

Amazon to Launch Delivery Service That Would Vie With FedEx, UPS

The company is preparing to begin the offering in Los Angeles with its 'third-party merchants' and then roll it out more broadly



Amazon already delivers some of its own orders in at least 37 U.S. cities. PHOTO: DAVID PAUL

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[Amazon.com Inc.](#) [AMZN](#) -4.68% is preparing to launch a delivery service for businesses, positioning it to directly compete with [United Parcel Service Inc.](#) and [FedEx Corp.](#)

Dubbed "Shipping with Amazon," or SWA, the new service will entail the tech giant picking up packages from businesses and shipping them to consumers, according to people familiar with the matter.

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Amazon expects to roll out the new delivery service in Los Angeles in coming weeks with third-party merchants that sell goods via its website, according to the people. Amazon then aims to expand the service to more cities as soon as this year, some of the people say.

While the program is being piloted with the company's third-party sellers, it is envisioned to eventually be opened to other businesses too, according to some of the people. Amazon is planning to undercut UPS and FedEx on pricing, although the exact rate structure is still unclear, these people said.

The new service, which stems from a Los Angeles pilot project [first reported by The Wall Street Journal](#) more than a year ago, moves Amazon into direct competition for parcel business currently handled by delivery partners UPS and FedEx. "Shipping With Amazon" was previously tested and rolled out in London.

It is the latest move by Amazon to create its own freight and parcel delivery network. In the last couple of years, Amazon has expanded into [ocean freight](#), built a network of its own drivers who can now [deliver inside homes](#) and leased up to 40 aircraft while establishing [an air cargo hub](#).

Amazon already delivers some of its own orders in at least 37 U.S. cities. With the new "Shipping with Amazon" option, Amazon plans to send drivers to pick up shipments from warehouses and businesses itself and deliver the packages when it is able, the people said. For shipments outside Amazon's delivery reach, the U.S. Postal Service and other carriers will take care of the so-called last mile to customers' doorsteps.

"We're always innovating and experimenting on behalf of customers and the businesses that sell and grow on Amazon to create faster lower-cost delivery choices," a spokeswoman said in a statement.

It remains to be seen whether Amazon can successfully deliver packages for other businesses on a broad scale. UPS and FedEx have built out massive networks over the course of decades to allow them to deliver across the U.S. And it is expensive. UPS this year alone is [planning to spend up to \\$7 billion](#) on upgrading its delivery network.

A spokesman said that UPS continues to support Amazon and other customers and doesn't comment on customers' business strategies or decisions regarding using UPS services.

FedEx didn't have an immediate comment. On the company's December earnings call, executives were asked about what would happen if Amazon started competing for its shipping business, to which they said they don't comment on hypothetical situations. They added that Amazon was a longstanding customer, but that no customer represented more than 3% of revenue or volume.

Amazon's push into logistics reflects its growing ambitions across a wide range of new businesses beyond online retail. The company runs a dominant cloud-computing services division, a Hollywood studio and a massive marketplace and logistics operation for sellers. Last year, it acquired Whole Foods for roughly \$13.5 billion, transforming it into a [brick-and-mortar grocer](#) overnight.

Last week, Amazon said it was teaming up with [JPMorgan Chase & Co.](#) and [Berkshire Hathaway Inc.](#) to form [a new company to try to lower their employees' health costs](#), rattling health-care firm stocks.

Amazon started building out its logistics network in earnest after it missed deliveries during the all-important holiday season in December 2013, according to people familiar with Amazon's thinking. As more shoppers bought products online, Amazon executives concluded that the rate of parcel growth was too large for existing carriers to handle. Amazon also wanted to offer two-day deliveries, seven days a week.

The company has separately launched a logistics service called "FBA Onsite," according to the people familiar with the matter. Currently, most third-party sellers on Amazon's website ship their goods to an Amazon warehouse for its "Fulfillment by Amazon" program to qualify for Prime shipping. With FBA Onsite, sellers automatically qualify for Prime and then can ship directly from their own warehouse using software provided by Amazon.

While Amazon will control the method of those shipments, pickups and deliveries for now will still be handled by various carriers, including UPS and FedEx, the people said. Bloomberg News earlier reported on FBA Onsite.

For its "Shipping with Amazon" option, the online retail giant is expected to be able to offer lower prices than UPS and FedEx because it already delivers some of its own packages—any extra space it can fill in its trucks with additional deliveries is considered added revenue, according to people familiar with the company's thinking.

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