# USPS changes parcel pricing strategy; shipper impact unclear

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On June 23, the U.S. Postal Service (USPS) implements a pricing change that subjects more parcels to rates pegged to their dimensions instead of their actual weight. What impact, if any, this has on the USPS shipper universe won’t be known for months.

Under the new policy, USPS will, for the first time, price parcels which measure more than 1 cubic feet – or 1,728 cubic inches in multiplied length, width and girth – and which move less than 600 miles by the higher of either its “dimensional” or actual weight. Currently, all parcels moving less than 600 miles are exempt from dimensional pricing. Also on June 23, each parcel measuring more than 1 cubic foot and moving more than 601 miles will be priced using a new “divisor” that calculates dimensional pricing, better known in the industry as “DIM.” The divisor will be reduced to 166 from 194.

USPS will not apply dimensional on any parcels measuring less than 1 cubic foot.

USPS would not disclose the mix of parcels that fall under the cubic threshold and would not disclose the typical parcel’s length-of-haul, and would. Gordon Glazer, a USPS specialist at consultancy Shipware, LLC, estimated that 80 percent of USPS traffic cubes out at less than 1 cubic foot. That’s because USPS is most price-competitive for small and lightweight shipments that would likely measure less than 1 cubic foot, Glazer said.

USPS in 2017 had a 61 percent delivery share of U.S. parcels weighing five pounds or less, according to data from consultancy ShipMatrix. Under 5-pound parcels comprise 69 percent of the U.S. parcel market, ShipMatrix found.

If the mathematical gyrations of DIM pricing sound a bit arcane, they are. But they are potentially significant for postal shippers whose items measure more than one cubic foot. Take a two-pound parcel cubing out at more than 1,728 cubic inches. Dividing the cubic sum by a 194 divisor yields a dimensional weight of about 8.9 pounds. Using a 166 divisor, the dimensional weight would climb to 10.4 pounds. Because USPS would bill at the higher of the two weights, a 2-pound parcel with a 1 cubic-foot dimension could be priced equal to a 10-pound shipment. The lower the divisor, the costlier it will be for shippers.

Under the new USPS formula, the rate on a parcel measuring 1 cubic foot would increase by 18 percent whether it moves more than 1,800 miles or 600 miles, according to Glazer. The pace of increases levels off as the parcels climb in density, based on Glazer’s data. Still, the increases range between the high single-digit and low double-digit levels depending on dimensions, Glazer said.

Like all freight, parcels cube out before they weigh out. Bulky items occupy a disproportionate amount of trailer space, thus reducing the number of total parcels each can hold. The dimensional charges have been designed, carriers say, to compensate them for any foregone revenue and the increased costs of handling larger stuff.

The DIM charges are also meant to force shippers to improve their packaging processes, carriers say. Carriers have been after their customers for years to minimize, if not eliminate, the use of bubble wrap, styrofoam and other supposed protections that add bulk to a box, and which may be overkill depending on the item’s value.

Parcel giants FedEx Corp. (NYSE:FDX) and UPS Inc. (NYSE:UPS) have shrunk their divisors several times over the past five years, going from 194 to 166 to the present-day divisor of 139. Each time a change was made, the firms rang the register to the tune of tens, if not hundreds, of millions of additional dollars from shippers whose parcels, for whatever reason, got caught in the dimensional pricing net. FedEx and UPS impose DIM pricing on all parcels.

USPS has a bigger challenge than UPS and FedEx with parcel pricing because it is what Satish Jindel, founder of ShipMatrix, referred to as the “dumping ground” for all types of packages, especially those that, up until June 23, had not been billed by their dimensions. In 2017, USPS handled 477 million parcels weighing more than five pounds, according to ShipMatrix data. That was a fraction of its 5.7 billion total parcel volume. Yet Jindel said the over-5 pound shipments shipments weighed heavily on postal costs because they required greater handling capabilities and challenged internal systems that were created to handle letters and small parcels.

USPS spent $7.9 billion in 2017 to purchase intercity transport services from trucking firms, according to last year’s Presidential task force report in postal reform. That was ostensibly used to move bulkier and heavier goods, Jindel said. He advised USPS to set a maximum weight limit–10 pounds, for example–and decline to accept all shipments weighing more than that; USPS accepts parcels weighing up to 70 pounds. Jindel said he would prefer USPS accept just those items that fit inside a consumers’ mailbox, locations where it has a monopoly. USPS Spokesman Carl Walton said such initiatives would need to be cleared by the U.S. Postal Rate Commission, an independent agency that oversees USPS’ products and services.

The dimensional weight playing field hasn’t been a level one, and is unlikely to stay that way after USPS’ expands it. FedEx and UPS have been known to grant temporary exemptions to DIM pricing for large customers, and have tweaked the formula for some to allow their parcels to slide by at the higher thresholds. Mark Magill, vice president of marketing for OnTrac, a regional parcel provider that covers eight states including California, said the company has no issue with bumping up the DIM for its biggest customers from its current 166 divisor to 194. USPS negotiates highly confidential service agreements that provide rate discounts to its big shippers. It may also modify the DIM formula for those shippers but is unlikely to allow them to avoid the pricing scheme altogether.

Ironically, FedEx, UPS and Amazon.com, Inc. (NASDAQ:AMZN), the three most visible postal parcel users, could get caught in the USPS’ DIM net because they induct millions of parcels deep into the postal delivery network for the final trip to the end customer. FedEx and UPS already impose DIM pricing on the shippers who use those services, known, respectively, as SmartPost and SurePost. It remains to be seen how much of that business will be subject to DIM, or how the giants will react to the change.

Andrew Gabbard, warehouse and fulfillment expert for ShippingEasy, a shipper consultant, said he doesn’t expect much shipper attrition from the USPS move. Even at the more stringent levels, merchants will find the new divisors easier to swallow than those imposed by FedEx and UPS, Gabbard said. In addition, FedEx and UPS assess a wide and expanding array of accessorial fees and surcharges, something USPS does not do.

USPS’ customers won’t benefit unless they get a great negotiated rate from FedEx or UPS, and even high-volume shippers don’t get much of a break off retail rates, Gabbard said. Even when shippers are forced to pay dimensional weight for larger packages, “USPS will still end up being the most cost-effective way to do so more often than not,” he added.