Dimensional Pricing Impact - 2015

by Jerry Hempstead, President, Hempstead Consulting

Since last May, when FedEx announced it was eliminating the three cubic foot exemption from the application of dimensional charges on ground shipments, I have been getting scores of calls with myriad questions.
Here is the rather buried press release, which occurred after many news bureaus and investment houses had begun shutting down for the weekend:

http://about.van.fedex.com/newsroom/global-english/fedex-announces-pricing-changes/

Some of the questions I received included:

• Why is FedEx announcing this change seven months in advance?
• Is UPS going to follow suit? (They did, of course)
• How can I calculate how this is going to impact my shipping costs?
• What strategies are there to mitigate or avoid this increase?

Let me start with why FedEx did this. I have been on record for years warning that this was going to happen. In 2006, UPS announced to the world that the former "oversize" rule for ground shipments was being eliminated and packages over three cubic feet would be charged the greater of the dimensional weight or the actual weight beginning January 1, 2007. I was still with a competing carrier at the time, and I remember a very senior executive asking the question, "Why is there an exemption at all?"

Mike Regan, of TranzAct Technologies, brought detailed information about this UPS change to the marketplace in an Executive Briefing that year. If you want to go down memory lane, here's the link:

http://www.tranzact.com/resources/executive-briefing/2006-09-07-ups-costs.html

This was a major cost impact to the shipping community at the time, and a revenue and profit windfall for the carrier. UPS made this change…well…because it could. FedEx, as it traditionally has done in the past, followed UPS's lead. The elimination of the oversize rule and going to dimensionalization was just too much money to leave on the table.

As I speak to audiences around the country, I remind them that UPS usually announces its price and rule changes in late November or early December. FedEx has always waited until UPS announces their ground changes before they announce their own General Rate Increase (GRI) for ground. FedEx normally announces the increases in their air pricing (where they have the lead role) in September.

For years, "experts" have advanced theories about the timing of these announcements. Candidly, one has to consider that part of the reason that FedEx made this announcement in May, instead of later in the year, is that it gives its competitors sufficient time to set up the technology and IT programming changes necessary to also implement the changes in dimensional pricing if they decide to follow FedEx's lead.

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If you are wondering why FedEx is taking the lead in announcing this change, well, just like UPS, they have significant leverage in the marketplace. That said, there has to be some trepidation in Memphis about this role change. They have to be asking the same question that you, me, and a whole bunch of other shippers are asking: Will UPS also adopt this rule change? It was really only a matter of time.

The good news for shippers is that it may actually create an opportunity for negotiations with both FedEx and UPS. They both have the ability to exempt a shipper from the rule change for a period of time or program other exemptions. Or shippers could negotiate a dim divisor greater than 166 to mitigate the impact.

Everyone should be moving right now to get into their contracts a clause that at the very least states that "the carrier must provide some reasonable advance notice of such changes". Granted FedEx's announcement giving the shippers seven months' notice was very generous, but I suspect that it was announced now, not out of care and concern for its customers, but so that UPS has six months to do the programming and testing so that they too could announce that they too were joining the profit windfall party in November, when shippers receive their annual Christmas gift of a GRI.

Here are some other concerns for shippers. First, at this point in time many shippers may not have data on the dimensions of transactions of under 5,184 cubic inch parcels that went out their door, because there was no need to store that data. After all, transactions under three cubic feet were exempt from dimensional weight. FedEx and UPS have no such problem. Each company has their scanning tunnels, with their laser beam measuring, and as a matter of normal processing routine, measures (and reweighs) each box moving in their system. They can easily determine if a box is exempt or not. So they have the data, and the ability to collect it and apply it to the new dim rule.

Since they have your shipment data in their systems, ask FedEx and UPS for a report of the dims on your shipments that are under three cubic feet and the weight for which you are currently being billed. You can then figure out which ones will be charged more in the future. Additionally, armed with this information, you can consider making changes. For example, can your company change box sizes? Or, worst case, can you selectively, manually audit the packages moving out of our doors? If you have a very large discount that pushes the minimum charge into higher weights the rule change will not be as harmful to you as others. You could get the carrier to lower their minimum charge as another strategy to minimize the impact of this rule change.

Based on experience, your carriers most likely can also provide a dilution study that shows exactly how much incremental revenue they are going to get on your business once this rule change goes into effect. They may not want you to know (after my many years as a senior executive on the carrier side of the table), but corporate pricing departments have a way to calculate the impact of every change and nuance. Whatever you do, don't wait until next February to get the information you need. You really don't want to wait until April, 2015, to see how badly over budget you were in January. It could make for some tense meetings with your senior executives.

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One final footnote for those of you who may be asking, "What else can a shipper do?"

In my practice, I have had some very positive results from automation that can optimize the package size for the item that's going out the door. Some firms require no cap-ex for the equipment; they just require you to purchase the corrugated from them. Two firms that have some experience with this are:

Packsize http://packsize.com/	AND	Box on Demand http://boxondemand.com/

Also, don't forget to do some MBWA (Managing By Wandering Around), because there is just a lot of opportunity for improvement out there. Let me give you an example of an actual shipment my wife received:

The item was less than a pound, but as of January, 2015, this box is billed at 11 pounds.

Also, my wife ordered four of these items (all this size) and each came in its own box.

And the supplier was providing free shipping….

Need I say more?

If you have questions about your parcel spend, or other parts of your supply chain, visit us at www.tranzact.com or give us a call today at 630.833.0890.

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