TransImpact.com

2023 State of Small Parcel Shipping with FedEx and UPS

Updates and New Strategies for Domestic and International Parcel Shipping

TransImpact

The small parcel industry is in a very different place than it was a year (or two or three) ago. Pandemic-driven market dynamics have evolved, and the carriers are now focused on the impact of inflation and concerns over a recession.

Despite two years of historic general rate increases from FedEx and UPS, shippers find themselves in positions of increasing strength when negotiating with carriers. Helping companies figure out what they can improve in their small parcel rates and service is the purpose of this ebook.

Understanding the current market conditions for small parcel shippers is the first step, then knowing how to take action is the second. So let's get started!

TransImpact.com

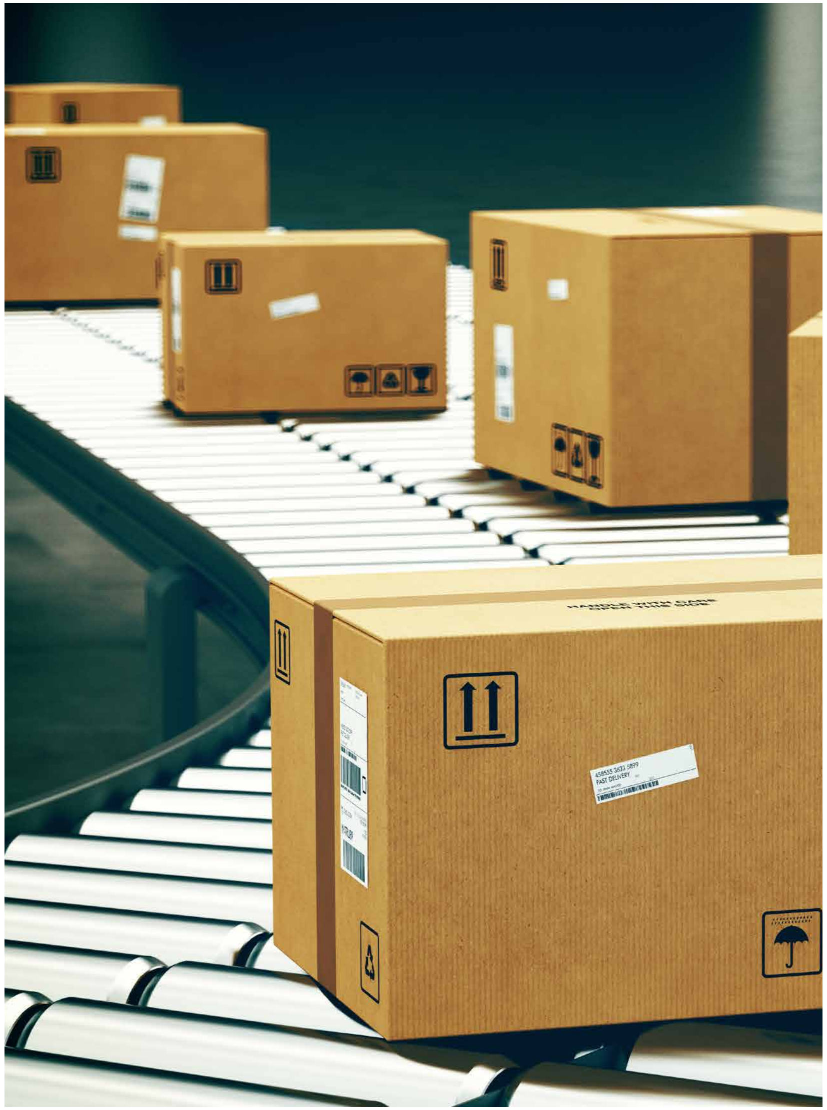
Table of Contents

01 The State of the Parcel Shipping Market

One thing companies can be sure of in 2023 is that UPS and FedEx are still not making things easy for customers like you when it comes to understanding rates and costs. For two years in a row, both carriers implemented historically high general rate increases (GRI). Those followed on the heels of two-plus years of extra pandemic-related fees and surcharges — many of which have been made permanent — and rule changes that affect basic things like how some rates are calculated (not to mention the on-again/off-again suspension of some Money-Back Service Guarantees).

All the moving parts of changing rates and a changing economy make it urgent for shippers to understand their costs and opportunities, so they can mitigate the costs and take advantage of the opportunities to improve their entire small parcel operation.

In this ebook we'll recommend two approaches that any company can leverage. But first, let's set the stage by talking about the state of the market-place.



The Current Market Conditions Are Pretty Bleak

If you listen to the news, the economy might be in a recession or heading into one very soon. The bottom line during a recession is that companies produce and sell less, which leads to other negative consequences like job cuts and higher unemployment. Recessions perpetuate problems until the cycle is broken and business picks up again. These factors impact small parcel carriers as much as any other type of business. Lower shipping volume hurts the carriers.

A Note About Inflation

On a macroeconomic level, a top news story again in 2023 is inflation, which took off in 2021. Inflation is likely both a partial cause and a result of the higher rates most companies are paying carriers everywhere in their supply chain.

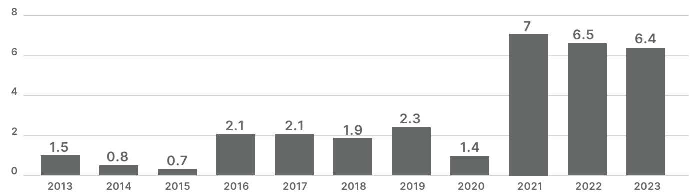


Chart: United States Annual Rates (2013 to 2023)

https://www.usinflationcalculator.com/inflation/current-inflation-rates/

Here are some other market and situational factors worth paying attention to:

There are plenty of other factors and opportunities right now that all companies need to consider as they look for ways to improve their parcel shipping operation.

01

Capacity Is Loosening

As one positive for shippers, the story of capacity one year ago was nearly the opposite. As the economy slows, capacity, which has been in short supply of late, becomes more available (more to come on this).

Ecommerce

Although the trend away from brick-and-mortar has eased slightly, the rise of ecommerce is continuing to shape the service levels offered by parcel carriers and where they have focused most of their GRIs over the past several years. Companies shipping large and odd-sized packages continue to take the brunt of most new fees and surcharges (see our analysis of the GRI increases below).

Auditing

Despite the on-again/off-again approach to Money-Back Service Guarantees by both carriers, companies should not get complacent and stop auditing their invoices. The carriers still make frequent errors that you should have refunded (but you have to ask).

Service Agreement Optimization

With the two carriers' rates being probably more similar than they have been since they diverged in 2017, the timing is ideal to have FedEx and UPS compete for your business. Along with the slow drip of new fees and surcharges and the overall economic conditons, this new pricing similarity presents an exceptional opportunity for shippers to secure more favorable rates.

UPS and FedEx – Who's Cheaper?

If you want the short answer on how UPS and FedEx compare cost-wise, UPS, generally speaking, is still the cheaper carrier. Of course, it's not that simple, but UPS rates are mostly lower across the board (if only slightly in some areas). Also relevant is that UPS's service performance is better than FedEx's right now, and the company is more financially stable. That said, UPS is facing what could be very contentious labor negotiations in the spring of 2023 that all of its customers should be watching. For its part, FedEx is searching for improvement through new company leadership.

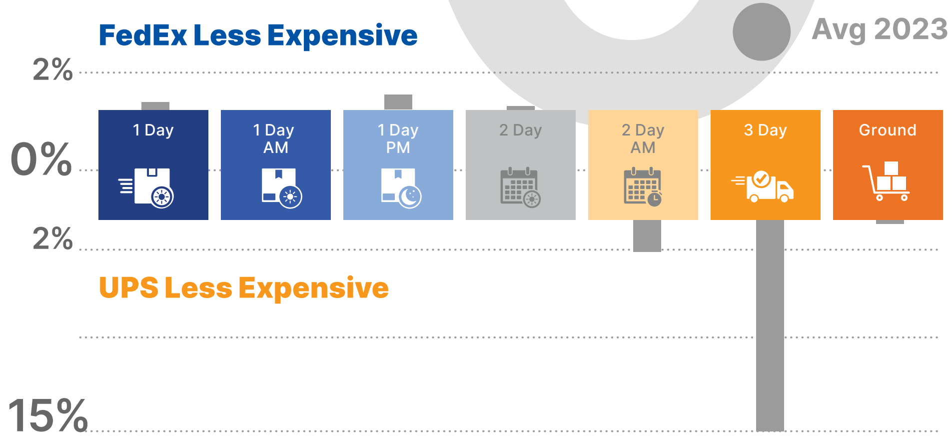
A small positive for shippers when it comes to really understanding what's going on is that the differences between UPS and FedEx, thanks to the GRI 2023 announcements, are actually now very small in terms of rates, services, and accessorial charges.

The two carriers can now be compared in a more apples-to-apples way, so you can more easily make objective, data-driven decisions for your shipping operations — such as which carrier to use on an individual shipment basis, how to optimize the location of suppliers, ways to avoid fees and surcharges, and gaining the assurance you're paying for the optimal service level that keeps costs low and customers happiest.

Note that several of the following charts are excerpts from our 2023 UPS and FedEx GRI Comparison Report — to read the full report, click here.

Overall Rate Comparison: Domestic Services

The following Illustration compares the average price by Domestic service type for each carrier. Note that the difference in 2023 is the same as in 2022 for all services. Historically, FedEx has been more expensive on average for 3 Day delivery than UPS, a difference that's primarily attributable to FedEx's structure and the separation between the company's Ground and Express delivery operations. In 2023, UPS 3 Day rates are 15% lower than FedEx's. UPS also is slightly cheaper on 2 Day AM (2% across all weights). The difference between the carriers on all other services is 1% or less.



Ecommerce

The rise of ecommerce continues to shape the service levels parcel carriers offer and where they have focused the majority of their GRIs the past several years. Companies shipping large and odd-sized packages, beware.

2 Day AM

UPS 2 Day AM is 2% lower than FedEx

3 Day

UPS 3 Day rates are 15% lower than FedEx

Surcharge Comparisons

Surcharges are the most complicated to compare between carriers and are hard to avoid for many companies. Below are some of the primary surcharges that show up on most shippers' small parcel invoices at some point. We'll identify some key differences between FedEx and UPS.

Residential Surcharges

In 2023, the FedEx Residential Surcharge is lower than UPS per package for both Ground (1.9% less) and Air (0.9% less).

Additional Handling Surcharges

AHS targets bulkier and longer packages, which incur more costs for the carriers while moving through their networks. AHS should not be confused with the Large Package Surcharge or Oversize Charge, which penalizes the overall largest-size packages.

How AHS rules are applied has changed dramatically in the past few years, and the costs have become more complex to calculate. Because of this, all companies are encouraged to understand the present rules for how the weight, length, width, and packaging type can be penalized by this charge, which can reach $36 per package.

Comparing the longer-distance (zones 5 to 8) charges for both carriers, the FedEx AHS is 4% to 6% higher than UPS in three categories (Weight, Length, and Width), while UPS is 2% higher for AHS – Packaging.

Large Package Surcharge (UPS) and Oversize Charge (FedEx)

A common surcharge from both carriers has different names but is applied in much the same way — the Large Package Surcharge by UPS and the Oversize Charge by FedEx. Like AHS, these surcharg-es have changed significantly over the past few years. The changes include separating how costs are applied for commercial and residential deliveries and differentiating by zone.

Other Surcharges

A notable surcharge addition is that FedEx created its own Remote Area Surcharge. Similar to a charge UPS implemented in 2022, it exists as a more robust (and slightly more expensive, compared to UPS) Extended Delivery Area Surcharge.

Other common accessorials are detailed in the chart below. Notable is how DAS surcharges are similar for both carriers, and the UPS Address Correction Surcharge is 7% lower than FedEx.

FedEx Surcharges	2023
DAS Commercial Ground	$3.70
DAS Extended Commercial Ground	$4.50
DAS Commercial Express	$3.70
DAS Extended Commercial Express	$4.50
DAS Residential Ground	$5.30
DAS Extended Residential Ground	$7.15
DAS Residential Express	$5.55
DAS Extended Residential Express	$7.15

UPS Surcharges	2023
DAS Commercial Ground	$3.70
DAS Extended Commercial Ground	$4.50
DAS Commercial Air	$3.70
DAS Extended Commercial Air	$4.50
DAS Residential Ground	$5.30
DAS Extended Residential Ground	$7.15
DAS Residential Air	$5.55
DAS Extended Residential Air	$7.15

FedEx Surcharges	2023
Unauthorized OS Ground	$1,150.00
Hazardous Material Ground	$48.00
Address Correction	$21.00
Adult Signature	$7.65
Direct Signature	$6.35
C.O.D.	$19.00
Remote Area (Lower 48)	$13.25

UPS Surcharges	2023
Over Max	$1,150.00
Hazardous Material Ground	$48.00
Address Correction	$19.50
Adult Signature	$7.65
Delivery Confirmation	$6.35
C.O.D.	$18.00
Remote Area (Lower 48)	$13.05

International

International rates have endured the most volatility and uncertainty since the beginning of the pandemic. In 2023, softer average increases over the past two years (4.2% in 2022 and 5.6% in 2023) have made UPS less expensive across most regions. FedEx has increased rates more aggressively during this time (6.2% in 2022 and 7.2% in 2023).

Both carriers have maintained per-pound Demand surcharges for international shipments to all regions and from most regions since 2020. Initially, these extra charges helped the carriers buffer margins to overcome the impact of declining capacity. But today, the Demand surcharges remain, and their volatility will continue to make costs challenging to forecast for shippers.

UPS is less expensive nearly across the board

FedEx

UPS

Exports	Country	Imports
3.36%	Belgium	0.07%
4.79%	Brazil	2.54%
2.00%	Canada	1.14%
3.96%	China	4.49%
3.36%	France	0.70%
3.36%	Germany	0.70%
2.74%	Hong Kong	2.93%
3.51%	India	4.68%
3.36%	Ireland	0.70%
3.36%	Italy	0.70%
3.16%	Japan	13.88%
1.30%	Korea	12.56%
4.68%	Malaysia	5.54%
3.22%	**Mexico**	6.50%
3.36%	Netherlands	0.70%
1.35%	Saudi Arabia	7.85%
2.74%	Singapore	5.54%
1.10%	Switzerland	0.83%
2.74%	**Taiwan**	2.85%
4.68%	Thailand	5.54%
3.36%	UK	0.70%
4.68%	Vietnam	5.54%

Postal-Hybrid/Deferred Ground

UPS and FedEx differ in this service type and its related accessorial charges more than any other offering. This is primarily due to UPS's continued use of the USPS for servicing the final mile of its SurePost packages (usually) and FedEx keeping this leg in-house. FedEx Ground Economy has become more of a "deferred" Ground product — evolving from its postal-hybrid origin.

In 2023, FedEx will offer customers its most significant advantage over UPS for any service, with FedEx Ground Economy. Both carriers this year increased their prices on packages from 1 to 13 lbs. (the core weight range for this service type) by 7%, which is consistent with the headline GRI of 6.9%. Notable is that the cost advantage offered to shippers by FedEx over UPS has decreased over the past two years.

The illustration below quantifies the benefit of using FedEx over UPS by weight. The FedEx advantage ranges from 2% to 4%.

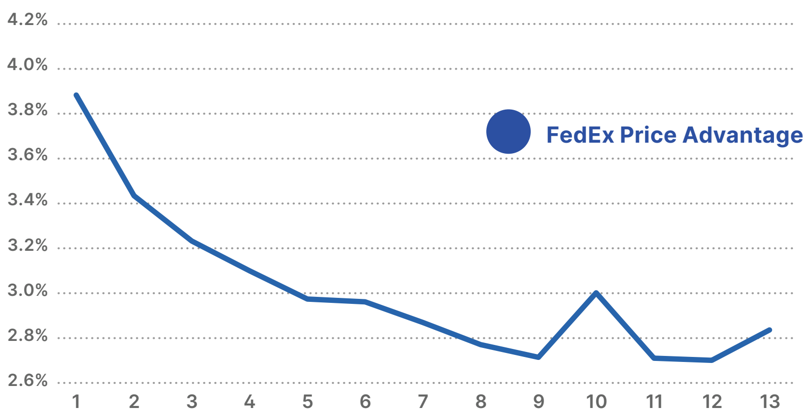


Chart: Which Carrier Is More Expensive?

Fuel

Volatile fuel prices and inflation have led to both carriers making frequent updates to their Fuel Surcharge tables. Reaching historic highs in 2022, both carriers' Fuel surcharges peaked at over 30%.

When planning for 2023, remember that the carriers' Fuel matrices can be updated at any time with a roughly 30-day notice.

Carrier Surcharges and Fee Announcements Never End

Once a month, if not more often, the carriers add or make adjustments to their surcharges. The most prominent right now is an open-ended "Peak" surcharge that has nothing to do with peak shipping season. Cost increases like these affect almost all shippers, yet are always announced very quietly and are hidden on the carriers' websites.

For a constantly updated summary of these charges, we suggest visiting TransImpact's NextSights page www.transimpact.com/nex-sights, and clicking this button.

Carrier Announcements

We track and organize UPS® and FedEx® rate change in real-time

Click here to access

02 What to Do: Two Complementary Approaches

Approach #1 Your Contract

The current market conditions outlined earlier set up a rare opportunity for shippers to renegotiate their parcel rates and gain more favorable rates.

A big reason is that with general market conditions deteriorating and small parcel volumes declining, FedEx and UPS are looking to hold on to as much market share as possible and grab more where they can. Add into the mix two-plus years of shippers feeling they've been pushed around by the carriers, and there are a lot of companies looking to take advantage by putting their volumes out to bid again.

A New Contract Does More Than Just Save Money

Getting access to package-level detail is the necessary complement to the macro view. The ability to drill down brings to light the specific consignees, suppliers, products, internal processes, and types of surcharges behind the larger problems. Now you can audit and uncover opportunities.

Drilling down enables you to find the root cause of the issue. Sometimes it's carrier-caused, in which case you can file for a refund. Other times you might discover that a third party is a culprit, such as third-party shippers using premium services on your account, and you can address the issue with them. But the biggest opportunities usually come from discovering changes you can make in your internal processes and operations.

Without this degree of detail, it is impossible to pinpoint where the problems stem from and therefore how to fix them. Just knowing that costs are higher, which most shippers can see already, is meaningless without understanding the causes and doing something about them. But how do you transform your data? By harnessing the power of BI tools designed to bring parcel-specific opportunities to the surface in your company's sea of data.

Approach #2 Your Data

As with renegotiating your parcel contracts, now is the time to begin using the data from your small parcel shipping operation to reduce costs and improve service performance. An interesting thing about small parcel data is that the insight and value it provides can come from both a micro and a macro view.

Often, it's only after accumulating and analyzing your shipping data and looking at it with the big picture view that you can appreciate the impact of extra costs and service issues. For example, address corrections at $0.20 each can add up to a lot over time. Or you might identify a 12% YoY increase in DIM charges, which is an opportunity to investigate further to see if an adjustment in how you determine package size for each shipment would reduce this cost, and then make the necessary changes at the operational level. Or, if you never have cartons with any dimension longer than 36", you can set an alert if any carton longer than 36" appears on your bill. It could be a carrier measurement issue, and you may be eligible for a refund.

The same goes for issues with service performance and other carrier missteps. Consistent late deliveries wear on customer relationships and can hurt your brand image over time.

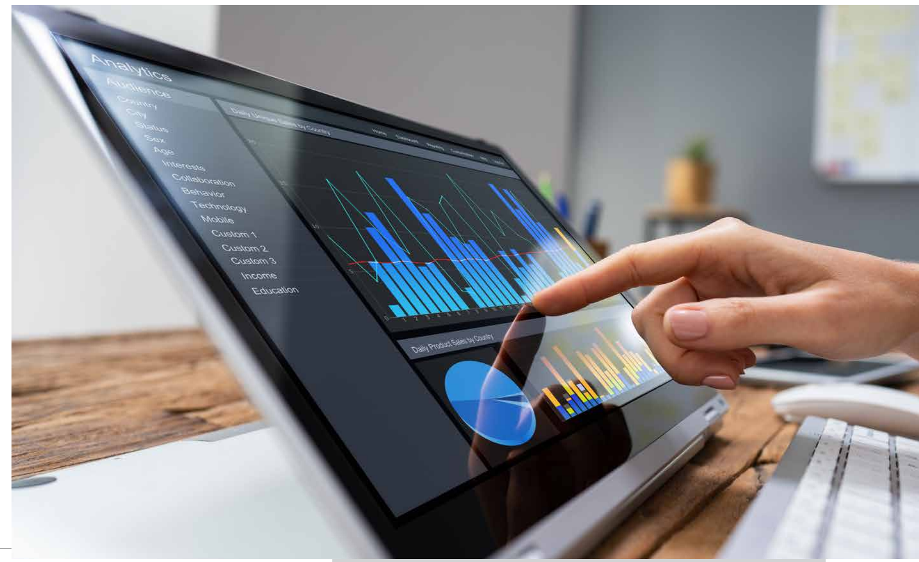
Go Deep for the Most Benefits From Data

The benefits of negotiating lower rates add up to more than just cost savings — it also creates other important opportunities for any business. For one, lowering your small parcel shipping costs by renegotiating your contracts allows your company to cut costs without reducing employee headcount. Hiring has been tough the past few years, and companies are looking to do whatever they can to keep good employees around when the economy picks up again. The savings gained from renegotiating your small parcel contracts can be used to smooth over rough financial patches and keep valuable employees on board while maintaining the necessary profit margins.

Another common reaction among companies to a slowing economy is to delay or cut back on investments in the business. Making matters worse is that fast-rising interest rates have increased borrowing costs for businesses, making it harder to find working capital. Whether it's to purchase equipment or add new technology, companies must invest to move their business forward regardless of market conditions.

Lowering your small parcel shipping costs frees up budget to make essential investments in your business. If you do this right now, you'll seize a great opportunity that your competitors might not be taking advantage of. Increasing capital and investment during a downturn can put you out in front when economic conditions improve.

Remember, there is never a bad time to renegotiate your small parcel contracts. You don't have to wait until the agreement expires, and you do not need to fear you will anger the carriers by seeking better rates.



03 Taking Action

As a small parcel shipper right now, things can feel daunting. Opaque rates, extra costs, and constant uncertainty around service are wearing on companies everywhere.

There's never a bad time to renegotiate your small parcel rate agreements, but 2023 may be a make-or-break opportunity for your company. It's taking larger margins on your part just to break even from last year. But with business volumes down, that is even harder to achieve.

The key to excelling in challenging times (and it is possible) is to make the complex simple. Even the vast sea of shipping data is all just numbers. Creating simplicity and clarity has to be your goal. If, like most companies, your only view of your shipping rates and data is in large spreadsheets and carrier invoices, you'll see chaos instead. The carriers are constantly changing their rates, and the experts at TransImpact can make sure you're always on top of what's going on and how it impacts your company's costs. Gaining a BI-powered perspective to take informed action must be the priority for any company looking to position itself for success in 2023.

In just a 15-minute call, you will learn how much lower your rates could be with new small parcel contracts, and you'll get a tantalizing glimpse of the actionable insights and data-driven support tools waiting for you in TransImpact's Parcel Spend Intelligence platform.

Contact info@transimpact.com to learn more.

Address

TransImpact.com
8921 Crew Drive
Emerald Isle, NC 28594
Tel (252) 764-2885

TransImpact