E-COMMERCE GAME CHANGER

■ *Satish Jindel*

IT SHOULD BE no surprise that executives at FedEx and UPS would be fed up with the false reports of their business model being disrupted by developments with app-based, Uber-like models for same-day and next-day delivery of online retail orders.

The buzz around venture-funded delivery apps such as Shutl, Deliv, Roadie and Kanga, as well as the U.S. Postal Service delivering on Saturdays and Sundays for Amazon, is based on misgivings and lack of understanding of the capabilities the FedEx and UPS parcel networks have to offer competitive last-mile service.

E-commerce growth, with a compound annual growth rate of 14 percent since 2008 — much of it driven by free shipping — certainly can't be ignored. For UPS, residential deliveries have soared from 20 percent to 45 percent of total volume in the last several years, impacting productivity of a high-wage, union work force and requiring investment in high fixed-cost sortation equipment.

For FedEx and UPS, the surge in residential deliveries and larger packages driven by online orders is changing the cost structure, turning pickup and delivery routes into mainly delivery routes, and creating an imbalance in loads moving between hubs and local facilities.

This shift hasn't gone unnoticed by the two parcel delivery giants. New dimensional-based pricing already has addressed the online retail-driven change that has spurred a rise in lightweight, but large parcels.

FedEx and UPS also have the ability to respond to the changes driven by large shippers with advanced sortation capabilities to load parcels to destination markets directly. For decades, both carriers allowed such shippers in the U.S. to drop-ship parcels into the destination hubs at lower parcel rates.

The hub-induction program, however, still requires FedEx and UPS to sort at a destination hub and transport the parcels to the destination facility for last-mile delivery. In contrast, a similar USPS program allows large-volume shippers to tender parcels at the destination post office for last-mile delivery at rates less than FedEx and UPS offer.

To address the changes spurred by online orders, FedEx and UPS can offer an even better work-sharing program than the one available from the USPS. If the two carriers decide to expand the work-sharing program to local facilities, the Parcel Select service could lose more than 80 percent of its current volume.

Large shippers, who represent 1.7 million of Parcel Select's 6.3 million daily parcel volume, will find it more cost-effective to tender their high volume at the UPS and FedEx destination facilities than to the USPS's destination delivery units. A shipper with 220,000 parcels a day getting delivery nationwide via Parcel Select has to drop-ship parcels at 22,000 DDUs, which amounts to an average of just 10 parcels per DDU.

In comparison, the same shipper would get nationwide coverage with drop-off at just 1,000 centers for UPS and only 500 terminals for FedEx Ground. This amounts to an average of 220 parcels per UPS center and 440 parcels per terminal for FedEx Ground. Both options would result in a significantly lower trucking cost for tendering parcels at local UPS and FedEx facilities.

FedEx and UPS also can convert the SmartPost and SurePost parcels for last-mile delivery using their drivers and vehicles. SmartPost and SurePost represent another 2.1 million and 1.3 million daily parcels, respectively, for Parcel Select. Large shippers along with SmartPost and SurePost generate 5.1 million parcels, or more than 80 percent of volume for Parcel Select.

This 5.1 million average daily volume distributed between FedEx and UPS would amount to an almost 200 percent increase in parcels FedEx delivers to residential addresses and about a 50 percent increase in similar parcel volume for UPS. Such growth would help both carriers reduce their cost for last-mile delivery so they can offer a competitive rate for shippers to convert from Parcel Select service.

With a huge spike in volume during the Christmas season, the carriers can test this game-changing concept because even more large shippers will have the volume to participate. It can be used as an alternative or supplement to the peak-season surcharge option. With such a last-mile work-share program, the peak-season surge in volume at local facilities would be more predictable to support additional temporary workers when and where they're needed.

FedEx and UPS also may have to add a new Zone 1 rate. Zone 1 has existed since the USPS created the current zone system more than 100 years ago. UPS and FedEx ignored Zone 1 rates for lack of volume and interest in the local delivery market.

With more local deliveries, however, the implementation of Zone 1 rate for drop-shipping customers will be a game changer for the e-commerce market and drive a wedge into the USPS's fastest-growing competitive product.

And for large shippers who utilize highly automated sortation equipment, this game changer will enable delivery of a large volume of parcels presorted for local delivery by FedEx and UPS and leverage their investment in sortation equipment for a lower total cost solution. **JOC**

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