

Delaying Amazon's onslaught

BUSINESS-TO-CONSUMER (B2C) is a seven-day delivery business. Business-to-business (B2B) was and is a five-day business, and did not require or support cost-effective deliveries on Saturdays and Sundays.

In 1998, residential deliveries represented 20 percent of the total domestic parcel market, or \$5 billion. In 2017, business-to-consumer deliveries will exceed 50 percent and represent \$40 billion in market size, which is larger than the total parcel market size in 1998. Yet, the parcel industry until recently was operating on the past premise of weekday deliveries with a surcharge and only with express delivery on Saturdays.



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FedEx Ground recognized the importance of Saturday deliveries when prompted by an industry analyst. In 2000, it started FedEx Home Delivery Service (HDS), which still offered five-day delivery, but from Tuesdays to Saturdays. It was a good beginning to recognize the importance of Saturday. However, since then, the B2C volume has grown exponentially with free shipping made popular by Amazon. With such

was denied. While it made sense for USPS to consider such a move six years ago, the times have changed.

About three years ago, Saturday delivery turned out to be a great asset for USPS in gaining more volume from Amazon. The Saturday feature was so desirable for Amazon, that USPS introduced Sunday delivery for Amazon packages. Since then, Sunday delivery has gained popularity with other online retailers. With the explosive growth in online sales, USPS parcel volume has grown at a faster rate than that experienced by FedEx and UPS.

While such expansion of service will be of great value to consumers in this new world of free shipping on even low-value products, it will also be good for operational efficiency and cost control. The retailers ship on all seven days to meet the 24x7 order placement availability to customers. With the current five-day delivery model, the parcels shipped on Saturdays and Sundays will accumulate on the docks during the weekend and add to the cost of delivering that weekend volume on weekdays. Hence, with Saturday and Sunday deliveries, the carriers will see lower cost and better system-wide on-time performance.

These developments have not

US online retail market falls short of Chinese online retailers. JD.com, the largest full-service online retailer in China, has a vertically integrated delivery network supported by more than 7,000 delivery centers (compared with 1,100 for UPS in the United States) and 65,000 company drivers. It offers same-day delivery for millions of products to all major cities in China. I have personal experience of ordering several items by 11 a.m. on Nov. 6. onboard a high-speed train to Suqian (500 miles from Beijing), where JD.com has its drone development center and a drone operation for parcel deliveries.

Even though my order was stocked at three different fulfillment centers near Beijing, within a few hours, the items were picked, packed, and transported to one depot, resulting in three packages being merged into one delivery stop by one driver to my hotel that evening.

Amazon and other US online retailers have a long way to go to offer such merger in transit and same-day delivery in the United States. Just imagine the response from American consumers with same-day delivery of this kind and the resulting increase in online retail sales volume. It will make the current growth rate pale in comparison.

It is unlikely that the delivery model of JD.com is not known to Amazon. Such awareness explains the recent developments at Amazon to reduce its dependence on USPS, UPS, and FedEx, and to divert its volume to smaller same-day/courier companies and contract drivers. The diversion is resulting from carriers' reluctance or slow response to network changes to support seven-day delivery service.

With Sunday delivery, UPS and FedEx can attempt to delay Amazon's plans to build its own delivery network similar to the capabilities of JD.com in China. Time is of the essence. **JOC**

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drastic change in B2C volume and revenue, FedEx HDS still only has five-day delivery to residential addresses.

The US Postal Service has delivered mail and parcels on Saturdays for decades. However, the Saturday delivery was set up primarily for mail delivery. Hence, after it experienced a huge drop in mail volume from growth of internet and emails, it sought congressional approval to eliminate mail delivery on Saturdays to reduce its annual operating cost by \$3.3 billion. As expected, the request

been lost on UPS, which this year rolled out Saturday delivery for ground service parcels. However, with the rapid pace of changes in online retail, both UPS and FedEx have failed to offer seven-day delivery to residences. Such delay is already resulting in loss of B2C parcel volume from Amazon, Wal-Mart and other online retailers. Small carriers like Cornucopia Logistics in New York are more responsive and are already delivering on Sundays.

Even with Sunday deliveries, the