

BLOG

Delivery Costs are Increasing—And for Good Reason

By Bryan Ice, Vice President, Transportation

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Get ready to pay a lot more to ship your packages through FedEx. The shipping giant [recently announced](#) costs are going up an average of 5.9% starting in 2022. This is the largest price hike for the company in a decade, and is likely to get the attention of customers who are used to inexpensive and rapid delivery. The cost of doing business continues to steadily rise, and those costs have yet to be passed on to the customer. FedEx's rate bumps likely offer a glimpse of what is to come for the entire delivery industry.



Amazon's Influence on Shipping and Product Costs

Amazon's promise of fast and free shipping sets an unattainable standard for the rest of the delivery industry, with customers expecting it of all e-tailers. This year, D.C. Attorney General Karl Racine [filed an antitrust lawsuit](#) against Amazon, alleging it is using its market power to force higher overall market pricing. Sellers using Amazon's market place allegedly face a number of challenges to profitability:

- *High Commission Rates:* The e-tailer giant asks for 35-45% commission rates to feature products on the website.
- *The Buy Box:* To be a featured seller, brands cannot list their product through different stores or their own site at a lower price than the one offered on Amazon. If they do, another seller of the product becomes the *Buy Box* featured seller. Without that first choice position, sales volume drops and paying those high commission rates becomes pointless.
- *Product Price Inflation:* To make up for the high commission rates, businesses markup products to break even, whether it is sold on Amazon or elsewhere.

This forced pricing leads consumers to assume that Amazon has the best deals. Coupled with free two-day shipping, Amazon becomes an almost default consumer choice. Businesses have to pay if they want to be available to Amazon Prime customers, forcing product prices to increase everywhere. And those higher prices, and high commissions paid by sellers, effectively provide a subsidy for Amazon's delivery service.

Although it is not known when the antitrust lawsuit will be settled, the results could have an industry-wide

domino effect decreasing product prices and exposing buyers to actual shipping costs.

Shipping isn't Really Free

Getting your packages in two-days or less is great, but it puts unrelenting pressure on the entire supply chain, from the manufacturer to last-mile DSPs. The industry needs to hit the reset button and take into account price and weight limits to become cost-effective and environmentally friendly. Operational costs are increasing everywhere from insurance premiums to legal fees and fuel costs shipping costs need to catch up. FedEx is setting the pace right out of the gate, but it certainly will not be the last.

Shippers have approached delivery businesses and proactively increased what they are paying them to deliver goods, seeing skyrocketing operational costs and wanting to get ahead of it, which is a shift from the norm of squeezing them for the lowest rates. This demonstrates that other players in the industry are aware of the rising insurance and operational costs, and we will soon see those costs trickle down to the end user.

Increased Insurance Rates Made Affordable

Transportation insurance rates have been steadily increasing for years as transportation and delivery-related accidents spawn so-called nuclear verdicts, leaving insurance companies paying upwards of ten million dollars in damage awards. While an increase in shipping will not lower insurance premiums, it will help companies afford them.

With the stranglehold on distribution partners being stretched thin to meet the customer demand and the promise of quick delivery, having transportation insurance has never been more important. As we head into 2022, Risk Strategies experts are closely monitoring shipping rates, price transparency, and market trends.

Want to learn more?

Find me on LinkedIn, [here](#).

Connect with the Risk Strategies Transportation team at transportation@risk-strategies.com.

Email me directly at bice@risk-strategies.com.

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