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QREVIEW

Supply chain news you can use.

Transportation Impact Quarterly Review
October - December 2017 /// NO.13/Q4

Qforecast '18

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Welcome

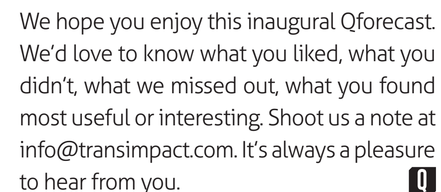
As we open this new year, we're excited to be sending you our first ever Qforecast — a look at what's ahead in small parcel and freight for 2018. Our team have spent weeks researching trends and stirrings in the world of logistics and have put together a strong lineup of articles that we hope you'll be able to use as you plan for your year ahead. Here's a look at what we've got for you.

Every year it's predictable that FedEx and UPS will increase their rates — what's not predictable is how those increases will affect your business. In our look at this year's GRIs we explain who could be affected most and why, and what you can do about it.

The truckload industry finally seems to have a tailwind behind it, but, as we report, it could be running into headwinds that will stall the rise in rates. On the other side of the freight coin, we explain how some of the complexities of small parcel are making their way into LTL. Finally, we have two overview articles for you. The first looks at the industry as a whole — what will be the biggest stories in logistics for 2018 and how will those trends affect you? The second dives into the last mile and pulls up some surprising signs of a revolution.

Of course, we also still have for you the regular favorites: the Partner Spotlight, profiling Industrial Fleet Management, which brings clarity and cost savings to fleet operations; and a special Community Spotlight, in which our employees and people in the community tell us in their own words why they are excited and inspired by our IMPACT1 initiative and the difference it has already made in people's lives in less than a year.

We hope you enjoy this inaugural Qforecast. We'd love to know what you liked, what you didn't, what we missed out, what you found most useful or interesting. Shoot us a note at info@transimpact.com. It's always a pleasure to hear from you.



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ARE YOU SPENDING TOO MUCH ON YOUR FLEET?

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Industrial Fleet Management provides a valuable service to its clients. It's one that many shippers don't even realize they need. Although with companies like Sherwin-Williams and Smithfield among its list of satisfied customers, it's clear IFM is doing something right. But first, some context.

Every shipper's transportation requirements are unique. And for many, when their volumes and lanes permit, it makes sense to operate their own fleet of vehicles rather than outsourcing to asset-based carriers or other third-party providers.

This decision to "in-source" the transportation function, although not simple, should have an ROI that is easy to quantify. Yet, while a company may well see a lot of potential cost savings and benefits from operating its own fleet, it's not a decision to make and then not think about further.

Effectively managing private fleet costs requires ongoing maintenance, much like a tractor-trailer. And, just like linehaul rates from a carrier, or small parcel contracts, there are several types of agreements and costs that go into operating a fleet that can be negotiated and optimized. It's a mistake not to put in the work to find ways to improve the details of fleet spend, like full service leases, maintenance agreements, and fuel. It's hard, however, and not necessarily a priority for every company, which is why so many shippers don't do it.

Here's where IFM comes in. CEO Jack Mandato and his team at IFM are experts at helping fleet operators analyze their businesses' needs, audit invoices, and negotiate contracts. "We've actively helped our clients lower the fleet costs of over 10,500 tractor trailers and another 10,000 pieces of material handling equipment," says Mandato.

> We've actively helped our clients lower the fleet costs of over 10,500 tractor trailers and another 10,000 pieces of material handling equipment.
>
> **CEO Jack Mandato**

IFM's success with clients comes from years of experience and a tried-and-true process designed to help clients save money and improve their fleet operations.

"Our first step is to analyze your current spending versus best-in-class pricing that we have gathered based on our experience working with other companies," explains Mandato. "This provides a clear benchmark of where your company should be in terms of rates and other costs."

Then — and this is something Transportation Impact customers can appreciate — IFM does a detailed review of the shipper's invoices to ensure they are accurate and no overbilling has taken place. Mandato adds, "It's our priority to ensure your contract terms are fair and protect your interests. We'll then help you negotiate with all of your vendors in a way that protects your relationships and service levels with them, but still maximizes savings."

In addition, the IFM team will help find and implement cost savings opportunities in areas like:

- Full service leasing
- Finance leasing
- Maintenance contracts
- Equipment acquisition
- Dedicated contract carriage
- Taxation applied to fleet operators

Another opportunity for fleet operators comes from looking more closely at their fuel spend. Regardless of how a shipper may buy fuel, there are likely ways IFM can help reduce costs. The IFM team has expertise in:

- Lessor fuel
- Retail and over the road fuel
- Bulk fuel
- Mobile fuel
- Fuel/fleet card programs

As a final service, IFM's material handling team will evaluate the economics of your fleet with expertise in providing operational analysis relative to safety, workflow, specification, and fleet size.

"Once the client has received our analysis, they can follow the recommendations or choose to make no changes at all. If a company decides not to, IFM does not make any money. However, the company still gains the benefit of an expert, in-depth look at their fleet," concludes Mandato. "We have the industry know-how to compare your costs to benchmarks and trends, identify the most efficient and cost-effective ways for you to buy fuel, and ensure you are getting the best deal possible." Q

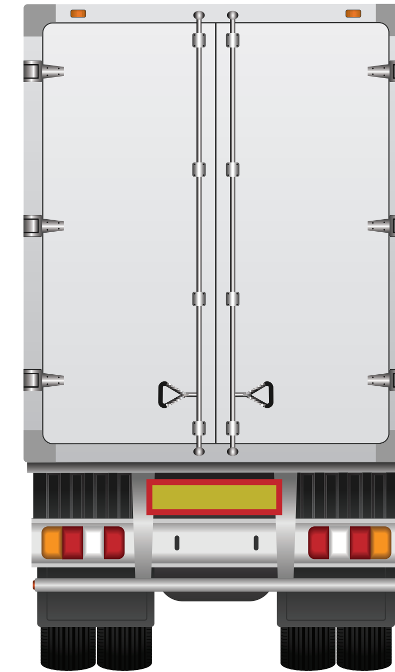
NOTHING LESS THAN THE BEST LTL IS LOOKING STRONG IN 2018

The once-struggling $35B+ less-than-truckload (LTL) market is seeing a massive revival. Top LTL companies are making substantial investments in modernizing their hub-and-spoke networks, implementing technology, and reaping the benefits of the ecommerce boom. LTL pricing increased 1.8% in the fourth quarter of 2017, and is expected to continue to rise by another 2% in 2018. Of course, there are many details behind the improved present and outlook for LTL carriers. Here's what's going on that will shape the industry in 2018 and into the future.

Industry Growth and a Capacity Crunch

The aforementioned growth of ecommerce, as well as the push for more customization by manufacturers, has helped LTL carriers. Both factors are shrinking average shipment size, which is moving some of what had previously been truckload volume into LTL networks. It's also become more common to order larger items online, which is opening up many B2C opportunities for LTL carriers as well.

Reduced truckload capacity, although pushing up truckload rates, is making LTL more affordable in lanes and weight volumes that previously were not. In other words, shippers are rethinking their routing guides. Higher truckload rates are leading shippers to choose LTL on marginal loads when full truckload may have been the obvious choice in the past.



LTL pricing increased 1.8% in the fourth quarter of 2017, and is expected to continue to rise by another 2% in 2018.

The top 25 LTL carriers are still accounting for 90% of the market. Yet, although there is expected to be continued growth for the industry, few LTL analysts foresee any major mergers in the coming year because most key carriers already have their networks established.

Dimensional Pricing

It goes by many names (DIM-weight, space-based), but dimensional pricing is a newer trend that reflects a shift from class-based rates to pricing that is determined primarily by the actual space taken up by a shipment. Clearly this is a big change from how LTL rates have been calculated in the past. Shippers will need to adapt their freight operations, rate management process, and budgets to reflect this different scheme of pricing if it reaches full adoption.

The complexity and challenge to shippers grows when each individual company's discounts are considered. Each carrier has different regulations governing its DIM calculations. This means an optimal pallet configuration for one carrier may not be the best for another. With DIM pricing a lot of the old assumptions don't apply anymore — now the best routing for an order is not necessarily the fewest pallets. Or, there are times when paying the dimensional rate is less expensive than paying based on actual weight.

The method is not without its critics. Shippers have quickly realized that there is little about DIM pricing that is simple. The calculations behind it, and the carrier rules that control it, are hard to understand and every calculation is complex. In LTL, 2018 will likely be a make-or-break year for shipper acceptance of this new practice.

Uber for Freight and Logistics Startups

LTL carriers should take notice of the many Uber for "X" companies and other startups circling the logistics industry. Some are introducing clever non-traditional freight solutions that have the potential to compete with LTL carriers. And, as people get used to leveraging different crowdsourcing solutions (like they have with Uber as an alternative to taxis) it is probably just a matter of time until the marketplace becomes similarly comfortable with how it ships LTL orders.

On a positive note, carriers and technology are getting better at capacity planning and process optimization at each step in the shipping process — including maximizing trailer utilization. When LTL carriers use their equipment more efficiently it means lower operating costs and, hopefully, lower rates.

LTL carriers play a key role in how the US economy operates. It's a positive for everyone when LTL carriers are healthy and their networks are functioning well. The general trend towards a growing ecommerce market and customization means that LTL carriers are well-positioned to remain strong and grow — because neither trend is one that anyone expects to end soon.

IMPACT 1

Improvements Made by People ACTing as 1

Transportation Impact sponsors NBA stars Dikembe Mutombo and Steve Smith (back center) along with former Harlem Globetrotter Dexter Williams (front, camera right), as they put on a one-of-a-kind basketball camp for the local Boys and Girls club.

IMPACT1

Improvements Made by People ACTing as 1

In late 2016, while attending the INC 5000 conference, Transportation Impact's Vice President of Sales Berkley Stafford heard Tony Robbins speak about how a company was giving back to the community by donating both time and resources. Excited by how this concept would be a perfect fit for TI's ethos of philanthropy, Berkley took the idea home with him to Emerald Isle.

Since its inception in March 2017, IMPACT**1** has provided more than $1 million in tangible, targeted, life-altering support to the community of Emerald Isle and surrounding communities.

From this seed germinated IMPACT1 — Improvements Made by People ACTing as 1 — a pledge to provide 1% in goodwill services, 1% of employee time, and 1% of company profit to the community.

"One of our founding principles is to give back to our community," says Co-founder Keith Byrd. "We also want our people to have that feeling of giving back, and IMPACT1 is a perfect way to do that."

Each employee has 20 hours of paid time each year to use in volunteering, half for a company-sponsored charity and half for a charity of their choice. This time spent working to help others has had a profound effect not only on the recipients, but also on the employees themselves.

"IMPACT1 means not isolating ourselves from the surrounding community," says Wesley Hitson, Programmer. "I enjoy looking for volunteer opportunities with different organizations in the area. It allows me to get a sense for the work that others are doing and affords me the opportunity to help other people in varying ways. It makes me proud to say that I work for a company that gives back so generously."

The spirit of giving that pervades the company also acts like a magnet, attracting employees who also embody that spirit. "Knowing that a successful business puts forth a program like this was certainly a motivational factor when accepting a position to work here," says Leslie Sutton, Partner Development Supervisor. "Social impact and business success are deeply intertwined, so a huge part of having a distinctive, compelling culture is having your people engaged around your organizational values. I love that our local community is more aware of the charitable deeds performed through IMPACT1 than of our business purpose — their understanding is like 'They do something with shipping or transportation, but I know they're nice people'."

Since its inception in March 2017, IMPACT1 has provided more than $1 million in tangible, targeted, life-altering support to the community of Emerald Isle and surrounding communities. It is also inspiring other local business owners to create their own IMPACT1 programs.

One such is Jimmy Farrington, whose niece, Jillian Farrington, took on the role of Marketing Coordinator at TI in September 2016. After hearing from Jillian about her volunteering experiences and seeing the effect in the community, Farrington now wants to bring the initiative to his landscaping company, Yardworks. "We are celebrating our thirtieth year in business this year. In thirty years we have done several fundraisers, sponsorships, and projects to help people. But IMPACT1 is a unique way to involve our employees and give back in a more consistent way each year, in addition to our other charitable efforts."

He also sees how collaboration could multiply the effect. "We would be so proud at Yardworks Inc. to team up with IMPACT1 and Transportation Impact. We have watched the great things TI is doing for the community and we want to be a part of it. And we hope that this will create a chain reaction for other local businesses to join in and help the community."

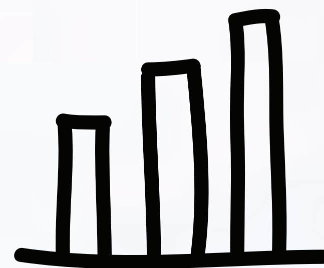
For all involved, the rewards of giving are great. To see the positive changes that your time, effort, and financial contributions bring about in people's lives gives greater meaning to the work you do when you return to the office. As Leslie Sutton describes it: "It's the happiness effect that takes over everyone involved — those receiving but also those giving can't help but smile."

Travis Burt, Co-Founder and Partner at Transportation Impact, offers a little encouragement after a gutterball while enjoying a day of bowling with a group of children from Boys and Girls Clubs of America.

Kristy Baldwin, Tyler Byrd, Kelsey Plummer, and John Howard join Hope Mission Ministries help locals in need.

Leslie Sutton, Neal Newhouse, Jillian Farrington, Jaredd Bell, and Andy Perry Christmas shop for less fortunate families.

The Full (Truckload) Story: 2018 Rates & Trends



It seems to be the best, and worst, of times for the truckload industry as we start 2018. Rates are strong, and demand is high from shippers.

At the same time, other very serious systemic and long-term challenges exist that carriers must overcome.

As the U.S. population grows, so does the trucking industry, with nearly 70% of shipped freight traveling by truck. The volumes and types of freight are also changing — as is how companies ship things. The following are some trends we'll see heading into 2018 which affect truckload market rates.

Growth in Demand

According to the American Trucking Associations (ATA), the volume of goods hauled by trucks is expected to grow by 3% annually over the next five years. Freight volume overall grew by 2.8% in 2017 and is expected to continue to grow by 3.4% in 2018 (and remain that way until 2023).

As truckload remains the dominant mode for freight, with more than 10.5 billion tons moved each year, every type will see growth, including ocean, air, and rail. After 2023, freight volumes are expected to decrease again to a more modest annual growth rate.

Rising Rates

Carriers are benefiting from a strong U.S. economy and demand. As a result, prices are strong, and many carriers are using this as an opportunity to increase their rates with low-margin customers. Some shippers are seeing rate increases of 40% or more from their core carriers.

Although carrier revenues in 2018 will rise with higher rates and demand, there is a concern over capacity — which is the tightest it's been in several years. Many shippers are finding it hard to cover loads, at any price. It's clear that carriers are giving priority to the shippers who've been the best partners to them in the past.

Cost of Diesel Fuel

According to Kiplinger's latest forecast on inflation, oil prices are increasing. Turmoil in the Middle East is partially to blame, and as the price of oil rises, so does the cost of diesel fuel. West Texas Intermediate ended the year trading in the high $50 per barrel range, which is nearly $20 more per barrel than its price two years ago. However, some experts predict prices will fall in the coming months, and 2018 may end with lower prices after all.

Driver Shortage

According to an ATA executive, the trucking industry is currently short by an estimated 30,000–35,000 drivers, a deficit that is projected to get worse. By 2022, that number could be as high as 245,000. This type of shortage will lead to serious and significant long-term problems for the industry. Trucking will need to recruit, on average, 100,000 new drivers each year to keep up with demand.

Legislation on the industry is not helping things either. The ELD mandate and stricter insurance requirements are predicted to cause even more turnover and some of an already aging workforce of drivers to retire early. The area most impacted by the driver shortage is, and will continue to be, full truckload. Yet long-haul, over the road drivers are the employees needed most.

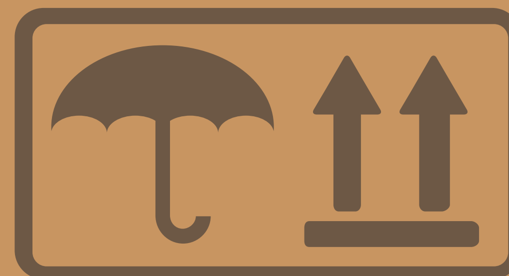
If the economy remains strong, there is little to indicate the high-demand–low-capacity environment will change for the truckload industry any time soon. In other words, there is no reason to think rates are coming down or any additional capacity will be coming into the market.

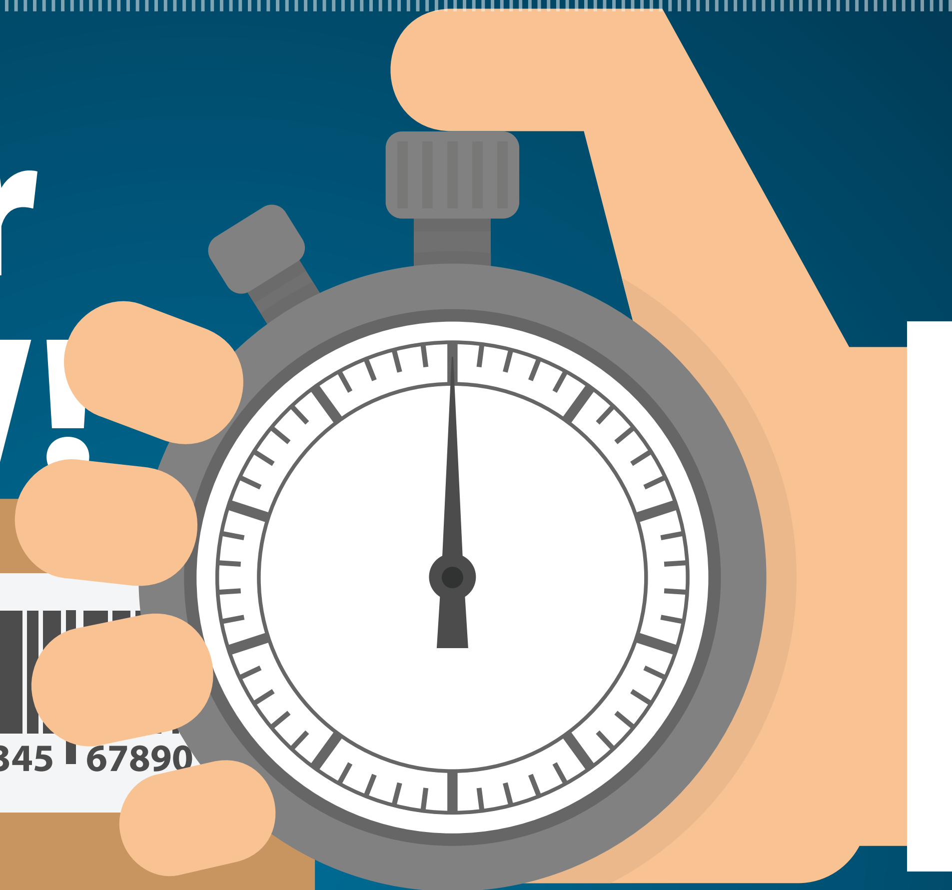
This current period shows why smart shippers are always working to build strong relationships with their carriers. Taking steps now to build the best possible carrier portfolio will provide dividends through the end of 2018 and beyond. Q

"According to an ATA executive, the trucking industry is currently short by an estimated 30,000–35,000 drivers, a deficit that is projected to get worse."

The Customer Wants It NOW!

Rumblings of a revolution in the last mile.



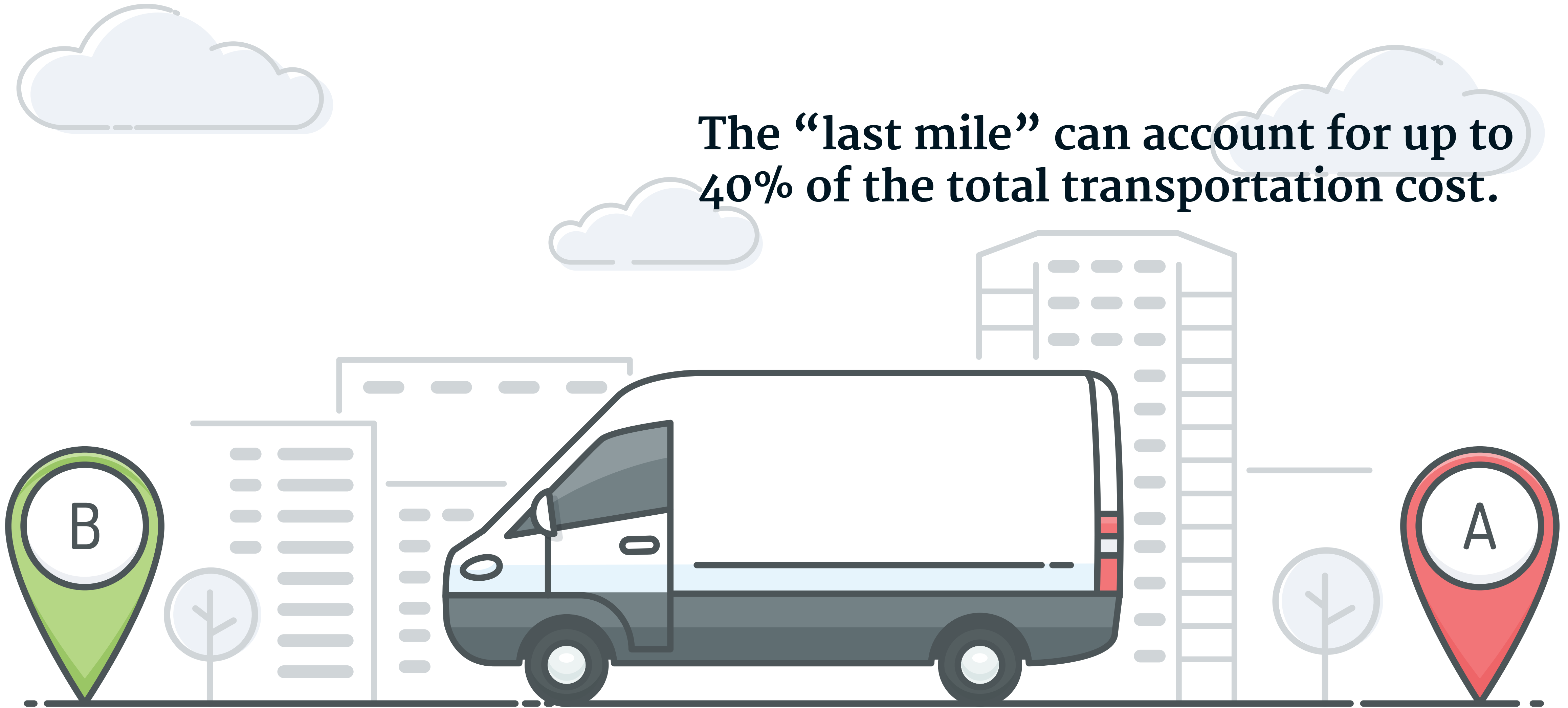


Blame it on Amazon. The company's much-cited "obsession with the customer" gave consumers en masse a taste of what it was like to be the center of a merchant's world, and now they're not willing to go back to the pain and suffering of how it used to be.

That's a cynical (and ever so slightly exaggerated) perspective, but the fact remains that consumers have discovered the joy of (almost) instant gratification, and it's becoming an ever-larger factor in their decision to purchase. To 83% of respondents in Deloitte's 2016 holiday survey of consumer spending intentions and trends, fast shipping meant delivery within two days — in 2015, 63% considered three- or four-day shipping to be fast.

This need for speed in delivery is causing the so-called "last mile" (anywhere from a few blocks to 100 miles, "last mile" is the term for the final step of the delivery process from a distribution center or facility to the end user) to itself take center stage as shippers try to figure out how to get the package to the door in time to keep the customer happy — and still make a profit.

There's a revolution rumbling into gear in last mile logistics, so let's take a look at how this crucial segment might change in 2018.



First, some numbers to provide context and set the scene.

U.S. ecommerce sales in 2016 totaled $394.9 billion (8.1% of U.S. retail sales), a 15% increase from 2015.

Ecommerce sales worldwide are expected to reach $2.4 trillion in 2018.

The “last mile” can account for up to 40% of the total transportation cost.

Labor accounts for approximately 60% of total delivery cost.

At least 25% of ecommerce customers are willing to pay a premium for same-day or instant delivery.

Amazon Prime (unlimited free shipping in two days or less) has been growing 30% per year since 2011.

The value of the last mile market opportunity is estimated at anywhere from $3 billion to $13 billion.

Driver as upseller

In a twist on the old travelling salesman, the concept of using delivery vehicles as mobile mini-warehouses is gathering steam. With big data analytics, shippers can predict what other items a particular customer might like. Armed with this information, the driver can suggest and upsell as she hands over the already purchased package.

There are challenges to be worked out, such as the handling of returns, accounting, and regulations governing interstate commerce, but it's a potentially fruitful way to recoup some of the cost of the last mile.

Proliferation of analytics and warehouses

Again setting the pace, Amazon had double-digit launches of sortation centers in 2017, to add to its 258 facilities in the United States, including 30 outbound sortation centers, 44 delivery stations, and 103 fulfillment and redistribution centers, with 102.6 million square feet of active distribution space and plans for 56 new facilities. The company is making great use of urban warehouse space to help it to fulfill its commitment of two-hour delivery to Amazon Prime customers. Its mid-2017 purchase of Whole Foods also gave the company 431 more prime-location distribution nodes. Expect other shippers to open new warehouse and sortation space in 2018 to move their products closer to their customers.

Shippers without that kind of bandwidth will be using data analytics to maximize efficiency in warehouses and distribution centers to both push down costs and get orders out the door faster.

Removal of the humans

Autonomous vehicles, drones, robots — not so long ago, these were mostly the stuff of futuristic movies, but they're now making a very real move into the last mile, with Europe leading the way.

Amazon is testing delivery drones in London; Deutsche Post (the German postal service) is testing a Postbot that can carry packages of up to 150 kg and follows behind the mail carrier; and, also in London, luxury brand Hermes is testing an intelligent robot that can deliver to the right house without human assistance, using the mobile phone network for navigation and control.

The desire to slash the labor cost of servicing the last mile and also bypass the increasingly heavy traffic of city streets (not to mention the lack of parking space) is easy to understand. It'll probably be 5–10 years before automated options are ready for mass use, but they do offer a viable solution to the problem of optimizing delivery over the last mile.

Crowdsourcing: the Uber effect

The announcement of the launch of Uber Freight in mid-2016, followed by the company's purchase of Otto, an autonomous truck company, led to fears of the “uberization” of logistics. The heart of the new business line is a digital freight matching (DFM) app similar to Uber's ride-sharing platform that allows shippers to connect with truckers in real time. And it's not the only one. Convoy offers a similar app, and UPS has partnered with Deliv, a last-mile package delivery solution that employs the sharing economy business model. And there are many other tech-heavy, asset-light startups looking to break into this niche.

On the surface, the “hail a cab” model seems like an excellent fit for the “we need to deliver this package to the door now” urgency of the last mile. However, the nuances of the logistics landscape and the complexities inherent in freight and parcel shipping — such as cargo security, highly specialized equipment, vetted and licensed drivers, regulatory compliance, and dealing with service issues like equipment breakdowns — mean that services built on DFM apps are unlikely to carve a big hole in the market for some time yet.

And, of course, there's the people factor. Shippers who have established long-term relationships with strategic partners have to weigh the benefits of on-demand pick-up against knowing that their partner understands the delivery and regulatory policies of all points in the supply chain and the industry as a whole. Shippers also need the reassurance that their logistics partner has the capacity and capability to deal with any of the myriad unforeseen events that can arise in the process of moving a shipment to its destination.

Of course, no one can accurately predict the future (even Nostradamus struck out on this score), but we can say that in December 2018 when we look back at this year, the changes we see will have been driven by the need to get the goods to the customer when the customer wants them, and not a minute later.

COMPARING & QUANTIFYING UPS & FEDEX 2018 GRIs

With UPS and FedEx both having made their 2018 GRI announcements, it's now possible for shippers to get a complete understanding of the impact.

The increases illustrate several things about the current state of the parcel shipping industry that will be discussed in this article—not the least of which is the massive impact on both carriers of ecommerce and the growing demand for B2C delivery.

It's well understood that the "average" 4.9% increase UPS and FedEx announced is meaningless to any one shipper. The details of your shipping patterns and rates are what matter.

The largest impact we've seen on a customer is a 17.6% increase. As a SmartPost shipper, and now subject to dimensional charges, they're now faced with a lot of packages shipping at 10 lbs. or more based on DIM pricing. These are packages that shipped based on a much lower weight in the past.

This example illustrates a main take-away from this year's GRI's:

Typically, discounts at 10+ lbs. for SurePost/SmartPost drop drastically compared to discounts enjoyed at 1 to 9 lbs. This is important for SmartPost shippers whose packages could now be DIM'd to 10+ lbs. billable weight. These shippers need to pinpoint those packages, and potentially move them into the FedEx Home Delivery network to avoid this increase. Unprepared shippers will be in for a big surprise come 2018.

To help you understand what the impact could be for you and how you can proactively prepare for the changes, we'll go into more depth on SmartPost and SurePost later in this article, because they are the services impacted most by this year's announcements.

In the bigger picture, looking closely at where the increases are occurring (or not) helps tell the complete story. This shows not just where shippers will feel the most pain, but where opportunities for cost reduction may lie as well.

When large increases happen with specific lanes and services, it's not always about driving more profit for the carrier (although that's part of it). It's also because carriers are trying to adapt their network and revenue model to keep up with an evolving marketplace. In other words, just like retailers are desperately trying to integrate ecommerce into their sales channels and supply chains, small parcel carriers are struggling with the growing demand B2C growth has placed on them. The carriers are having to figure things out on the fly just like everyone else.

The good news is that change and a little bit of chaos in a marketplace also creates opportunity for those who are willing to put in the effort.

More Similar Than Not

There are some contrasts in the increases announced by both carriers that are helpful to know about, for example:

In 2017, UPS SurePost and FedEx SmartPost had the same Minimum Charge. In 2018, FedEx will be 2.07% cheaper than UPS.

In 2017, UPS was less expensive in 7 of 10 domestic Delivery Area Surcharge (DAS) categories. In 2018, FedEx will be less expensive in 8 of 10 DAS categories.

In 2017, UPS had the cost advantage across many announced surcharges. In 2018, UPS will either match or exceed FedEx on most surcharges.

Two additional differences include the Peak Season Surcharges announced by UPS in June 2017, and that many parts of its 2018 GRI went into effect on December 24, 2017.

Contact us for a complete chart comparing UPS and FedEx Service Minimums and Surcharges for 2017/2018.

The following chart compares the cost impact of switching from UPS to FedEx at different service levels for the past two years. (A positive percentage means UPS is less expensive.)

Domestic Service	2017	2018
Next Day/ Priority Overnight	-2.0%	-0.8%
Next Day/ Standard Overnight	-1.2%	-1.1%
2nd Day Air AM/ 2Day AM	-0.9%	-0.2%
2nd Day Air/ 2Day	-0.3%	-0.3%
3-Day Select/ Express Saver	13.4%	13.8%
Ground	-0.2%	0.1%
SurePost/ SmartPost	0.0%	-1.4%

Of note is that FedEx continues to be 13+% higher than UPS for 3-Day service. At the same time, as of 2018, UPS becomes notably more expensive when comparing SmartPost and SurePost. The two carriers' Next Day Air rates will become more similar.

Looking more closely at the 3-Day Select/ Express Saver comparison, it is important to note that differences in these rates are highly dependent on zone (see below). Although always higher, the premium that shippers pay with FedEx for this service is far greater on shorter zone shipments (Zones 2 to 5).

Despite these differences, there are many ways the carriers will become more aligned in 2018.

All Things Equal

Certain announced changes have eliminated some advantages shippers may have had with one carrier over the other. And while the changes have the potential to impact all shippers, ecommerce (B2C) companies and those with larger shipment sizes or shipments

that require additional handling are the most impacted.

For example:

UPS changed the DIM weight divisor on small packages measuring < 1 cubic foot from 166 to 139, equal to FedEx.

UPS changed the Large Package Surcharge calculation, which now has a pure length element. In the past, length plus girth could not exceed 130". Now, the surcharge is added if the length alone exceeds 96", regardless of girth, similar to FedEx.

FedEx SmartPost will now apply dimensional pricing, like UPS.

FedEx made the notable increase of a new 2.5% surcharge on third-party-billed invoices (which is common in ecommerce). This aligns FedEx with a fee UPS has been charging since January 2016.

The similarities extend to some services as well, but perhaps for distinct reasons, as we'll explain.

Making Money Where They Can

Clearly, the market effects of ecommerce on UPS and FedEx have shaped many of their announced increases. But there are signs that potential new competition in the marketplace is having an impact too — and may reveal an awareness of what the USPS and Amazon are up to.

This observation is based on the fact that many of the larger increases are being made on expedited and longer distance shipments. The USPS and Amazon represent a clear and present threat to UPS and FedEx in the domestic B2C Ground delivery space. Conversely, neither is much of a threat (at least for now) to the carriers' air volumes. Based on the announced increases it appears both carriers are trying to pad margins where they can.

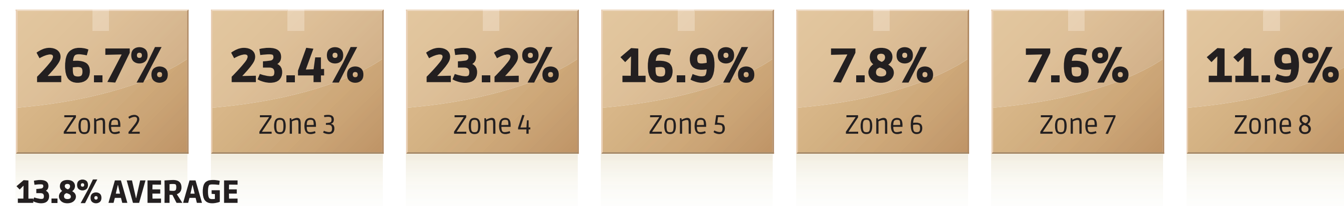
Understanding that express services are less likely to be used for low-zone shipping, and more for higher zones, it's clear the real impact of the rate increase affects costs more than the 4.9% "average" would imply.

There could be other factors at play too, however.

One possibility is that both companies' Ground networks are getting more efficient and able to increase the volume of packages in those lanes for 2- or 3-day delivery, which minimizes reliance on air freight. Shippers are also better at keeping 2- and 3-day shipments in the Ground network and not having to pay for a premium-level service. So, each carrier's goal is to protect or improve margins when putting a package in the air is necessary to meet the delivery commitment.

3-Day Service

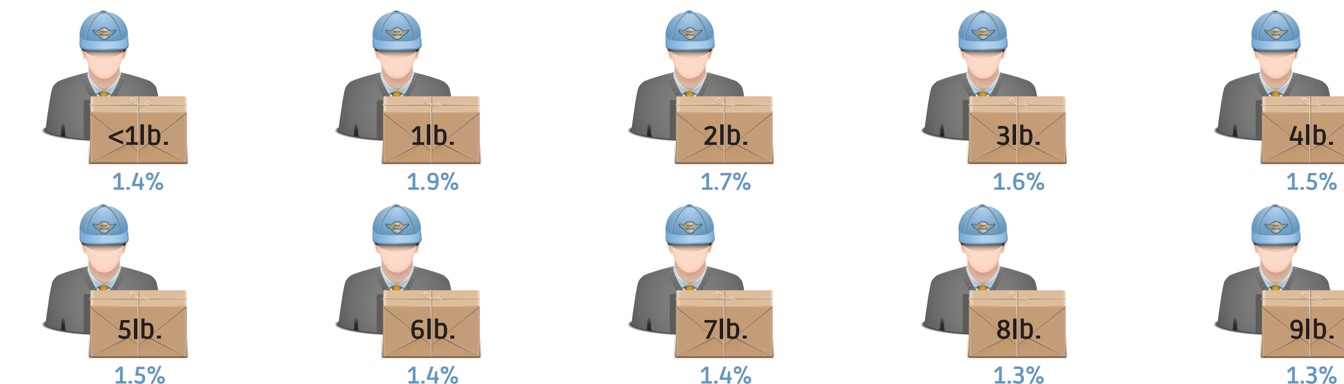
% INCREASE UPS TO FEDEX



13.8% AVERAGE

Postal-Parcel Hybrid by Weight

% SUREPOST (UPS) GREATER THAN SMARTPOST (FEDEX) FOR ALL ZONES



1.4% AVERAGE

SAMPLE FEDEX INCREASE

Service	Weight	Zones 2-4	Zones 7-8
Priority	1 – 30 lbs.	4.40%	5.70%
2-Day	1 – 30 lbs.	5.20%	6.80%
Saver	1 – 30 lbs.	3.70%	7.10%

SAMPLE UPS INCREASE

Service	Zones 2-4	Zones 4-8
Next Day	2.80%	5.00%
Next Day Saver	3.80%	5.90%
2-Day AM	3.00%	7.00%

SurePost and SmartPost Have Their Day

The trend towards B2C is, of course, an opportunity for SmartPost and SurePost. There are a few interesting notes that users of either service should be aware of.

As has already been highlighted, SmartPost is adding a dimensional weight divisor, the same as FedEx Express and FedEx Ground. At the same time, SurePost rates are increasing more than other UPS Services (and much more than the announced 4.9% average). For shipments < 10lbs., which is the majority of all parcel volume, the overall increase for UPS is 6.8%, and for FedEx 5.4%.

As identified earlier, UPS's SurePost has become on average 1.4% more expensive than FedEx's SmartPost. See the "Postal-Parcel Hybrid by Weight" infographic on the previous page for a breakdown of the average difference by weight for all zones.

The current rates for both services may show that the small parcel industry has reached a tipping point with regard to the relative importance of B2B and B2C shipping. For the first time, UPS's minimum rates for SurePost exceed its minimum for both Ground Services (FedEx's are equal). This also shows acceptance from the marketplace that the service and trackability of the USPS is either not that bad or just not important enough to justify a premium, as the market had perceived in the past.

Shippers need to take note — surcharges (such as UPS's Over-Max) are increasing as much as 233%!

They Sell That Online?

As ecommerce grows, shippers are pushing the boundaries of what consumers get delivered to their homes. Purchases like mattresses, tires, and other large, oddly shaped items are common — and it is putting a lot of strain on the carriers' networks.

Many of the 2018 surcharge increases are taking on this problem, with the ultimate goal of getting these types of packages out of each carrier's small parcel network. Common surcharges like Additional handling and Oversize are not just going up, but how they are calculated is changing too.

Shippers need to take note — surcharges (such as UPS's Over-Max) are increasing as much as 233%!

As one example, consider an "Oversized" package 150 lbs. in weight. The FedEx surcharge has increased from $115 to $300. UPS increased from $150 to $500.

Summary

Ultimately, as the previous example illustrates, UPS and FedEx are working to not only generate more revenue, but also change shipper behavior. At the same time, it is clear that driving more revenue out of ecommerce shippers is still their main intent.

From the shipper's perspective, understanding the impact of the GRIs is not only about cost avoidance. Diligence will uncover opportunities to improve service performance and cost efficiency as well. Reevaluating how carrier routing decisions are made in light of these service and surcharge rate changes can mitigate these costs.

Our advice for shippers is to forget your preconceived ideas about which carrier is cheaper and how you are using (or not using) them. These rate increases are game changers, and the effect of ecommerce on small parcel shipping and how the carriers operate is relevant to all shippers — not just those focused on B2C. Everyone needs to recognize that many of the reasons one carrier may have been chosen over the other are no longer valid.

The only way to be sure how these complex changes affect your operation is to apply the increases to your company's shipping patterns. If you cannot do it yourself, find a technology or partner that can. Need an easy solution? Simply contact us at Transportation Impact (252.764.2885) and we'll provide a deep, no-obligation analysis of how the 2018 GRIs from UPS and FedEx will affect your shipping costs next year.

The Road Ahead

BIG THINGS COMING TO THE LOGISTICS INDUSTRY IN 2018 AND BEYOND

With 2017 in the rearview mirror, we are excited to look forward to 2018 and what the future holds for the logistics industry. Not surprisingly, many logistics professionals are hoping for a better year than last — tight capacity and increasing rates have been tough on shippers. The overall economy is doing well and has created a seller's (i.e., carrier's) market, for sure. Adding to the challenges is that consumer demand for ever faster and cheaper shipping continues.

But these issues are really nothing new — dealing with sky-high customer expectations and rate swings is a normal part of life for shippers. What's equally important is to consider all the other things affecting the logistics industry — and there are many.

Service Expectations & Delivery Options

For small parcel shippers, ecommerce has clearly impacted the business more than anything else in a very long time — if not ever. Our article in this issue comparing the UPS and FedEx rate increases for 2018 tells that story in detail. The bottom line is demand for B2C delivery is growing unabated, with small parcel carriers scrambling to keep up in terms of both providing the service, and how to price it to their customers.

A strong economy also creates natural growth for over the road freight. The inbound movement of goods to ecommerce fulfillment warehouses relies on truckload (TL) and less-than-truckload (LTL) carriers, who themselves are trying to secure their own place in the new online retail world. Customers are buying more large items online that can't be efficiently delivered by UPS, FedEx, or the USPS, which is presenting new opportunities for these other carriers.

Entirely new delivery options are appearing as well to meet this new demand — crowdsourcing options like Deliv, Roadie, and Uber Freight to name a few. Much of the potential with these new types of "carriers" lies in their ability to provide same-day delivery. Amazon is making some of its own deliveries now too — even on Sundays. This is something the big guys simply aren't capable of (at least right now). One thing seems obvious: the carriers who dominate home delivery today may not be the market leaders in the future.

Getting Connected

Logistics technology is having its day and has become a big part of the Silicon Valley start-up scene. The creation of new, technology-based solutions is driven by a combination of new market opportunity — as is the case for the crowd-sourced delivery services — and the drive for tools that enable supply chains to operate more efficiently.

A notable example of the latter is Tesla's late-2017 announcement of an all-electric semi-truck. Companies will begin to take delivery of those vehicles in 2019. This solution attempts to improve the obviously important factor of fuel efficiency in the trucking business. Tesla claims the new truck will get 400 miles per charge, fully loaded. It's hard to think of a more impactful change to the industry if the technology lives up to the hype. Fuel — with all its variability in cost — is an important expense line item for carriers and shippers alike.

If anything has the potential to have an equal impact on the industry it will be self-driving vehicles (SDVs). According to the ATA, the trucking industry will be short by as many as 50,000 drivers by 2018, and this deficit is expected to only worsen in the future. This could lead to very serious issues in the industry. The long-haul segment of the market, which offers lower pay and longer time away from home for drivers, is the one that needs drivers the most. Many companies are already testing SDV technology on highways, and long-haul trucking is a perfect initial use case for it.

These technologies together will be transformative for the logistics industry. The two largest expenses for carriers are labor and fuel, so any technology that reduces or eliminates transportation's dependence on either is clearly a big deal.

Discussions about big data and blockchain as two other disruptors will continue into 2018 — and hopefully these will start to reach their potential. Actual business use cases for either in the logistics space are very limited for now, but it seems only a matter of time before our paperwork- and process-intensive industry is made more efficient by one or both of them.

Looking to the future is fun and interesting, and the pace of change has never been greater. Logistics is fast becoming a leader in the development and adoption of technology, whereas in the past it was often a laggard.

The adoption of these technologies is all but guaranteed by a logistics industry which puts a premium on doing things better, faster, and cheaper. As each of these new technologies proves itself a means to improve efficiency, and way to meet ever-increasing customer expectations, it will undoubtedly be put to good use. Q

What did you do
before your first cup of coffee?

- Emailed $419 worth of automated address corrections to distribution center.
- Scheduled monthly email audit-savings report for parcel review meetings.
- Set up GL coding for web orders, service department and warehouse.
- Noted $1,284 in soft-dollar savings opportunities and customized dashboard with Air-to-Ground report.

Schedule a 20-minute Parcel Intelligence Dashboard demo. Learn how you can optimize your shipping spend and capture all your FedEx and UPS refunds.
transportationimpact.com // info@transportationimpact.com // 252.764.2885