Distribution Center MANAGEMENT

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How to prepare for an increase in dimensional-weight shipping costs

By Jack Ampuja, Supply Chain Optimizers

UPS and FedEx in January begin full implementation of dimensional-weight pricing on all ground shipments in the United States and Canada and between the two countries.

So how does dimensional-weight pricing really work? In very basic English, the carrier will weigh and measure the shipping box to establish a cost by weight and by “cube,” or box size. And whichever cost is higher is the one you’ll pay.

Perhaps a clearer way to think about this is to recognize that the carriers have a formula that sets the minimum weight for each box based on its size. Regardless of how little is packed into that box — perhaps a flash drive in a bread box — the minimum weight will apply. Whenever the shipping weight exceeds the established minimum, the actual weight will be charged. So the carrier will benefit regardless of what is shipped.

Based on working with many clients on packaging projects, we have determined that the average e-commerce shipper achieves 60 percent cube utilization on outbound packages — which means the outbound box contains 40 percent filler and air.

We have even encountered multi-billion dollar companies whose shipping cases contained more than 50 percent filler and air. That’s obviously bad for both efficiency and the environment.

By the way, we have many times verified that the typical order packer in a manual system selects the wrong box 25 percent of the time. We know this through computer analysis of the individual items that were shipped in specific boxes. This does not imply that anyone is stupid, merely that when the packer focuses on packing speed, if there is any question in his mind as to which box to use, he will choose the larger one knowing that he will not be forced to unpack it if it is too small.

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The business reality is that whatever the total dollar impact of dimensional-weight pricing, the brunt will be borne by small and medium sized companies that lack negotiating leverage. The big national account shippers have contracts locking in pricing for some extended period and in many cases have been able to negotiate more favorable terms.

UPS and FedEx are among the world’s most sophisticated logistics companies. They both track so many key performance indicators that they know more about the shipper than the company’s own executives in terms of factors such as time spent on pickup, total packages per stop, total weight and total cube per day, density per package, customer data errors such as incorrect address, inaccurate weight per package, and number of damage claims. Negotiating with another party who is an expert in this field, and has tons of data to back up their decisions, leaves most shippers at

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a major disadvantage. There is also the reality that 90 percent of small package market share is held by UPS and FedEx, giving them exceptional pricing leverage.

So does all this mean there is nothing to be done to combat the pricing change of dimensional weight other than to accept it as is? No. Here are four ideas you can implement at little or no cost:

• **Get started now.** Waiting until January to tackle this issue is too late.

Weigh and measure some outbound shipments. This lets you estimate the cost impact. Budgeting properly won't reduce the cost increase, but it may help you prepare — and perhaps avoid a nasty profit shortfall in 2015.

• **Ask for a time delay on implementing dimensional-weight pricing.** I know of major firms that have already received reprieves to let them get their internal costing mechanisms in place so that they can account for the new pricing properly.

Request a phased-in density factor. If your shipments average 8 pounds per cubic foot compared to the dimensional-weight tipping point of 10.4 pounds per cubic foot, you can try to get the carrier to apply 9 pounds as the breakpoint for six months.

• **Analyze your shipping cases.** One of the boxes I recently evaluated had a dim weight of 3.1 pounds, which would be rounded up to 4 pounds for billing, since the ship weight is always rounded up to the next full pound. A minor reduction in box size — such as one less inch in length — would keep the dim weight at less than 3 pounds, thus generating a 25 percent lower shipping cost.

• **Consider adding some boxes to your portfolio.** In most instances, a selection of six boxes will generate lower shipping costs than four boxes. But if six is better than four, is 10 better than six? The answer is yes in a computerized system but no if you rely on manual box selection — 10 becomes too difficult for the order packer to manage effectively. But don't fall for the standard bias against more boxes. We can document $1.4 million in annual cost reduction for a large client that accepted three additional box sizes, increasing the array from 16 to 19. And this is not an isolated incident. Another significant gain was recorded by a mail order company, which increased its box count from 10 to 12 and saw cost reductions of 18 percent in corrugate and 14 percent in freight.

The dimensional-weight train has left the station — and any small package shipper not taking action can expect significant cost increases in 2015.

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