

# TIME FOR A PARCEL MERGER

**TODAY'S PARCEL INDUSTRY** is starkly different from that of 1998, when UPS and FedEx Ground brought ground delivery service into the same arena as air express by guaranteeing delivery times for ground parcels. This has produced enormous change in domestic delivery in the U.S., and the resulting impact on shipper decisions and the market suggests it is time for a merger in the parcel industry — not of UPS and FedEx, but of express and ground services.

Yet despite the numerous changes that have eliminated the differences between express and ground services, UPS and FedEx have not merged these services for fear of revenue dilution. Although UPS may not be ready for such a major merger, it should divest of two niche domestic express ser-

2 percent of average daily volume.

Similarly, UPS introduced its 2nd Day Air AM express service in 1997. After 13 years, it represents less than 1 percent of UPS's total revenue and an even smaller percentage of average daily volume.

Still, UPS continues to offer 3-Day Select and 2nd Day Air AM among its parcel services even though it doesn't promote the two services via television or print media. Many focus groups show parcel shippers generally are not aware of these two services.

Could it be that UPS is keeping the two services for their roles in the future merger of express and ground parcel service, or may be just milking them for the volume that flows through into these two services through simple customer oversight?

There are numerous reasons UPS should drop the two services regardless of the timing of the merger of express and ground services. The parcel industry was very different when 3-Day Select was introduced in 1993. At that time, UPS competed with RPS in the ground parcel market and with FedEx and Airborne Express in overnight and second-day air delivery. At that time, bundling multiple services and pricing was rare to nonexistent.

Furthermore, in 1993, ground service transit time at UPS and RPS was four to six days for longer distances and was not guaranteed. At the time, shippers did not have software applications designed to optimize selection of the most appropriate services of the same carrier or across multiple parcel carriers.

Similarly, in 1997, when UPS introduced the 2nd Day Air AM service, the document business was still growing. At that time, shippers also lacked visibility to normal delivery times for 2nd Day Air packages and so may have paid a premium for those deliveries.

In 1997, the 2nd Day Air AM was introduced for a noon delivery commitment. Even with an earlier commitment time of 10:30 a.m.

introduced in 2006, volume for this service did not increase and is still below 1 percent of total domestic parcel volume.

Today, there are only two private carriers in the parcel segment. Now, UPS and FedEx offer all services: overnight express, deferred express and ground. The document business has declined because of electronic communications. Bundling of services and prices is fully deployed across parcel services and expanded to LTL freight service. UPS and FedEx Ground have shortened transit time in more than 50 percent of all domestic lanes. Many three-day lanes now offer two-day transit times, and many former four-day lanes offer three-day transit.

Now, the ground service is guaranteed and so is a very attractive substitute for 3-Day Select volume moving under 1,000 miles. And a large share of parcel shippers use some type of software application that practically eliminates the opportunity to select these two services by error. With deployment of such software by more shippers, volume for the two services will decline further.

With the gap between fuel surcharge and address correction between air and ground services reduced — and indication of a potential merger of express and ground services — there is less opportunity for UPS to gain higher margins for this service. The 2nd Day Air AM base rates still have a premium of about 16 percent over the standard 2nd Day Air rates; the higher discount for 2nd Day Air AM reduces the net premium to single-digits.

It may be that a merger of express and ground services is on the horizon and the merged parcel service may include some attributes of these two services. Or it could be that UPS has realized the need to drop the services entirely and may do so this year. **JO**

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■ By Satish Jindel

**Despite the numerous changes that have eliminated the differences between express and ground services, UPS and FedEx have not merged these services.**

vices that have little value in today's parcel industry.

UPS introduced 3-Day Select in 1993 as a deferred air express service. This was because a portion of the volume had to move in the air network and thus was also guaranteed under a delivery commitment like other air products. After 17 years, 3-Day Select represents less than 3 percent of UPS's total parcel revenue and about