



THE END OF A DUOPOLY IN SIGHT

In January 2009, DHL Express announced that they were dropping "domestic-only" air and ground services within the United States "to minimize future uncertainties". That created a duopoly with significant impact on the pricing competition in the parcel industry. With just two major players, Federal Express and UPS, the parcel business lost its low cost competitor.

We may be in for a surprise over the next few years from a new market entrant. Amazon is expected to acquire the 75 percent of the French package-delivery company Colis Privé that it doesn't already own by the end of the first quarter. Acquiring the French company is the biggest step yet that the retail behemoth has taken to move into the business of delivering packages for others, as well as itself. In addition to the Colis Privé acquisition, Amazon acquired the right to purchase 4.2 percent of Yodel, a United Kingdom parcel-delivery company, in 2014. Amazon is building its capabilities by adding thousands of trucks to its U.S. fleet to handle the growing load of packages it ships. They are also reportedly negotiating to lease 20 Boeing 767 jets to transport products and improve service performance of its delivery system. Those jets would represent a significant expansion of an Amazon cargo trial in Wilmington, Ohio, operated by Air Transport Services Group on Amazon's behalf.

Some analysts believe that Amazon is putting together the pieces across the globe to launch a package-delivery service that will one day compete with UPS, FedEx and others. In its annual 10-K filing with the Securities and Exchange Commission in 2014, UPS noted the potential impact of having one of its largest customers "develop their own shipping and distribution capabilities," saying such a development, among others, "could materially impact the growth in our business and the ability to meet our current and long-term financial forecasts."

Today Amazon relies on UPS, the USPS and FedEx to deliver packages to their customers. But with the company's expected delivery drones and the expected further investment in trucks and aircraft it would not be a surprise to see Amazon slowly taking over these operations and relying less on the multinational shipping giants.

Colin Sebastian, an analyst with Baird Equity Research, is bullish on Amazon's plans. "We believe Amazon has an advantage in the market by managing the logistics of its own core revenue-generating business, then extending that capacity as a service to other companies," Sebastian wrote in a note. "Moreover, given the scale of Amazon's own first and third-party retail operations, we believe there are potential efficiency gains from internally operating fulfillment, logistics and delivery, as well as service benefits of controlling the full customer experience." But don't expect a full-fledged Amazon shipping business anytime soon. Sebastian writes that Amazon will likely slowly roll out portions of a logistics business. It would use the acquisition of Colis Privé to get "greater domain expertise and scale in logistics services," he said.

In the U.S., Amazon has built up a formidable logistics operation. But to improve margins and general efficiency, it has been slowly working on ways of extending that even further, with reports last week that it is testing a parcel delivery service in San Francisco, Los Angeles and New York. Last-mile delivery is something that companies like Google and eBay are also exploring.

Amazon spent over \$8.7 billion on shipping in 2014, up from \$6.6 billion in 2013. Creating an in-house logistics service could help lower those costs. Similar to the way in which Amazon made its cloud computing arm AWS a business, Amazon could also decide to handle shipping for other companies.

We don't expect to see direct competition between Amazon, FedEx and UPS in the near time but these actions leave us with a strong impression that competitive help is on the way.

For more information on how Data2Logistics can help you to reduce your transportation costs please contact Bob Newcom, Executive Director of Professional Services at bob.newcom@data2logistics.com or +1 239 425 8065.