

# POSTING A PROFIT



By Greg Varhaug

## ANOTHER RECORD YEAR

The steady increase in online sales over the past decade has naturally led to a boom for the shipping industry. FedEx and UPS expect to set records for holiday deliveries this year. Both companies attribute this expected increase to record online sales this Christmas season. And holiday sales are up not only in the U.S. but also in regions and countries like the UK, Germany, and Australia. This is happening at a time when U.S. businesses see growing markets for U.S. goods abroad, especially in Europe and Asia.

Shipping merchandise is an area where your business can either save money or spend way too much. A lot has changed in the past few years. If you know what you are doing, you can save by selecting the shipping option that is best for you, picking the right packaging, and utilizing the cheapest options to pay for shipping services.

Your shipped package is your last chance to make an impression on customers. Your customers' impression of your company has a lot to do with the appearance and physical condition of the items they receive from you. And as far as the customer is concerned, the shipping company

you choose is an extension of your business. Many carriers offer scheduled deliveries, giving you and your customers options as to when your shipment is delivered.

Some pros and cons exist when it comes to including shipping costs in the price of the item versus charging

separately for shipping. Shipping charges, and company policies regarding shipping and returns, are often deal breakers for consumers—and retailers know it.

Offering free shipping is a way to incentivize or reward customers. Most businesses offer free shipping on high-end items, or items with a high markup, because offering free shipping is cost-effective. On items with a lower markup, it's not economical. In these cases, it may be better to incorporate shipping costs into the price of the item, or charge a separate shipping fee. Many online retailers manage to make a small profit from their shipping operations.

One of the challenges for sellers in determining the right shipping option is striking the balance between fast delivery and low cost. The consensus among online retailers is that most customers are willing to wait a day or two longer for delivery if it means paying a lower price. Large carriers have discovered this, and have responded by de-emphasizing expedited delivery services.

## PACKAGING

Anyone who ships a lot of packages can take steps to ensure that they aren't wasting money, especially if they repeatedly ship the same items. First, determine the weight of each item you are shipping. Next, determine the weight of the box and any labels, including adhesive labels, packing slips, and (don't forget) tape. Finally, determine the weight of your packing materials.

Be sure that you understand the price breaks for different weight classes with the shipping service you're using. If you're just over the weight limit for a price break, you may be able to reduce the weight of some of your packaging enough to qualify for a lower rate. If you ship a lot, these savings can add up.

Many businesses now reuse packing materials. This is especially common among individuals and small businesses looking for ways to economize on shipping. Reusing these materials is also a way of reducing waste. You can tell customers that such reuse is a step toward "going green." Of course, you want to be sure all reused packing materials are clean.

Many people acquire packing materials for free. Retail stores, among others, throw away used packing materials all the time. Many store managers are happy to give away unwanted packing materials, including boxes, to avoid having to pay to dispose of them. It's possible to cut apart and reassemble a used box inside out so that it looks like a brand-

new box, at least from the outside.

Pack items securely enough that they don't move around inside the box when you shake it. For fragile items, be sure to leave sufficient padding space, usually about two inches, on each side of the item. A web search for "FedEx how to pack" will yield a PDF from FedEx that illustrates the best ways to pack boxes.



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## SHIPPING PACKAGES

The main options for shipping parcels are still the U.S. Postal Service, UPS, DHL, and FedEx. Each of these has a weight limit of 150 pounds for their standard package-delivery services. Items weighing more than 150 pounds are generally shipped as freight.

Most businesses still turn to the U.S. Postal Service as their first choice for shipping packages. The USPS is the oldest and largest package-delivery service in the U.S., if not the world. Strict federal laws apply regarding the sanctity of the U.S. mail that do not apply to other carriers. The USPS is still the only organization that can deliver to any address in the country, as well as to APOs and FPOs. UPS, DHL, and FedEx will not deliver to a P. O. box. UPS will take a package addressed to a P. O. box, but you must provide the recipient's phone number, and UPS assesses a charge for correcting the address. UPS cannot accept anything addressed to an APO or FPO.

The U.S. Postal Service offers a range of options for business shippers, including reduced "commercial pricing" rates. The USPS states, "For commercial pricing, mailers must meet certain quantity, sorting method, and entry point requirements. They must also have a mailing permit and pay an annual mailing fee for each mail service they use."

Priority Mail International Flat Rate boxes from the USPS have been a hit with frequent shippers, promoted as one of their simplest

mailing solutions. The post office provides these boxes for free, but they can't be used for any other purposes. Purchase your own boxes if you want to mail first-class. Priority flat-rate boxes come in three sizes, and can be used to ship items weighing up to 70 pounds. Given that pricing structure, it's obviously a better deal if you're shipping heavier items. For shipping items under 10 pounds, you may save money by choosing another option.

## BOOKS AND EDUCATIONAL MATERIALS

The USPS also offers a special Media Mail rate, intended to provide a discount for mailing "educational materials." This includes books "consisting wholly of reading matter," film positives, printed music, sound recordings, and "computer-readable media." You can't send video games or disk drives as Media Mail, even though these are "digital media." Complete information can be found in the Domestic Mail manual at the USPS website, but if in doubt, ask the post office. There's a 70-pound weight limit, and the post office reserves the right to inspect Media Mail packages to ensure that they contain approved media. There are no guaranteed delivery times for Media Mail. (For lighter packages, First Class and Priority Mail are actually a little cheaper.)

The USPS, UPS, and FedEx routinely utilize one another's services. According to the Postal Service, "UPS and FedEx pay the Postal Service to

deliver more than 400 million of their ground packages to residences, and the Postal Service pays them for air transportation – taking advantage of their comprehensive air network." In recent years, these kinds of inter-modal arrangements between carriers have been encouraged by government at all levels, because they have greatly increased the efficiency with which goods can be moved across the country.

## SHIPPING FREIGHT

In general, if you're shipping packages weighing over 150 pounds, you're shipping freight. "Freight" includes shipments by truck, rail, ship, or air. Parcel-delivery services like UPS, DHL, and FedEx all now offer a range of freight services.

When shipping by truck, your shipment is classified as either FTL (full truckload) or LTL (less than a truckload). LTL is also called a "partial truckload." Some carriers don't offer LTL services. Most ocean freight is sent in containers, so your ocean-freight shipment may be a full container load (FCL) or less than a container load (LCL).

If you plan to ship by freight in the U.S., you will need to determine your National Motor Freight Classification (NMFC). This is a number that freight companies use to set standard shipping rates. If you want to compare rates between freight companies, you will need to know the NMFC number for each type of item you are shipping.

To determine the NMFC for a specific item, ask for a quote from a prospective shipper. They will ask you questions about the items you are shipping. They will determine a freight class based on the weight, dimension, density, and released value of your shipment, as well as whether you are shipping in cartons, bags, bales, pallets, or another container. The quote you receive should include the NMFC number. If you have trouble determining your NMFC, you can contact the National Motor Freight Traffic Association (NMFTA) directly for help. Once you know your NMFC, you can use that number to get quotes from other shippers to compare prices.

One of the factors that will affect your weight class is your



## INCREASING EXPORTS

The Obama administration is committed to doubling U.S. exports from 2010 to 2014. In 2010, the president signed an executive order that led to the creation of the National Export Initiative. A broad consensus predicts a near-term increase in U.S. exports to maturing consumer markets in South America and Asia.

William Krist from the Wilson Center noted earlier this year that “the Obama administration is roughly on track to achieve the President’s lofty goal of doubling U.S. exports over the five-year period ending in 2014.”

The federal government has established a network of more than 100 U.S. Export Assistance Centers in major cities across America, staffed by knowledgeable SBA workers. Here, businesses can receive help in finding suitable distributors and partners overseas. They can help you research specific overseas companies and provide market research specific to each country. They can even help you find ways to overcome or mitigate the effects of foreign barriers to trade.

For beginning exporters, some countries are easier to break into than others. The SBA recommends starting with an easy country, like Canada, which they point out is almost as easy to ship to as any point in the U.S.

The federal government’s official website for the National Export Initiative, [www.export.gov](http://www.export.gov), has listings for free services, including frequent webinars covering a variety of subjects such as information on establishing trade in specific regions and countries. ■

shipment’s released value, which determines the carrier’s liability for your shipment. A released value is a declared value of the shipment by weight (per pound). This stipulated amount per pound is almost always well below the replacement value of the cargo. In effect, you’re assuming most of the financial risk. Agreeing to accept a released value reduces the shipper’s liability and can get you a lower NMFC class, saving you money. This released value must be listed on your bill of lading. There is usually a check box indicating that you agree to accept a released value.

An NMFC number isn’t required for international shipping, but it definitely helps to have your classification. This means you should get an NMFC number for each item that you routinely ship. It may be a good idea to consult with a customs broker.

Union Pacific Railroad now offers door-to-door delivery services, like UPS and FedEx. Echoing the language of UPS’s recent ad campaigns, UP’s latest ads tout their “logistics expertise.” UP is following the trend shown by other large carriers in recent years of expanding their multi-modal shipping services. After all, the move toward multi-modal shipping since the 1990s allows both customers and carriers to save money. Shipping companies compare prices when they’re looking for transportation services from other companies.

When shipping freight, standard labeling methods exist for any type of packaging. Be sure that you know the proper way to label your items, whether they’re in cartons, pallets, bundles, reels, or some other container. Improper labeling may delay your shipment and can even cost you more money. Search the web for “FedEx packaging guidelines for shipping freight,” and you’ll find an illustrated PDF showing the dos and don’ts of preparing freight shipments.

Numerous websites can help you find the best deal for shipping your package by comparing services and prices between different carriers. Comparing prices on these websites shows you just how large the range of available options and

prices really is. When comparing prices online, it is not uncommon to find price quotes ranging from five dollars up to fifty dollars, depending mostly on delivery time. Comparing prices online also ensures that you have the most up-to-date price information, including limited-time specials you might miss otherwise.

## MOBILE APPS

More and more online sales orders are being placed using smart devices and tablets—and the same is true for shipping orders. A wide array of shipping apps is available to help you create things like receiving orders, delivery receipts, bills of lading, and materials-handling forms.

All of the major carriers, including the USPS, offer free apps for the BlackBerry, iPhone, and Android that allow you to get quotes, place orders, create labels, and track your packages—all of the things you can normally do from a desktop PC on the web. *Avery Universal Package Tracker*, also free, tracks packages from multiple carriers.

## TALK TO A REPRESENTATIVE

You can see from all of the above information that trying to determine your best shipping options may be overwhelming. All of the major shipping companies, including the U.S. Post Office, employ commercial reps who can help you figure out the best options and answer any questions you might have.

The shipping rep is likely to encourage you to open an account with their company. This is often a good idea. Shipping companies give their best prices to customers who open accounts with them. Many carriers run discounts and specials that are available only to their account customers. The reps may even know about options not on their website but offered through their automated systems.

Be aware that paying for shipping services online with your personal or company credit card may not be the most economical way to pay. Most carriers offer a number of payment options, including things like C.O.D. and third-party billing. But

these different payment methods usually have different charges associated with them. The USPS offers a discount to customers who order online. Be sure to ask which payment method is least expensive.

This year's holiday uptick is a genuine blessing for companies like DHL, UPS, and FedEx. The big carriers all cite holiday business with helping to offset an international shipping

market that never entirely recovered from the 2009 downturn. In fact, holiday shipping turns out to be a double blessing for the big carriers: as soon as Christmas is over, they get to ship all of those returns. **N**

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