

INTERACTIVE SESSION ORGANIZATIONS

Shipping Wars

Shipping and delivery have been vital to the success of e-commerce, both for retailers and for the shipping companies themselves. FedEx, UPS, and the United States Postal Service (USPS) have earned many billions of dollars handling the massive amount of products ordered from Amazon and other e-commerce sites. Convenient and seamless online ordering and shipping processes, along with free or low-cost delivery or two-day delivery, are a source of competitive advantage for online merchants over traditional brick-and-mortar retailers.

Especially important in logistics is the “last mile,” which refers to the last step in a delivery that takes the package to the customer’s doorstep. Instead of using the USPS, FedEx, or UPS for the last mile, Amazon is building a fleet of delivery vans and expanding its fleet of Boeing 737 and 767 airplanes for this purpose. Amazon Air is a cargo airline operating exclusively to transport Amazon packages. By 2021, Amazon Air will have at least 70 cargo aircraft operating out of over 20 air gateways in the United States. Amazon additionally expanded its airport hub operations, building a \$1.5 billion hub at Cincinnati/Northern Kentucky International Airport. Amazon also has operations at Fort Worth Alliance Airport and Chicago Rockford International Airport.

Amazon taking over the “last mile” will drain billions of dollars of business away from the US Post Office (which handles 62 percent of Amazon’s packages), UPS (handling 21 percent), and FedEx (handling 8 percent). Amazon is not trying to replace these shippers but does want to gain some control over logistics in order to guarantee that Amazon Prime members get their two-day shipping on time and that it has capability to handle very large sales volumes during the holidays or bad weather periods. Amazon will also save on costs. According to Morgan Stanley, Amazon saves \$2 to \$4 per package, amounting to \$2 billion annually, when it uses its own fleet. Additionally, having total control over the entire shipping process makes it possible for Amazon to provide a better customer experience. It is easier to track lost packages and respond immediately to customer inquiries if Amazon does not have to work through another shipper. Amazon’s shipping policies have been a principal driver of its rapid retail growth.

When Amazon announced one-day shipping for Prime members in April 2019, FedEx canceled its express delivery contract with Amazon, redefining its business strategy. Management believes FedEx doesn’t really need Amazon to flourish, since Amazon accounted for less than 1.3 percent of FedEx’s \$70 billion in consolidated annual revenues and had been one of FedEx’s least profitable customers on a margin basis. Management also believed that working with Amazon was cannibalizing FedEx’s own business. The direction FedEx has chosen calls for focusing on its ground delivery service and establishing new partnerships with other retailers and brands to serve the broader e-commerce market.

For example, in June 2019 FedEx and Dollar General announced a strategic alliance to offer new, convenient access to FedEx drop-off and pickup services at thousands of Dollar General stores. The effort is designed to increase access to FedEx for all customers, particularly those living in rural communities where Dollar General has a large footprint. FedEx and Dollar General began rolling out the service in more than 1,500 Dollar General stores in late summer 2019, and will be in more than 8,000 stores by the end of 2020. The Dollar General alliance will expand the FedEx Retail Convenience Network to more than 62,000 retail locations. That move will put more than 90 percent of Americans within 5 miles of a FedEx hold retail location. Customers will be able to drop off prepackaged and pre-labeled FedEx Express or FedEx Ground shipments at Dollar General stores and pick up packages sent to their neighborhood Dollar General stores.

FedEx thinks it can overtake Amazon and become the fastest, most cost-efficient e-commerce delivery service. In December 2018 FedEx announced its Extra Hours’ Delivery Options for Retail Customers, which will provide next-day and overnight shipping to e-commerce customers. FedEx is also initiating package delivery seven days a week to further compete with Amazon.

How does United Parcel Service (UPS) stack up in this competitive arena? Unlike FedEx, UPS is deepening its ties to Amazon. It wants to stay neutral, whereas FedEx has broken away from Amazon in favor of courting the brick-and-mortar retailers. UPS is

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also relying more on the U.S. Postal Service, especially for Sunday deliveries. FedEx is now delivering on its own about 2 million packages per day that it had formerly handed to the U.S. Postal Service for last-mile delivery. By handling an increased volume of packages on its own, FedEx believes it can make better use of its more than 600 sorting and delivery facilities around the United States to help retailers with shipments from stores to residences. However, analysts such as Morgan Stanley's Ravi Shanker are not sure

that increasing the volume of short-haul deliveries will generate the kind of returns FedEx is seeking.

Which company will win the retail shipping wars? The outcome could determine the future direction of the entire e-commerce retail industry.

Sources: Bloomberg, "FedEx Has a Plan to Battle Amazon Shipping, CEO Says," January 30, 2020; Greg Petro, "Amazon Versus FedEx: The Retail Shipping Wars," *Forbes*, June 28, 2019; and Shep Hyken, "Look Out FedEx and UPS—Is Amazon Going to Disrupt the Shipping Industry?" *Forbes*, January 17, 2019.

CASE STUDY QUESTIONS

1. Why is shipping so important for e-commerce? Explain your answer.
2. Compare the shipping strategies of Amazon, FedEx, and UPS? How are they related to each company's business model?
3. Will FedEx succeed in its push into ground shipping? Why or why not?

The Interactive Session on Organizations provides another example of low-cost leadership strategy—the struggle among the major shipping companies such as FedEx, UPS, and now Amazon, for dominance of the e-commerce package shipping and delivery business.

Product Differentiation

Use information systems to enable new products and services or greatly change the customer convenience in using your existing products and services (see Table 3.3). Big Tech firms like Google, Facebook, Amazon, Apple, and others are pouring billions of dollars into research and deployment of new services, and enhancements to their most valuable services and products in order to differentiate them from potential competitors. For instance, Google has updated its Google Assistant to enable more natural continuous conversations and smart displays that can display the output of Assistant to screens. Google added Assistant support to its core Google Maps service to make interaction with Maps more natural, and released a Machine Language Kit for developers that supports text recognition, face detection, image labeling, and landmark recognition. The continual stream of innovations flowing from Big Tech companies ensures their products are unique and difficult to copy.

Manufacturers and retailers are using information systems to create products and services that are customized and personalized to fit the precise specifications of individual customers. For example, Nike sells customized sneakers through its NIKE BY YOU program on its website. Customers are able to select the type of shoe, colors, material, and personalized text. Nike transmits the orders via computers to specially equipped plants in China and Korea. The sneakers take about three weeks to reach the customer. This ability to offer individually tailored products or services using the same production resources as mass production is called **mass customization**.

More and more companies are differentiating their products not just by the features of the products themselves but also by the entire experience of

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