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2021 Small Parcel Outlook

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There is always an air of uncertainty as a new year approaches. However, with so much change during 2020, one wonders what more could 2021 bring? 2020 will likely be regarded as the year in which the small parcel market was turned upside down due to the COVID-19 pandemic, driving a significant rise in e-commerce business, the likes of which we have never seen before.

Shifts from B2B to B2C shipping/residential last-mile deliveries occurred suddenly in March as the pandemic spread worldwide. FedEx and UPS reported over 70% of total volumes were residential as compared to March when volumes were more evenly distributed between business and residential. As a result, FedEx and UPS had to adapt and readjust their networks quickly. But delays and capacity constraints occurred. To manage the increased residential demand, FedEx and UPS implemented temporary peak surcharges on Ground deliveries.

While the percentage of residential deliveries have slowly eased since March, they remain high as more consumers shy away from in-store purchases and continue to work from home. However, as we approach the holiday season, the small parcel market is still struggling with sporadic delays across the country. Last-mile delivery capacity remains constrained, and temporary peak surcharges on Ground deliveries continue.

The holiday season will be one that is described by many retailers as "unusual." Retailers have spread out sales promotions across the season to prevent over-crowding in stores and ease demands on last-mile delivery capacity. E-commerce sales are expected to boom with average estimates well into double-digit year-over-year growth rates.

FedEx and UPS will continue to manage capacity by replacing temporary COVID-19-related Ground surcharges implemented in May and June with temporary holiday peak surcharges. These surhcarges are typically used to manage capacity demand, in particular, for e-commerce parcel volumes.

2021 EXPECTATIONS

We expect a continuation of many 2020 trends, particularly high e-commerce demand and thus increased demand for small parcel delivery providers. But it will come at a price as shipping rates increase. While the average annual rate increase has been 4.9% for FedEx and UPS since 2014, surcharges have increased at a greater year-over-year rate.

FedEx announced their 2021 rates in September, and while the average annual rate is 4.9%, year-over-year and 3-year increases for some of the more popular surcharges are higher:

- **Residential Surcharge for Home Delivery:** 8.7% YoY and 20.83% increase in 3 years
- **Delivery Area Surcharge – Extended – Ground-Commercial:** 7.25% YoY and 45.1% increase in 3 years
- **Additional Handling – Weight:** 6.25% YoY increase and 112.5% increase in 3 years

UPS announced their 2021 rates in October and similar to FedEx, announced an average annual rate of 4.9%, year-over-year.

- **Residential Surcharge for Ground:** 8.5% YoY and 23.6% increase in 3 years
- **Delivery Area Surcharge – Extended – Ground-Commercial:** 7.3% YoY and 42.3% increase in 3 years
- **Additional Handling – Weight:** 6.3% YoY and 112.5% increase in 3 years

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According to John Haber, CEO of Spend Management Experts, shippers need to understand all of their costs associated with shipping parcels and all other cargo. In such a volatile market where unknowns outnumber the certainties, shippers need to mitigate risks and adapt quickly. This means having visibility into information and investing in tools to analyze the information and data.

To mitigate high shipping costs, Retailers will continue to invest in omnichannel solutions, linking their online presence to the physical store. For example, services such as buy online/pick up in stores (BOPIS) and curbside deliveries have been embraced by retailers and consumers alike.

Kohl's, Best Buy, Dick's Sporting Goods, and Bed, Bath, and Beyond are among a growing number of retailers who introduced curbside pick-up in 2020. During the second quarter, Target's curbside pick-up service grew 730 percent over the same quarter in 2019. Best Buy's second-quarter online revenue increased 242 percent, and about 41 percent of those online sales were filled either through buy online and pick-up in-store or curbside pick-up options.

Ecommerce software provider CommerceHub surveyed 2,000 US consumers to identify consumer shopping patterns six months into the COVID-19 pandemic and found that 67% of the respondents will likely continue using curbside pick-up post-pandemic when delivery isn't available or fast enough, compared with 59% at the start of the pandemic.

In addition, we may see more retailers embrace lockers and third-party pick-up/drop off locations to offset higher shipping costs. FedEx and UPS have been expanding their retailer partnership programs to encourage these alternative pick-up and drop-off locations, which are less costly for them versus residential deliveries.

As e-commerce sales increase, so too do returns. According to the co-founder and CEO of Happy Returns, about 5% to 10% of in-store purchases are returned. However, for online purchases, returns increase from 15% to 40%. Such announcements as Staples partnering with Optoro and Happy Returns partnering with FedEx Offices provide a single location for drop-offs, similar to FedEx and UPS' retailer partnership are less costly for both FedEx and UPS and the retailer who typically provides "free shipping" for returns.

2021 EXPECTATIONS FOR BUSINESS-TO-BUSINESS

Even though business-to-business shipping needs are improving, as FedEx and UPS noted, the improvements are not coming fast enough. Political and economic concerns grow as the world waits for a COVID-19 vaccine. At the same time, business requirements are changing and will continue to do so in 2021.

Shortages of toilet paper, hand sanitizer, and PPE defined the COVID-19 pandemic's early days. Weaknesses in supply chains were exposed. In response, many companies are rebuilding their supply chains to make them more resilient. For some companies, such as the medical industry, which is 90% to 95% dependent on imports, this may mean shortening their supply chains by reshoring or bringing parts of supply chains closer to the US.

Inventory replenishments are also shifting from just-in-time to just-in-case. As part of this, businesses are diversifying supplier bases as a shield against geographical uncertainties and expanding their warehousing footprint for the storage of extra inventory.

However, the biggest unknown expectation for 2021 is the COVID-19 vaccine(s), which will present a number of supply chain challenges. All modes of transportation are expected to be impacted as well as warehousing and the last mile. UPS and FedEx will play a vital role in the distribution of vaccines. But at what expense to their other customers? Will there be enough capacity for all customers, and if so, at what cost to other shippers?

2021 will bring higher shipping costs, capacity constraints, and changing customer preferences. How shippers and logistics/transportation providers respond will result in shakeouts within the retail, manufacturing, and logistics/transportation markets.