

Delivery War Heats Up for the Holidays

UPS, FedEx target smaller customers with discounts to boost market share

By ESTHER FUNG

FedEx and United Parcel Service are escalating their rivalry, competing for parcel volume from some of their smallest customers ahead of a challenging holiday season. The stakes are high: Thanksgiving is later this year than last, shortening by five days the peak shipping period from Black Friday to Dec. 31. And the total volume of holiday-season packages is expected to continue its decline, after peaking in 2021 during the pandemic.

UPS and FedEx, which began offering discounts to larger customers last year, are now aggressively chasing smaller customers, giving them breaks that are typically reserved for bulk shippers. Until recently, it was unheard of for shippers with less than \$500,000 in annual shipping expenses to get a break on fuel surcharges, for example, said Robert Pursuit, an executive at ShipMatrix, a shipping consulting firm. Now, he said, "no customer is too small to be considered for discounts."

Longtime UPS customer Michael Goldblatt, whose company in Johnstown, Pa., ships tire chains, said a FedEx salesman this year offered him a double-digit percentage-point discount. "They were eager and hungry," Goldblatt recalled. The FedEx representative asked him to keep mum about the offer and even reached over to scribble across Goldblatt's notes when the shipper jotted numbers down, Goldblatt said. Goldblatt, whose annual shipping costs are around \$500,000, ended up staying with UPS, which he said of-



The package-delivery rivals are trying to thread the needle between protecting their profit margins and boosting parcel volume.

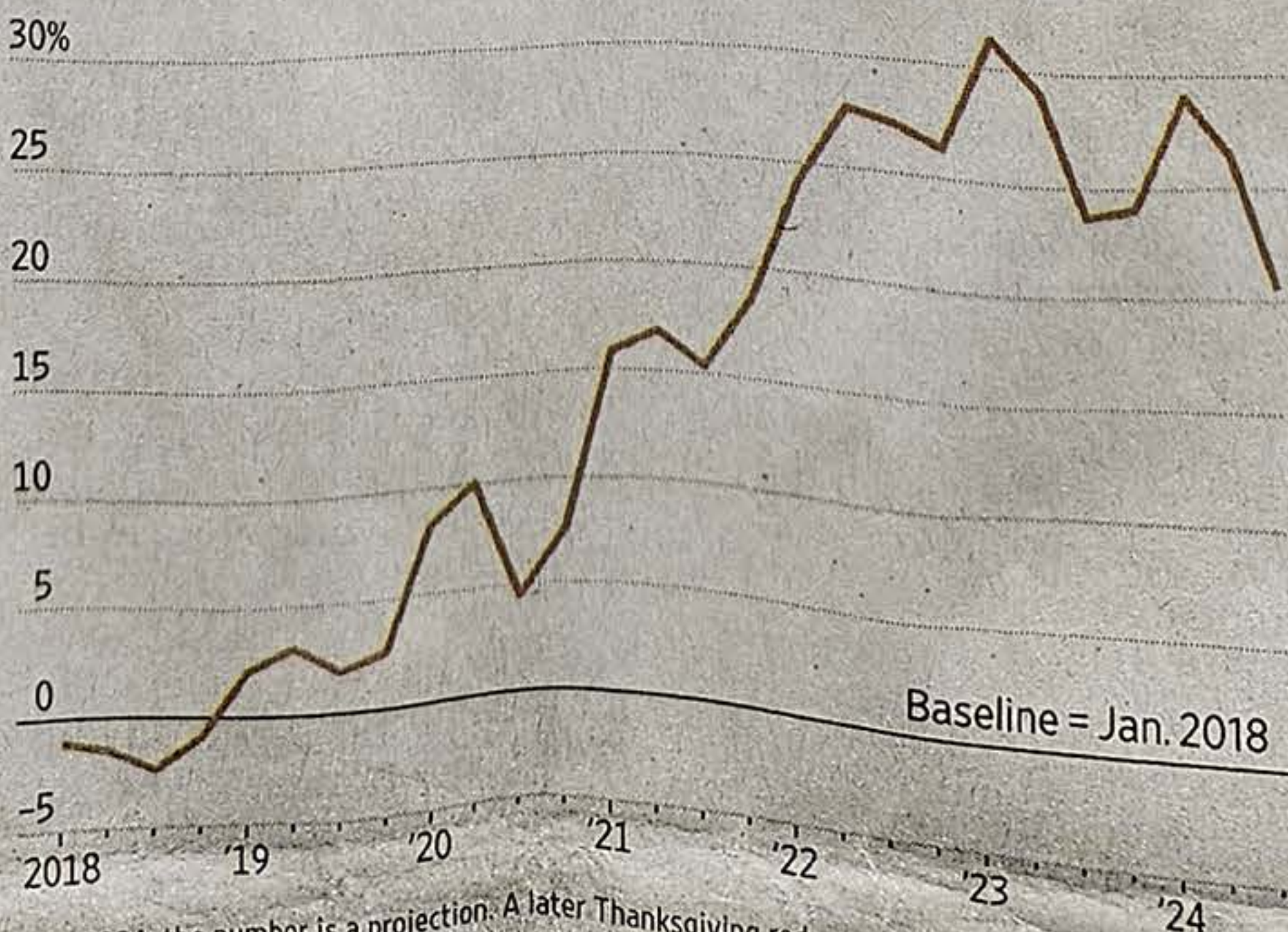
ferred him an even bigger discount than FedEx. The savings allowed him to lower prices on some items.

UPS said it offers discounts for parcels that travel longer distances or that originate in spots where the carrier is looking to boost productivity.

FedEx said pricing depends on many factors, including how a customer's shipments fit into its network. "We've been very selective at going after smaller and mid-sized accounts," said Mark Colombo, FedEx's senior vice president of strategy, sales and solutions. FedEx gives its salespeople incentives to ac-

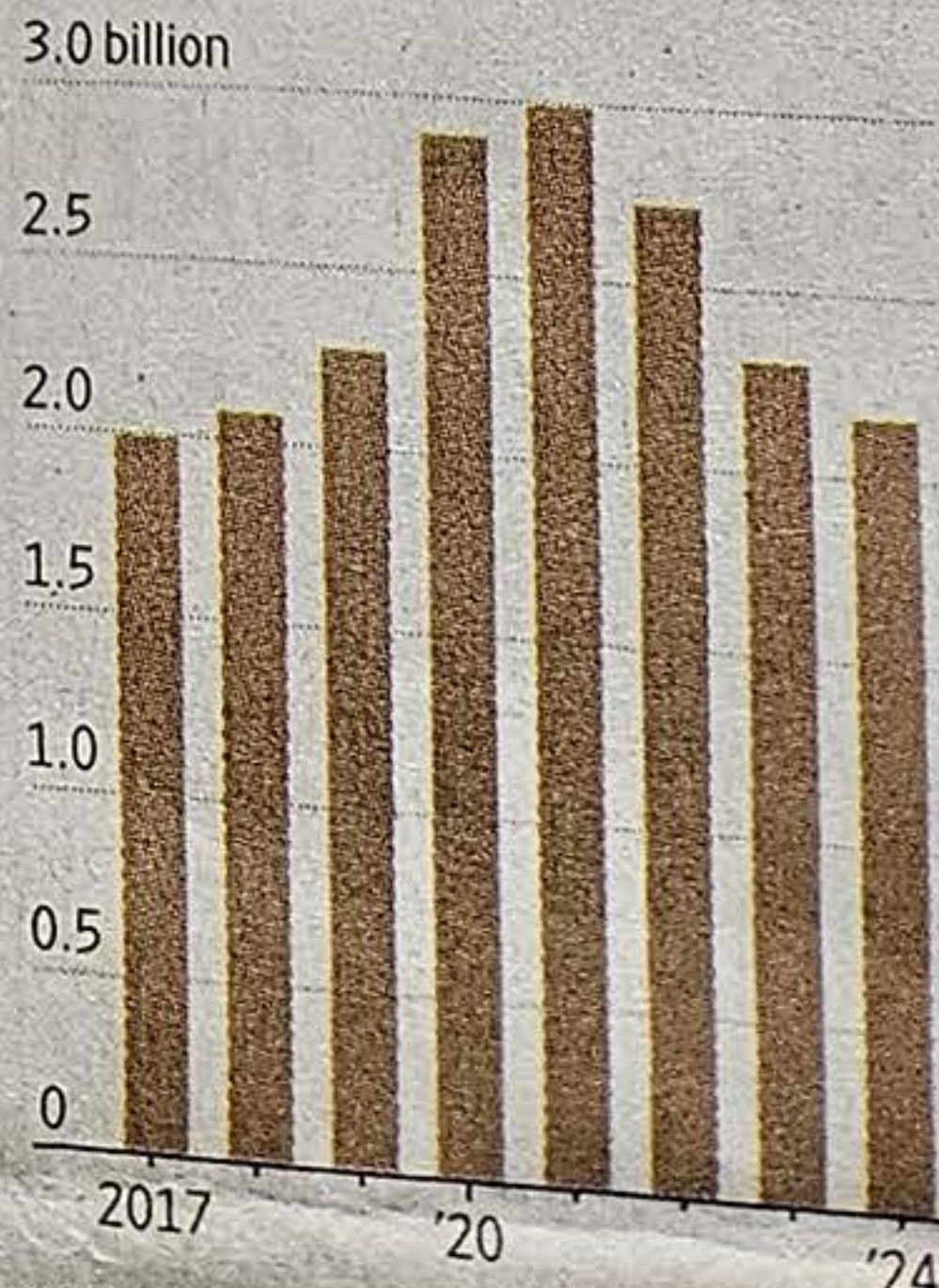
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Ground parcel rate per package index



*For 2024, the number is a projection. A later Thanksgiving reduces the peak shipping period by five days this year. Sources: TD Cowen/AFS Logistics (index); ShipMatrix (number of parcels)

Total number of parcels from Black Friday to Dec. 31*



Delivery Price War Heats Up

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quire new customers with transportation profiles the carrier is looking for, he said. The cost to ship a ground parcel declined 2.5% in the latest quarter compared with the same period a year ago because of higher discounts from carriers and because the packages shipped were a lower average weight, according to AFS Logistics, a third-party logistics provider. The shortened period between Black Friday and New Year's Eve means carriers will have to scramble to ship more parcels daily during the peak

season than last year. And because of the later Thanksgiving date, some retailers expect more consumers to shop in-store this year, UPS Chief Executive Carol Tomé said during a recent call with analysts.

FedEx and UPS are trying to thread the needle between protecting their profit margins and boosting parcel volume. Both carriers recently trimmed their annual revenue expectations.

Both companies, still adjusting to the drop in parcel volumes, have laid off tens of thousands of workers and closed dozens of facilities in recent years to cut costs. Now they are facing steeper competition for market share from other carriers—and even

their own customers. The U.S. Postal Service has been gaining market share in ground parcels. Amazon.com now delivers more than two-thirds of its own packages, and Walmart has established its own same-day delivery service. Amazon and other retailers have been trading down to cheaper delivery options, using lengthier ground services to accommodate inflation-pinched consumers.

UPS and FedEx said their pricing strategies have won them market share in the business-to-business parcel segment and in higher-value e-commerce goods. Domestic average revenue per package was roughly flat

at FedEx for the quarter ended Aug. 31, compared with a year earlier. The carrier's domestic parcel volume was also flat.

At UPS, average revenue per package in the latest quarter fell 2.2%, helping drive a 6.5% increase in parcel volume. UPS said it was pleased to win new customers.

Lori Machiorlette, co-founder of Worth Home Products, jumped ship late last year from UPS after FedEx offered her roughly \$7 off the \$29 she was paying to ship large packages. Worth, based in Houston, sells pendant lighting and air vent covers. It spends around \$400,000 annually in shipping.

"We were excited that they were willing to court our business," said Machiorlette. The savings this year helped her subsidize return-shipping fees, she said.

The U.S. Postal Service has been gaining market share in ground parcels.