"Small Parcel: How to Make Sure You're Not Leaving Money on the Table"

By Barnali Dasverma, Director, Treya Partners

July 2013

"We just tried renegotiating our small parcel contract and were told we have the best possible pricing given our volume. Look, I'd love to save money here, folks, but we already have the best deal we're going to get." These were the words a client's Operations Manager greeted us with at our very first meeting with him. Several months later, he was thrilled to report to his CFO that by working with our firm – Treya Partners - he had saved 15% on the company's small parcel expenditures. This is not an uncommon story. In our procurement consulting firm's experience, small parcel is often a spend area with tremendous savings potential through not only rate reduction, but by implementing demand management and potentially optimizing inbound shipping programs as well.

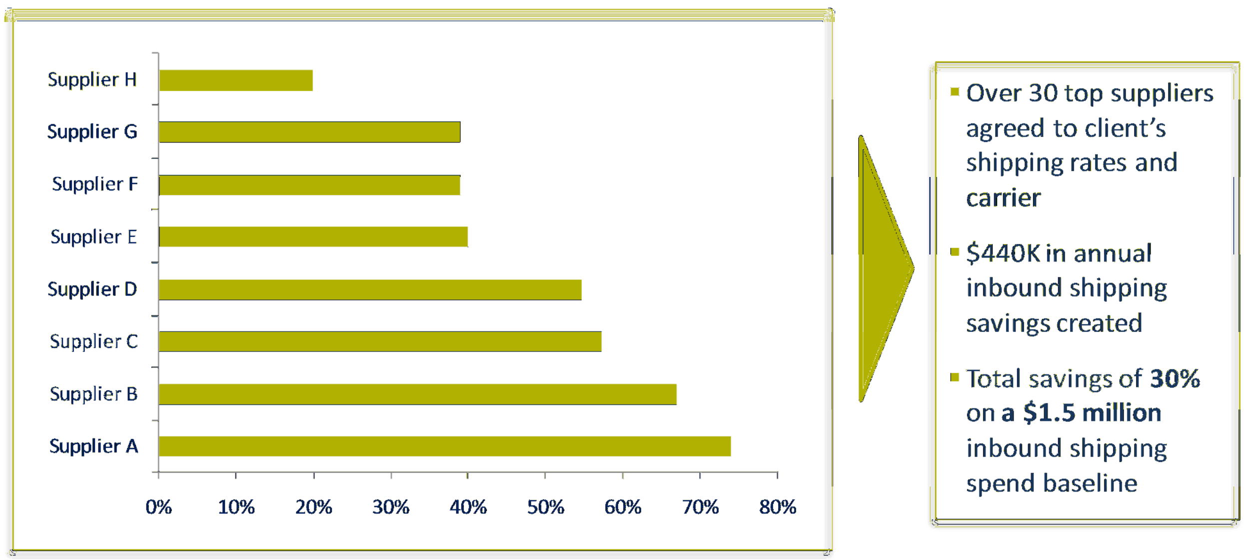
Rate Reduction. When embarking on a small parcel spend management effort, the first step is of course to benchmark your organization's current rates and ensure you're getting the best pricing given both your usage patterns and your volume. The easiest way to do this is having a third party consultant take a look at your rates, which they are often willing to do at little to no cost. It is very helpful to have a detailed analysis conducted (as opposed to just comparing "list discounts"), since depending on your shipping profile, charges like minimum package charges, fuel surcharges, residential surcharges, and additional handling charges, can have a very big impact on your overall cost. If you're not already getting best-in-class pricing for your volume, a robust competitive process backed up by detailed usage information and a sound understanding of market pricing will help you obtain competitive pricing from the carriers. Again, it's very important to have a full understanding of your usage patterns to make meaningful and accurate pricing comparisons.

Leveraged Purchasing. If you're not a large enterprise, an additional option to consider that can be very effective in maximizing small parcel savings and ensuring ongoing category management is the use of external Group Purchasing Organizations or GPOs. For example, the client quoted at the start of this piece was able to achieve 15% in savings on a $1.3 million annual small parcel spend baseline by joining our firm's GPO contract. This company effectively pooled its volume with many other companies, and thereby was able to take advantage of pricing typically offered to organizations with much greater spend parcel spend. Many companies are going down this path to enhance their spend leverage and improve upon the rates they can receive on their own from the carriers.

Demand Management. "Demand management," consulting-speak for aligning purchasing behavior with actual business needs instead of wants, is another important element in small parcel savings maximization. It's important to review your organization's historical shipping data, understand usage patterns, and ask critical questions. For example, how often is your company using 2nd day and 3rd day express shipping, and how often is it actually necessary? Would your business needs still be satisfactorily met if 3-5 day ground shipping was instituted as the company norm, instead of 2 day shipping? In addition to these types of questions, it's important to understand where the majority of packages are shipping from and where they are going. If the majority of overnighted shipments are in fact going from one large metropolitan area to another, there's a good chance most packages can still arrive within a day while the company just pays for 3-5 day ground shipping. Your incumbent carrier or a consulting firm should be able to conduct a detailed analysis of your recent shipping profile and identify areas for policy adjustment and associated usage optimization.

Inbound Shipping Optimization. For companies that have already ensured they are getting best-in-class small parcel rates, there remains another opportunity for small parcel savings. While many organizations are getting a great deal on outbound shipping, they are often paying high shipping rates for packages they receive from others, like their suppliers. For companies that receive a significant amount of products – for example, value-added resellers or manufacturers – this is a major area worthy of investigation. The first step is identifying your company's highest spend suppliers and understanding their contractual shipping terms. There's a strong likelihood that some or all shipping charges are being passed through to you. If that's the case, you then need to ask your suppliers for the rates that are passed through and benchmark rigorously – in our experience, many suppliers pass through retail or close-to-retail shipping rates, as shipping serves as a profit center for them. Once the savings opportunity is identified (we have found savings over70% in the past), ask suppliers to start using your contracted carrier and shipping account instead of theirs – most will agree - some grudgingly, others with ease. The figure below depicts the savings achieved by one client from analyzing their inbound shipping rates.

Inbound Shipping Rate Savings by Supplier (%)



Don't Leave Money on the Table. Ultimately, each organization's small parcel rates, usage, and needs are unique – but the fact that many are leaving money on the table is not. If procurement cost savings are a priority for your organization, give small parcel a hard look, even if it has already been addressed in the recent past. Bring in an external consultant for complimentary benchmarking, explore opportunities to join leveraged purchasing agreements, analyze your spending patterns to determine if demand management opportunities exist, and last but least, figure out if inbound shipping is an area where you're overpaying. Be sure to not leave money on the table.