



## Guest Commentary: Not So Fast: How Technology is Slowing Express Delivery

by John Kruzan

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Over the last few years, FedEx and UPS have seen significant shifts in how domestic and international customers are shipping. The shift from express to ground products is growing at an unprecedented rate – impacting carrier financials and even their own networks. As recently as last month, UPS posted a four percent drop in revenue with CEO Scott Davis calling the financials “disappointing.” He, like FedEx’s Fred Smith, acknowledges the shift to slower – and less expensive – services as key to the company’s current financial turbulence.

Obviously, one factor is the seemingly unending rise of e-commerce. According to comScore, e-commerce sales increased another 13 percent in the first quarter of 2013. A second factor is the economy, which is still lethargic despite recent indicators that manufacturing and consumer confidence is up. Perhaps there is another factor bending the curve from express to ground product, one that underlies e-commerce, business optimization and consumer knowledge: the growth of transportation management technology.

According to ARC Advisory Group, transportation technology software and services will increase through 2016 at a compounded annual growth rate of 10 percent, including a high adoption of cloud-based applications. This growth may be even more pronounced as smaller businesses are adopting these technologies, which were once reserved only for larger operations. Regardless, the growth in transportation management software has a cascading effect on how a package is shipped for businesses, consumers...and even the carriers themselves.

Since 2008, rate increases have driven businesses to optimize how they ship a package. On the desktop, transportation management technology allows companies to have better control over how a package is processed. Through optimization of workflow and the implementation of specific business rules, such as who can ship a package, when it can be

shipped and at what service, businesses have better control over transportation spend. In many cases these business rules dictate a deferred service be used over an express services – just because an express service is not needed.

In the converging worlds of e-commerce and brick-and-mortar retail, optimization through technology is gaining ground as more retailers are fulfilling online orders through the local store. This “ship from store” concept allows retailers to process orders as close as possible to the consignee. Because carriers are also optimizing and improving ground service performance, the need for a time-definite shipment is greatly reduced. This harmonization of online sale and enhanced offline fulfillment is becoming an extension of a company’s brand, enabling them to improve customer service, while reigning in expense.

From the consumer’s perspective, shipping is no longer a service, it’s a commodity. The veil has been lifted. What was once the domain of burly guys on the loading dock can now be accomplished from the desktop or a web browser or a local retail shipping outlet. Of course, e-commerce helped to commoditize shipping too – by giving consumers choice. The simple fact of breaking out shipping charges in a shopping cart allowed consumers to decide if there was added-value in buying online or going to the mall. The technology allowed parcel shipping to be used as promotion. According to Shop.org, the website of the National Retail Federation, about 90 percent of major retailers said they offered free shipping during the 2012 holiday season. Companies like Amazon.com offer free shipping on thousands of items, through its \$79 Prime membership. Shipping as promotion moves more parcels from express to ground services as customers want the cost savings over the immediacy of having the product in their hands.

But in the end, what is Amazon or any large e-commerce retailer? Their online presence is nothing more than a highly integrated and sophisticated Order Management platform, which gives users choice and visibility to how and when they receive product.

Another reason for the mode shift from express to ground services lies squarely with the carriers themselves. Both FedEx and UPS’s networks are more efficient, whittling down transit times between the two services in shorter zones; and hybrid postal products, like FedEx SmartPost — adopted by more retailers and promoted by the carriers — further shifts packages away from express. But even as networks are optimized for physical fleets and residential deliveries are made more efficient through partnership, carriers need a technology backbone to bring it all together.

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With better networks, better product portfolio and technological infrastructure that gives complete visibility to costs, transit times and final delivery, this shift in mode seems like a natural outcome.

Technology advancement in TMS, e-commerce and package management has made the process of shipping a package better, faster and more efficient — and a by-product of this efficiency is the shift in mode from express to ground. Shippers will continue to adapt as the technology becomes more commonplace and integrated into other business applications. Carriers will benefit from the increased parcel volume, but just now at lower revenue.

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