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Busting the myth of the carrier discount

Yes, you can balance your small parcel shipping volumes across carriers while mitigating accessorials and extra fees — and keep your discount.

Why a discount isn't always a discount

"Don't discounted shipping rates sound good?" The two major parcel carriers make a big deal about the discount they give their customers. As your business with them expands, so do the discounts. Simple math, right?

But, take some of your business elsewhere and your discount will likely shrink.

That's where those "discounts" can cost you. Most retailers budget their shipping costs based on the base rates and discounts. They don't factor in the extra fees, accessorials or surcharges the carriers tack on. Yet, those nickels and dimes can make up 40% or more of the total cost of a shipment. That's no small change.

In this ebook, we'll take you behind the curtain of small parcel accessorials from FedEx and UPS. We'll explain the potential impact of moving volume to other carriers, and we'll offer straight talk on the 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 can bust the myth of the volume discount.

It's clear once you run the numbers

Below is a scenario developed by Nate Skiver, Parcel and Ecommerce Delivery Consultant of Level Playing Field Spend Management. He asked, what happens to earned discounts on FedEx Ground and Home Delivery if a shipper moves 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 bottom line: As the retailer decreased its volume from $5 million to $2.5 million, the discount decreased by 1%. Not nearly as big a hit as a shipper might fear. And that 1% is likely balanced by fewer accessorial fees and surcharges.

Here's why: Based on the revenue measured (undiscounted transportation), a range of additional discounts 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.

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

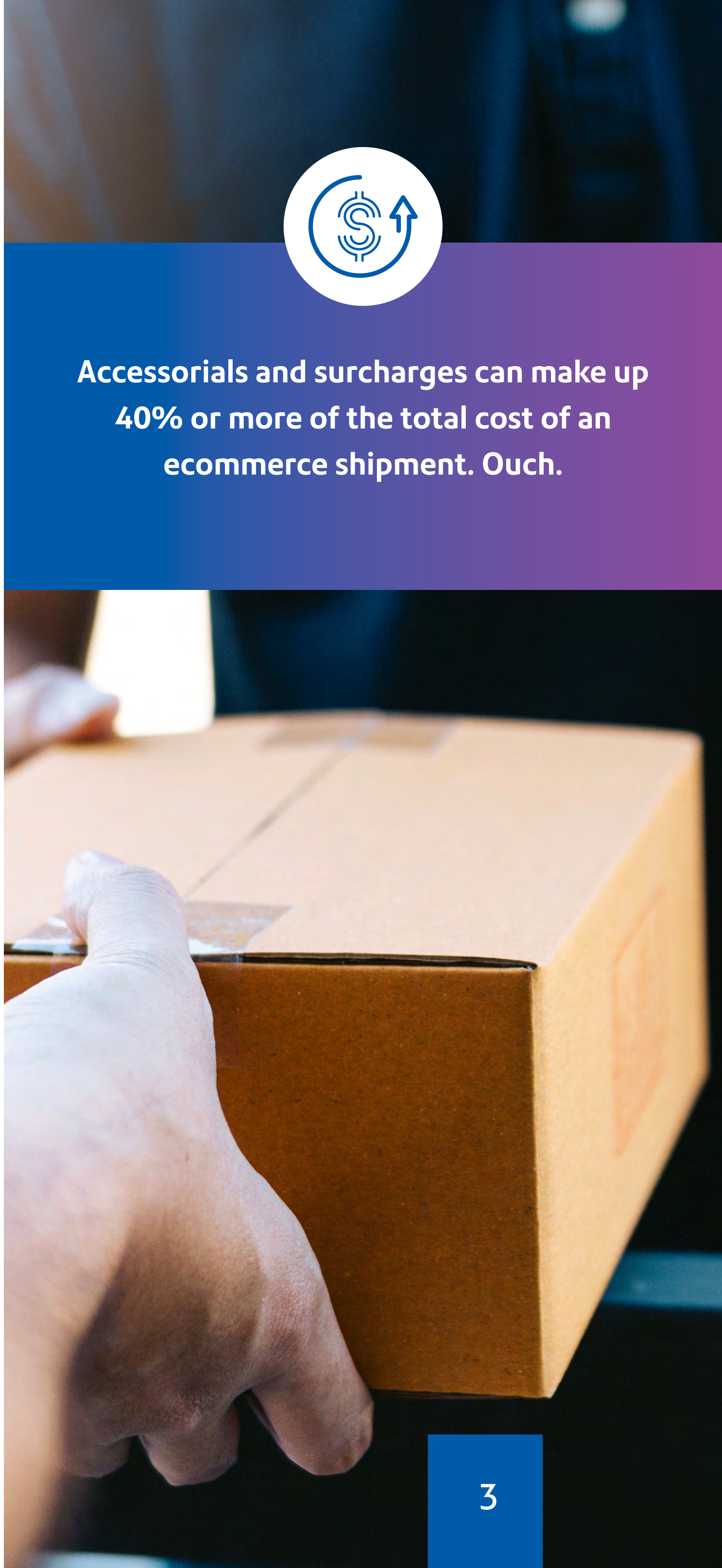
How we got to today's small parcel accessorials from FedEx and UPS

Like many industries, the small parcel shipping market faced new pressures during the pandemic. To regain their footing, carriers made some changes that were systematic and foundational. But, part of their response has been a continual drip of new fees and surcharges. And those haven't stopped even as the pandemic recedes and the market has stabilized. Here are three significant examples.

1 New Demand Surcharges formerly known as Peak Surcharges were implemented in April 2020. Since then, there have been over 35 additional rate announcements. At the time, pandemic-related peak surcharges were labeled as "temporary." Later, the word "temporary" was dropped, and they're now just Demand Surcharges — an indication they're here long-term (most recently extended in January 2024).

2 FedEx has made major increases to surcharges for Additional Handling (AHS). They also added other surcharges for the 2023 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 Delivery and Returns surcharge in the FedEx Service Guide. This charge increased to $1.60-$2.60 through the holidays for every package shipped during peak.



Accessorials and surcharges can make up 40% or more of the total cost of an ecommerce shipment. Ouch.

Nickels and dimes add up to lost dollars for shippers

1.) Both carriers have increased fuel surcharge rates through multiple changes to fuel surcharge tables. This is on top of other surcharges, including an extension of the Demand Surcharge through at least 2024.

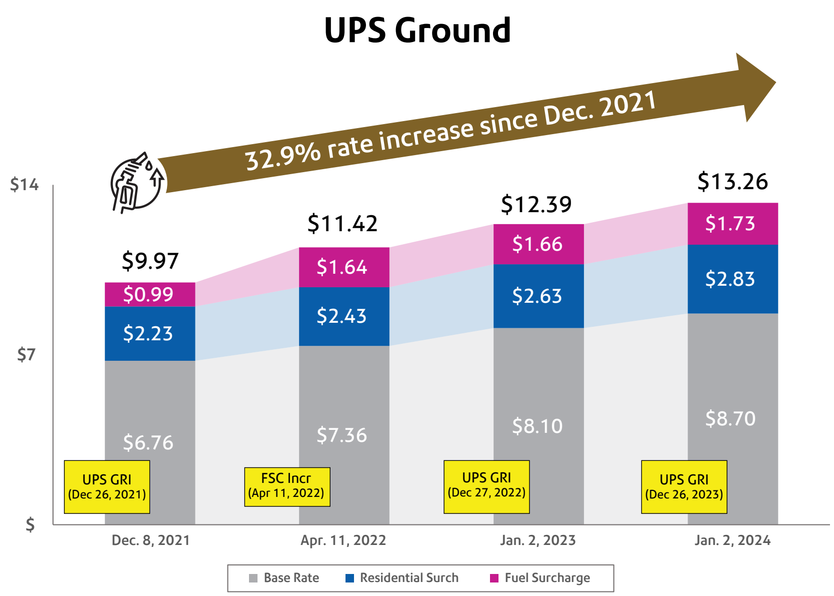
2.) FedEx Home Delivery residential surcharge increased from $4.35 in 2021 to $5.55 in 2024.

3.) Ground Economy (formerly SmartPost) rates increased by at least 7%1 in 2022 and 2023. This service is now subject to a $1.05 Delivery and Returns Surcharge.

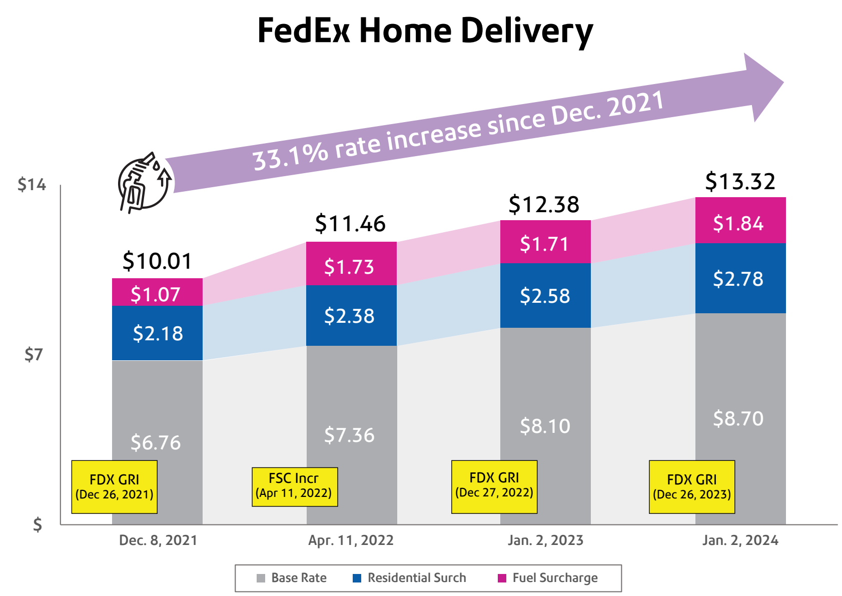
4.) The UPS Ground minimum charge is now $10.70, up $1.94 since 2021.

5.) The UPS Ground Residential surcharge increased from $4.45 in 2021 to $5.65 in 2024.

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



*Assumptions: 50% base rate discount, $2 min reduction, 50% Resi Surch discount.



*Assumptions: 50% base rate discount, $2 min reduction, 50% Resi Surch discount.

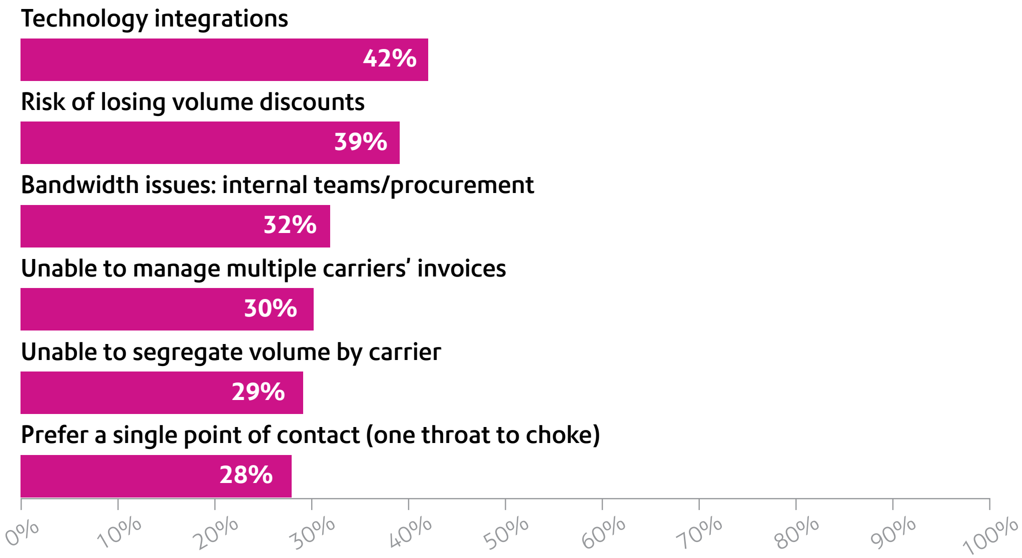
Nate Skiver of Level Playing Field Spend Management provided the examples and analysis of UPS and FedEx recent rate increases.

What’s stopping retailers from diversifying carriers?

A BOXpoll survey of 168 U.S. retailers revealed what they considered the top challenges to carrier diversification. Do any of these sound familiar? There are myths to bust here, too.

What are the two largest obstacles to further diversifying your carrier base?

Select retailer: All retailers



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

For a large brand, the issue may be technology. Updating their shipping platform to do multicarrier rate shopping and routing could be more trouble than it’s worth. Smaller retailers (100–250k orders per year) are probably on the fence between outsourcing everything and moving certain functions in-house.

Rather than designing a multicarrier shipping strategy from scratch that maximizes both cost and service, retailers of any size can overcome technology hurdles by outsourcing 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 doesn’t make it easy to determine how much volume you can afford to move to another carrier. Or to figure out the true cost of a discount loss.

Instead, there are answers in your shipping data. You’ll see 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 small and medium businesses (SMBs) which may be asking in-house teams to become instant experts on optimizing their shipping strategy.

Bandwidth issues: internal teams/procurement

32%

These retailers face a choice. If growth is on the agenda, it could make sense to bring the needed expertise in-house. On the other hand, any upfront cost of outsourcing should be more than offset by the cost-savings and improved service of a multicarrier approach.

The 5 upsides of a multicarrier approach

So, can a multicarrier approach help you avoid the global carriers cornering you into paying extra costs, overcome the challenges of carrier diversification and maximize your volume discounts?

Yes. By putting discounts in their place.

First, focus on the parcel program services and delivery capabilities that align with your business goals – not on your discount. Look at your service mix and package characteristics, focusing on things like: Has our volume shifted from ground to air? Where are our packages going (i.e. a zone-by-zone breakdown)?

Rather than choosing a carrier based on discount or brand name first, look at how you can leverage the strengths of multiple carriers, beyond just FedEx and UPS, to get the best of cost, flexibility, delivery improvements and service protection for your business.

5 advantages of a multicarrier shipping strategy:

Delivery Improvements

Creates ideal speed and delivery options for your customers which also balance shipping cost with delivery expectations.

Flexibility

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

Cost

Mitigates against the cost impact of accessorials, surcharges and extra fees while maximizing your volume discount.

Service Protection

Ensures operational capacity by not having all your eggs in one basket.

Potential Revenue Growth

Opens up new international markets with the right mix of shipping services to more than 200 destinations.

So long, myths.
Hello, multicarrier clarity

Here's what we've learned. The carrier discount is a distraction. Retailers who look beyond that distraction can design a multicarrier approach that delights both their customers and their CFO.

You can get the savings you need, and tip-top service advantages, with a multicarrier approach that includes Pitney Bowes. Here's how we take the complexity out of ecommerce:

We're next door - Our national network of hybrid hubs place your products closer to customers.

Simplified returns - Our returns process is ultra-efficient for you and very easy for your customers.

Ship less "air" - Right-sized packaging can reduce both your shipping costs and your environmental impact.

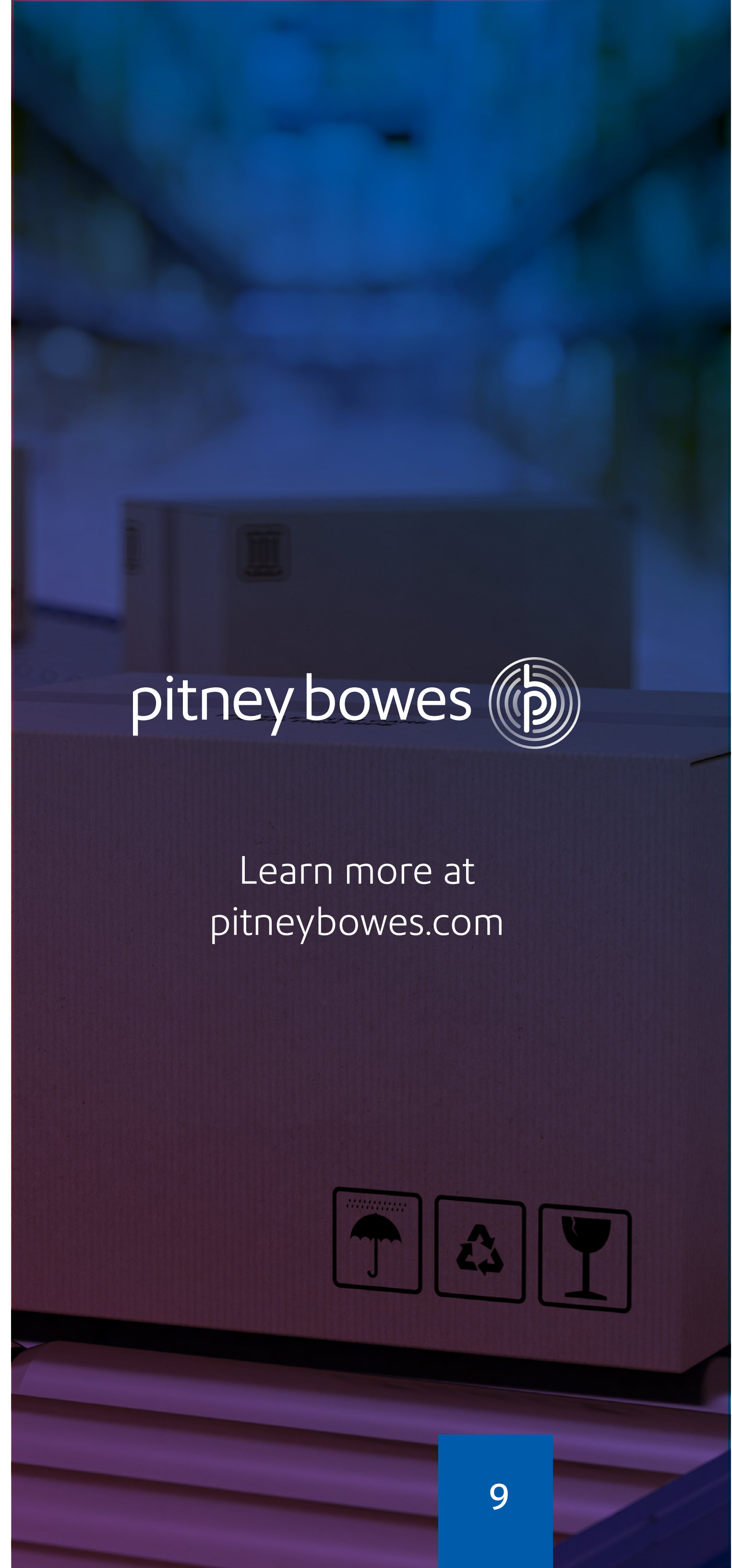
Wrapping, packing and more - We handle order fulfillment, including personalized notes.

Go global - Take advantage of accurate, fully-landed costs upfront for customers in 200+ countries.

You, and customers, are in the know - A free branded tracking app keeps customers posted on deliveries, and our warehouse software keeps you on top of orders and inventory.

These service advantages save you time and money, too. That's the Pitney Bowes way, making your shipping easier, smarter, faster and less expensive.

Let's talk.



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.

For more information, visit us online:
pitneybowes.com