

BIG GROWTH IN SMALL PACKAGES?

THE U.S. POSTAL Service's Parcel Select Regional Ground, introduced April 17, offers discounted rates for low-weight, short-range residential shipments. It's available to shippers of at least 10,000 pieces annually who until now were more likely to use standard ground parcel service or Parcel Post.

Size restrictions limit parcels to less than 5 pounds and 0.35 cubic feet — about the size of two reams of paper or 25 DVD cases — with rates ranging between \$3.78 and \$5.43 up to Zone 3, a relatively short distance.

How does this service compare to competitor offerings, workshare partners and existing postal services? How can some shippers benefit, and what does it offer the Postal Service?

Regional Ground is targeted at residential ground parcels of low- or medium-volume shippers, offering savings for shipments in Zones 1, 2 and 3, or within 300 miles. The new service offers an advantage over the daily ground shipping rates offered by UPS Ground and FedEx Home Delivery, which require surcharges for rural and residential delivery. Regional Ground's savings range from 8 to 65 percent over all zones and weights.

Parcel consolidators such as FedEx SmartPost or UPS SurePost provide an advantage for shippers receiving discounted rates or for long-distance shipments. For a sample customer, consolidation prices range from 6 to 25 percent lower up to Zone 3 and as much as 54 percent lower for the longer Zone 8 distances. For short-zone shippers or those without sufficient volumes for a discount, Regional Ground offers a better alternative.

Compared to Parcel Post, savings range from 19 to 37 percent from 1 to 5 pounds for Regional Ground. Because Parcel Post and parcel ground services are door-to-door, a portion of these savings will be spent on delivery to the Postal Service.

For Zones 4 to 8, Regional

Ground's rates are higher than other parcel services. These higher rates allow the USPS to influence shipper practices by encouraging the separation of non-regional shipments, but also are designed to offer a convenience factor for regional shippers by accommodating small volumes going to longer zones.

One potential surprise is the number of packages this program can have an impact on. Although the private parcel carriers handle packages of up to 150 pounds, some 45 percent of ground packages fit in the "featherweight" category of 5 pounds or less. Of these, one-third travel less than 300 miles. Although they have lower base prices, offsetting factors such as minimum rates, lower discounts for shorter zones, and higher surcharges for residential and remote area delivery addresses result in these parcels accounting for 14 percent of revenue.

Shippers using a regional network of distribution centers or a single shipping location near a heavily populated area could quickly reap benefits from the program. One candidate is Amazon, which uses more than 20 fulfillment centers across the U.S. and plans to add at least three U.S. centers this year. All of these DCs are within 150 miles of a Regional Ground service facility.

Another potential customer is the smaller shipper using Amazon as a marketplace. For example, a small reseller of electronics and games based in the Los Angeles area can use the Regional Ground program for all shipments destined for Southern California.

Though only about 100 postal facilities are authorized to accept Regional Ground shipments, the 300-mile footprint covers nearly all of the contiguous U.S., serving more than 95 percent of the population.

For perspective, say a shipper sends 40 packages a day; all are Zone 3 and 3 pounds. The UPS Ground daily

shipper rate of \$11.17, with residential and delivery area surcharge, is \$6.32 higher than Regional Ground delivered to a postal facility. That translates to more than \$250 a day, or more than \$64,000 a year. If the shipper can arrange for delivery to the postal facility for less than \$250 a day, the company saves money. Shippers can use local couriers and regional parcel carriers that already perform similar deliveries for consolidators.

Is the program a positive for the USPS? As minimum volume requirements for consolidators shrink, the Postal Service is protecting its business by offering lower-volume shippers better rates before they move to consolidation. The goal isn't to replace the consolidators or eliminate the workshare program, because it's better for the Postal Service if those parcels remain with their partners. The lower linehaul costs of consolidators makes them better equipped for long-distance shipments.

Continued expansion of consolidation can prove detrimental, however, because an increase in volume can lead programs such as SmartPost to deliver directly to the customers in select markets with higher density, with the Postal Service used mainly for rural ZIP Codes.

Overall, Regional Ground may result in conversion from other postal services, but also should draw new customers from parcel carriers. The new volume should improve margins, considering little operational change is needed in the almost fixed-cost postal structure.

The program can help shippers and the Postal Service, but it may limit future growth prospects of consolidators. It allows the USPS to increase utilization of its regional network. **joc**

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