

Parcel Industry in High Gear

BY SATISH JINDEL

The parcel industry today is very different from decades past. It took birth with the founding of United Parcel Service in 1908 and UPS quietly ruled the industry for eight decades. In fact, it did not catch the attention of the investment community and corporate executives until 1985, when Roadway Package System Inc. established its foothold as the first successful competitor to UPS.

While there had been previous attempts to compete against UPS, the failures created an aura that UPS was invincible. RPS became the first private ground-parcel carrier to provide a real alternative with its new value-added offerings. As a result, UPS, the tightest ship in the shipping business, changed course.

In its early years, RPS was information based and introduced several new features like itemized billing, tracking and tracing, and incentive pricing. None of these services were available from UPS at that time. The relationship between RPS and the shippers was mutually beneficial.

While the shippers benefited from new features and incentive pricing not available from UPS, RPS was able to stay the course even with inferior on-time service due to shippers' willingness to help the new carrier become successful so as to gain an alternative to UPS. Moreover, by supporting RPS during these startup months, the shippers ultimately benefited to a greater extent through a more responsive and customer-friendly UPS.

If not for RPS's entry, large shippers today would be paying two to three times more in shipping charges and still lack itemized billing, collect and call tag. Even though UPS is unlikely to admit it, it has benefited from the changes that RPS brought into the ground parcel market. When RPS exposed cross-subsidies between short-haul and long-haul pricing, it became a catalyst for UPS to modify the entire pricing structure. These changes also may have influenced the introduction of zoned pricing in the express market, which gave operational and cost advantage to UPS over its major express competitor. As a result of these changes pushed upon UPS during the last 15 years, UPS is a much larger and more profitable company than it was prior to RPS's entry into its core parcel delivery business.

While the RPS startup introduced more competition in the ground parcel market, the express industry became more competitive for different reasons. When FedEx introduced the overnight express service to the U.S. domestic market in 1973, a letter rate was \$25 for overnight delivery, or about twice the current rate and four times if adjusted for inflation. While UPS expansion of its express services in the late 1980s added to pricing pressures in the industry, the presence of a third low-cost express carrier, Airborne Express, created a greater competitive environment. First, Airborne focused on large business-to-business cus-

tomers to build the density and achieve lower-cost operation. Second, when FedEx and UPS changed the overnight delivery commitment time to 10:30 a.m., Airborne retained its value-based 12 noon service, thus providing shippers a reliable overnight service that met their next morning needs without the extra cost of 10:30 a.m. delivery.

If shippers evaluate the value proposition of the 10:30 a.m. overnight service, they will find that only 40 percent of all ZIP codes qualify for the 10:30 delivery commitment. Moreover, of those parcels delivered by 10:30, many are held in the mailroom or remain unopened until afternoon or another day. While Airborne may not have influenced introduction of new services, it did provide an alternative to FedEx and UPS for overnight service and a value proposition that has saved its customers hundreds of million of dollars. And even those shippers not using Airborne services are benefiting from more attractive prices and new services from FedEx and UPS.

Now, as Airborne introduces ground parcel service this month, shippers will have a third carrier to evaluate and consider for their ground parcel needs. While RPS was instrumental in bringing many changes in the ground-parcel market in its early years, its impact on the business-to-business parcel shipping competitive environment is not as noticeable now. But now, RPS (as FedEx Ground) is bringing similar changes in the business-to-residence market. Its new Home Delivery Service introduced last March created a third delivery carrier (in addition to UPS and the U.S. Postal Service) for business-to-residence shipping with new features not available from UPS, such as Saturday delivery and guaranteed delivery commitment.

Similarly, starting in April, business-to-business ground parcel shippers will have a third alternative, just as they have three carriers for domestic express services and many more carriers for heavy freight and truckload delivery services. With Airborne's entry, business-to-business parcel shippers may get further improvements in ground service such as value-based ground transit times.

The changes that Airborne's entry and DHL's intention to expand its U.S. domestic operations will bring to the ground parcel market will not be fully felt for several months. However, one thing is certain — that the level of impact will be determined by the degree of support offered by shippers during the early months of their introduction to the new competitors.

The barriers to entry in this industry already are significant and increasing every year with the need for a capital-intensive nationwide network and shipping technology. If these carriers execute their plans effectively and receive shipper support like RPS did in the 1980s, they can build enough density and experience with their new services to make the entire industry more dynamic, competitive, customer-friendly and innovative.

— Jindel is a principal in SJ Consulting Group Inc., Pittsburgh.

