx Service Guide. They also increased this charge to $1.50-$2.50 through the holidays, adding an additional $0.50 to $1.50 for every package shipped during peak.

Rate increases + surcharges from UPS and FedEx

1) Both carriers have increased fuel surcharge rates through multiple changes to fuel surcharge tables. This is on top of other surcharges and rising fuel costs.

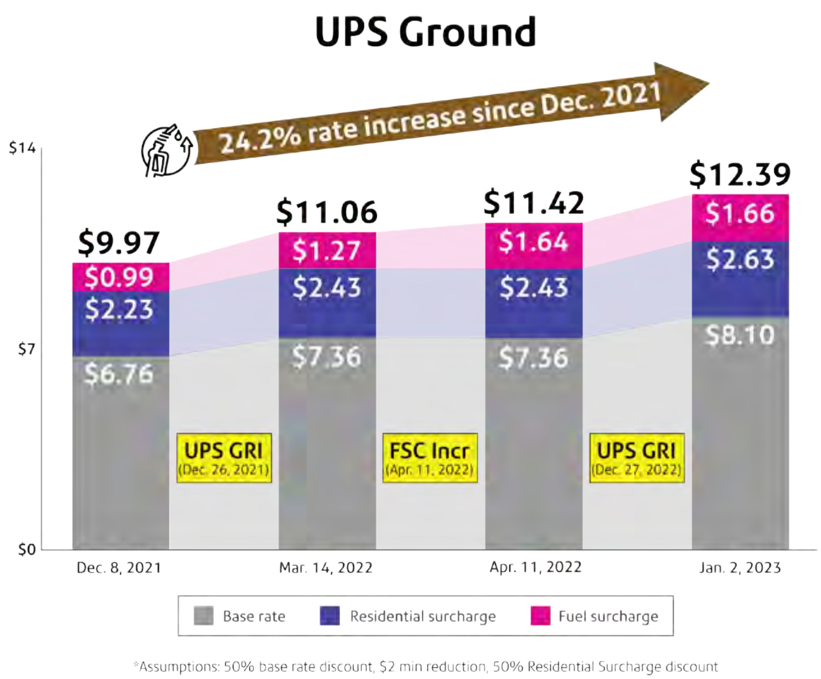
2) FedEx Home Delivery residential surcharge increased from $4.35 in 2021 to $5.15 in 2023.

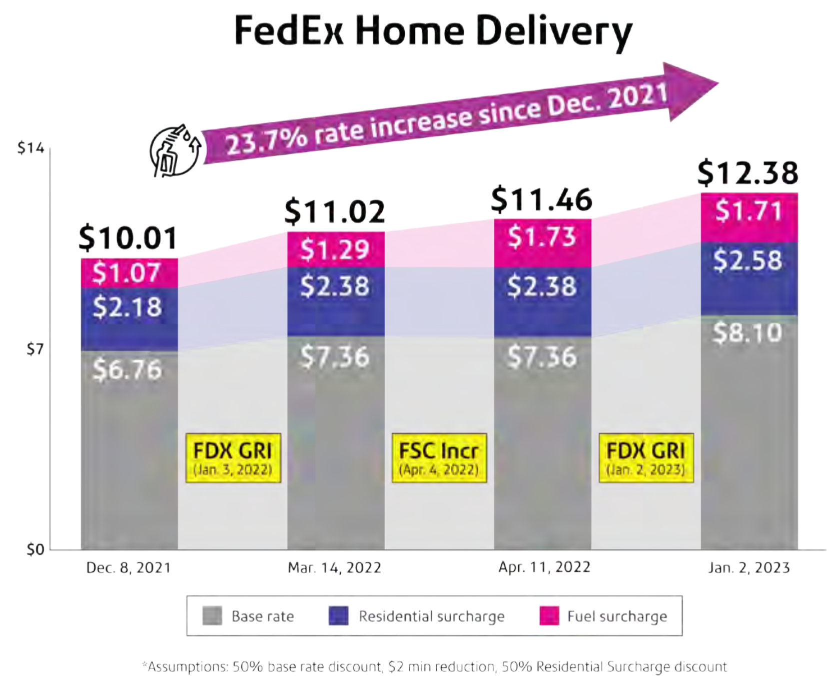
3) Ground Economy (formerly SmartPost) rates increased at least 7%[1] in 2022 and 2023. This service now has a permanent $1 "returns and deliveries surcharge."

4) The UPS Ground minimum charge is now $10.10, up $1.34 since 2021.

5) The UPS Ground Residential surcharge increased from $4.45 in 2021 to $5.25 in 2023.

[1]Average increase 1-9 lbs, zones 2-8

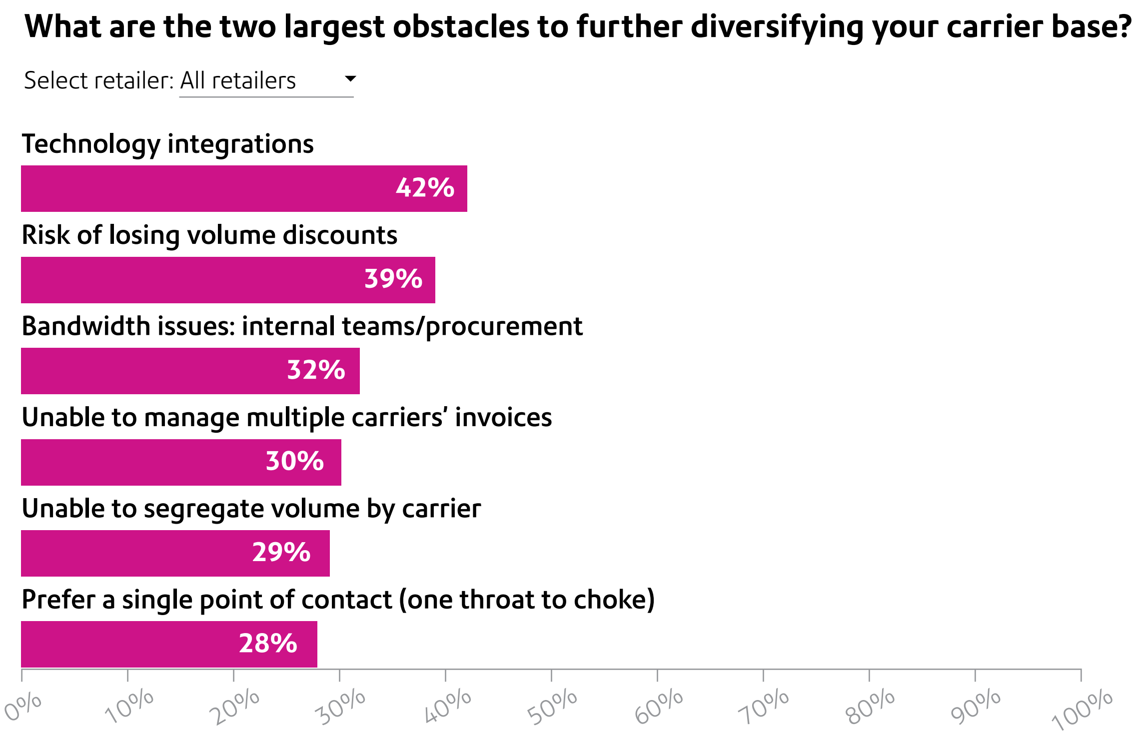




Nate Skiver of Level Playing Field Spend Management provided the examples and analysis of UPS and FedEx recent rate increases.

Carrier diversification: top 5 challenges and how to overcome them

In an April 2022 BOXpoll, the 168 U.S. retailers we surveyed revealed what they considered the top challenges to carrier diversification. Do any of these sound familiar?



Source: Pitney Bowes BOXpoll

Let’s take the top 3 one by one

1 Technology integrations

This was a concern for 42% of the retailers surveyed, particularly for large-volume shippers.

Technology integrations

When a large brand does not have a sophisticated enough shipping platform to do multicarrier rate shopping and routing, the issue is often technology that is too hard to change dynamically over time. Smaller retailers fulfilling 100–250k orders per year are probably at the in-between stage of outsourcing everything and moving certain functions in-house.

The complexity of designing a multicarrier shipping strategy that maximizes both cost and service benefits makes this a good function to outsource to a provider with a strong technology platform.

2 Risk of losing volume discounts

This concern was pretty even at around 40% across the board, from the smallest retailers to the largest.

Risk of losing volume discounts

When your carrier agreement is dozens of pages long and the tier system is structured punitively, it can be daunting to determine how much volume you can afford to move to another carrier without incurring a discount loss—or, more importantly, the true cost of that discount loss.

Here, looking closely at your shipping data can bring to light where your discount starts to break down so you’re able to work on balancing your discount structure across carriers.

3 Bandwidth issues: internal teams/ procurement | unable to manage multiple carriers' invoices

Bandwidth was mostly a concern for SMBs, which are likely insourcing these functions and facing an uphill learning curve in terms of optimizing their shipping strategy.

Bandwidth issues: internal teams/procurement

32%

These retailers are at a crossroads. Depending on plans for future growth, it could make sense to start hiring in-house expertise in this area. Taking the other path, the cost of hiring a third party should be more than offset by the cost savings and improved service of a multicarrier approach.

Advantages with a multicarrier approach

So how can you use a multicarrier approach to avoid the global carriers cornering you into paying extra costs, while still maximizing your volume discounts and overcoming the challenges of carrier diversification?

The first step is to focus on establishing the services and delivery capabilities that align to your specific parcel program goals – not on your discount. Look closely at your service mix and package characteristics, focusing on things like has your volume shifted from ground to air? And where are your packages going (i.e. a zone-by-zone breakdown)?

By not focusing on your discount or carriers first, you can start to see how to leverage the strengths of carriers beyond FedEx and UPS. A structured multicarrier approach provides cost, flexibility, delivery improvements, and service protection.

Five advantages of a multicarrier shipping strategy:

1) **Delivery Improvements:** Creates ideal speed and delivery options for your customers which also balance shipping cost with delivery expectations.

2) **Flexibility:** Enables you to shift volume where and when it makes sense for national, regional and cross-border delivery needs.

3) **Cost:** Mitigates against the cost impact of accessorials, surcharges, and extra fees while maximizing your volume discount.

4) **Service Protection:** Ensures operational capacity by not having all your eggs in one basket.

5) **Potential Revenue Growth:** Opens up new international markets with the right mix of shipping services to more than more than 200 destinations.

The carrier discount is a distraction from what's most important for online retailers when it comes to optimizing for cost and service with their customer deliveries. Retailers that look beyond that distraction can design a multicarrier approach that delights both their customers and their CFO.

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As experts in ecommerce logistics, Pitney Bowes combines consultative engagements, proprietary BOXtools® market analytics and data science-based network modeling to design flexible ecommerce logistics solutions based on each client's unique business needs. The portfolio is purpose-built for B2C ecommerce and provides shippers with best-in-class versatility, transparency, and consultative support.

The BOXlab tool specifically allows our consultants to model and design best-fit services given a shipper's parcel profile and logistics strategy – enabling shippers to realize the benefits of carrier diversification while maintaining their discounts.

Learn more at pitneybowes.com