

BUSINESS DAY

Amazon to Test a New Delivery Service for Sellers

By NICK WINGFIELD FEB. 9, 2018

SEATTLE — Amazon is planning to test a program this year that would replace some delivery services now done by United Parcel Service and FedEx.

Under the new service, known inside the company variously as Ship With Amazon and Shipping With Amazon, company couriers would pick up products from businesses that sell goods through the internet retailer and deliver that merchandise to Amazon warehouses. Now, those goods are delivered to the warehouses by UPS, FedEx and other companies.

Amazon's test, which could start in several months, will probably include only a handful of independent Amazon sellers in Los Angeles. Eventually, the test could encompass more delivery services handled by established carriers. A person briefed on the program, who asked for anonymity because the plans are confidential, provided details about the project.

When asked about the program, Amazon said in a statement, "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."

In the initial trial of the service, the person briefed on the plan said, Amazon will still rely on its current network of couriers, like UPS, FedEx and the Postal Service, to get orders from its warehouses to customers.

Depending on how the test goes, though, the service could expand to include more sellers in more areas and allow sellers that do not store their inventory in Amazon warehouses to ship orders entirely through Amazon's own delivery network, bypassing other carriers. In the long term, Amazon could also make the service available to merchants that sell on sites besides Amazon.

That news helped send shares of both UPS and FedEx lower on Friday, after The Wall Street Journal reported on Amazon's plans for the test in Los Angeles.

While some pundits have suggested that Amazon is on a course to kill FedEx and UPS, the reality is more complicated. On one level, there are unmistakable signs that the company is getting more deeply involved in shipping.

Amazon operates a fleet of cargo jets and semi trucks to move merchandise around the country. It helps arrange the transportation of freight across the ocean on cargo ships from Chinese suppliers. It has even taken a more direct role in delivering orders to customers through local couriers.

But Amazon also depends heavily on outside companies to deliver orders. The company's chief executive, Jeff Bezos, has said Amazon's business with carriers like UPS and the Postal Service is growing even as the company gets more involved.

Amazon's own shipping services have given the company a way to keep up with the growth in its business, which is especially helpful during times, like the holidays, when its carrier partners are flooded with packages. Operating its own shipping services could also offer a way to negotiate better prices with outside delivery companies. Shipping costs at Amazon last year rose 34 percent to \$21.7 billion, according to Amazon filings.

Steve Gaut, a spokesman for UPS, declined to comment about Amazon's plans or whether the company's shipping volume with UPS had changed. He pointed out, however, that UPS reported 8 percent revenue growth and a 4.5 percent increase in package volume in the United States last year.

"UPS continues to support Amazon and all other valued customers," he said.

Colin Sebastian, an analyst at Robert W. Baird & Company, compared what Amazon was doing in shipping to what it had done in the corporate technology market with Amazon Web Services, its cloud computing business. Slowly over time, Amazon has added more and more features to the service, but they are still well short of the offerings from established providers like Microsoft.

“I think Amazon is going to find different areas within the logistics and transportation space where it can be maybe more effective or efficient than what FedEx and UPS can do,” Mr. Sebastian said. “That doesn’t mean they’re trying to establish a full competitor.”

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