

**Hathaway & Lane Direct, LLC**

**What's a Shipper to do in Order to Exist 20 Years From Now?  
MGA Survey Results - Outbound Freight Research**

**Presented to: Mailorder Gardening Association**

**MGA 2008 Winter Conference**

Monday, January 7–Wednesday January 9 | Marriott Inner Harbor | Baltimore, MD



**January, 2008**

In this presentation we will:

- Introduction - Panel Members
- Introduction – Hathaway & Lane Direct
- Review the program Background & Objectives
- Provide an Executive Summary of Findings
- Review results for Outbound Freight survey
- Observations & Recommendations/Q&A for Panel

# Panel Members

**Richard Chamberlin - President - Harris Seeds - Garden Trends Inc.**

**Bruce L Frasier – President - Dixondale Farms, Inc**

**Skip Miller – President - Miller Nurseries**



## Introduction Hathaway & Lane Direct

## **Hathaway & Lane Direct brings together a unique *toolbox* for every initiative**

- ✓ Circulation Planning
- ✓ Business/Strategic Planning
- ✓ Sales & Inventory Forecasting
- ✓ Marketing Research
- ✓ Creative/Media
- ✓ Integrated Web Marketing/Strategy Development
- ✓ SEM/SEO/PPC Programs
- ✓ Mailing & Fulfillment
- ✓ Merchandise & Gross Margin Planning
- ✓ Predictive Modeling
- ✓ Public Relations
- ✓ Data/Database Analytics



## **Ken Lane, President & Founder**

- **Twenty-plus years of assisting organizations build, execute and achieve their Strategic Direct Marketing plans, supporting both Consumer and BTB.**
  
- **BTB/Retail Direct Marketing - Staples, The Office Superstore**
- **Senior level marketing positions with:**
  - **Geerlings & Wade Personal Wine Service**
  - **Jackson & Perkins/Harry and David**
  - **White Flower Farm**
  - **FAR&WIDE Travel Corporation.**
  
- **First recipient of Staples “In Search of Excellence” award**
- **Featured speaker at Direct Marketing conferences.**

## Project Plan – Overview

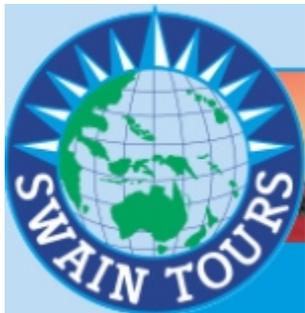


- *Develop Objectives, Action Steps and Deliverables for each Phase*

# Clients



# Clients





## Background & Objectives

# Background

- **Like death and taxes, all Direct Marketers can expect postage and outbound freight expenses to increase more frequently than we would like.**
- **The United States Postal Service increased rates in May, 2007 for the second time in eighteen months. Those that ship in parcels or larger envelopes were especially hard hit by this increase. There is already discussion about yet another rate hike for 2008.**
- **Increased worldwide demand for oil and continued geopolitical unrest has kept the price of fuel so high that MGA members should expect ground shippers to increase their fees annually, as well, even if just for “fuel surcharges.”**
- **The US Energy Administration predicts a 10% increase in gasoline by May**
- **UPS recently signed a five-year contract with the Teamsters that will increase costs. FedEx announced a “net” 4.9% increase for 2008.**

**A March 2007 survey conducted by Morgan Stanley surveyed over 400 parcel shippers (who primarily use DHL, FedEx, UPS and the USPS) for their feedback on market dynamics as well as their future expectations for pricing and volumes. Here is some of what they found:**

- Shippers expect average rates over the next 12 months to rise 1%-2% for most parcel products.
- DHL seems to have little pricing power. This could become a bigger factor if it improves service and aggressively seeks to win back market share, but shippers tell Morgan Stanley that despite improving service levels, DHL's service still lags behind that of FedEx and UPS.
- Shippers expect parcel volume growth only moderately. This is consistent with near-term economic concerns over a slower manufacturing sector
- Shippers expect parcel volume with the USPS to grow by 1%. This is a significant decline from the previous survey, in which shippers expected to grow volumes with USPS by 4.4%.
- Shippers are also predicting that **Accessorial Charges and fuel surcharges** will increase significantly over the next 12 months

Source: Multi-Channel Merchant May, 2007

- **Brent Thomas, now since retired from Park Seeds, had for many years worked to address this issue...for his company and for the entire MGA.**
- **His advice to make this survey successful...**
  - This issue was too important and needed to be communicated as such. Increases were becoming larger and more frequent.
  - Survey participation and results needed be completely confidential.
  - Too many of the MGA member companies were struggling to absorb these costs within their existing business model while still providing a Unique Selling Proposition for their products and their targeted customer base.
  - An outside independent firm would be able to keep things confidential, build & execute the survey and remain objective while assessing results.



# Executive Summary

## Executive Summary

It cannot be stated enough how **critical it is for the issue** of reducing Outbound Freight costs to be addressed at the association level by the MGA and its membership base. It is clear that this area in each **company's P/L** statement will continue to be strained, with seemingly no real end in sight.

About **70%** of the participants are smaller mailers - defined as companies **shipping less packages than the average respondent**.

**Larger companies** can probably afford staffing their Outbound Freight Provider (OFP) relationship with a **dedicated resource** or as a separate function within their department structure. This responsibility is yet **another hat worn** by many of the member companies associates.

Many companies selected **both Wholesale and Retail**. It underscores the diversity and prudent business expansion decisions of the membership and how they have grown their businesses over time.

While most companies ship predominantly in boxes, the association can be characterized as a **three-headed animal**. Seeds and Hard Goods are at opposite ends of the shipping spectrum. Live plants, bulbs and other green goods certainly have nuances that provide another distinct point of view.



# Survey

## Details

- **21 Wholesale and 110 Regular Member companies were surveyed**
- **Web-based to protect anonymity**
- **Three email blasts for survey submission**
  - **June 4 – All members**
  - **June 26 - Reminder**
  - **July 17 – Post Conference Last Chance**
- **Forty-two questions measuring...**
  - **Type of business**
  - **Usage**
  - **Packaging/Product specs**



## Section 1: Who are you and what do you ship

## Responses

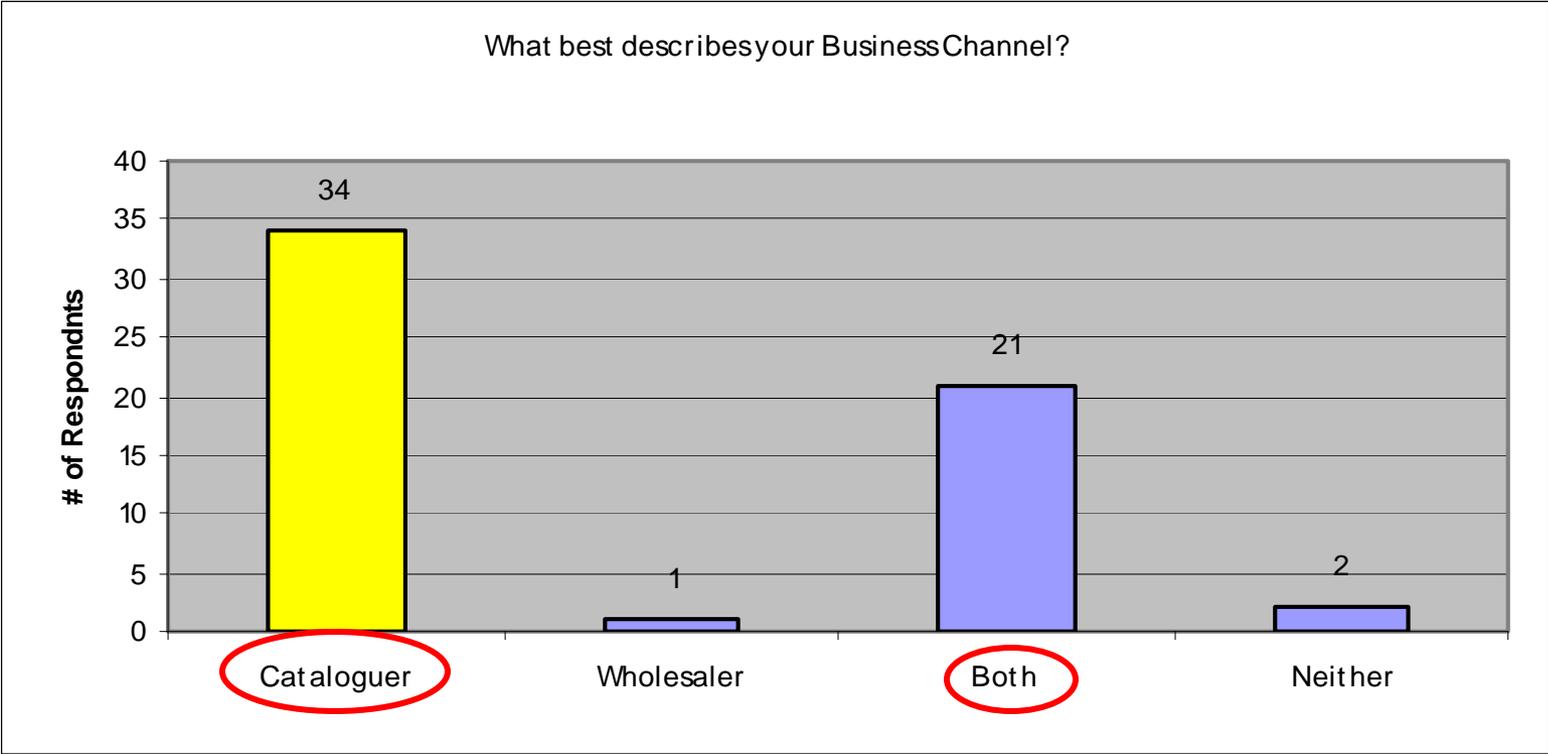
- **21 Wholesale and 110 Regular Member companies surveyed**
  - **131 total companies surveyed**
  - **58 responses**
  - **Greater than 40% participation (!!!)**
- **Audience...**

<b>Business</b>	
Cataloguer	34
Wholesaler	1
Both	21
Neither	2
<b>Total</b>	<b>58</b>

<b>Decision Maker?</b>	
<b>Yes</b>	<b>85%</b>
<b>No</b>	<b>15%</b>

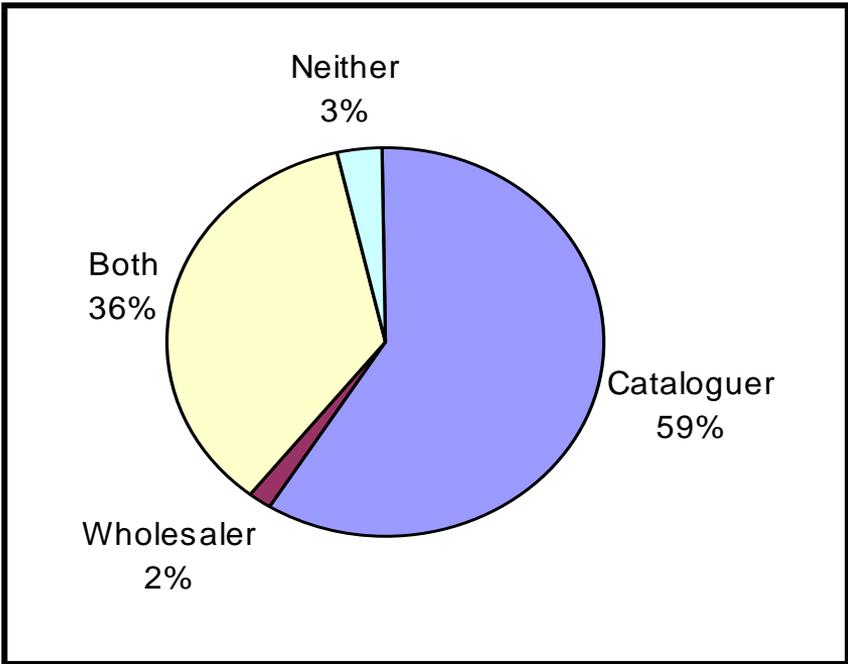
- **...Survey spoke to the right people at the right companies.**

# Survey Questions – Business Channel

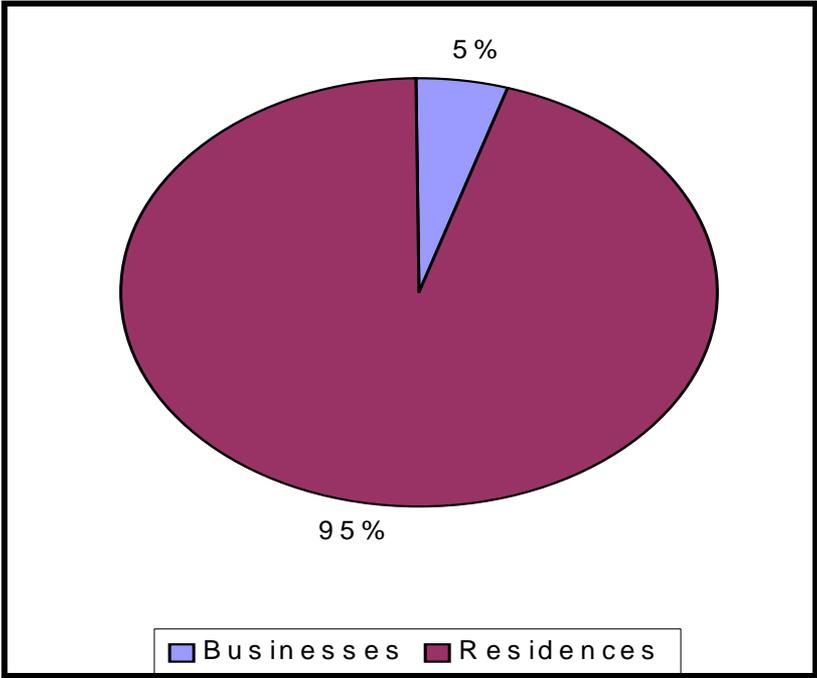


- Most respondents are Cataloguers or run both Catalogue/Wholesale operations

# Survey Questions – Business Channel

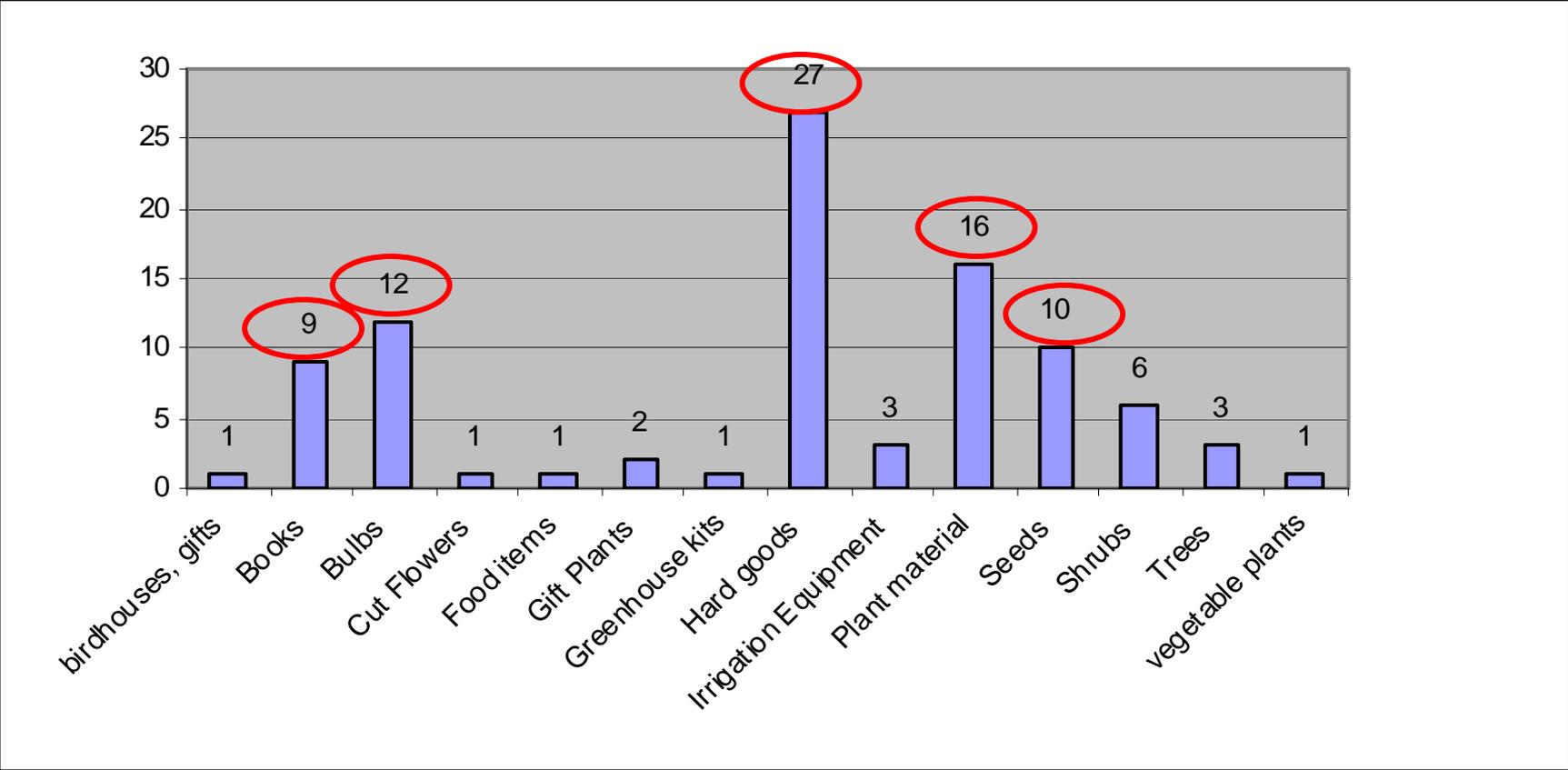


➤ This translates to 95% are in the sweet spot of shipper targets...

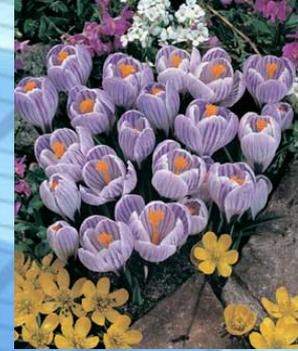


➤ ...and 95% are shipping residences. Again, no surprises..

# Survey Questions – What do you sell ANY of?

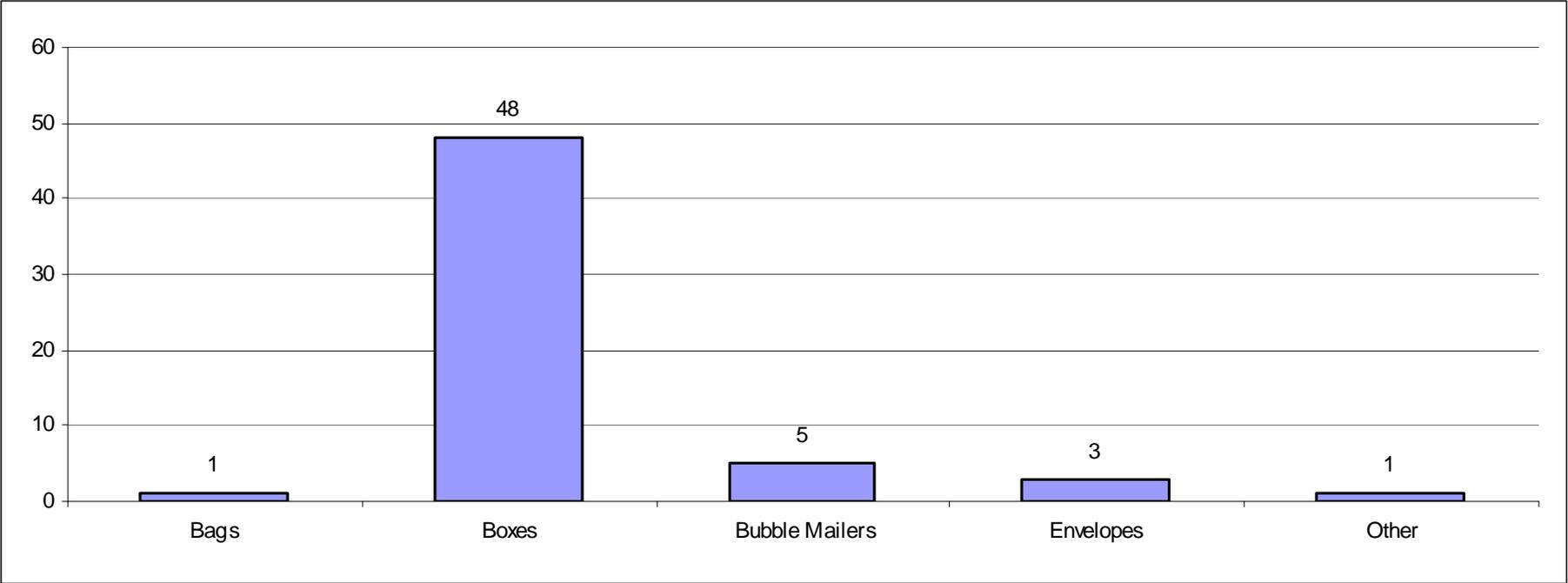


➤ ...There is a diverse mix of what products are shipped...



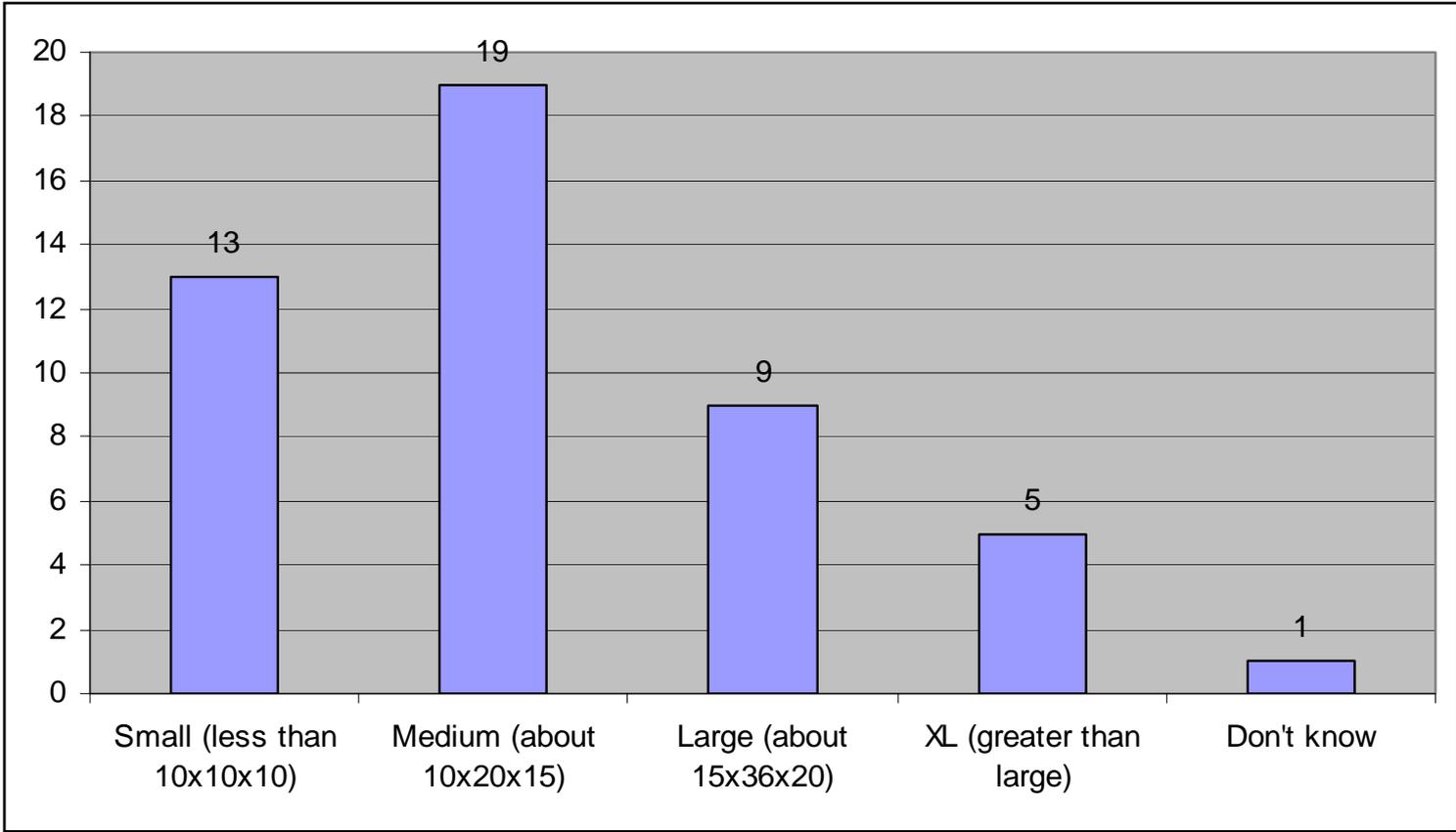
## Section 2: Shipping Specs – Volumes, etc

# Survey Questions – What do ship in?



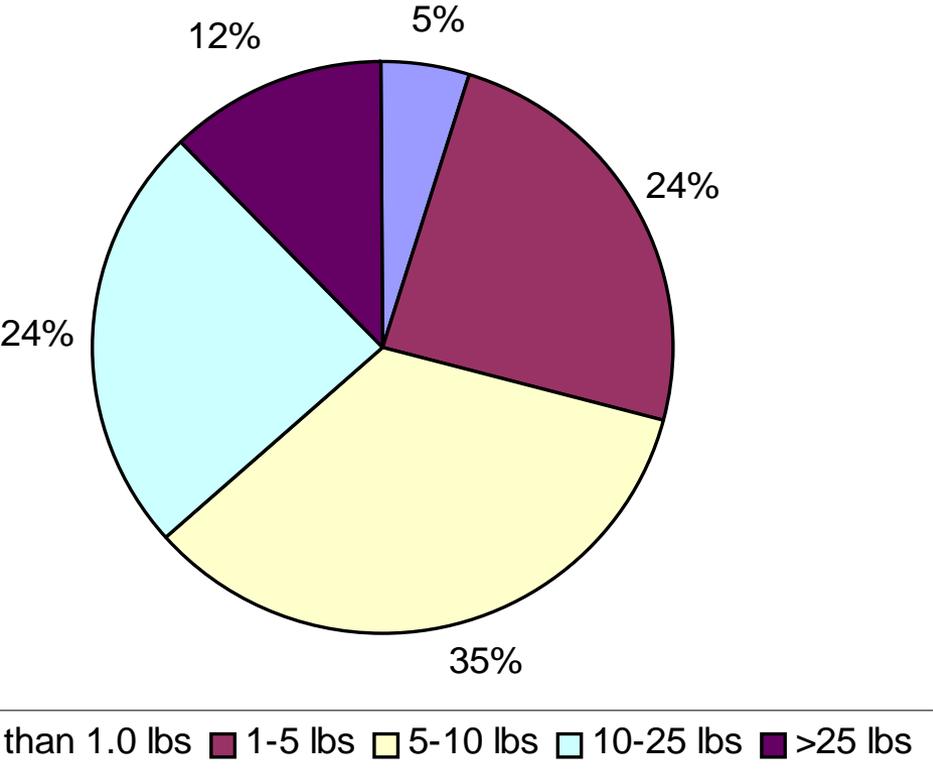
➤ **Over 80% of respondents are shipping to their customers in BOXES.**

# Survey Questions – If BOXES, what SIZE?



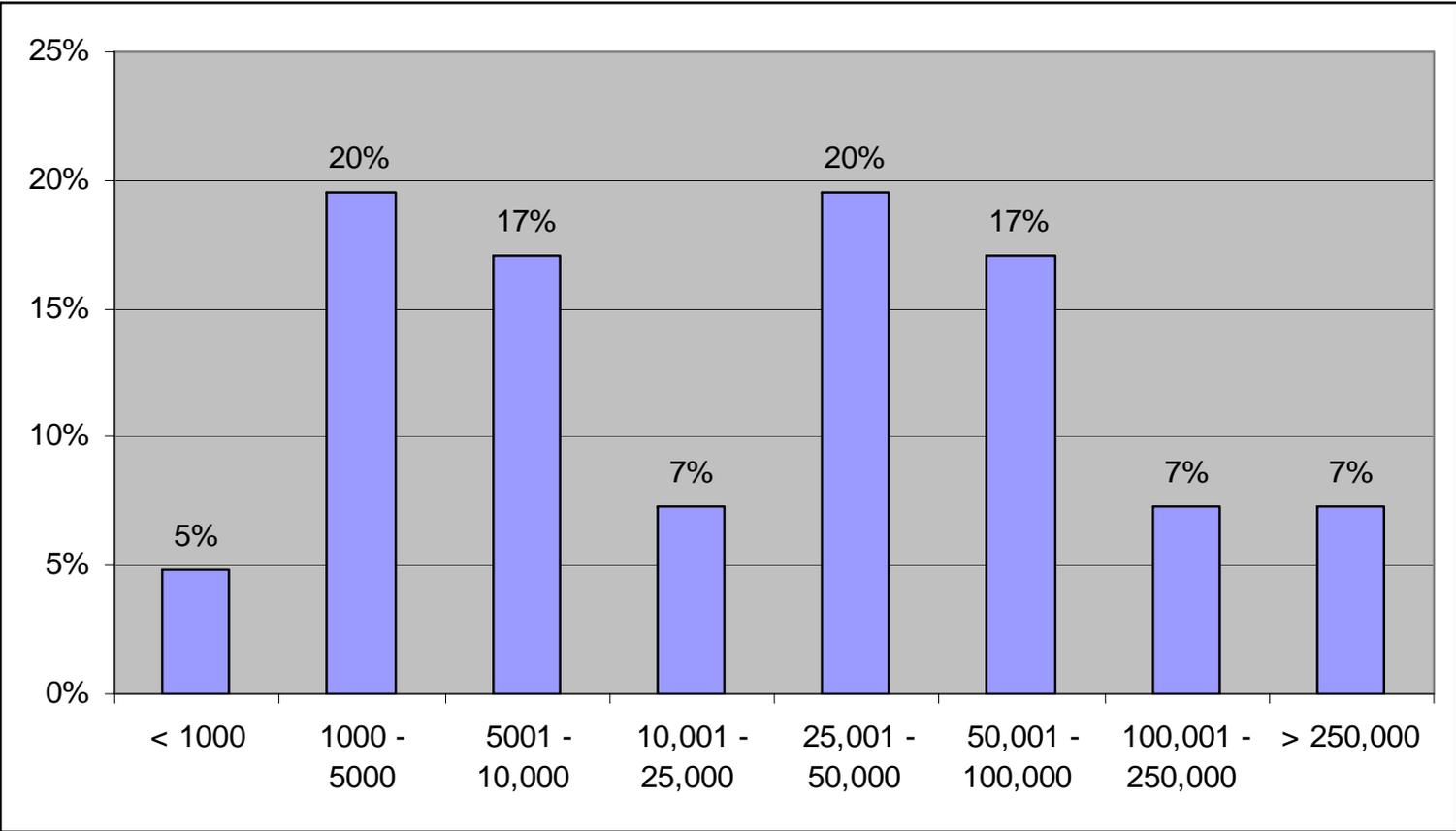
- Almost 70% of respondents ship in boxes not subject to shipper dimensional weight surcharges.

# Survey Questions – The average weight of a package shipped is:



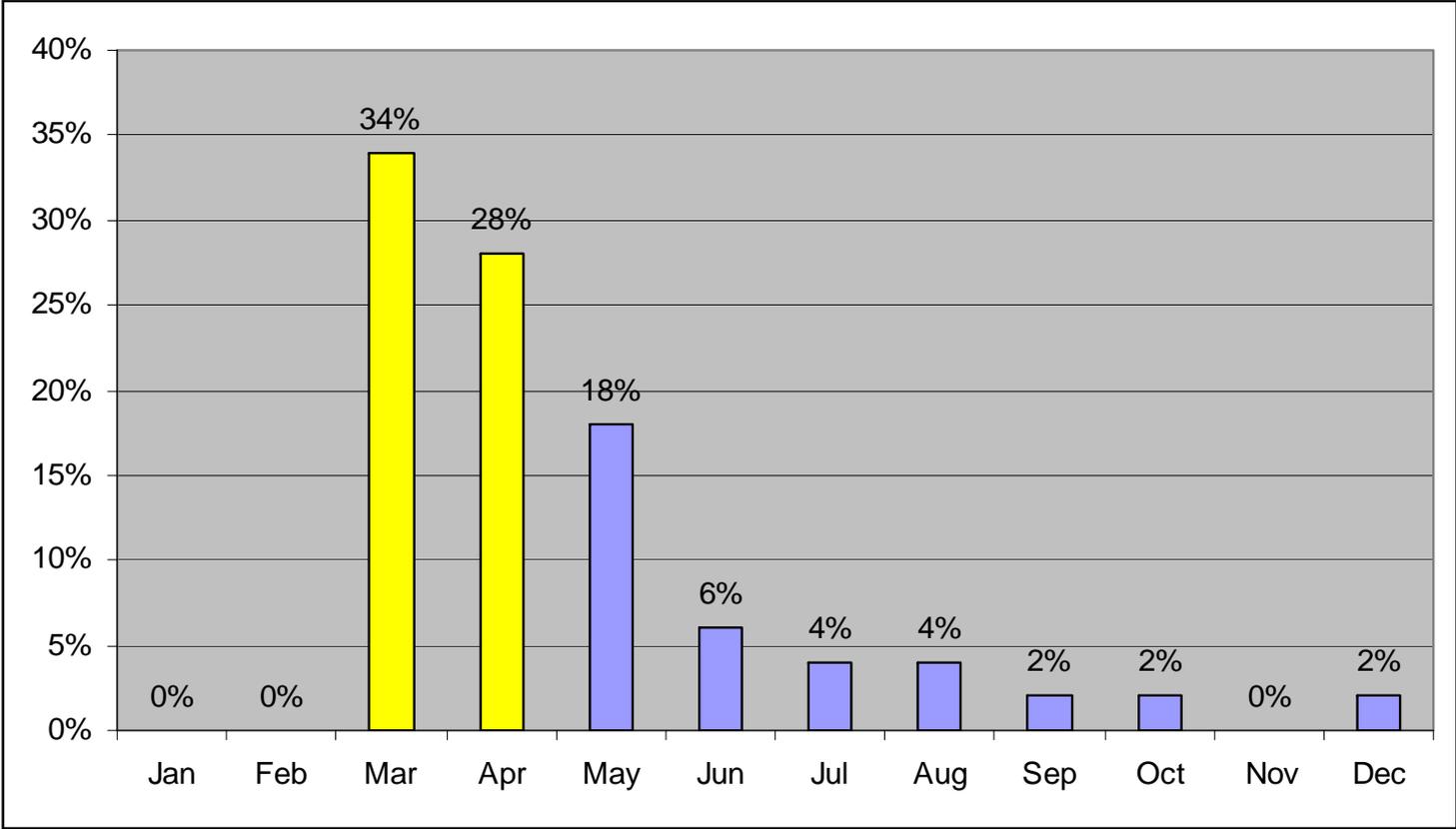
- 71% above 5 pounds...driven by Hard Goods.
- Weighted average is: 11.1 pounds per package

# Survey Questions – The amount of packages shipped in 2006 was:



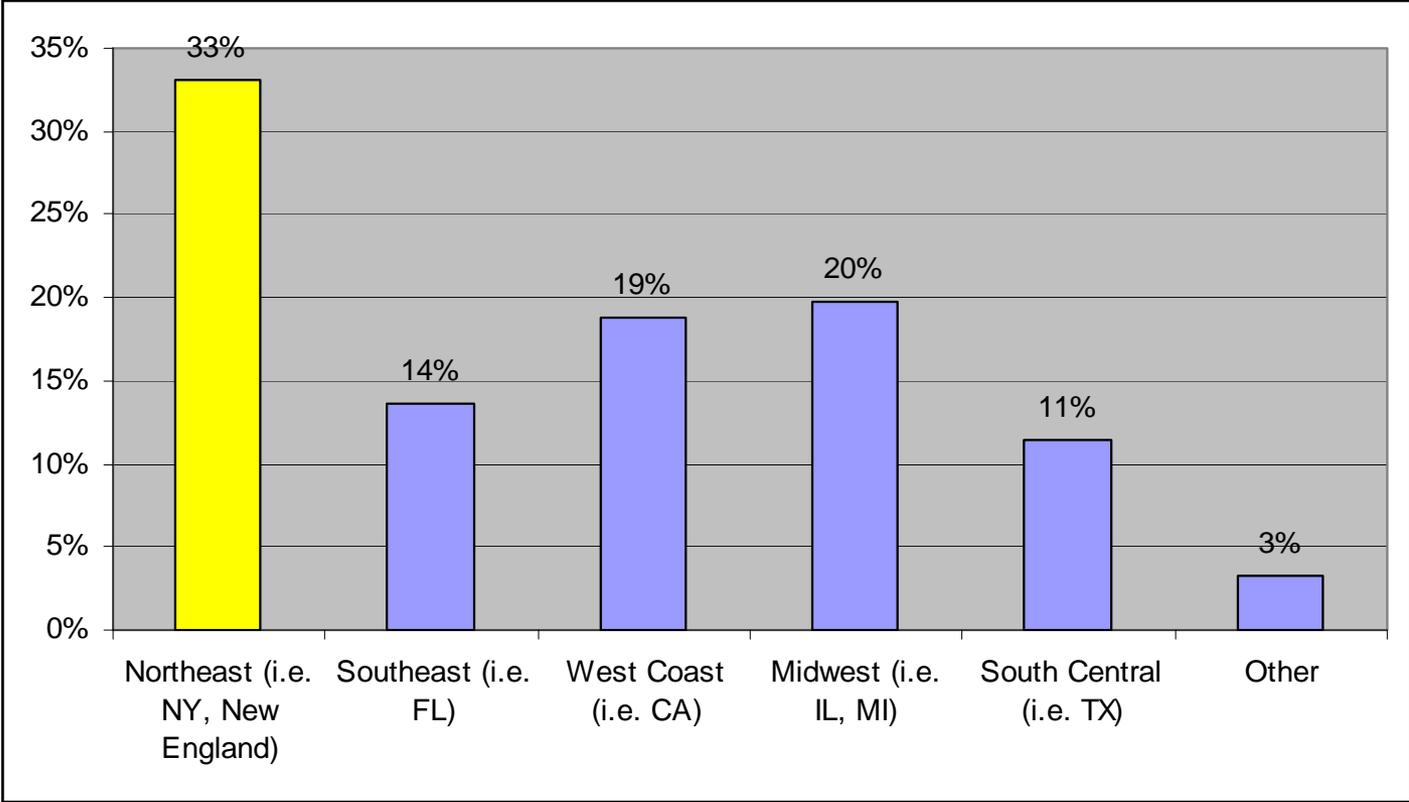
- Annual package volumes by respondent vary greatly.
- Average per respondent is 60,000
- About 70% of respondents are below the average package volume

# Survey Questions – The Month we ship the most packages in is:



➤ Overall, respondents are Spring shippers...

# Survey Questions – REGION most shipped to:

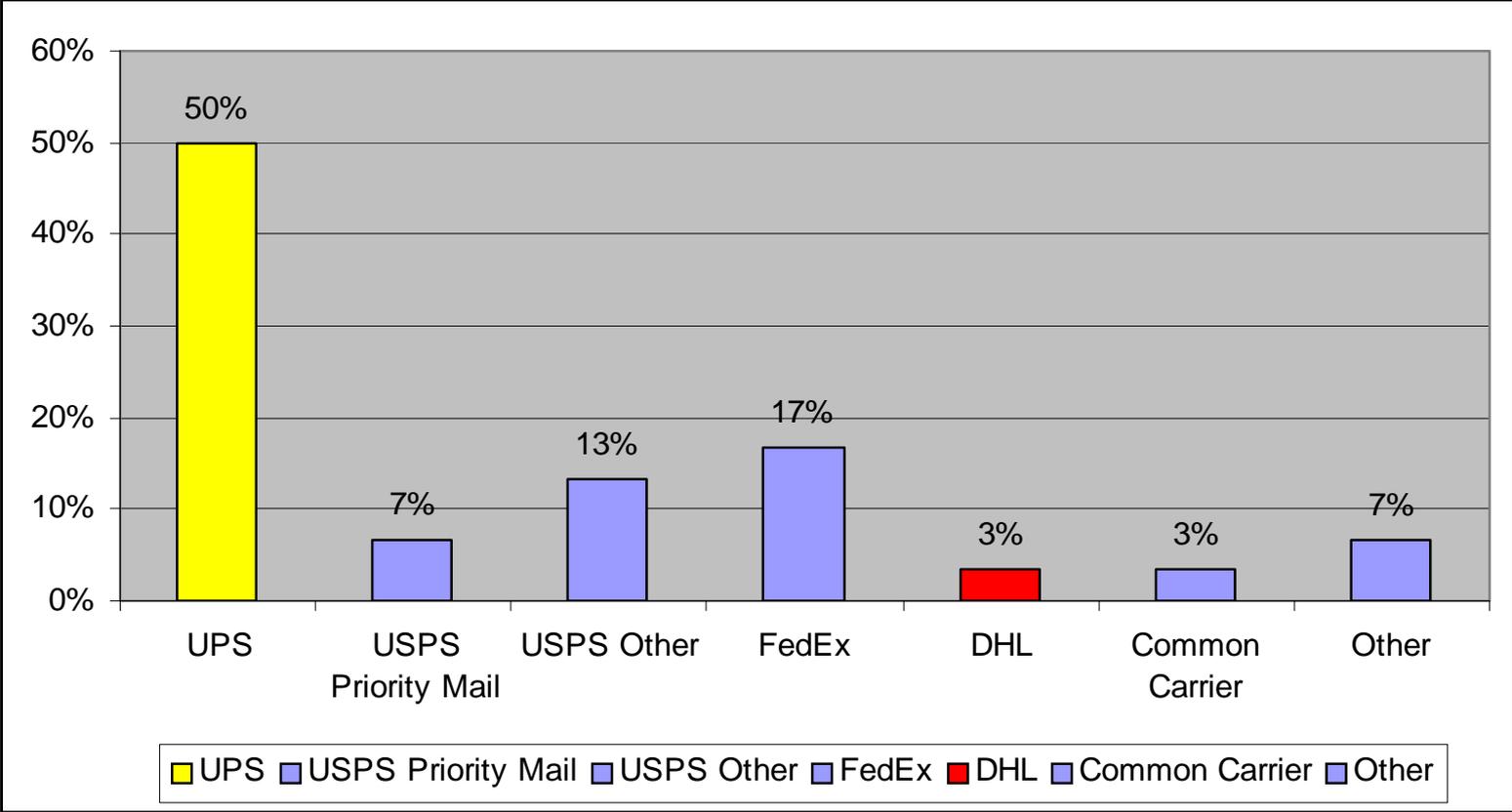


- No real surprises here, though the data skews a little more east than the typical Mail Order population.
- No one claims more than 5% Drop-Ship



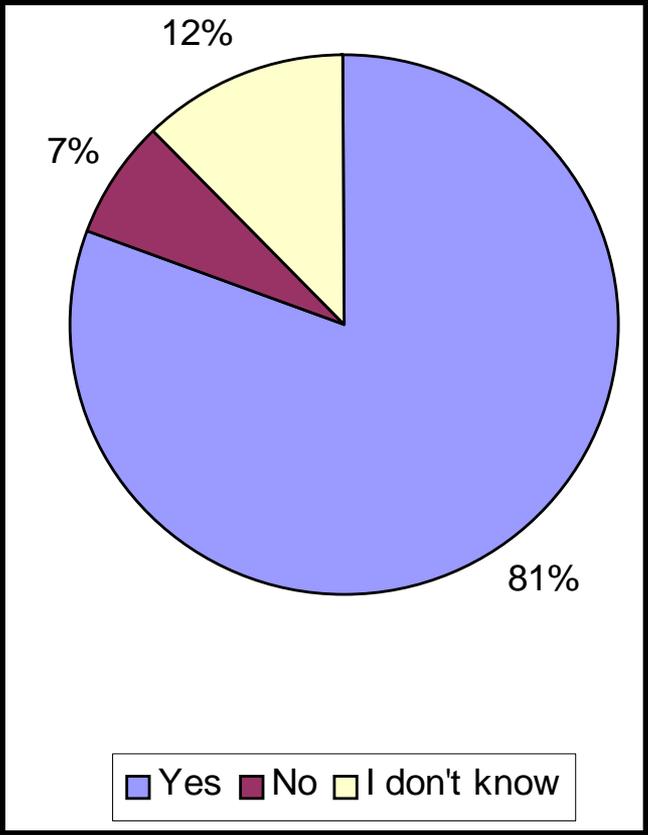
## Section 5: Current Outbound Freight Providers

# Survey Questions – Who do you currently ship most with?



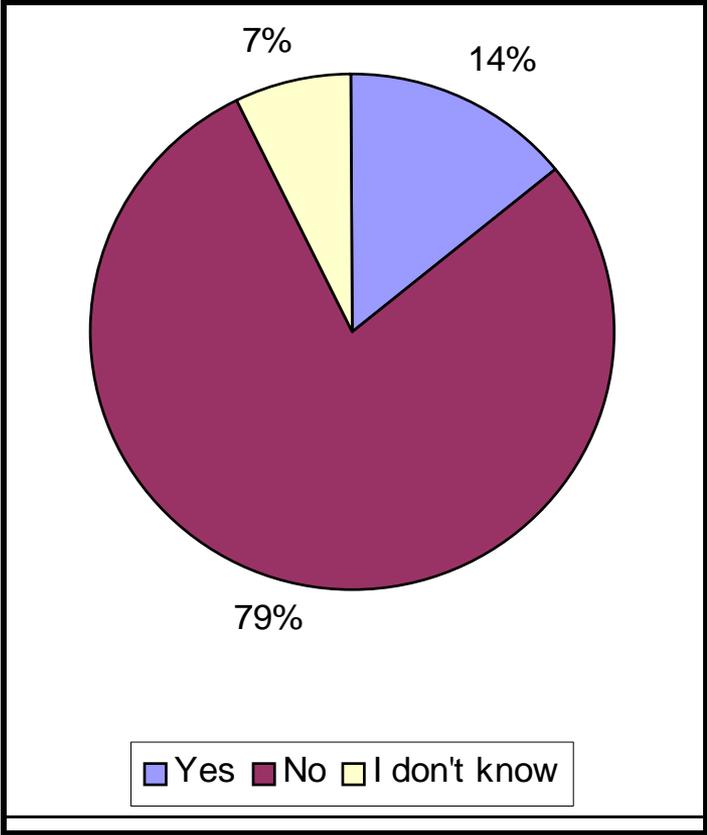
- UPS is clearly the current shipper of choice
- The DHL numbers are disappointingly low

# Survey Questions



Do you pay a residential surcharge?

- My guess is the IDK = Yes
- “Yes” estimate is 93%.

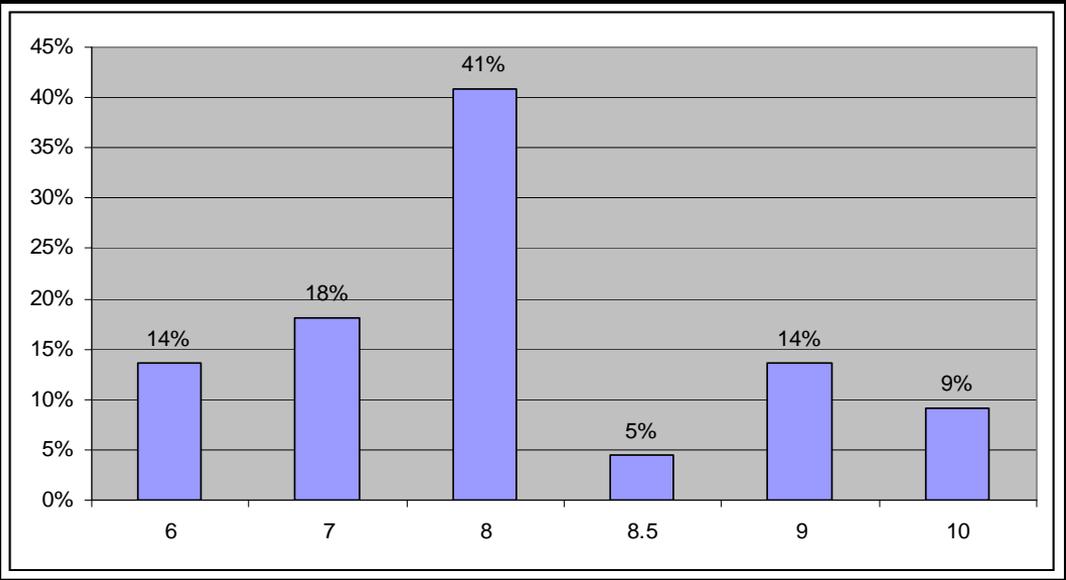
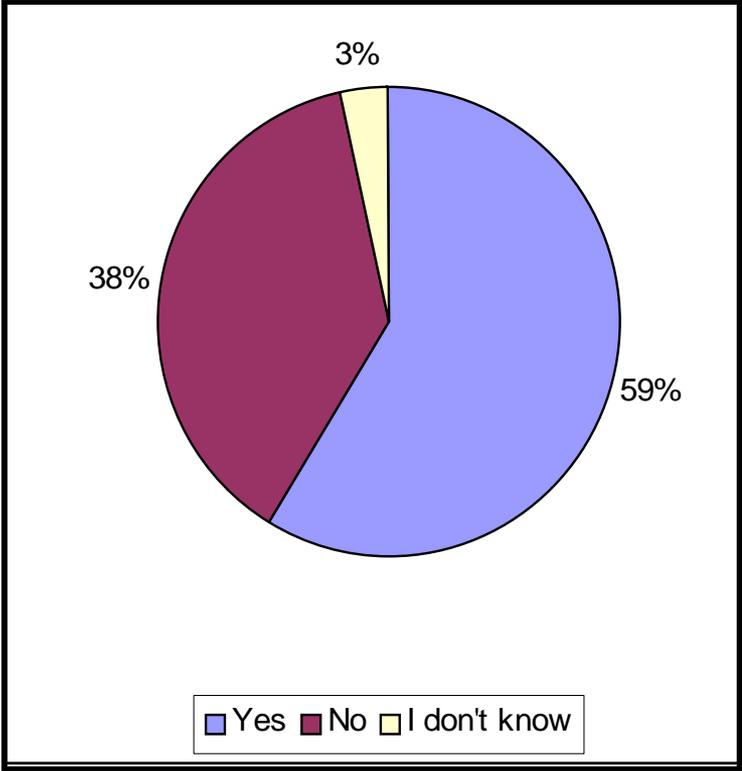


Work w/consolidator for zone skipping?

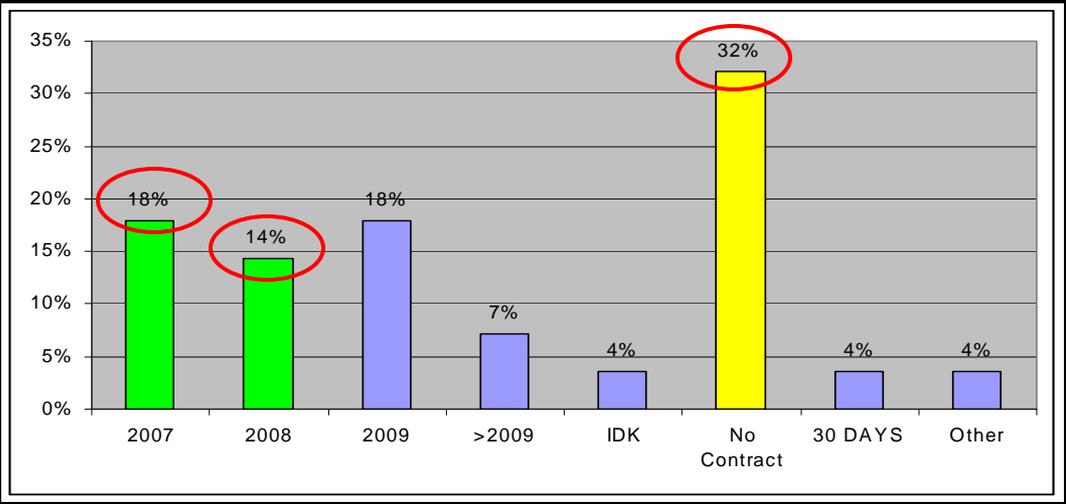
- My guess is IDK = No
- “No” estimate is 86%

# Survey Questions

## Shipper Contract? – Most do



## Satisfied? – 7.9 out of 10 - good but not great

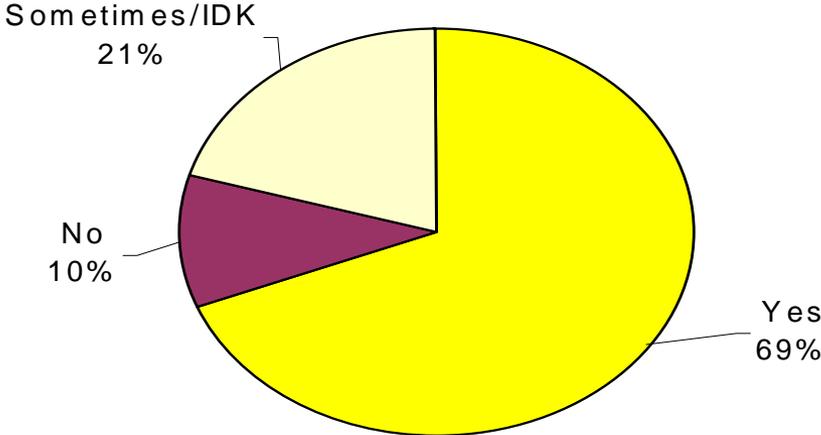


Contract Expires – Almost 2/3 of respondents can change

# Survey Questions

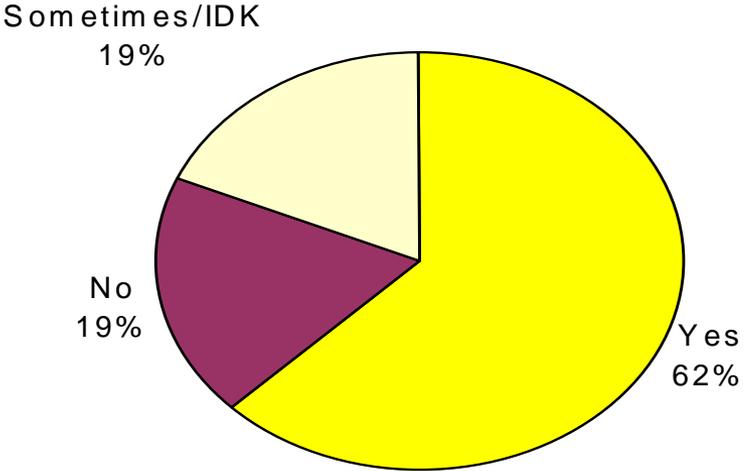
## Do you pay a fuel surcharge?

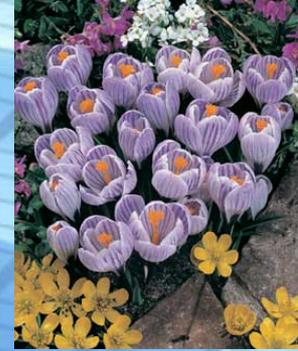
- Assume Sometimes/IDK = Yes
- “Yes” estimate is 90%.
- There is an opportunity to negotiate these on behalf of MGA members.



## Web-based Tracking?

- Assume Sometimes/IDK = Yes
- “Yes” estimate is 81%.
- There is technology and expertise in place for most companies to communicate electronically with their Outbound Freight Provider



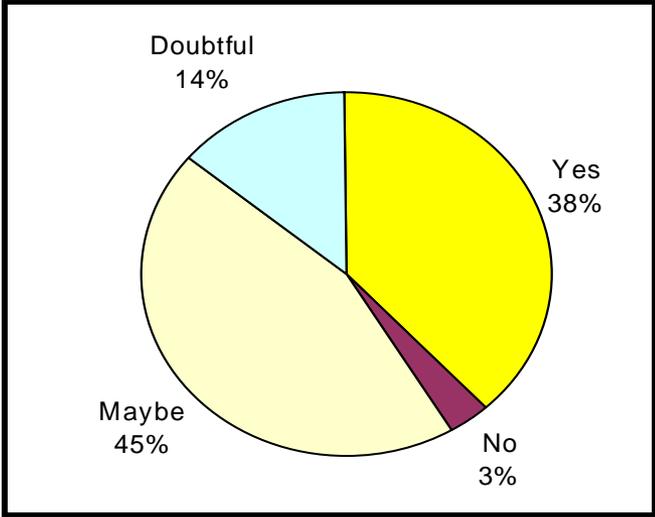


## Section 4: MGA Support

# Survey Questions

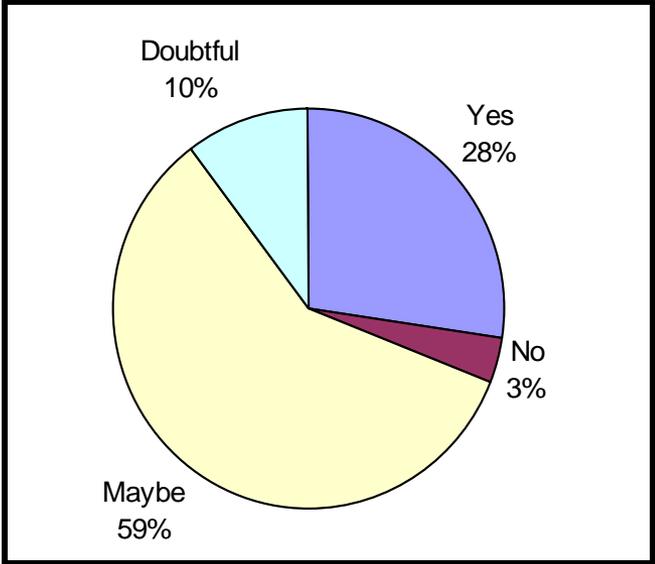
## Participate with MGA program Outbound Freight Provider ?

- 83% with generally favorable attitudes...



## Change OBF with MGA program ?

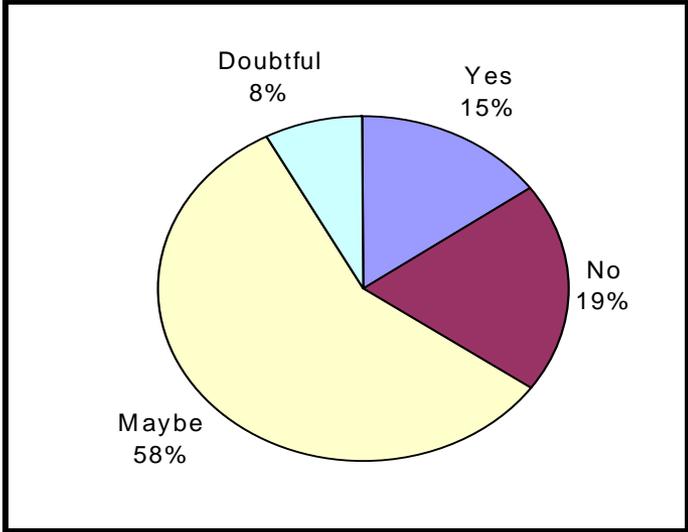
- ...87% generally favorable, but a lot more in the Maybe column.



# Survey Questions

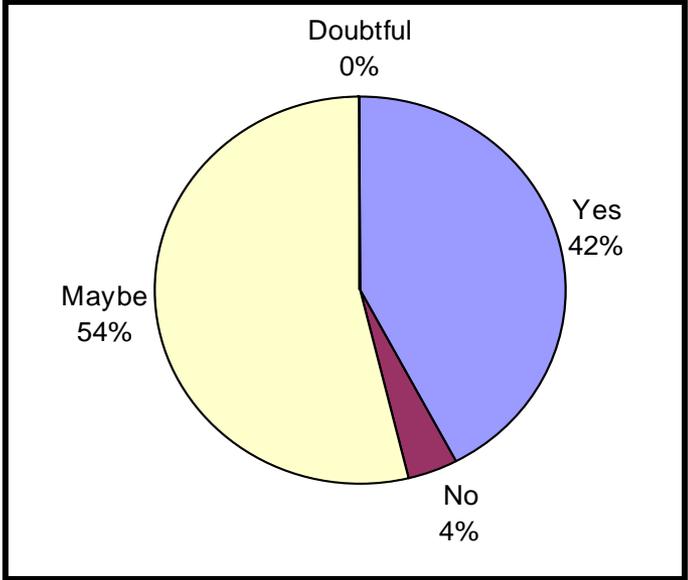
## Change OBF for 5% savings ?

- 5% savings are intriguing...
  - 15% Yes



## Change OBF for 10% savings ?

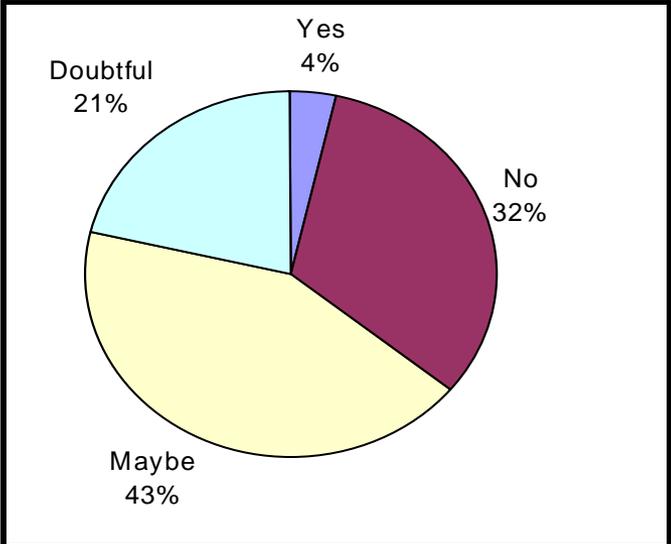
- ...but 10% would clearly pique the interest of most member companies
  - 42% Yes



# Survey Questions

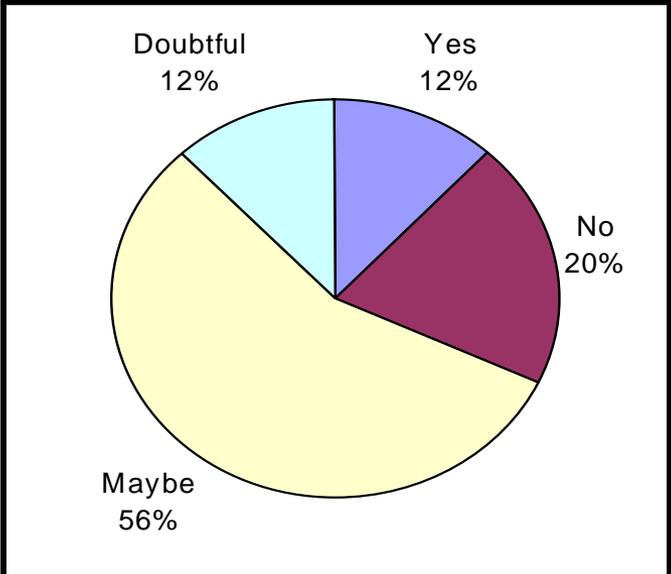
If the MGA could not provide savings for your company, but could provide savings to the majority of the members, would you change Outbound Freight Providers:

- Without any benefits, most members will not change...



If the MGA could not provide savings for your company, but could provide savings to the majority of the members, would you support this program by contributing volumes into the total MGA pool:

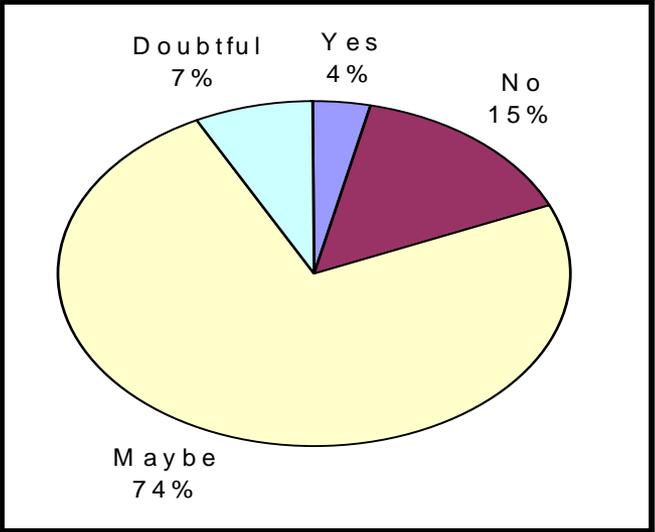
- ...but they will cooperate for the benefit of others



# Survey Questions

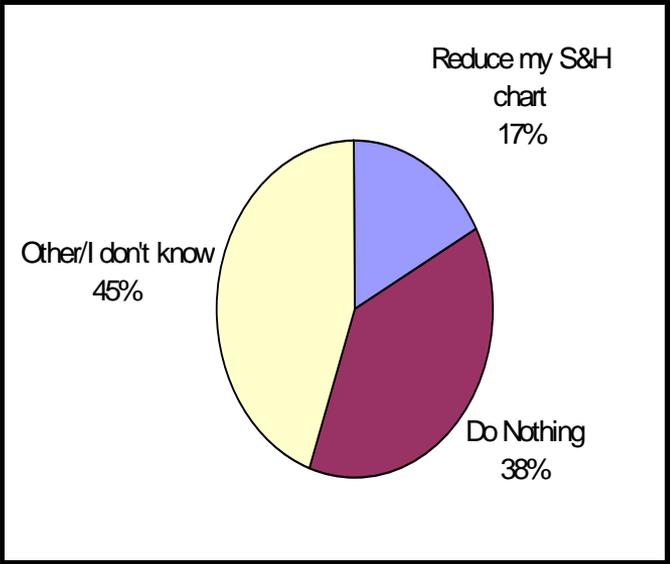
If the MGA could provide savings for your company, would you change your existing processes:

- Too many maybes...
- Question may have been too open ended.



What would you do if the MGA could reduce your Outbound Freight expenses?

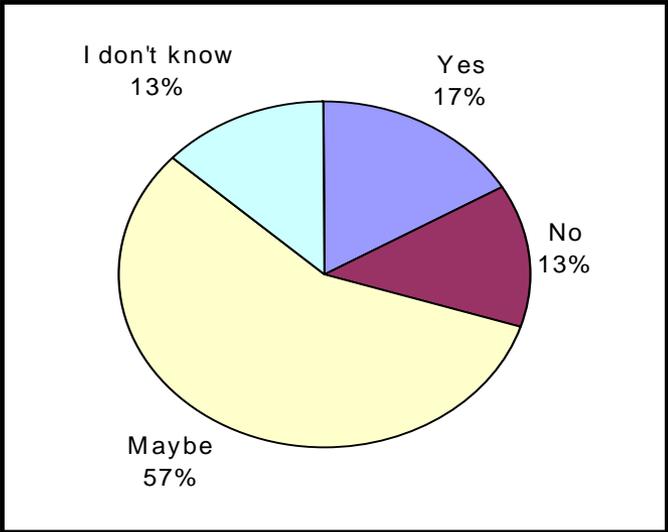
- Most companies would keep the savings.



# Survey Questions

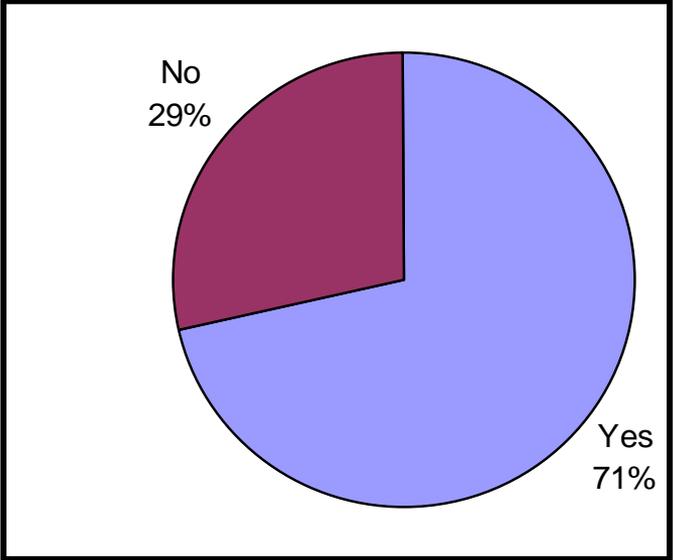
If the MGA establishes a **Outbound Freight Provider Committee**, would you or someone from your organization participate:

- Suggests we could get a dozen companies on board for this...



Are you aware that the MGA has a **Outbound Freight Provider discount program with DHL** in place today?

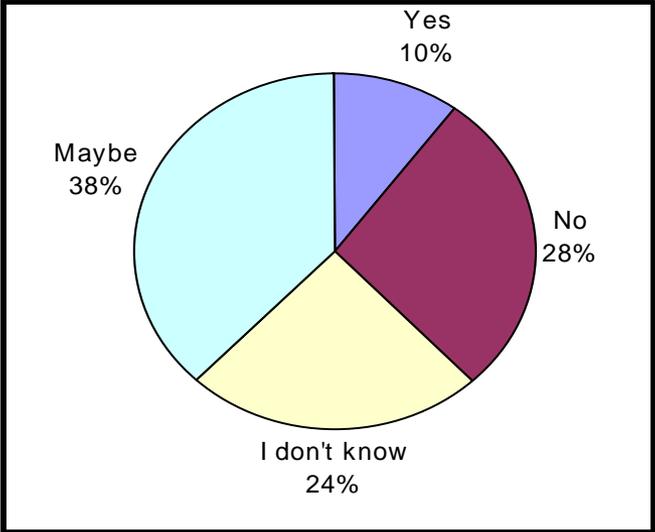
➤ Almost three quarters are aware, yet only 3% use DHL.



# Survey Questions

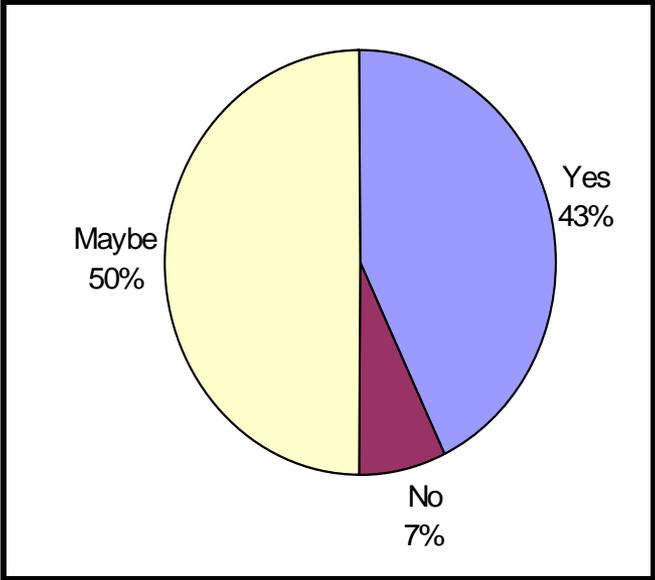
Would you consider contributing funds towards research, etc so the MGA could continue to pursue more economical shipping alternatives for the membership?

- Suggests this will be difficult even though it would cost less than \$50 per member.
- However, cost ranges were not surveyed



Would you be willing to participate with the MGA in sharing best practices on freight contract negotiations and shipping practices?

- **Resounding support**

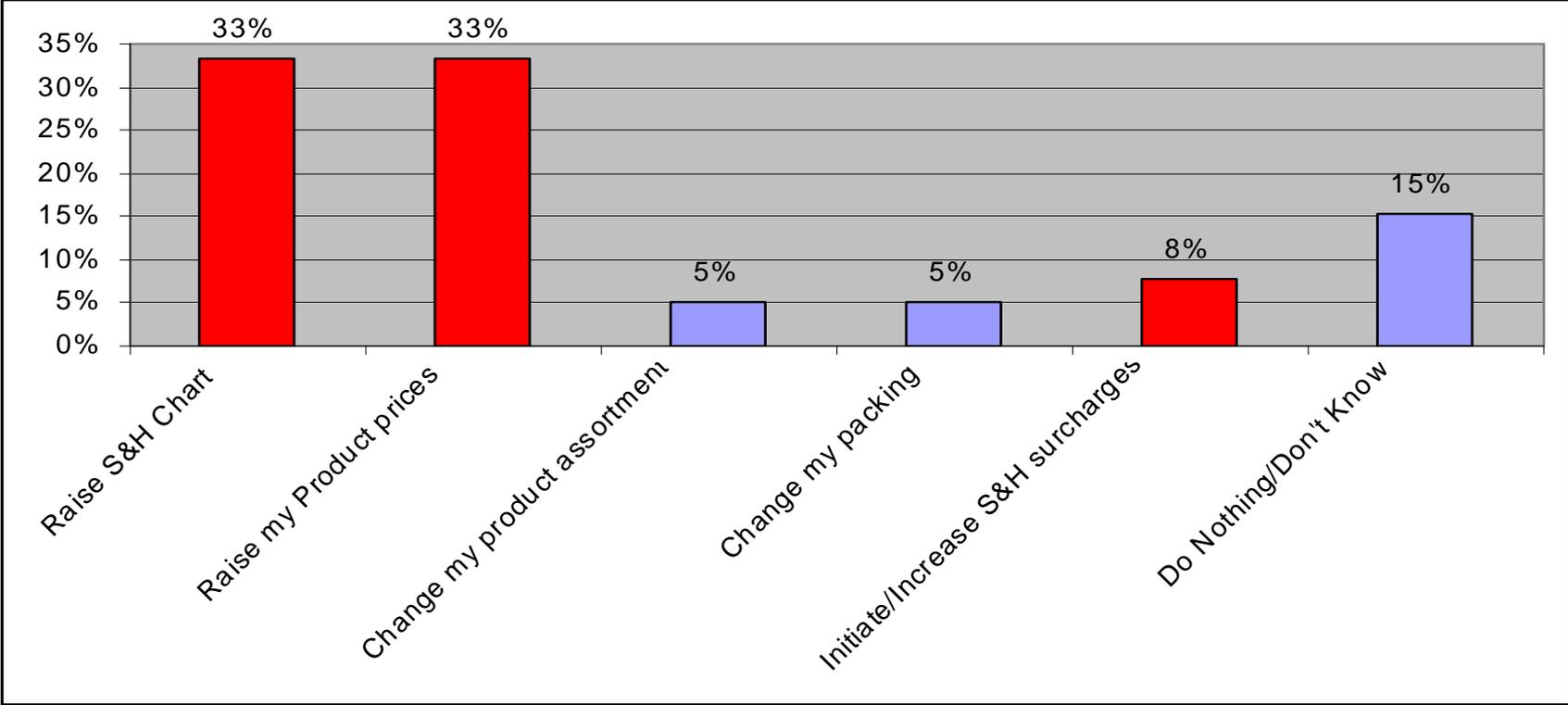




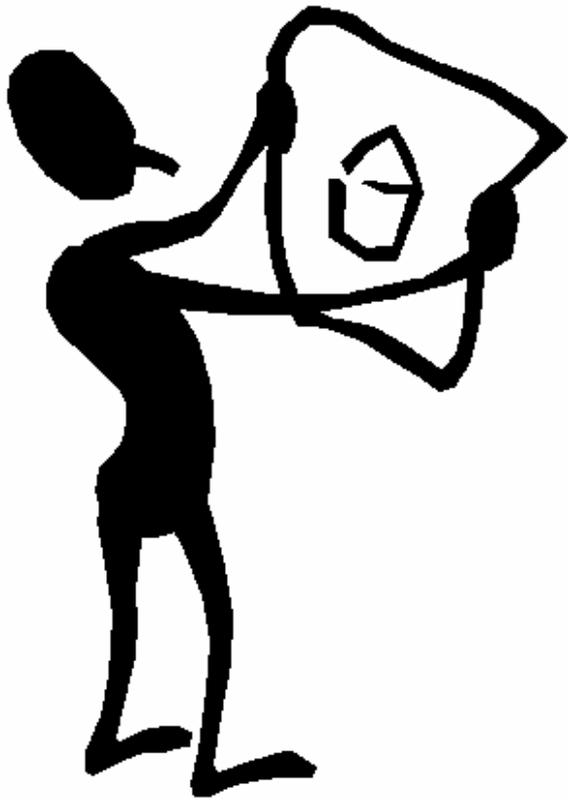
## Section 5: Business Strategy

# Survey Questions

What would you do if your Outbound Freight Expenses increased by 5%-10% next year?



- Let's face it...rates will continue to go up and members will be forced to do things that are not good for their business
- This clearly underscores how critical this issue is!



**“What’s a Shipper to do  
in Order to Exist 20  
Years From Now?”**



## Panel Q&A

**Thank You...**

# **Hathaway & Lane Direct<sup>LLC</sup>**

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