2011 Shipping Overspend Study

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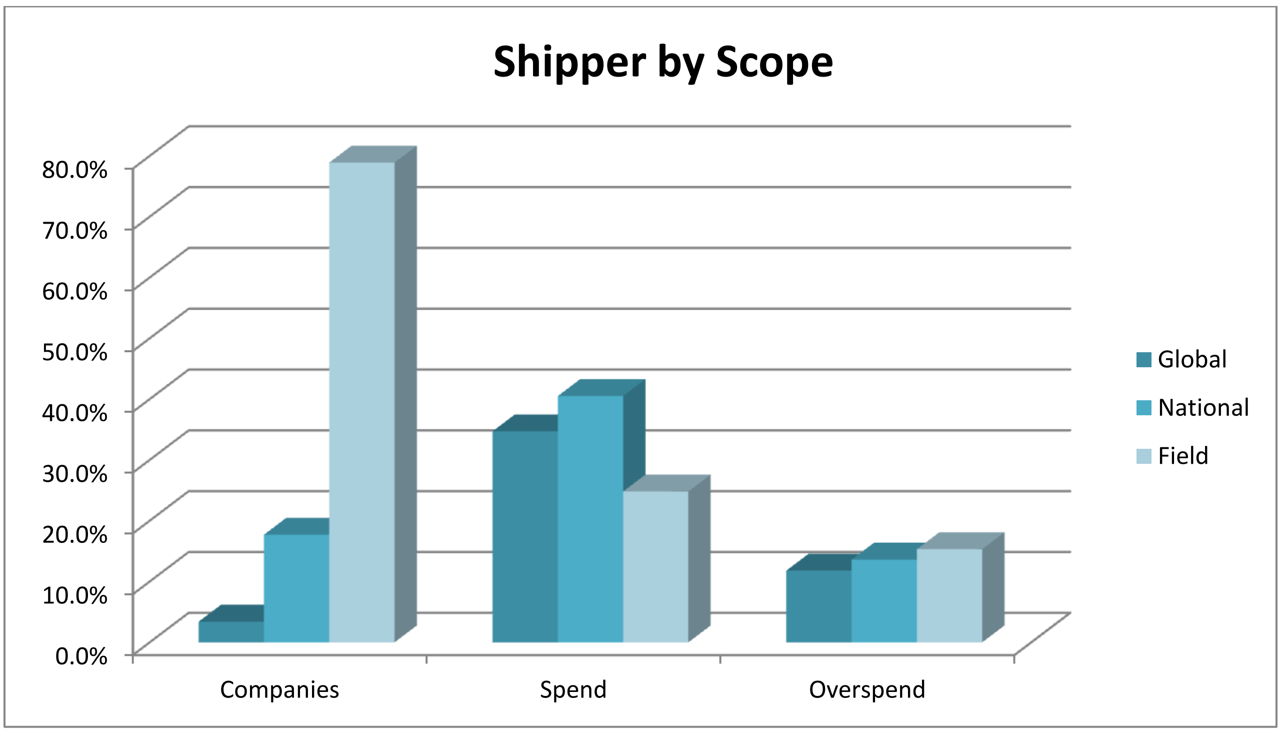
After analyzing the shipping trends of more than 350 Global, National, and Middle Market companies that base their shipping in the US, we've found that most US-based shippers overspend by an average of 13% each year on their shipping costs. Further, we analyzed this data against more than 2,000 active freight and small parcel carrier agreements and found that, typically, the average overspend remained similar regardless of shipping volume and geographic location. Finally, the majority of overspend charges resulted from inconsistent discount practices, accessorial fees and service failures.

In this study, we will explore five areas that outline where the overages are originating from and draw conclusions for shippers that will help them to outline exactly where they can reduce costs and how to streamline their operations to reduce complexity.

Shipper Scope

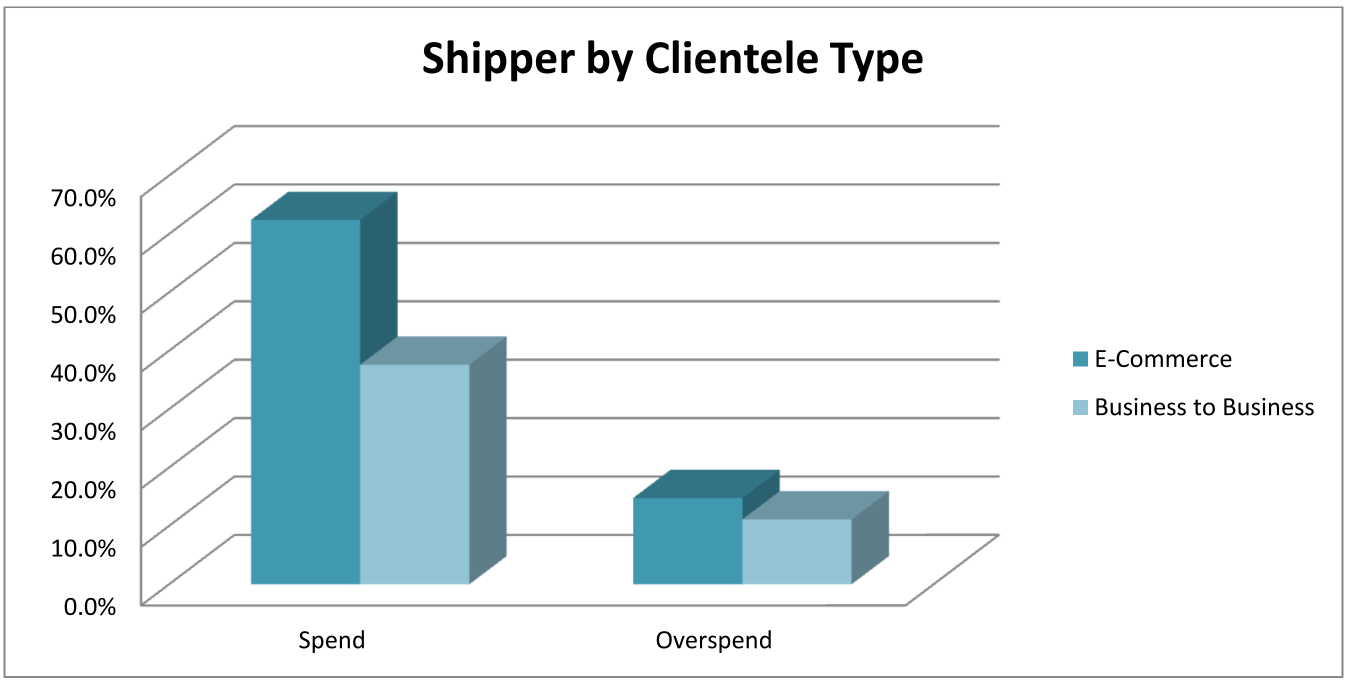


The chart above references the database of more than 350 shippers and the breakdown of how those shippers are housed in our database. The first vertical, companies, represents the distribution of companies within the database. Nearly 80% of all companies within the database are of the Middle Market variety, meaning that typically they are independently owned with a single or few locations. In all cases, each of these Middle Market shippers spend at least $500,000 per year on shipping either on freight, parcel or a combination of both. Most spend between $1M and $10M per annum.

The second vertical represents the amount of shipping spend within the database. As you can see, the majority of the spend within our database reflects companies who are national organizations—those with multiple locations who spend, on average, $5M to $10M per annum. So, while there are fewer companies within the database at that level, they account for the majority of the spend.

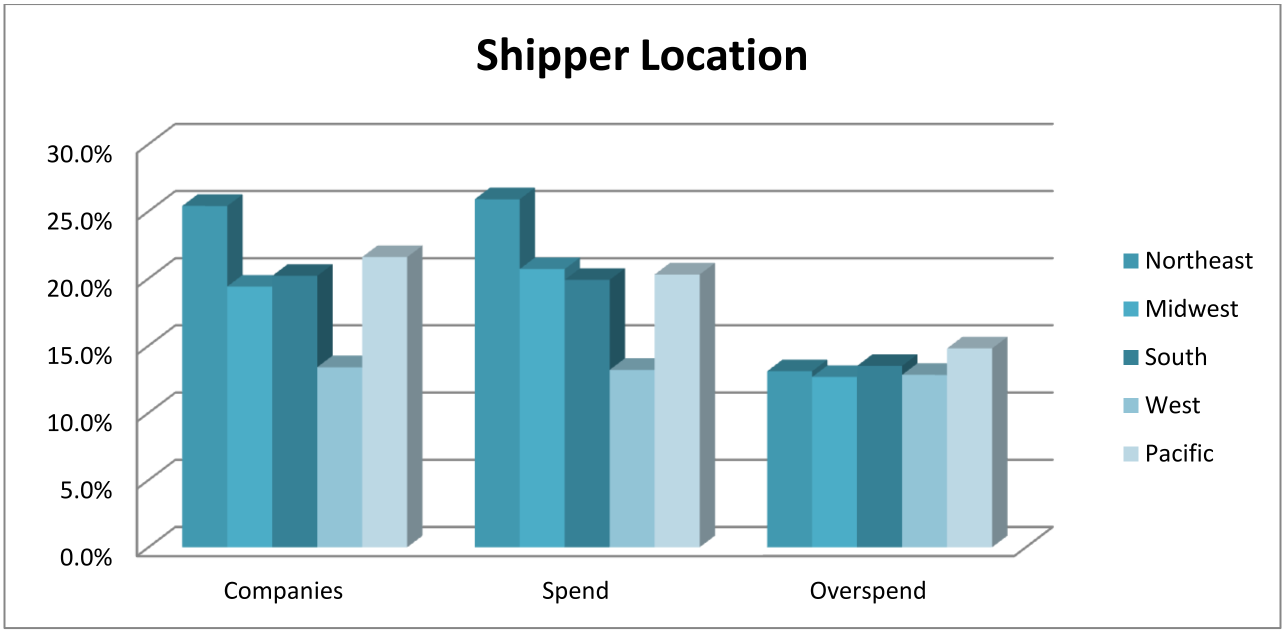
Finally, the third vertical references the amount of overspend regardless of whether the organization is Middle Market, national or global. You can see by the distribution that for the most part, it's fairly even, averaging 13.4%. What this means is that regardless of size or spend, companies are, on average overspending by at least 13% on their annual shipping costs.

Customer Type



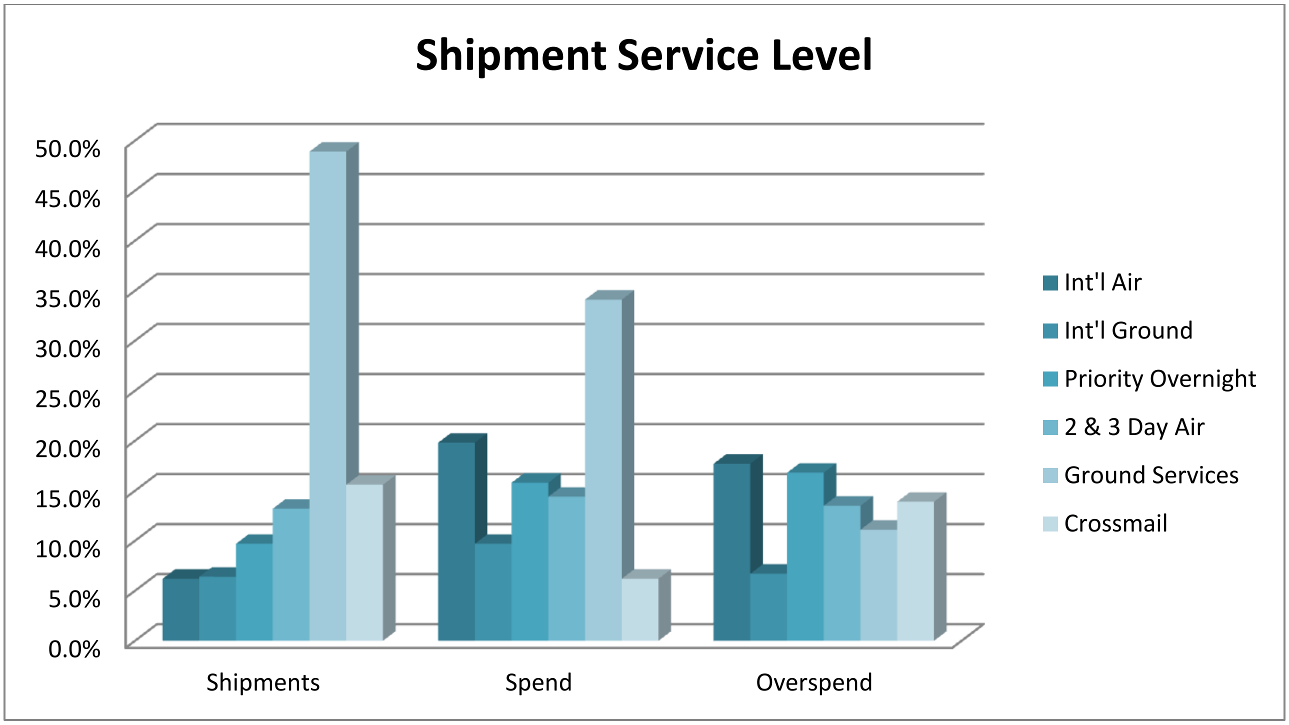
This chart analyzes the data by way of customer type. The graph clearly states that, as a percentage of spend, E-commerce businesses far overspend for their shipping, as opposed to their business to business counterparts. For B2B especially, where we factor in much of the manufacturing and supply chain services, their overspend, while not significantly lower, is lower than their consumer counterparts by nearly 4%. This is primarily driven by overcharges related to accessorial fees and erroneous charges. Given the disparity in the volume of shipping between e-commerce and B2B companies, that 4% difference accounts for an enormous amount of overspend in hard dollar cost.

Shipper Location



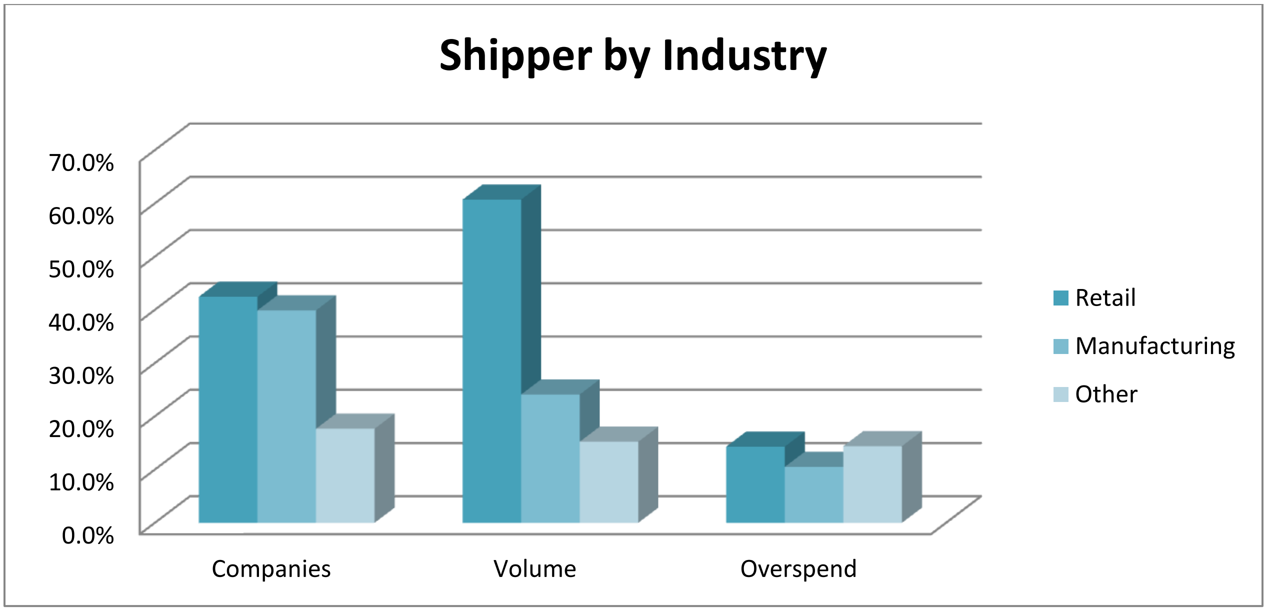
Surprisingly, the overspend by region was almost flat across the country. The only area where there was a slight increase over the other regions were those in the Pacific states—specifically, California, Oregon, Washington and Nevada. We conclude that the reason for this overspend out of the Pacific is because most Pacific-based organizations have farther to ship and as a result are more prone to service failures and extra, accessorial fees, that drive up their costs. Thus, companies based in those Pacific states have a more acute need to ensure that their shipping invoices are audited and managed correctly to ensure that they are not overspending more than they should. Furthermore, retailers and manufacturers based in the Pacific states typically need to utilize different shipping modes than their other US counterparts in order to still meet the same customer service expectations; unless they structure their contracts with the carriers accordingly these companies will end up paying higher tariff rates than their peers spread out in the rest of the country.

Service Type



As it relates to service type, consistent with industry practices, you'll notice that the majority of the shipments in Logica's database are Ground Services—typically, those services that are US-based. However, the largest amount of overages in service level comes from International Air. This difference isn't significant as it relates to the other services levels, with the exception of International Ground. Surprisingly, overnight shipments generate nearly as many overages as International Air shipments. Our study shows that this is a result of a combination of discounts and accessorial charges being overlooked during the negotiation process and that the majority of service failures occur at that overnight service level. Businesses especially that ship overnight in large volumes incur significantly higher service failure rates and as such have an even greater opportunity to drive costs down by auditing their invoices and looking for ways to maintain the same service level to their customers while driving down costs through scrutinizing their shipping analytics or renegotiating a more aggressive contract with the carriers.

By Industry



While one might expect the majority of the volume within our database to come from companies who do consumer based shipping, i.e. retailer, what was unexpected for us was to find that between the two largest industries that we service, the difference in their overspend was not that significant. For retail it was 14.3% while for manufacturing, it was 10.5%. Given this small of a margin, we've come to determine that overspend knows no bounds. Regardless of industry, commodity or service, companies are spending far more on shipping than they need to and we recommend that they aggressively go to their carriers and ensure that they are not spending any more than they absolutely have to.

Conclusion

This study magnifies a growing problem for all sectors of business within the US. Since the majority of the companies in our sample size ship more than $500k annually, a 13% overspend is an egregious amount of money that could be kept in house to foster innovation, hire more resources and determine avenues for growth. Furthermore, the fact that carriers will complain about higher tariffs and rising fuel costs while at the same time report record profits over the last several years has us concerned that we are not getting the whole truth from the companies that service our shipping needs. Therefore, it is imperative that organizations take an active role in assessing their shipping practices and determine exactly how and where they can begin reducing that extra expense.