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BUSINESS

Small Package-Delivery Companies Grow as Businesses Seek Alternatives to UPS, FedEx

Regional delivery companies try to add to pandemic gains, in part by capitalizing on possible strike at UPS



The e-commerce boom that fueled parcel carriers' growth has faded.

PHOTO: RICHARD B. LEVINE/ZUMA PRESS

By *Esther Fung* [Follow](#)

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Smaller parcel carriers made big gains during the pandemic handling packages that the larger players couldn't deliver. Some want to get bigger.

Regional shipping companies across the U.S. are expanding their operations to pick up business from bigger rivals, seeking to capitalize on labor uncertainty at United Parcel Service Inc., higher rates charged by UPS [UPS 1.15%](#) ▲ and FedEx Corp. [FDX 2.24%](#) ▲ and growing reluctance among merchants to rely on a single carrier.

The push comes as the e-commerce boom that fueled carriers' growth has faded and inflation-weary shoppers begin to pull back on purchases. Some small carriers say that despite the slowdown, they see an opportunity to build on the gains they made during the height of the Covid-19 pandemic.

LaserShip/OnTrac, the largest regional carrier, is expanding its delivery network into Texas this year. Lone Star Overnight, a Plano, Texas-based carrier with a network in Texas, Arkansas,

Oklahoma, Kansas and Missouri, plans to open a major sorting facility in Chicago next year. LSO is also working with local delivery companies in cities such as Minneapolis, Milwaukee and Atlanta this year, following requests by its customers to expand its delivery network.

Kendra Jackson, vice president of sales and marketing at LSO, said the company is getting more business from shippers that are trying to avoid possible disruptions at UPS over labor contract negotiations that could lead to a strike as early as August.

Some UPS customers have reached out to FedEx for discussions about business continuity if there are interruptions, and FedEx is trying to get these customers to commit to longer contracts, said people familiar with the matter.

“It is normal and expected that our competitors make exaggerated claims to try to scare our customers, especially during our contract negotiations,” said Glenn Zaccara, a spokesman for UPS. He added that UPS is working to reach an agreement on a new labor contract.



Labor contract negotiations could lead to a strike at UPS and disrupt service.

PHOTO: TANNEN MAURY/SHUTTERSTOCK

In the past, retailers typically gave all their packages to one carrier to maximize volume and reap bigger discounts.

“The new normal is to use a multi-carrier strategy for different types of packages for different locations,” said Krish Iyer, vice president of strategic partnerships at Auctane, a shipping and software solutions company.

Before the pandemic, regional and other carriers that sometimes rely on the Postal Service for last-mile deliveries made up 6% to 7% of the parcel market, according to data from ShipMatrix Inc., a parcel analytics firm. Now it is around 8% to 9%, according to ShipMatrix, as carriers say they picked up substantial volumes from shippers who told them UPS and FedEx had insufficient

capacity during the pandemic. Each percentage point gain in market share for a smaller carrier equates to a more than 15% jump in volumes, ShipMatrix says.

Many shippers say they don't want to be beholden to an individual carrier, even as capacity constraints have eased.

To reduce the burden of higher shipping rates and surcharges from FedEx and UPS, some retailers have set up distribution centers in multiple cities to shorten the distances parcels have to travel, said Joshua Taylor, senior director of professional services at Shipware, a parcel consultant. As a result, these shippers now have access to more local carriers too.

"You will always need someone like FedEx and UPS, no one can ship in the United States without having a relationship with one of them, but the question is how much do you depend on them? And how much ability do you have moving volume around?" said Andreas Andrea, former director of logistics at FabFitFun, an e-commerce company that delivers subscription boxes of lifestyle and beauty products.

During the early days of the pandemic, Mr. Andrea said he was pressed to find alternatives when his national carrier said it would only take 50% of his company's parcels. By early 2022, FabFitFun engaged six carriers, up from just one at the start of 2020.

FedEx said it has competitive advantages over other carriers including strong on-time performance rates and services such as Picture Proof of Delivery and in some areas, seven-day operations.

UPS has said it is focused less on volume and more on delivering parcels that generate more profit.

Some companies could still be resistant to using multiple carriers. One reason is it can be complicated for a business to keep track of which packages go with which carrier, said Mr. Taylor, the consultant.

Using multiple carriers also could make customers more vulnerable to inconsistent performance.

"At peak of the pandemic, it was either the person in a tank top and flip-flops in a 1985 car, or no one," said Mr. Andrea, adding that he ignored such complaints at that time. Businesses need to assess the sensitivity of their own brand to such risks, he said.

Write to Esther Fung at esther.fung@wsj.com