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How dimensional weight tips the scales against retailers

Rate hikes from shipping carriers are nothing new, but moves by FedEx and UPS to make calculating freight charges by dimensional weight the norm on all ground shipments starting in 2015 has left retailers bracing for what will likely be a big increase in shipping costs.

Over the last few years, both carriers have applied a combination of pricing methods depending on the service they provided and the package's cubic size. For example, most ground shipments less than three cubic feet were priced strictly on the weight of a package while air services used dimensional weight pricing for all packages.

Dimensional weight is calculated by multiplying a package's length by width by height, then dividing by a dimensional factor. Shipping carriers originally created dimensional weight pricing to discourage the shipment of large, lightweight packages by air because such packages prevented carriers from maximizing the payload of the aircraft. Carriers billed the greater of the actual weight and the dimensional weight for packages shipped by air. Eventually, carriers extended dimensional weight calculations to ground shipment for packages greater than three cubic feet. Now they're making it universal and adopting the practice of charging the higher of the two calculations for ground shipments as well.

With FedEx and UPS set to apply dimensional weight to all ground shipments in 2015, retailers shipping small, lightweight items, such as shoes or apparel, will be paying more. For example, a box weighing 21 pounds with the dimensions of 20 x 20 x 20 inches shipped via ground service will be charged as weighing 49 pounds based on the current dimensional weight factor of 166.

Apparel retailers could see as much as a 30% increase in shipping charges based on dimensional weight, says Elizabeth Hunter, vice president of e-commerce for Newgistics, a leading provider of e-commerce services offering an integrated omnichannel commerce platform with order management, order fulfillment, parcel delivery and returns management. To hold down shipping costs, retailers will need to be more cognizant of how they package orders without compromising the item being shipped.

"Dimensional weight charges are going to have a significant impact on shipping costs, which is why retailers need to be planning for how they will manage the new rate structure come January," Hunter says. Picking the right box is key to minimizing dimensional weight charges. Predetermining the optimal amount of filling required to protect items can help retailers choose an appropriately sized box and avoid excess dimensional weight charges.

Consumers returning packages and retailers offering free returns need to be vigilant about these changes too. Consumers rarely take the time or energy to find an ideal box to make a return; most use the same box that their shipment arrived in. However if they're only returning one item from a multiple item order delivered in a large carton, they'll be paying much more than they need to. These changes will have a major impact when they go into effect this January—just as the holiday return season is at its peak—so it's important for retailers to start considering the impact now.

Retailers can also minimize dimensional weight costs by selecting the carrier that will provide the best rate for each shipment. Retailers that use the U.S. Postal Service can avoid dimensional weight charges by choosing one of its many delivery options that do not include the size of a package in calculating the shipping rate, Hunter says. Newgistics, a work share partner of the USPS, offers a shipping solution for parcels that can be moved on a conveyor belt and does not charge dimensional weight pricing, which makes its services an attractive alternative to FedEx and UPS ground services.

"Newgistics offers a viable option, especially for retailers that don't generate the kind of volume that provides leverage with the big two carriers when it comes to negotiating shipping rates," Hunter says.

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