

In the parcel industry, 2023 looks like revenge of the shipper

Slowing demand, carrier overcapacity, more and better alternatives put shippers in control once again

[Mark Solomon](#), Monday, December 05, 2022



The Postal Service will add optionality to parcel shipper trend in 2023 (Photo: Jim Allen/FreightWaves)

It has been a difficult three years for parcel shippers. Base rates and accessorial charges have spiked to record levels. They've been told in blunt and public terms to pay up or pound sand. Many saw their volumes capped during the past two peak seasons. They've lost their money-back guarantees on everything but the parcel carriers' most expensive services. It's doubtful that guarantees will ever be restored across the board.

But the worm appears to be turning as 2023 nears. Shippers are expected to recapture the leverage that they held for years prior to the pandemic. With everything being negotiable, shippers will push hard to beat back the record general rate increases (GRI) that take effect over the next few weeks.

"It's a buyer's market," said Jason Murray, co-founder of Shipium, a provider of multicarrier delivery options for e-commerce companies.

Carriers see it coming. They are in serious discussions with shippers right now, rather than waiting until a new year — which had long been accepted practice — in an effort to poach competitors' volumes while holding on to their own traffic. Carriers are "anxious to engage" with new and prospective customers, said Gordon Glazer, who heads the postal practice at Shipware LLC, a consultancy. That's a far cry from the attitude of the recent past, when large carriers like FedEx Corp. ([NYSE: FDX](#)) and UPS Inc. ([NYSE: UPS](#)) crammed price hikes and service mandates down shippers' throats, spawning a lot of ill will that could come back to bite them.

"A lot of businesses are fed up with the games the carriers have been playing, and the general feeling is that they are open to using alternative shipping methods," said Josh Dunham, founder and CEO of Reveel Group, a consultancy.

Shippers enter 2023 with a myriad of service options. These include regional carriers, the U.S. Postal Service, parcel consolidators that aggregate large volumes to tender to the Postal Service for last-mile deliveries, and even retailers that have launched, or are considering launching, delivery networks to keep control of their traffic.

Amazon.com. Inc., ([NASDAQ: AMZN](#)) which has long made noise about launching a stand-alone delivery service outside of its retail and fulfillment customers, could also enter the fray. However, Murray, who worked at Amazon for 19 years, said he doubts the company would dilute the value of its in-house fulfillment and delivery service, where the company takes 15% of revenue, to expand into a relatively low-margin business against entrenched incumbents.

Lower rates, better service

As shipping alternatives expand, shippers are finding the service quality and reliability more competitive than they've been in the past. The Postal Service has added significant processing capabilities and has tightened up transit times on products such as Retail Ground, which accepts shipments up to 70 pounds. Regional carriers are expanding their networks, as illustrated by the integrated transcontinental system of Western carrier OnTrac and Eastern carrier LaserShip. The unified carrier, which has yet to announce a new name, will expand into Texas in the first quarter and will add Chicago at an undetermined time.

The company on Thursday announced a 6.9% general rate increase on residential ground deliveries in 2023, which matched FedEx and UPS. But the OnTrac-LaserShip GRI is just for show. The company will aggressively discount off its GRI to large residential shippers, according to people familiar with its strategy.

Its discounts will be "smoking hot," said Rob Martinez, Shipware's founder and co-CEO. Most important, according to Martinez, is that the deep discounts will be directed at traffic under 3 pounds, the sweet spot for e-commerce deliveries but a segment long dominated by the Postal Service, which delivers to every U.S. mailbox daily and doesn't incur extra travel costs to make the drop.

Historically, it's been challenging for large shippers to peel off a portion of their carrier spend. Regional carriers lacked the technology and infrastructure to make it worthwhile to split off traffic. The national carriers would punish shippers for defecting by reducing or eliminating the discounts that had been based on specific volume tiers. However, the sophistication of today's IT tools has advanced to the point where shippers can fully explore regional options while minimizing the consequences, said Murray.

An all-year thing

It's difficult to see when the pendulum will swing back to carriers. Pandemic-related demand is in the rearview mirror. The macro environment continues to slow, and carriers are faced with excess capacity they need to fill. The Postal Service's nearly two-year facility expansion leaves it with daily processing capacity equivalent to 60 million parcels, a figure that includes regular packages and flats. Yet the agency typically handles between 30 million and 38 million daily packages depending on seasonality, according to data from ShipMatrix, a consultancy. Bridging the gap in that differential will require a lot of new business.

Overhanging all of this are the upcoming contract negotiations between UPS and the 380,000 employees who belong to the Teamsters union. The five-year contract expires on July 31, and Teamsters General President Sean O'Brien has warned that he will call a strike if a new compact isn't agreed to on or by that date. Given O'Brien's reputation as a hard-liner and what is seen as a more labor-friendly economic landscape, few would be willing to call his bluff.

It may be too early to prepare for contingencies, but no shipper wants to be behind the curve should the first half of 2023 move forward without meaningful progress on negotiations. UPS delivers more than 25 million pieces worldwide each day. Other carriers would need to set strict guidelines for fear of being buried with packages. The Postal Service, which can't restrict volumes, would also be overloaded, though its size and resources could get it through without major hiccups.

Fears of a Teamsters strike and a total shutdown of UPS' network would likely cause more shipper fragmentation as customers seek alternatives. Murray of Shipium reasoned that UPS' bargaining position with shippers may weaken the closer the summer gets without an agreement as the carrier takes more material measures to keep business from defecting, and possibly not returning.

The broad message is that carrier diversification, which has long been a theory, should now be put into practice. Murray said that a judicious leveraging of optionality, especially with the growing regional carrier alternative, could save shippers as much as 25% on their parcel spend.

"The model of 'single-sourceness,' where you put all your volume in one bucket and get preferential rates, doesn't seem to work," he said.