PARCEL SCENARIO PLANNING

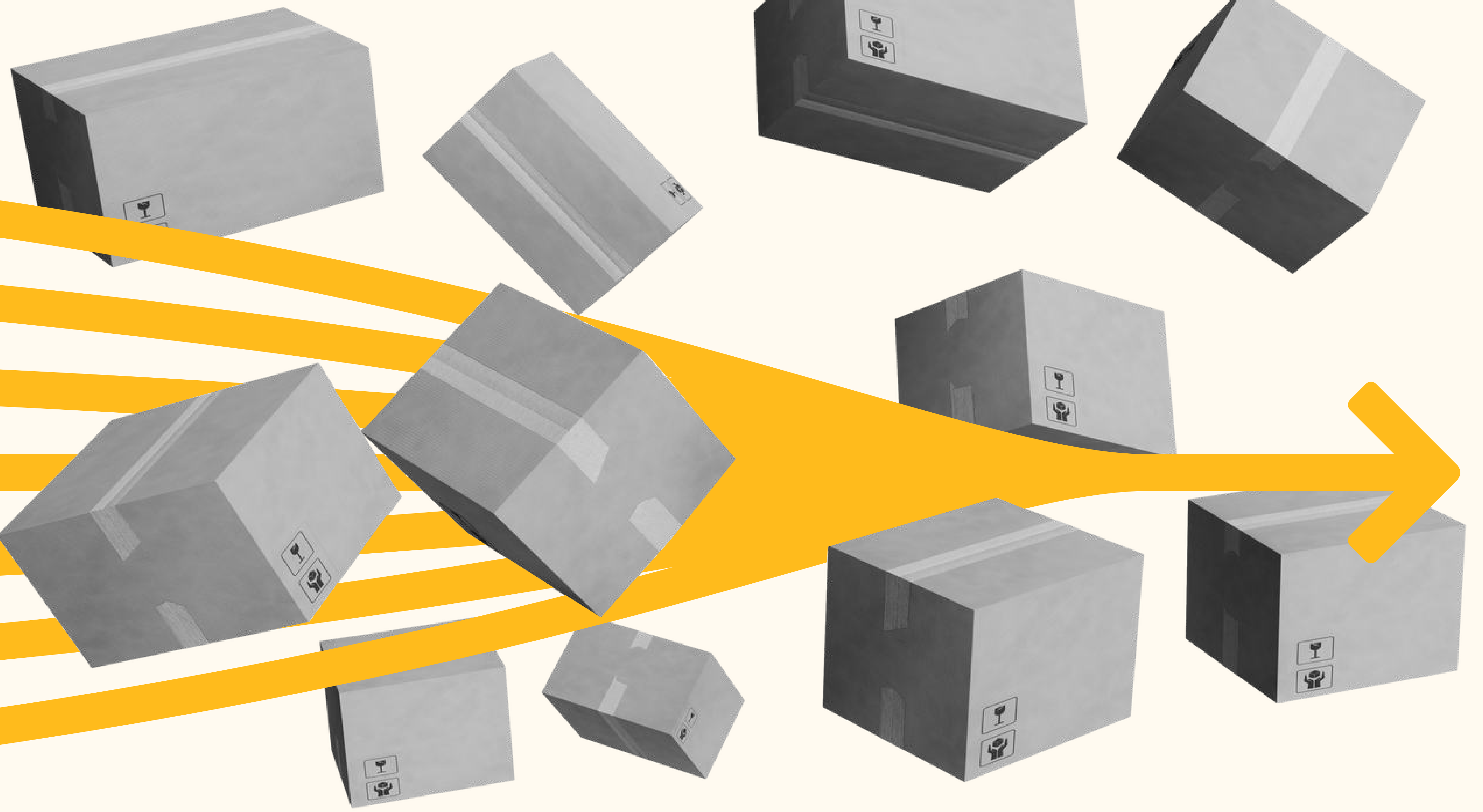
Optimizing your network
to maximize service and savings

01

The importance of scenario planning in parcel shipping

Scenario planning is a crucial step in the modern supply chain optimization process. It involves exploring various hypothetical situations for your network to discover new opportunities and address unexpected challenges.

This process can include everything from optimizing carrier selection, managing facilities, and adjusting service levels to maintain efficiency and resiliency.

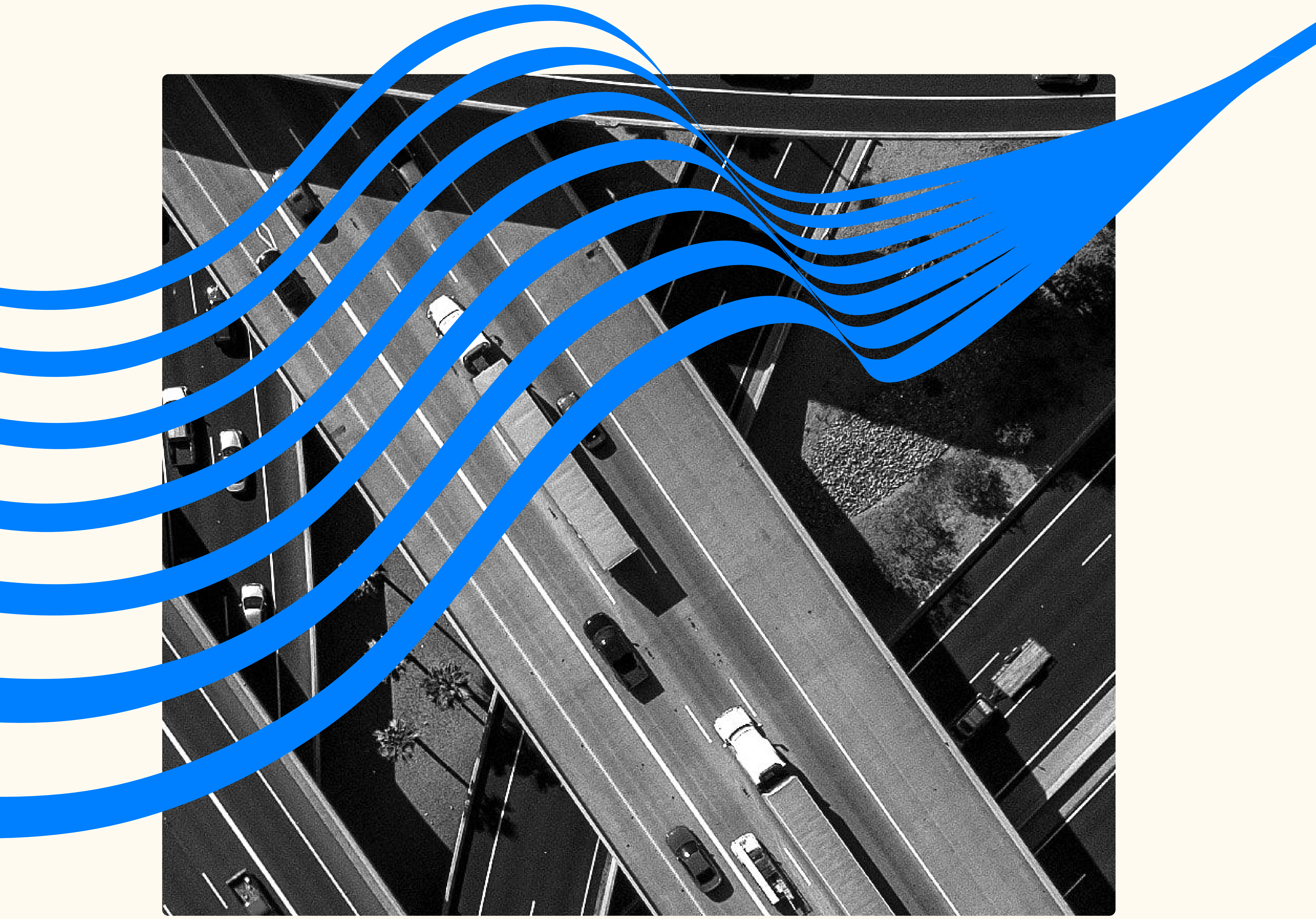


For many companies, scenario planning is a massive undertaking because of the state of their parcel and financial data.

Difficult to understand contract terms, different names for service levels across carriers, countless accessorials, hard to assign cost codes… the list could go on and on. Others deprioritize it completely because they don't even know where to begin.

But when the pandemic — compounded by the 2023 UPS strike — exposed the need for a more diversified and resilient carrier network, interest in scenario planning exploded. Companies realized they needed better ways to manage their costs, performance, and risk.

COVID kicked off a supply chain transformation that required more of parcel shippers' performance, processes, people, and data. It's no longer enough to track your cost per package and cost per pound; you need to be able to slice and dice your data by carrier, facility, lane, GL, accessorial, SKU, service-level, etc. This is how you identify cost savings at scale, negotiate great contracts, and face disruptions.



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Getting started with scenario planning

When starting scenario planning, you'll want to map out as many hypotheticals and their possible business impact as you can. Think of it like forming a hypothesis that you will test with your data. The goal is to find more efficient, cost-effective, and/or performant constructions of your carrier, facility, lane, service-level, and shipment decisions.

For example:

Network reconfiguration

- Carrier selection
- Facility location

Service level Needs

General rate increases

Volume allocation to carriers

Shipping Strategies

- **Multi-carrier:** Using multiple carriers for different segments of the shipping process to leverage the strengths and cost advantages of each carrier.
- **Zone skipping:** Combining multiple shipments headed to the same destination region into a single shipment to bypass intermediate sorting facilities, thus reducing transit times and costs.
- **Green logistics:** Implementing environmentally friendly shipping practices, such as using electric vehicles or optimizing routes to reduce carbon emissions.

Address challenges before they become problems

- Fluctuating shipping costs
- Carrier performance variability
- Changing customer demands

Improve logistics performance

Proactively monitor and invest in existing carrier or facility networks

By introducing variables and planning for "what if," you will be better positioned to make great decisions.

Let's dive in.

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Scenario planning to increase savings

Scenario planning is about uncovering opportunities. And in parcel especially, exploiting seemingly small efficiencies can reduce costs in a big way at scale.

Set baselines across your carrier and facility network.

Track where you have the highest frequencies, costs, and volume. These will be the most obvious starting points for reducing costs.

Understand patterns.

See if you have redundancies. Are there opportunities for consolidation or diversification?

A global retail company recently optimized their parcel shipping by consolidating from five carriers to two. But before they optimized, they ran scenario planning to assess the impact of reducing their carrier options down to two or three. How would this impact their efficiency and service?

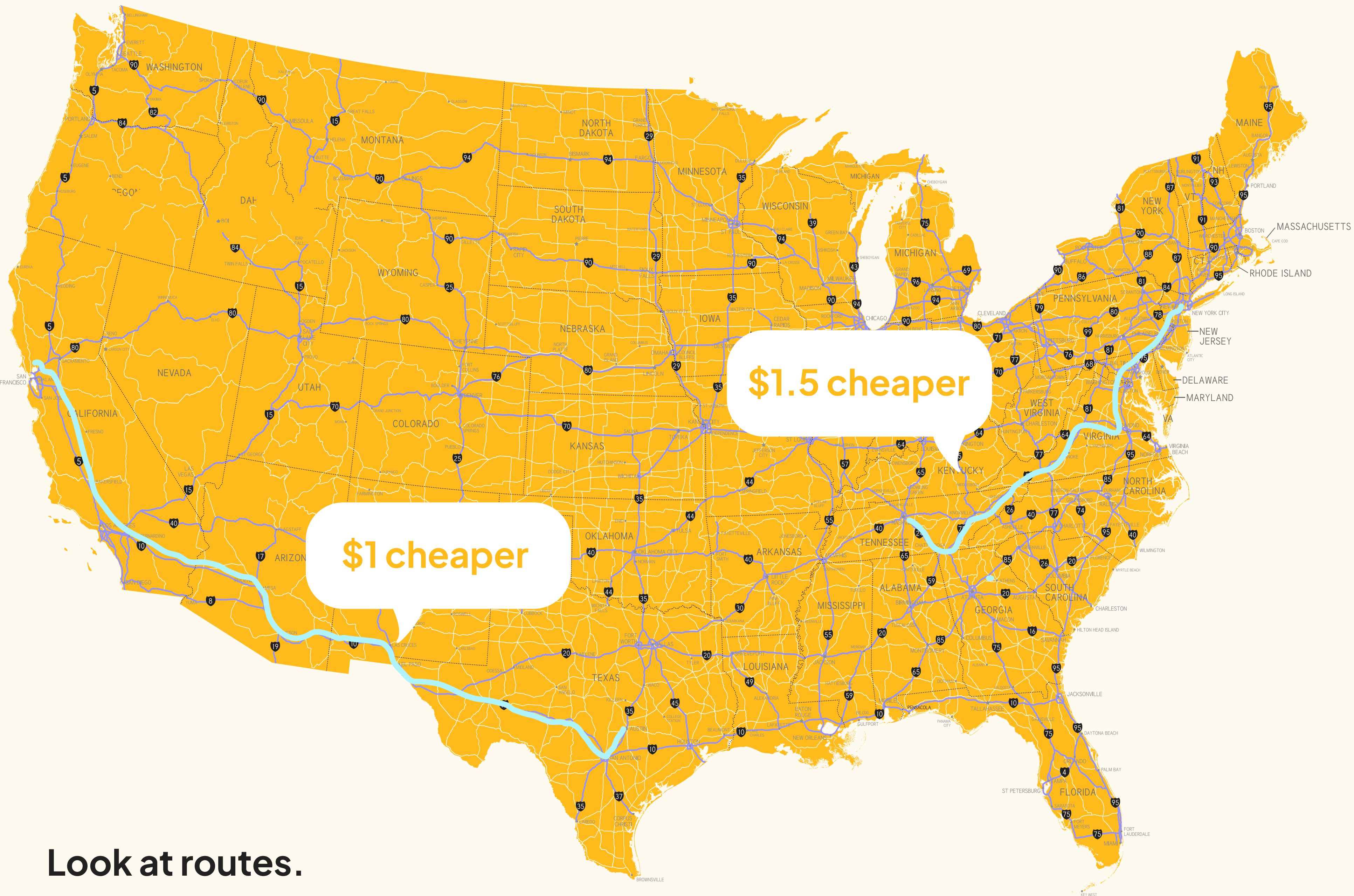
The seed of the idea came when they realized how complex and time-consuming it had become to manage so many relationships. So which to cut?

First, they did a volume analysis, looking at regions, locations, size packages, and so on.

They then looked at aggregating their volume to the carriers where they would be considered a "big fish." Moving more volume to a single carrier or two could make them a significant customer — which would streamline management and ensure priority service. This strategy enhanced negotiation power, improved operational efficiency, and resulted in substantial cost savings.

Ensuring the right service level for the right customer.

You know your customers, their expectations, and their businesses. Digging into what customers need, when they need it, and their destinations can yield savings. You may find that you can meet the customer's SLA without paying for premium service-levels. Here's how to start:



Look at routes.

Businesses can potentially save by shifting shipment volumes to carriers offering better discounts for specific routes.

For one national insurer, scenario planning helped lead to a strategy that optimized carrier usage based on route. The company had been using both FedEx and UPS, so it could easily compare the contracted cost for a specific route. It found that FedEx was $1 cheaper for the Houston to San Francisco route — which adds up to a significant difference over a million shipments.

Unpack service level optimization.

What really matters is understanding the timing of the service level to see if it meets the customer's SLA. Analyzing routes can help determine whether you can downgrade to a cheaper service level (e.g., two-day shipping to three-day shipping) to maintain delivery times at a lower cost.

Of course, while SLA hedging can be helpful, it’s important to contingency-plan in scenario planning. Parcels going from San Francisco to LA, for example, realistically should arrive next-day. But in theory, FedEx could delay that delivery for up to eight days if they’re overburdened and still be within their SLA. Savvy scenario planners will examine this potential risk and weight it against the value of their customers.

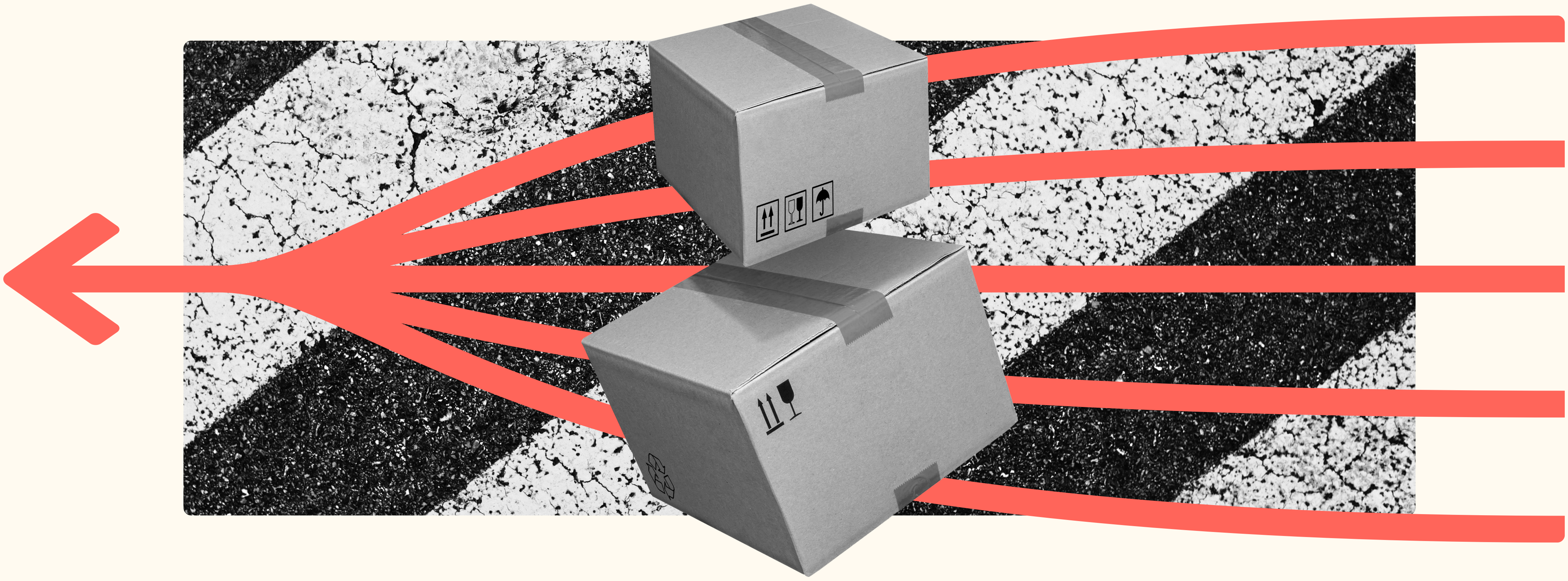
Loop’s scenario planning found that transferring volume from FedEx to UPS, for just one quarter, would unlock $2.4M savings from volume re-allocations, $680K in accessorial savings and another $91K in parcel services.

Read F500 D2C pharma company case study

One of our customers wanted to know the freight savings by opening a distribution center on the West Coast to complement their distribution center (DC) in NJ.

When they ran the analysis, they saw that 80% of their packages hit the minimum charge. So opening a new distribution center had a negligible impact on their cost of freight due to the minimum charge.

For **80%** of their shipments, NJ to CA or CA to CA paid the exact same amount, so there were negligible savings on **20%** of their packages. However, opening a new DC in CA would incur a large cost, so their plans were scrapped.



Examine the impact of multiple shipments and different boxes — and determine your priorities.

If a customer buys three things in different locations, what do you do?

- Do you ship the two items that are close to the first location? Or do you ship them all separately?
- Should you optimize for delivery timing? What's most cost-effective? What's most sustainable? Consider whether you prioritize what the customer wants vs. other considerations.

It is important to analyze the cost implications of multiple shipments across locations.

Study the results of general rate increases.

General rate increases (GRIs) can feel like blunt instruments. But let's say base rates are going up **5%.** That doesn't mean your take-home impact is **5%.**

Look at your mix of package rates and volume. When facing prospective rate increases, you'll want to know what other levers you can pull to ensure your business stays on the path to growth.

Recently, due to a **5%** UPS rate increase, one customer found their actual shipping costs rose more significantly, by **9%.**

The discrepancy occurred because the rate increase didn't apply uniformly. Around **30-50%** of shipments included higher surcharges, making the overall cost impact higher — even if the "blended" rate increase was supposed to only be **5%.**

In another instance, the customer negotiated a **50%** discount on 10 lb packages, expecting significant savings. However, the blended impact of all rates across freight/transportation charges, accessorials, and services meant the actual savings were less than anticipated.

To manage the impact of GRIs, it's essential to understand and negotiate all components of shipping costs, not just base rates. This comprehensive approach helps mitigate the overall cost increase and ensures business growth.

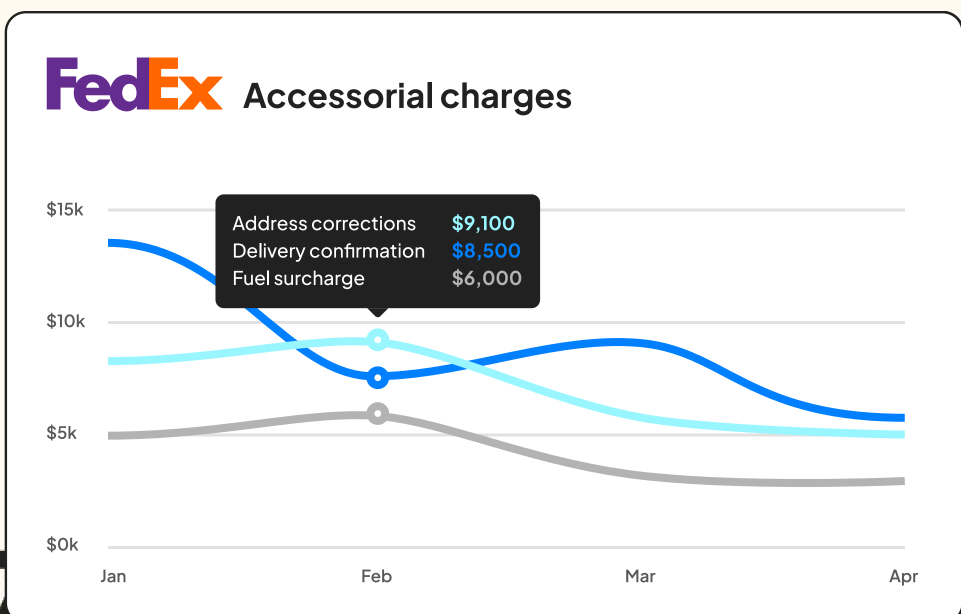
Understand the impact of allocating volume between shippers.

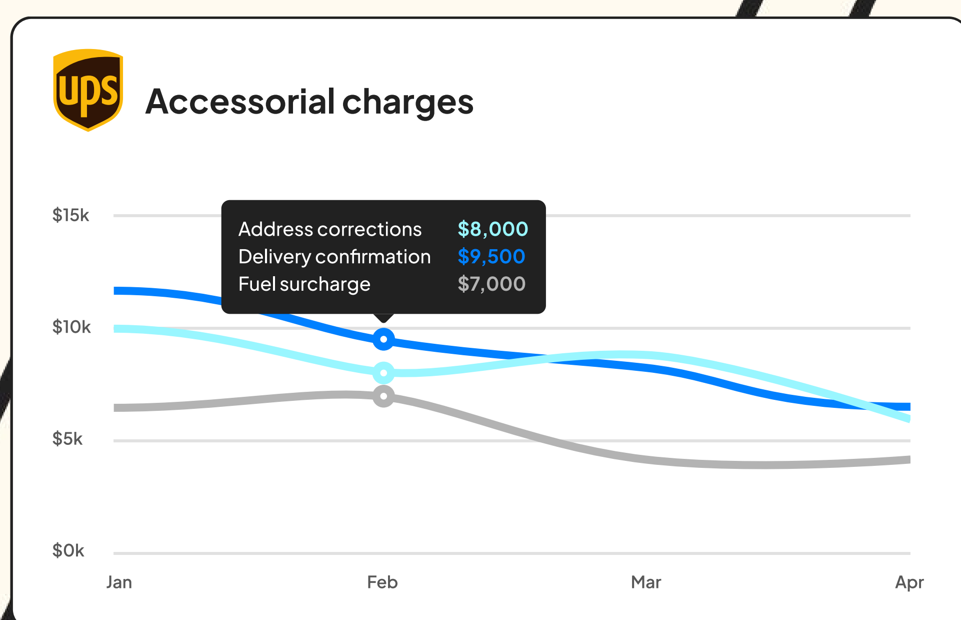
Knowing which shipper to send volume to unlock the best savings is a difficult task, even for parcel shippers with the most sophisticated rate engines.

There was a F500 pharma company that was shipping directly to customers. Given the high volume of their parcel shipments, they worked with UPS and FedEx.

- They ran scenario planning with Loop to understand how they adjust their service-levels and best best allocate their volume with their given their leveraging their existing contracted rates with UPS and FedEx.

- Loop's scenario planning found that transferring volume from FedEx to UPS, for just one quarter, would unlock $2.4M savings (that is $9.6M in a year!), with another $680k in accessorial savings, and $91k in parcel services.





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Data-driven insights for contract leverage

A well built scenario planning process can give you a leg up in contract negotiation, even with the Big 4 (UPS, FedEx, DHL, USPS). With visibility and intelligence to your own data and the ability to run different scenarios, you're able to be more prescriptive with your asks, and show the data behind your "why."

With a well built scenario planning process you can:

- **Understand your carrier, team and network performance.** Set baselines to understand how these key drivers are performing.
- **Identify anomalies and trends.** Precise data from complete invoice visibility and parcel audits expose highest cost lanes, accessorials, service-levels, package characteristics, etc., will help you understand where you need improvement.
- **Test your facility and carrier network.** Great data empowers you to form and test hypotheses — "if this, then that" — to see if different configurations better meet your needs.
- **Negotiate better parcel rates and terms.** A deep understanding of shipping patterns and costs can uncover strategic advantages. One retailer guaranteed pickups from UPS during their busy summer season by leveraging their data to advocate for those terms.
- **Look at your current mix and unpack tradeoffs.** You'll want to consider as many different hypothetical scenarios as possible. Getting a better rate or term here might lead to a worse one there, or visa versa.

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Proactively plan for parcel profit with Loop

Scenario planning can help shippers maximize efficiency, identify savings opportunities, and adjust strategies in real-time. But it isn't a one-time exercise. To reap the most benefits, scenario planning should become part of your regular planning roadmap.

In order to do this, you need great shipment and spend visibility across your parcel network so you can make high-quality decisions. Loop standardized and unifies all of your parcel data, regardless of carrier so you can know what levers to pull to improve your performance.

[Get started with one of our experts today.]