

Amazon, in Threat to UPS, Tries Its Own Deliveries; An Alternative to Shippers Like FedEx and UPS, New Service Could Deliver Goods the Same Day as Purchased

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ABSTRACT

The move is a shot across the bow of United Parcel Service Inc., FedEx Corp. and the U.S. Postal Service, which now deliver the majority of Amazon packages. Customer-service representatives and former employees say those codes designate Amazon's in-house delivery network.

FULL TEXT

The future of Amazon.com Inc. is hiding in plain sight in a San Francisco parking lot.

Adjacent to recently closed Candlestick Park, Amazon is testing its own delivery network for the "last mile," the final leg of a package's journey to consumers' doorsteps. Trucks loaded with Amazon packages and driven by Amazon-supervised contractors leave for addresses around San Francisco. Similar efforts are under way in Los Angeles and New York.

Delivering its own packages will give Amazon, stung by Christmas shipping delays, more control over the shopping experience. It can also help contain shipping expenses, which have grown as a percentage of sales each year since 2009, according to securities filings.

On Thursday, Amazon reported another quarter of skimpy profit even as sales increased 23% to \$19.74 billion. Shipping costs rose 31%, and it also spent on cloud computing and new initiatives. The company reported a first-quarter profit of \$108 million, compared with \$82 million a year earlier.

The new delivery efforts will get Amazon closer to a holy grail of e-commerce: Delivering goods the same day they are purchased, offering shoppers one less reason to go to physical stores. With its own trucks, Amazon could offer deliveries late at night, or at more specific times.

The move is a shot across the bow of United Parcel Service Inc., FedEx Corp. and the U.S. Postal Service, which now deliver the majority of Amazon packages. It is also a challenge to Wal-Mart Stores Inc., eBay Inc. and Google Inc., each of which is testing deliveries.

Ultimately, a delivery network could transform Amazon from an online retailer into a full-service logistics company that delivers packages for others, according to former Amazon executives. They caution that any such effort likely

is years away.

Delivery is a big step in Amazon's ambitions. The largest U.S. Internet retailer has branched into original video programming, set-top boxes for streaming video, and soon, smartphones, among other things.

It is unclear that Amazon will achieve its goals. UPS, founded in 1907, has a head start of more than a century. Industry observers say it will be difficult for Amazon to match the efficiency of UPS or FedEx in more than a handful of U.S. markets, simply because it will be delivering fewer packages over a wider area.

Amazon quietly began rolling out the delivery network in the U.S. late last year, in packages labeled "AMZL" and "AMZN_US." Customer-service representatives and former employees say those codes designate Amazon's in-house delivery network. Customers who have received the packages said they appear to use a different tracking process, with no links to an outside shipper.

Next up for Amazon is Treasure Island, a man-made spit of land in San Francisco Bay. Amazon is reviewing a lease for a site on the island to house trailers and delivery trucks, according to a person familiar with the matter. From there, Amazon would dispatch trucks into San Francisco, likely late at night and early in the morning when traffic is lighter and fewer island residents would be disturbed, this person said.

Amazon offered a peek at the delivery network in a recent job posting on its website. "Amazon is growing at a faster speed than UPS and FedEx, who are responsible for shipping the majority of our packages," the posting reads. "At this rate Amazon cannot continue to rely solely on the solutions provided through traditional logistics providers. To do so will limit our growth, increase costs and impede innovation in delivery capabilities." "Last Mile is the solution to this. It is a program which is going to revolutionize how shipments are delivered to millions of customers."

As a prelude to the U.S. moves, Amazon has been testing a delivery network in the U.K. "We've created our own fast, last-mile delivery networks in the U.K., where commercial carriers couldn't support our peak volumes," Chief Executive Jeff Bezos said in his annual letter to shareholders earlier this month. "There is more invention to come."

Typically using small couriers, Amazon delivers packages under the "Amazon Logistics" moniker and recently acquired an option to invest in Yodel, a U.K.-based parcel-delivery service. Dave Clark, Amazon's vice president for world-wide operations, said in November that Amazon would use its own trucks to make Sunday deliveries in London.

Amazon declined to comment for this article.

At San Francisco's Candlestick Park, formerly home to the NFL's 49ers, Ryder trucks are scattered around the parking lot, amid rows of bright green AmazonFresh trucks for Amazon's same-day grocery-delivery service. Trailers arrive each morning, and their contents are transferred to vans or trucks for deliveries in and around San Francisco, said one person familiar with the operation.

The precise logistics between Amazon's "last mile" hubs couldn't be learned. Even if Amazon takes over home deliveries, it will be difficult for the company to cut the major shipping carriers out of the process entirely. Amazon still relies on them to move goods around elsewhere in its supply chain.

Planning for the delivery network began several years ago, but the project took on added urgency last winter after

UPS and FedEx failed to deliver Amazon packages to some customers by Christmas, according to two people familiar with the matter. Amazon blamed the carriers, but offered \$20 credits to many affected customers.

"What happened during Christmas cost a huge amount of money" for Amazon, UPS and FedEx, said Marc Wulfraat, president of logistics consulting firm MWPVL International, which tracks Amazon closely but isn't working with the retailer.

If Amazon expands its delivery network, it would likely rely initially on cheaper, more flexible regional carriers--such as the East Coast's LaserShip Inc. and the West Coast's OnTrac-- as well as the Postal Service for deliveries, according to supply-chain experts and logistics consultants. That would affect package volumes at UPS and FedEx, potentially hurting their efficiency. LaserShip and OnTrac declined to comment.

Sanford C. Bernstein & Co. analysts estimate that Amazon shipped about 608 million U.S. packages in 2013. The Postal Service handled 35%, UPS 30%, regional shippers 18% and FedEx about 17%. The distribution hasn't changed much in recent years.

UPS and FedEx ground rates on average have increased 3% to 5% annually in the past five years, an incentive for Amazon to develop its own delivery service, industry observers say. Amazon cited rising shipping costs in boosting the price of its Prime unlimited two-day shipping membership in the U.S. by \$20, or 25%, earlier this year.

Amazon typically pays between about \$2 and \$8 to ship each package, according to shipping-industry analysts, with the cheapest option through the Postal Service and the most expensive via UPS or FedEx.

Amazon shipments should account for less than 1% of revenue for both FedEx and UPS, said Jack Atkins, an airfreight and logistics analyst at Stephens Inc. That suggests Amazon's delivery network would have a limited effect on the shippers' profits, at least initially.

FedEx Chief Executive Fred Smith in December said that Amazon "can unquestionably do local deliveries should they choose to do so." But he said the vast majority of packages would continue to be moved by FedEx, UPS and the Postal Service. A FedEx spokesman declined to comment further.

A UPS spokesman declined to comment.

Amazon's in-house delivery efforts have experienced hiccups. Online forums in the U.K. are rife with customers reporting missed, late or inaccurate deliveries. Several packages shipped to The Wall Street Journal's San Francisco office assigned to "Amazon Logistics" arrived several days after their guaranteed delivery dates. Customer-service representatives said that because the division is new, it is more difficult to track packages.

David Steigman, a customer in San Francisco, said two recent orders of DVDs like "The Hobbit" with tracking information for "AMZN_US" repeatedly missed Amazon's own delivery deadlines. "After the first time, I asked them not to ship me anything using that service, but they did it again anyway" said Mr. Steigman. "I don't want to be Amazon's test market for their new shipping idea--that's not what I am paying for."

Credit: Greg Bensinger

DETAILS

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