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Logistics News: Time to Start Looking at Regional Parcel Carriers?

Saving and Service Improvements often Possible, Experts Says, but Opportunities Often Depend on Your Network; Lack of Awareness Perhaps Biggest Barrier

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With DHL's exit from the US parcel market in 2009, some are wondering if it is time for more shippers to take a look at so-called regional parcel providers to take on some - or even a lot - of the parcel shipping load.

While UPS and FedEx serve global markets with a broad array of various services and pricing options, regional carriers, as the name suggests, serve a specific region within the US and generally offer more simplified services. They can often offer attractive pricing for those companies where the service makes sense.

There are five major regional carriers in the US:

- **Eastern Connection:** services the northeast and mid-Atlantic
- **Lone Star Overnight:** Texas and several contiguous states
- **OnTrac:** West coast, Arizona, Nevada, Utah
- **Spee-Dee Delivery:** Illinois and upper Midwest
- **US Cargo:** Midwest and some east coast

There are still smaller regionals, including local courier services, that cover smaller regions or even single urban areas. **TransTek**, for instance, covers Colorado, Nebraska and Wyoming.

An industry representative says that combined the major regional carriers cover some 80% of the US geography - major holes are in the Southeast, where the Carolinas, Florida, Tennessee and Mississippi are not well covered by regionals.

The regionals focus on deliveries from origin to zones 2-5, meaning roughly local delivery to as much as 1000 miles from the ship site. Most will say their services are designed to supplement that of a UPS or FedEx, not replace them. Still, for some

shippers, moving some volumes to regionals can offer either better service or lower costs.

Peter Starvaski, director of product marketing at shipping solutions provider Kewill, says one internet retailer Kewill is working with is shipping some 65% of its volume via Eastern Connection, because the company's customer base is located largely in the Northeast.

"You can often get overnight service from a regional for the same cost as ground shipping from the big guys," says Starvaski, noting this can be an opportunity to either provide improved service at the same cost, or reduce inventories and/or look for better consolidation opportunities by taking advantage of the cycle time reduction from overnight service without increasing delivery costs.

Starvaski adds that the regional carriers often have fewer add-on or accessorial charges for such things as home versus business delivery, and that in general the regionals have much "flatter" rates.

Jerry Hempstead, a former parcel industry executive and now consultant to shippers, agrees that regionals can often be a smart choice.

"Most shippers have the majority of their transactions moving within zones 2 to 4. This is the geographic service area that the regional carriers have as their core business. They offer guaranteed next day delivery (normally) for the turf that they serve, and they do this without aircraft," Hempstead told SCDigest. "The service is all on the ground. Often they can offer later pick up times versus the integrators because they don't have to chase a departing aircraft."

He adds: "Any shipper with volume should be considering one or more regional carriers in their mix. The cost savings can be 40% if you can substitute a regional carrier for an air transaction and normally they can save 5 to 15% on a head-to-head comparison of ground delivery tariffs."

He also says the regional carriers can offer often a degree of personalized service that is difficult for the larger integrators to extend to the global universe.

Even stronger, Hempstead says, "Any shipper of volume that is not entertaining offers from the regional carriers is being remiss in their stewardship of their companies shipments."

In general, the five major regionals have sophisticated parcel tracking and status systems that meet the needs of most shippers.

"I see the regionals generally keeping pace in terms of technology," Starvaski says.

One opportunity in using regionals is for shippers that were using DHL's Hub Induction service (in which shippers delivered their packages into a local DHL hub), while another is for companies that are currently doing any form of zone skipping with the major carriers. The regionals in general are very open to these sorts of arrangements, and a shipper on the east coast might consider sending a truckload of parcels to OnTrac on the west coast for regional delivery there, as an example.

It's not clear what the market share of the regionals is currently - certainly, it is in the single digits. Still, in a \$3 billion+ parcel market in the US, that's still a lot of packages.

There are issues to consider, however.

Almost by definition, using regionals means working with multiple parcel providers, versus standardizing with UPS or FedEx.

For national shippers, the use of regionals often makes the most sense when distribution centers are at least reasonably well aligned with the coverage of the big five regional providers. If you happened to have DCs in each of the five regional areas, use of regional carriers could provide almost national coverage.

However, "If you're shipping to the whole country say from one DC, then regionals might be a less attractive option for you," Starvaski noted.

There are some areas, such as the Southeast areas mentioned above, that aren't covered by regionals.

Shippers also have to consider how moving any volumes from the big carriers will impact the kinds of rates and discounts they might get from UPS and FedEx after diverting some parcel to regionals.

In general, the major regionals have native support from parcel system software vendors, but not every system usually covers every regional. So, that is another consideration, though adding a regional rate structure to parcel software is usually not a major effort or cost even if it isn't supported out of the box.

The regionals themselves recognize that a lack of marketing and market awareness is probably the biggest barrier to more widespread use of regional carriers. SCDigest spoke this week with the VP of Logistics for one soft goods company with fairly large parcel volumes who did not even know regional carrier options existed.

In a discussion with Stifel Nicolaus transportation industry analyst **David Ross** last week, executives from several of the regional carriers projected their businesses would grow 9-10% this year, substantially above the overall market that is likely to see flat to low single digit growth.

What are your thoughts on regional parcel carriers? Are you using them? Why or why not? What are the pros and cons? Let us know your thoughts at the Feedback button below.

