

UPS RAISES RETAIL STAKES

UPS LAST MONTH introduced “My Choice” to help residential consignees gain control over the inbound delivery of their increasing number of online orders. If executed well, it will be a game changer for the business-to-consumer parcel segment for service-sensitive residential customers just as FedEx SmartPost was a few years ago for price-sensitive residential deliveries.

It also is a sign of the changes under way in distribution channels as the popularity of e-commerce trenches online sales in the retail market.

My Choice has many features to benefit several parties: the consignee, UPS, The UPS Stores and the online retailer. Consignees gain a premium delivery service while reducing the total cost of deliveries; UPS gains new revenue, competitive advantage and builds loyalty with customers; The UPS Stores gain additional business; and the B2C shipper can expect to see faster conversion from brick-and-mortar stores to online orders with consumers experiencing higher level of delivery satisfaction.

For online consumers, My Choice offers more visibility, advance delivery alerts, approximate delivery time and other features to gain higher level of parcel delivery service. In addition, for a fee of \$5 per package, consignees can gain control over rescheduling of the delivery, or routing it to another address such as to the office or to a hotel if traveling on a vacation.

The benefits are even greater for premium members of My Choice. Although there is an annual fee of \$40, it includes unlimited use of many of the fee-based features of membership at no extra charge. It allows the member to have guaranteed delivery made within a two-hour window. And unlike other guaranteed services, if the package is not delivered within the selected window, there is no fee charged, eliminating the

aggravation associated with seeking a refund for late delivery.

For premium members, My Choice provides benefits that, in addition to value-added features, are also cost saving. With the two-hour delivery window feature, My Choice premium membership provides greater incentive for shippers and consumers to elect UPS for residential delivery of high-value, time-sensitive shipments such as electronics, high-value apparel and wine.

There are more features, but it is important to remember that most of them are supported by the operational and IT infrastructure already used for Quantum View offered to business customers, so My Choice membership revenue could produce 80 percent operating margin.

With My Choice membership, residential consignees may push their choice of delivery by UPS on their online retailers. While this alone will not result in shippers making UPS their primary parcel carrier, it is likely to push the shippers to offer shipping with UPS as an alternate carrier.

Once the door is cracked open for UPS at these online shippers, UPS volume can grow as more My Choice members push for their suppliers to ship via UPS. Even a 5 percent rate of conversion of such volume with a yield of \$8 per package should amount to millions of dollars in new revenue that UPS might not gain without such pull from customers of B2C shippers.

For UPS, an increase in shipping to My Choice members would increase delivery density. And if that results in two packages from two different online retailers being delivered on the same day to a My Choice premium member who has opted for a two-hour delivery window, UPS would generate \$10 per stop.

In addition, residential consignees who join My Choice as regular members will generate a very potent database for UPS to gain enhanced

understanding of residential customers of their online shippers with an opportunity to mine that database to introduce new services and help shippers better manage their supply chains. UPS will gain understanding of the buying behavior of such members to offer more targeted parcel delivery services.

My Choice gives UPS a new competitive advantage by leveraging membership revenue and knowledge of consignees' delivery preferences to offer a more compelling proposal to online shippers in response to bids.

This is a critical market for the parcel industry, and carriers are looking for ways to respond to the changes in the retail industry offered by online sales. Online sales still are small compared to store sales, but they are growing far more rapidly. Most forecasts of sales this holiday season predict year-over-year growth of between 2 percent and 3 percent. But the Deloitte research group recently forecast it expects 14 percent growth this year in non-store sales, most of that from Internet purchases. Forrester Research has said it expects online sales to grow at an average annual rate of 10 percent through 2014.

Parcel services such as My Choice can help spur that move to online commerce.

For online retailers, as My Choice members work to get more value from their membership dues and experience higher satisfaction from delivery service, they may buy more of higher value items online, thereby helping online retailers increase their sales.

As UPS gains membership in My Choice, those online shippers may promote My Choice to their customers to increase sales just as many offer free shipping to attract more consumers to buy online. **joc**

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