



CUSTOMER PICK-UP VS. DELIVERED PRICING

What's Best for Your Transportation
Strategy and Spend?

⋮ WHITE PAPER

SUMMARY

Manufacturers of consumer goods and food and beverage products face an important decision when working with retailers; how to arrange for product delivery. There are two scenarios. First, retailers will offer to pick up the product, providing “Customer Pick-Up (CPU) Pricing.” Second, the brand will handle their own transportation into the receiver/retailer and charge a slightly higher price. **The most beneficial option isn’t always obvious.** Many companies assume that letting retailers manage the process will be the best choice because it is seemingly less work and pricing is more predictable. However, taking control of transportation can equate to immediate operational savings, more control, and an increase in product margin.

In this white paper, readers will be taken through pricing examples and explanations of both hard and soft costs associated with each model so they can better determine which choice – CPU vs. Delivered – is most beneficial for their transportation strategy and spend.

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HOW DO YOU DECIDE WHETHER TO CHOOSE BETWEEN CUSTOMER PICK-UP AND DELIVERED COST OPTIONS?



CUSTOMER PICK-UP (CPU)

When a retailer takes on the responsibility of sending trucks to pick up a brand's product.



DELIVERED

When a brand delivers its product to a retailer/receiver, leveraging its own network and partnerships.



Many companies start with the false premise that it's always easiest and cheapest to let retailers handle shipping. But the reality is that a brand must look at a multitude of considerations to fully understand which option is more advantageous.

An important decision CPG companies face when working with big box retailers is how to arrange for delivery. Most retailers will offer brands the opportunity to negotiate delivery contracts. One contract option is based on the retailer picking up the product from the brand (called CPU or Customer Pick-Up). Another is a 'Delivered Cost' where the seller arranges and pays for the transportation themselves.

Deciding which is better from the CPG company's perspective is not as simple a calculation as it may seem. And, since margins are already tight for any company selling to large retailers, these are important costs to understand and consider.

Many companies start with the false premise that it's always easiest and cheapest to let retailers handle shipping. After all it's one less thing to think about and handing over the reins removes the unknown risk associated with self-management of transportation. But, the reality is that a brand must look at a multitude of considerations – such as, costs, production schedules, flexibility, lead time, and skill sets – to fully understand which option is more advantageous.

Figuring out the whole equation requires asking the right questions and understanding how the decision impacts the entirety of a company's supply chain.

WHEN CUSTOMER PICK-UP IS IDEAL

SIZE

Orders are less than one pallet

FREQUENCY

Low or sporadic

LOCATION

Cities that are far apart

LEAD TIME

Short notice given on orders

WHEN DOES CUSTOMER PICK-UP MAKE SENSE?

For brand-new CPG companies who deliver orders that are less than one pallet, low in frequency, and/or to locations that are far apart, it typically makes sense to contract with retailers for customer-routed pick ups. Without high volume, choosing CPU can be more cost beneficial while also freeing up time spent in operations.

IMPACTS OF SHORT LEAD TIME



EXAMPLE: WHEN CPU IS BENEFICIAL

A Zipline Logistics client and global beverage brand determined that managing its own transportation for Amazon orders would be more profitable after running cost comparisons for CPU vs. Delivered. Yet, when they began to fulfill orders it was uncovered that lead time was an issue.

Given just two days' notice, on average, the company was consistently booking expedited freight or dedicated trucks to move a handful of pallets for on-time delivery. This unforeseen development caused delivered pricing to rise far above projections.

In this scenario, it was ultimately more beneficial for the beverage brand to go back and renegotiate CPU pricing and arrangements with Amazon than to manage its own transportation. As a dedicated logistics partner, Zipline Logistics counseled them on this transition, even though it meant losing business.

WHAT CAN GO WRONG WITH CUSTOMER PICK-UP?

The potential for problems start when retailers begin to dictate pick-up times. Manufacturers can lose control and retailers can indirectly make decisions about a brand's production schedule and operations.

CPUs are scheduled based on what's most convenient and least expensive for the retailer, which can be disruptive for a manufacturer's dock and production planning. The brand cannot specify preferred times and if a CPU carrier is early or late cannot force appointment compliance. This often means staged freight, congested warehouses, and frustrated workers.

And, what happens if production misses a customer-scheduled pick up? Most often the brand ends up becoming responsible for delivering the order at its own expense. It would not take many of those instances to completely offset any minor savings (real or perceived) the brand may have benefited from with CPU pricing.

In these same circumstances, some retailers will default to delivered pricing, but by the time it's ready to ship, the order likely becomes a rush delivery. Unfortunately, most CPG companies who opt for mainly CPU will not have an established carrier network to cover the load and costs begin to exceed the incremental revenue.

WHEN DELIVERED PRICING IS IDEAL

SIZE

Orders are larger than one pallet

FREQUENCY

High, regular, or predictable

LOCATION

Cities or centers that are nearby one another

LEAD TIME

Decent notice provided

WHEN DOES CHOOSING DELIVERED PRICING MAKE SENSE?

For CPG brands with a growing footprint, delivered pricing can be advantageous. If shipments include more volume than one pallet, are high in frequency, and/or are going to locations that are relatively close in proximity then delivered pricing should be considered.

WHAT ARE ADDED BENEFITS OF DELIVERED PRICING?

Time and visibility are the best friends of every logistics operation. By selecting delivered pricing, you maximize control over those factors. Bringing more shipment volume under your control increases your ability to negotiate better freight rates for your entire business.

With more shipping volume, you also have more potential opportunities for consolidation with other deliveries. Consolidation can include freight for multiple customers or retailers, increasing savings even further.

Delivered pricing helps maintain control not just of pricing, but internal operations as well. Retailers may be using low-cost carriers which can lead to unreliable pickups that affect the docks of CPG manufacturers. Minimizing late pickups will reduce the constant conflict of staging space for CPUs and other shipments. There will be less detention to argue over, too.

All these issues are more important than ever. The pressure on brands and their shipping operations to cut out costs and hit tight delivery windows is only increasing.

PRICE DELTA BETWEEN CPU AND DELIVERED

$$\begin{aligned} & \text{Delivered Price} \\ & - \text{CPU Price} \\ & \dots\dots\dots \\ & = X \text{ (cost difference)} \end{aligned}$$

$X * \text{Amount of Product Sold} = Y$ (shipping opportunity cost)
 $Y - \text{Transportation Cost} = Z$ (potential margin gain)



If Z is positive, delivered pricing can help a brand increase their margins and they should consider taking ownership of their transportation



If Z is negative, CPU might be the best choice. But, considering other solutions such as consolidation could still amount to savings. Determining the best strategy isn't as simple as calculating the delta. See Aldi example for reference.

UNDERSTANDING THE PRICE DELTA

EXAMPLE: WHEN DELIVERED IS BENEFICIAL



Shipper Profile: Middle-market snack food manufacturer based in Central Ohio. Distributes to all major grocery retailers and small/mid-level distributors. Majority of orders range from 5-15 pallets, but go as low as 1 pallet and as high as full truckload.

CPU vs Delivered: Zipline Logistics was engaged to analyze CPU vs Delivered Pricing models for the brand's current major CPU buyers. Starting with customers that had the option to buy on either structure, Zipline found that for one buyer, Aldi Stores, the price delta between CPU and delivered pricing was \$0.86/unit. With 64 cases on a pallet, this translated to a "shipping opportunity cost" of \$55.04/pallet ($\$0.86 * 64$).

Shipping 13-15 pallets every 1-2 weeks into Aldi Stores, this opportunity cost (\$715.52 - \$825.60) appeared to be significantly less than the cost of LTL shipping with guaranteed delivery for retail at class 250 (\$1400-\$1700 for mileage in this scenario). So, on first look, due to high costs of LTL transportation, CPU would appear to make the most sense.

However, the Aldi deliveries were extremely close in proximity to other retail deliveries that the customer was using full truckload to complete. Zipline Logistics decided to consider the potential for load consolidation.

Consultants started by evaluating two Aldi delivery locations – Greenwood, IN and Saxonburg, PA. Full truckload shipments from the manufacturer's facility in Central Ohio to the Saxonburg area (greater Pittsburgh market) were holding around \$750-800, and for Greenwood (greater Indianapolis market) around \$550-600. Worst case scenario, the brand could switch from LTL to full truckload and save with delivered pricing. But, the team knew there was even more potential with consolidation, so they dug deeper.

For the Saxonburg example, Zipline built several working consolidation models that included the 13-15 pallet orders for Aldi with similar sized shipments currently moving to Walmart in Bedford, PA. This filled the truck and only added 70 miles of transit which amounted to a cost increase of only \$180 including the stop off fee paid to the carrier. Here the margin per order goes up to \$645.60 ($\$825.60 - \$180 = \645.60).

For the Greenwood example, Zipline found multiple consolidation opportunities, including consolidating the 15 pallet orders with similar sized orders going to Save-a-Lot DC in Yorktown, IN. This added only 30 miles which amounted to a cost increase of only \$100 including the stop off fee paid to the carrier. Here the margin per order goes up to \$725.60 ($\$825.60 - \$100 = \725.60).

The snack food manufacturer greatly improved its margin per unit by deciding to manage more of its own freight and to engage Zipline Logistics for a full pricing and consolidation analysis. Looking beyond initial LTL pricing options enabled the brand to uncover monumental savings and efficiencies.

☐☐☐ HOW DO YOU KNOW WHAT'S BEST FOR YOUR COMPANY?

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Remember, your retail customers are not offering freight rates to save you money. CPU freight is considered a profit center for big-box stores.

First, brands need make sure they are not chasing pennies for the sake of dollars.

It's not a simple calculation to understand the costs, but it can be done. It's an important analysis to undertake that starts with remembering your retail customers are not offering freight rates to save you money. CPU freight is considered a profit center for big-box stores.

Bringing more of your own freight transportation in-house has big advantages. Doing this correctly starts with finding a partner who can connect your sales and operations teams and give you visibility into how sales, production, and logistics can work together to optimize both production and shipping costs.

A better process that balances the needs of these functional areas minimizes friction between the groups and allows for a brand to make the best decisions.

Additionally, don't forget, even if CPU made sense last year, it may no longer be advantageous the next. When contracts are renegotiated, volumes altered, or if scheduling causes warehouse issues, it is a good idea to recalculate and rerun evaluations.

☐☐☐ CONCLUSION

It's easy for brands to default to the idea that CPU is the better option. There is no question it appears easier on the surface. But, real consideration and analysis of the impact CPUs have on the efficiency of your entire operation may show something different – even beyond a comparison on freight rates.

With a more centralized perspective, CPG companies need to consider how CPU affects their ability to plan production and manage docks based on what is most efficient for their operation.

Managing your own transportation need not be daunting. With the right 3PL partner you can achieve supply chain transparency and effectively control logistics costs.

Zipline Logistics is a multimodal transportation provider that specializes in the movement of packaged food and beverage products. Experienced logistics consultants aid shippers with the selection and management of qualified carriers to ensure both on-time delivery and adherence to handling, temperature, and safety protocols. The company is known for its unparalleled customer service and technology, and offers solutions for load optimization, consolidation, tracking, and data analysis.

... **INTERESTED IN RUNNING A CPU**
... **VS DELIVERED PRICING ANALYSIS?**

Contact Zipline Logistics to begin the process.
888-469-4754
partners@ziplinelogistics.com
www.ziplinelogistics.com

