CONSUMER AND RETAIL GROUP

COVID-19 PARCEL DELIVERY DISRUPTION:

ACT NOW TO SAVE HOLIDAY 2020

ALVAREZ & MARSAL

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In a second quarter plagued by COVID-19, which caused wide-spread retail store closures and stay-at-home orders, eCommerce sales have boomed. Data released by the U.S. Department of Commerce indicates record growth in Q2 with consumers spending $200.72 billion online, up 44.4% from the same quarter the prior year. This massive growth has pushed eCommerce to over 20% of the total retail market.

The impact of COVID-19 on consumer shopping behaviors has put a tremendous amount of stress on eCommerce supply chains and delivery services. In their latest quarterly report, FedEx found that their daily ground package delivery volume has increased 25% year on year. UPS reported that they delivered 24.4 million packages for the latest quarter – a 21% increase from a year ago. As a result of these increases, as well as labor constraints, both delivery companies enacted a “COVID penalty” beginning in April 2020. This entailed charging an additional $.30-$.90 per package while suspending money back guarantees on service SLA’s.

As the holidays approach, the package delivery business is bracing for unprecedented volumes. FedEx has said, "As the impact of the virus continues to generate a surge in residential deliveries, we are entering this holiday peak season with extremely high demand for capacity and are experiencing increased operating costs across our network." Therefore, FedEx recently followed UPS and the U.S. Postal Service in announcing incremental peak holiday season surcharges above and beyond the "COVID penalty". FedEx states that these surcharges and fees are "to continue providing our customers with the best possible service during this challenging time." What this means to both retailers and end-consumers is substantially higher parcel costs during the peak holiday season and risks to delivery timing.

While the approach to surcharges and fees varies slightly across the delivery companies, they all represent a significant cost increase in domestic residential parcel delivery:

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FedEx

- **FedEx Ground**: $1.00 - $4.00 per package based on a peaking factor that tiers for volume
- **FedEx Express**: $2.00 - $5.00 per package based on a peaking factor that tiers for volume
- **Surcharge for Postal Service handoff**: $1.00 per package – Nov. 2 – Nov. 29, $2.00 per package – Nov. 30 – Dec. 6, $1.00 per package – Dec. 7 – Jan. 17

UPS

- **UPS SurePost**: $1.00 - $3.00 per package tiered based off of growth over February volume
- **UPS Ground**: $1.00 - $3.00 per package tiered based off of growth over February volume
- **UPS Next Day Air**: $2.00 - $4.00 per package tiered based off of growth over February volume
- **All Other UPS Air**: $2.00 - $4.00 per package tiered based off of growth over February volume

This situation is made even worse for retailers that use intermediaries or third party logistics companies (3PL) in their supply chains. A major difference with this current surcharge is that it affects 3PLs at the master, not sub-account, level. 3PLs generally serve multiple retailers and pass many cases through one facility, thus triggering the highest volume surcharge. This surcharge may then be allocated back to their retail customers even if any individual customer did not trigger that level of surcharge.

In light of these rate increases, we recommend that retailers rethink their holiday logistical plans. A thoughtful, multi-pronged approach to addressing these cost increases and service challenges can substantially offset the financial burden and improve retail execution during the critical peak holiday season. Retailers need to focus on four primary areas, as detailed below:

01 Rethink parcel delivery vendor strategy

- **Balance national parcel vendors** – divide volume across UPS/FedEx to avoid surcharge triggers
- **Expand regional and other national carriers** – establish relationships with regional parcel carriers and expand volume with other national players
- **Expand ship from store model** – utilize geographically optimized stores with USPS to deliver >2 day delivery times at reduced costs

02 Reset customer expectations

- **Raise free shipping levels** – monitor competition, but break old paradigms around free shipping
- **Pass along a portion of cost** – raise shipping rates and pass along to end consumer
- **Readjust transit time** – communicate that normal transit times may shift from 1-2 days to 2-3 days or more

03 Drive BOPIS and curbside

- **Expand BOPIS / curbside program** – optimize offering and prepare for holiday-level volumes
- **Incentivize BOPIS and curbside** – build an offer that drives BOPIS/curbside by passing along a portion of the parcel delivery savings to the end customer

04 Shift promotional timing

- **Launch promotional programs earlier** – while you can't move Black Friday or Cyber Monday, creatively shift promotional timing to smooth out the peaks
- **Encourage consumers to shop early** – use creative communications and compelling offers to encourage early promotional shopping behavior

Addressing these opportunities will not completely offset the unprecedented surcharges, fees and service implications, but will help retailers better prepare for an aggressive holiday season and put them in a more favorable position, both financially and in terms of customer service.

Our advice – Act now. Develop a custom plan. A&M has the experience and resources to support you. We look forward to connecting.

Contact us

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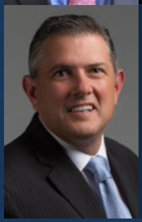

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