# COMPARING & QUANTIFYING UPS & FEDEX

## 2018 GENERAL RATE INCREASES

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**With UPS and FedEx both having made their 2018 General Rate Increase (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

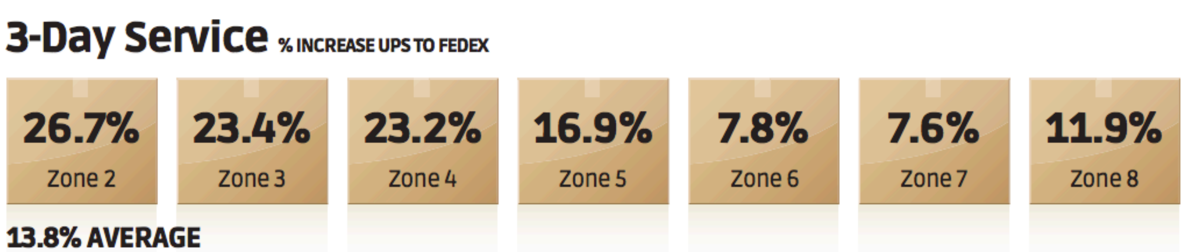
There are some contrasts in the increases announced by both carriers that are helpful to know about, for example:

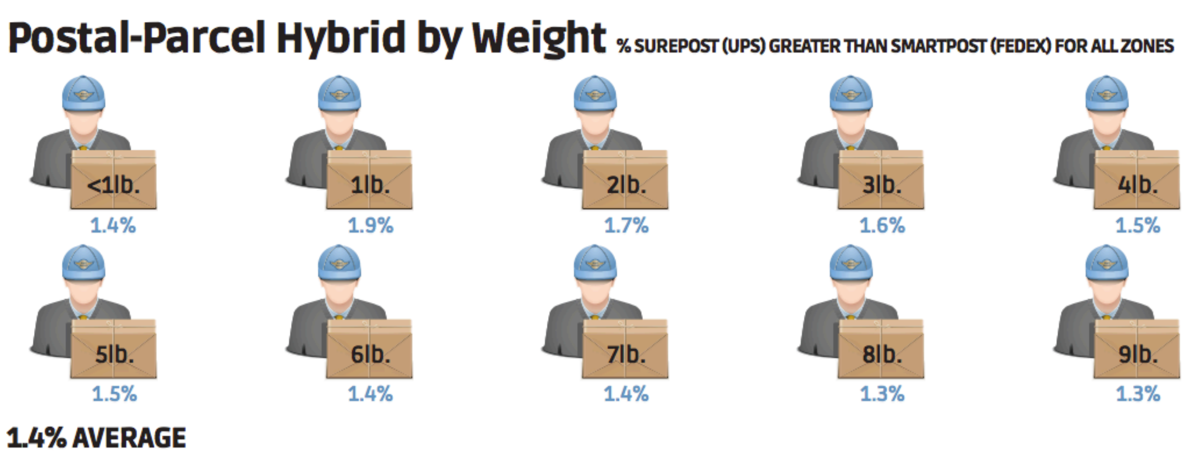
- In 2017, UPS SurePost and FedEx SmartPost had the same Minimum Charge. In 2018, FedEx will be 2.07% cheaper than UPS.
- In 2017, UPS was less expensive in 7 of 10 domestic Delivery Area Surcharge (DAS) categories. In 2018, FedEx will be less expensive in 8 of 10 DAS categories.
- In 2017, UPS had the 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 will go into effect on December 24, 2017.

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.) 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.

| 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% |

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.

## 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 page two 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.

## 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?

**SIB Fixed Cost Reduction** will help you navigate the changes and understand how this affects your company's shipping costs.

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