

BUSINESS | LOGISTICS

# Why UPS Is Increasingly Turning to Gig Drivers for Deliveries

The company has cut thousands of drivers as it tries to improve profitability

By [Esther Fung](#) [Follow](#)

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UPS has used layoffs and buyouts to help cut expenses. MICHAEL NAGLE/BLOOMBERG NEWS

Gaurav Deshpande, a 27-year-old accounting specialist, was at home in Plainsboro, N.J., waiting for [United Parcel Service](#) **UPS 1.43%** ▲ to deliver a moisturizer he ordered online, when he saw something he wasn't expecting.

“Some random dude in a high-visibility vest shows up and drops it off. It isn't my UPS driver and it definitely isn't the mail carrier,” said Deshpande, who saw the delivery person through his window.

Instead of the iconic brown trucks, UPS has been funneling smaller, lower-value parcels to gig drivers who use their personal vehicles to make deliveries. This is part of a push by the company to reduce expenses that has involved buyouts and layoffs of

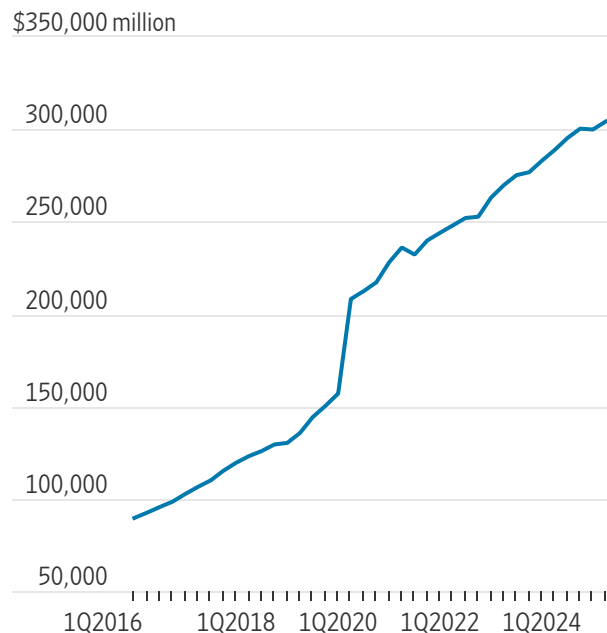
34,000 drivers and warehouse workers. Those cuts are part of [a broader restructuring](#) that has reduced about \$2.2 billion of costs so far this year.

UPS—and rival [FedEx](#) **FDX 1.96%** ▲ —built their business models on having end-to-end networks, meaning their employees pick up packages from the sender, sort them and deliver them to recipients. That allowed the two companies to grow and build up profitable businesses that created more than 600,000 good-paying jobs with benefits. A full-time UPS driver makes more than \$145,000 a year in pay and benefits.

But that business model was created at a time when it was mainly businesses shipping to other businesses. Now the bulk of all packages in the U.S. are delivered from businesses to consumers, a much less-profitable operation.

### Parcels Pile Up

Quarterly e-commerce retail sales



Source: U.S. Census Bureau

“UPS’s Achilles’ heel is lightweight residential packages that don’t offset the labor expense,” said Glenn Gooding, president of iDrive Logistics and a former UPS executive.

This has put pressure on UPS’s profitability. Its operating margins for its domestic unit fell to 6.4% in the third quarter, down from 14.2% a decade ago. FedEx has seen a similar drop to an operating margin of 6% in its parcel-delivery unit in the most recent quarter, from 14% a decade ago for a similar division.

UPS has been trying to address the mismatch. This year, the company has

closed 93 buildings and it is [shrinking the number of packages](#) it delivers for [Amazon](#), saying the low-yielding packages weigh on profits. The company also [offered buyouts](#) to full-time drivers in July for the first time in its 117-year history.

The push to lower labor costs isn’t going down well with the International Brotherhood of Teamsters. The union represents about three-quarters of UPS’s 400,000 employees in the U.S. A group of union members said that the buyouts were aimed at replacing older and higher-paid drivers who make \$45 an hour with younger drivers who make \$23 an hour.

“UPS is trying to weasel its way out of creating good union jobs here in America,” Teamsters General President Sean O’Brien said in July.

UPS said that each driver had the option to choose whether to take the buyout, and that the company is committed to the agreements it has reached with the Teamsters. The company said Tuesday that it has spent \$175 million on the buyouts.

The company also said its main package delivery unit doesn’t rely on third-party carriers. “Only UPS drivers in their familiar brown trucks deliver UPS Ground and Air packages,” the company said in a statement. Separate units like its UPS Mail Innovations business use third parties for “final-mile delivery.”

Justin Martinez, a UPS driver in Albuquerque, N.M., decided to take a buyout and retire a year earlier than planned. The 54-year-old had worked at UPS for 34 years.



Justin Martinez worked at UPS for 34 years. JUSTIN MARTINEZ

The job of a driver has changed a lot over that time, he said. In his early days, loaders had to learn the details of a driver’s route and load packages in a way that made it easy for the driver to find them in the truck.

To navigate, he relied on paper maps — “a nightmare.” These days, Martinez said, loaders get computer-generated instructions of where to place packages and drivers use a hand-held device to find out where each package is.

The job remains “mentally and physically difficult,” Martinez said. Technology has increased the volume of parcels each driver can deliver in a day, but there is also more scrutiny on how efficient they

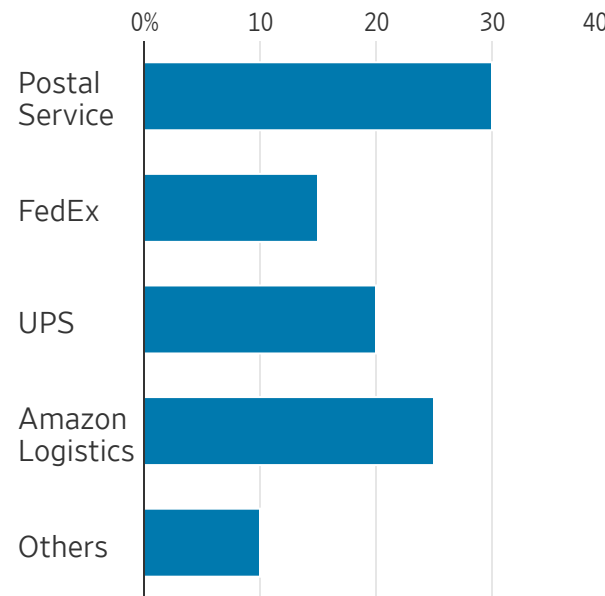
are, and unrelenting pressure from managers to be ever more productive.

“When I first started, 60 stops made an eight-hour day,” Martinez said. “By the end of it, I was doing 120 stops in an eight-hour day. That’s not even counting pickups.”

UPS has long used gig drivers to help during the peak holiday shopping season. It had also used the Postal Service for last-mile delivery of smaller items.

## Parcel Deliveries

Carriers' market share of parcel deliveries in the U.S. in 2024



Source: ShipMatrix

“We just can’t seem to get more packages per stop on these residential deliveries,” UPS Chief Executive Carol Tomé said Tuesday.

Tomé said that UPS is “embracing transformation” and is on track to reduce expenses by \$3.5 billion this year. The company is going through a multiyear program that will focus on the highest-margin markets such as healthcare, international and business-to-business deliveries.

Meanwhile, for consumers such as Deshpande, who received his UPS package from a gig driver, there may be fewer brown uniforms. Deshpande, a self-described obsessive when it comes to package delivery, said he **doesn’t care who delivers the package as long as it is not delayed or damaged.**

**“I just want it to arrive on-time,”** said Deshpande.

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But today there are more frequent surges in e-commerce package volume, some of them planned—such as Amazon’s Prime Day events—and some unplanned, such as when a skin-care product goes viral on TikTok.

The mismatch between the number of drivers and packages—too many drivers one day, too few the next—weighs on efficiency and profits, so adding more gig drivers into the regular deliveries is a step in the company’s drive to squeeze more profits out of an increasingly delivery-obsessed society.

“We just can’t seem to get more