Parcel Shipping Spend Management

A source of Enterprise Value

Contents

Parcel Shipping Cost

A once hidden source of cost reduction, now easily drives increased EBITDA and enterprise value in one quarter, with zero risks.

> “The first rule of investing is don’t lose money. The second rule is, don’t forget rule number one.”
>
> - Warren Buffett

Executive Summary

Private equity investors can increase enterprise value of portfolio companies by reducing parcel shipping costs. Parcel shipping costs have increasingly become a major expense for businesses, especially with the rise of e-commerce through buyer preference for online shopping. Portfolio companies that rely on parcel shipping can optimize their shipping strategies, negotiate better rates with carriers, and invest in technology to improve operational efficiency. By reducing parcel shipping costs, portfolio companies can materially improve their margins and increase their profitability

Introduction

For even the most cost-conscious and disciplined private equity firms, one line item in portfolio companies' operational budgets historically remained impervious or ignored in efforts to control costs, bring spend under management and capitalize on economies of scale: parcel shipping. But with advanced data science now readily accessible via Software-as-a-Service, businesses can easily and quickly lower their shipping costs – often radically.

New technology, including analytics, machine learning and artificial intelligence provides actionable insights that reveal the missed opportunities for savings hidden among the many thousands of parcel shipments made daily in busy warehouses and provides organizations that do business with the largest parcel carriers with an opportunity to secure significant bottom line and top line gains.

This newfound ability not only presents private equity firms with an opportunity to dramatically lower the operational costs of their portfolio companies, but also to quickly vet during due diligence whether potential targets for investment or acquisition can be quickly made more profitable.

One private equity firm recently used the Reveel Shipping Intelligence™ Platform to quickly save more than $3 million dollars across seven mid-sized companies and to generate more than $24 million in enterprise value, but their experience is hardly unique. On average, portfolio companies can reduce their parcel spend by 22%, going directly to the bottom line.

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The Least Transparent Budget Line Item

Across industries and companies of all kinds and sizes, parcel shipping has remained largely unchecked and ignored in efforts to optimize operations and lower costs. Even among companies with highly refined fulfillment operations, the actual shipping of parcels to customers has remained an outlier tightly controlled by carriers like FedEx and United Parcel Services – a business function even highly disciplined organizations often have very little visibility into.

Despite its obvious importance – particularly today when so much business is done online and e-commerce is popular in virtually every market – parcel shipping is arguably the least transparent business function in many companies, with carriers like FedEx and UPS offering only basic pricing guidelines and each customer receiving bespoke terms and conditions in complex contracts that encompass many pages of fine-print details. More fundamentally, the very act of parcel shipping has historically defied standardization.

Each and every shipment is impacted by a complex web of variables, beginning with where it originates and where the parcel is being shipped to. Not only is each package typically different because of its contents, and subsequently its weight and size, but each is also subject to a host of additional variables. These include a myriad of surcharges, rules and fees that can dramatically impact what it really costs to ship any one package.

Not surprisingly, with thousands or even millions of shipments taking place on any given day in warehouses and distribution centers, businesses have struggled to gain an even basic understanding of their parcel shipping activity, let alone the granular level of detail business intelligence technologies have enabled them to gain in other areas of their operations.

No Way to Accurately Forecast Parcel Shipping Budgets

With thousands of unique shipments occurring at the same time and no ability to know where there are problems until the bill is received, shippers are operating blind. In fact, the majority, even those at sophisticated omnichannel retailers, do not have the shipping intelligence needed even to accurately forecast an annual parcel shipping budget.

This is readily apparent when one looks at the most basic perimeter of parcel shipping costs, the annual general rate increase, or GRI, of FedEx and UPS. Both carriers typically announce their GRI late in the fall or early in the winter, with the new prices going into effect shortly after the New Year. And not surprisingly, in most years the prices go up.

For the past two years, both carriers issued identical, and in both cases, record rate increases across the board – 5.9% for 2022 and 6.9% for 2023. On the surface it would seem to make sense for shippers to align their budgets by the same degree – planning to spend 5.9% more in 2022 (and 6.9% more in 2023) if they expect their shipping volumes to remain the same.

Unfortunately, such an approach would in no way capture the actual impact of either carrier's GRI. The reason? Carriers benefit from, and try to maintain, the lack of transparency that boosts their profits.

Neither FedEx or UPS include the myriad new fees, rules and surcharges they unveil in any given year in the GRI or on their rate cards, even though they usually have a dramatic impact on what it costs to send any one package. And because there is so much complexity involved, most companies have no way of knowing what their impact will be until they receive their invoice for the first quarter.

Customers will pay

10.2%

more in 2023

Customers will pay

9.1%

more in 2023

Consider a few examples of how this can impact businesses, based on an analysis of by Reveel's data scientists in which they took real shipping orders the company's hundreds of customers made the year before and subsequently applied not only each carriers' new rates to them, but also the numerous new terms and conditions they also unveiled but neglected to include on their rate cards.

Notably, Reveel's platform enables customers to run this same GRI analysis on their own shipments – the impact on every company is unique – but the apples-to-apples comparison made possible by powerful modeling technology shows just how much costs will change if the exact same shipments are made with the new contract terms applied. The results for 2023 are eye-opening and show just how much carrier subterfuge is at play in carriers' efforts to hide costs.

The 2023 GRI for the nation's two largest carriers when modeled by Reveel's data scientists found that most businesses that ship via UPS will pay 10.2% more in 2023 than they did in 2022, and most FedEx customers will pay 9.1% more in 2023 than they did in 2022. Less than 5% of businesses will see their shipping costs increase by the published increase of 6.9% or less.

What You Can't See Can and Will Harm You

The problematic nature of the carrier's rate cards regrettably are just the tip of the iceberg. Unseen, even small mistakes or issues can have a dramatic impact on the bottom line. Losses add up quickly.

A few of the many issues that companies using Reveel's Shipping Intelligence Platform commonly uncover upon deployment include:

1. **Surcharges that expire before the end of the contract:**
   One online retailer did almost everything right, negotiating aggressive discounts on several impactful carrier surcharges. The problem? The surcharges expired before the contract and the company quickly incurred more than $300,000 in surcharges before the oversight was discovered.

2. **New rules that suddenly make the packaging for entire product lines "oversized:"**
   Carriers rules change all of the time. Simply missing a slight change in what defines an oversized package can make a dramatic difference and lead to dramatically higher shipping costs. What if the package your company commonly sends suddenly costs twice as much because it is now a quarter of an inch too long? It happens!

3. **A software or programming error generates an error fee from the carrier:**
   Sometimes the smallest things get you. Wrong addresses, and the carrier fees that accompany them, are often caused not by inaccurate addresses, but by formatting errors in various systems, including those propagated by customer relationship management and enterprise resource planning systems. More than a few companies have paid dearly when a simple programming error resulted in an improperly formatted address field.

4 Not understanding zones:

Zones are confusing and even one error – for example an employee or location that automatically ships packages via air to a specific zone, can radically increase costs. At the same time, the converse is also true. Many shippers unknowingly send parcels via air when a much less expensive option will still get them in customers' hands on time. Paying exponentially more to get a package to a customer an hour or two early is rarely needed to meet service level guarantees or events or maintain customer satisfaction.

5 Simple human errors:

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Parcel Shipping Radically Impacts Top Line Results, Too

Importantly, shippers also impact the top line performance of the entire organization, particularly if a competitor with a similar shipping profile benefits from more advantageous terms and conditions with the carrier. With far lower costs, such a competitor not only saves money on the bottom line, but also is in a position to win on the top line – most obviously by being able to provide free or discounted shipping to those who purchase its products online or through a catalog.

Amazon, with its introduction of free two-day shipping, then next-day, and now even same-day free delivery in many markets, upended online retail by redefining what it takes to be competitive in both the B2C and B2B arena. Obviously, being able to offer free or lower cost shipping can mean the difference between gaining and losing customers and sales.

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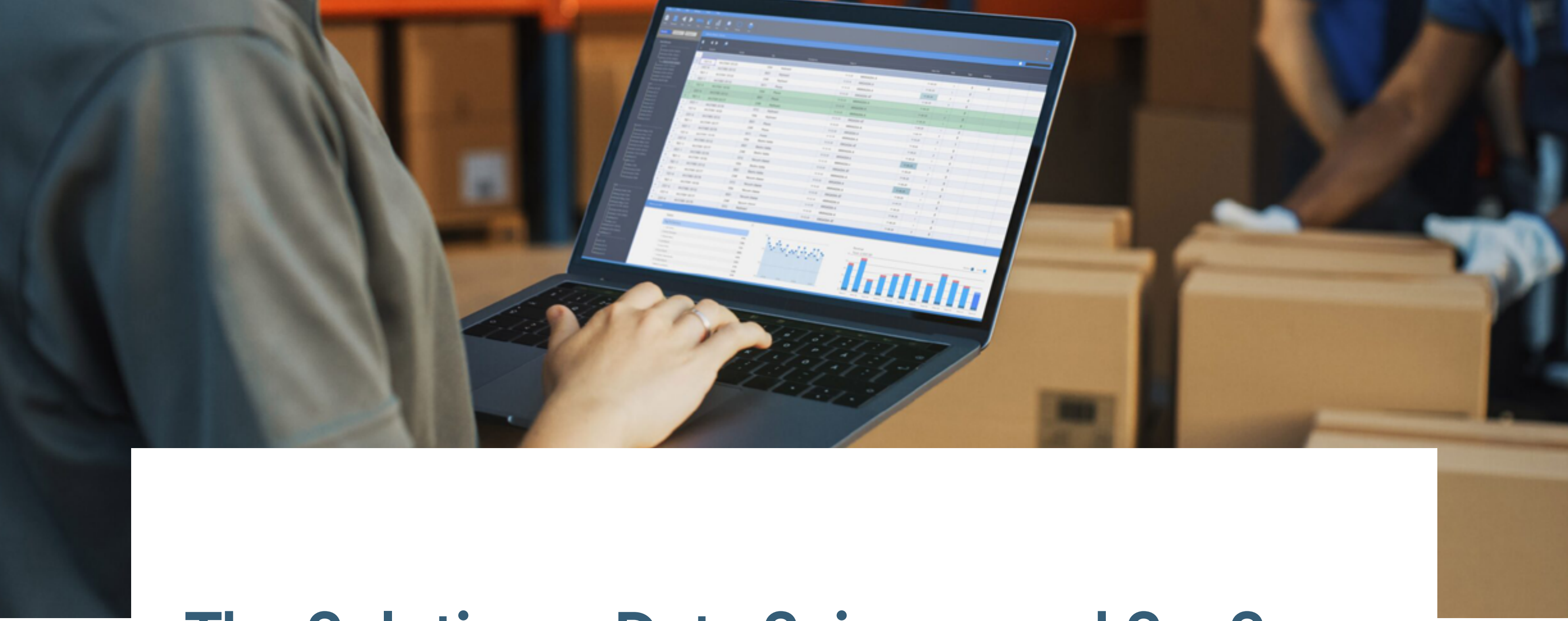

The Solution – Data Science and SaaS

The Reveel Shipping Intelligence™ platform is the first to use advanced data science to empower shippers to gain visibility and control over parcel shipping for the first time – all with the same precision that advanced business intelligence made ubiquitous across other business functions. With robust modeling capabilities shippers can pose "what-if" analyses that empower them to make important decisions with confidence.

For example, how much money will they save if they spend the money required for new packaging that gets around a carrier's new criteria for oversized packages? How much will they save if they change all of the shipments for a particular product sent to a particular zone to a lower cost delivery service? How much money will the carrier's new fuel surcharge cost the company? And what about the peak holiday season? How much more will shipping costs increase in light of peak season surcharges? The data-science powered platform answers such questions and countless others with ease.

With shipping intelligence, shippers can even collaborate with additional business functions. For example, the marketing department may want to introduce a special offer for a particular product, but what balance between sale price and shipping costs will enable the company to make the product a fast mover, but still maintain an acceptable margin?

More specifically, Reveel's platform places the vital factors of shipping success at shippers' fingertips. These are the data points that impact shipping spend the most and that serve as the core benchmarks when comparing the performance of one organization's shipping function to that of another. They are also the levers that can be used to lower costs and are crucial to understand if businesses don't want to absorb dramatic increases in their shipping costs. They include:

- **Service spend:** The total amount the business spends on shipping
- **Surcharge spend:** The total amount being spent on surcharges – these can be for a variety of factors, among them peak season, parcel dimensions, and fuel
- **Average cost per shipment:** This should be derived using the actual costs of shipments, including all zone and weight considerations, as well as surcharges
- **Weight:** This includes the average billed weight of your parcels, and the percentage of packages billed at their dimensional weight • a measure of length, width and height that carriers are increasingly using
- **Minimums:** The percentage of parcels that meet the carriers' threshold of minimum charges
- **Average zone:** Which zone or zones are being shipped to the most • a key factor when deciding what services to use for particular shipments.

The resulting intelligence is also crucial when negotiating with carriers. To do so effectively, shippers must know their shipping profile better than the carrier. UPS began providing its reps with pricing analytics to use in customer negotiations in 2022. You don't want to go into a gunfight with a pocket knife.

Perhaps most importantly, now shippers can enter negotiations armed with a detailed understanding of the pricing and terms of conditions secured by companies with a similar shipping profile. Not only can they demand the same, but they can know with certainty if they are getting a good deal or a bad one.

Lower Costs and Increased EBITA

The new strategic approach to parcel shipping that robust SaaS platforms and data science make possible present private equity firms with a singular opportunity to vet potential investment and acquisition targets for their potential gains, lower portfolio company's costs and increase EBITA – all without risk or management distraction.

Assuming a 6-8 multiple on EBITDA, a portfolio company with $1 million in annual parcel shipping costs that reduces those costs by 20% could see an increase in EBITDA of $200,000. At a 6-8 multiple, this could result in an increase in enterprise value of $1.2 million to $1.6million. This increase in enterprise value can have a significant impact on the returns realized by private equity investors.

One Midwestern firm's experience in its first year of using Reveel's platform offers but one example. The platform enables it to quickly lower parcel shipping costs for seven portfolio companies by more than $3 million and to generate a more than $24 million increase in enterprise value.

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The leading Shipping Intelligence™ Platform that enables companies to level the playing field with FedEx and UPS

With over 15 years of parcel agreement management expertise and $200M+ in savings for our clients, we provide actionable insights to make smarter business decisions and give you peace of mind. Leverage the power of data science and peer comparison data to capture significant ROI and improve your competitive advantage.