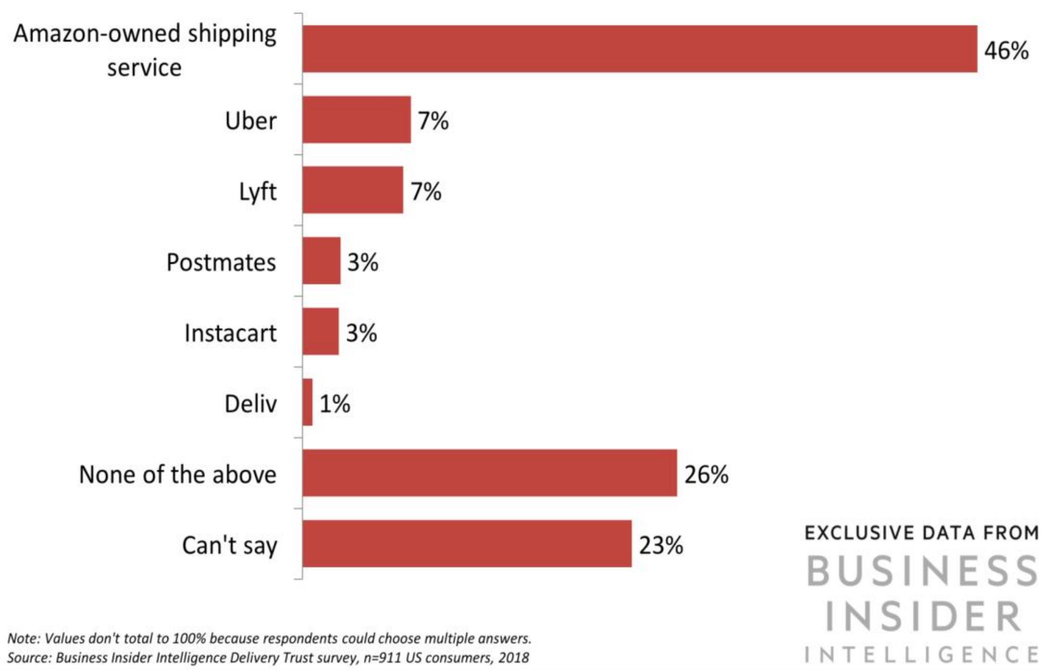
NEARLY HALF OF CONSUMERS WOULD TRUST AMAZON TO DELIVER THEIR PACKAGES OVER FEDEX AND UPS

This note is a segment from Business Insider Intelligence's forthcoming 2018 Delivery Trust report. The full report uses consumer survey data from our proprietary panel to evaluate how offerings from the largest delivery companies in the US stack up on customer service, package tracking, package protection, and timeliness of delivery, as well as how at risk these providers are to new challengers entering the space.

Amazon Is The Most Trusted Threat To Legacy Delivery Providers

Q: Which of the following companies would you trust to deliver your online purchases more than FedEx, UPS, USPS, and DHL?



Note: Values don't total to 100% because respondents could choose multiple answers.
Source: Business Insider Intelligence Delivery Trust survey, n=911 US consumers, 2018

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UPS and FedEx are facing perhaps the biggest threat to their duopoly in decades from Amazon. The Seattle-based e-commerce juggernaut not only has the resources to build a competitive delivery service, but it's also captured the trust of consumers, putting the company in a unique position to challenge these legacy providers. Nearly half of respondents to Business Insider Intelligence's 2018 Delivery Trust survey said they would trust an Amazon-owned shipping service to deliver their online purchases more than UPS, FedEx, USPS, and DHL. To make matters worse for legacy delivery providers, instead of standing idly by, Amazon appears to be actively trying to compete in the delivery space.

Download the charts and data in Excel »

Amazon has been building up its logistics network, which now includes over 70 delivery stations, more than 7,500 truck trailers, and the leasing of roughly 35 planes. However, where the firm is most likely to compete against legacy delivery companies is in last-mile delivery.

- **Amazon just recently introduced Delivery Service Partners to help entrepreneurs form small delivery companies for the specific purpose of delivering its own packages.** Users of service will have access to the technology and training needed to launch their delivery businesses, which could see entrepreneurs employing up to 100 drivers and leasing between about 20 and 40 Amazon-emblazoned vans — when making Amazon deliveries, the e-commerce giant will require drivers to use Amazon-branded vans and uniforms.

- **In February, The Wall Street Journal reported that Amazon was launching its own delivery service, dubbed Shipping With Amazon (SWA), catered to other businesses.** The new service, which sees Amazon delivering packages for third-party sellers on its online marketplace, competes directly against UPS and FedEx. Amazon picks up SWA deliveries from businesses' warehouses and routes them either through its own logistics network or through other parcel carriers, depending on speed and cost.

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- **Given how much consumers value the ability to monitor their packages, it's no surprise that Amazon has introduced a tracking feature of its own.** To appease the 90% of US consumers who say real-time tracking is important, Amazon introduced "Amazon Map Tracker." The feature, which began a national rollout in April, gives consumers access to real-time maps that provide updates on a driver's delivery route and location, as well as how many stops are left before a package is expected to arrive.

- **Amazon is also trying to find ways to make the customer experience more convenient and memorable, which could help it build brand recognition in the delivery space.** In June, the e-commerce firm made its delivery solution for apartment buildings, dubbed Hub by Amazon, available for installation across the US. The solution is designed for the safe delivery and storage of packages at apartment communities, whether it be at a high-rise building or garden-style apartment. At buildings that have Hub touchscreen lockboxes installed, residents' packages are placed in a Hub, after which they are informed of the delivery and given a unique access code via text or email. Amazon believes these lockboxes will simplify delivery for residents by offering them quick and secure access to packages 24/7.

As Amazon continues to strengthen its delivery offerings, it will likely lean heavily on the trust it has built with retailers and millennials, two groups that are vital for the long-term success of any delivery company.

- **Amazon has the largest presence in the US e-commerce market by far, which is likely why a majority of online merchants would be willing to switch from their current delivery provider to Amazon's SWA service.** Fifty-five percent of online merchants recently surveyed by Internet Retailer would consider switching to the SWA, indicating that Amazon could post a threat to incumbents in this space.

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- **Younger demographics are much more trusting of an Amazon delivery service than their older counterparts, which could help the company market its services to retailers.** According to Business Insider Intelligence's 2018 Delivery Trust survey, a whopping 59% of millennials would trust an Amazon-owned shipping service to deliver their online purchases more than UPS, FedEx, USPS, and DHL, compared with just 37% of baby boomers. Millennials, which make up the largest demographic by population, are a major target of online retailers as they are either in or entering their prime spending years. As such, retailers that hope to attract these shoppers could see trust as a differentiator when choosing a delivery service.

Amazon has been able to build trust and interest in its delivery service due to its popularity with consumers and willingness to innovate to improve operations. In 2017, the e-commerce giant accounted for 44% of total e-commerce sales in the US, which represents about $200 billion in revenue, according to One Click estimates cited by Nasdaq. Additionally, the firm's subscription service, Amazon Prime, has over 100 million members who spend about $600 dollars more on an annual basis than non-Prime members. That millions of users are directly engaging with Amazon on its website has helped the company build a level of trust that legacy logistics firms, which usually don't directly interact with consumers, would have a difficult time matching. Amazon is also a willing and active investor in innovating its services to reduce costs, shorten delivery time, and add convenience — for example, the company is exploring drone technology for quick deliveries and warehouse robotics to increase efficiencies. Its ability to improve the customer experience through innovation has made Amazon an attractive potential delivery partner for retailers.

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The Majority Of Millennials Trust Amazon To Deliver Their Online Purchases

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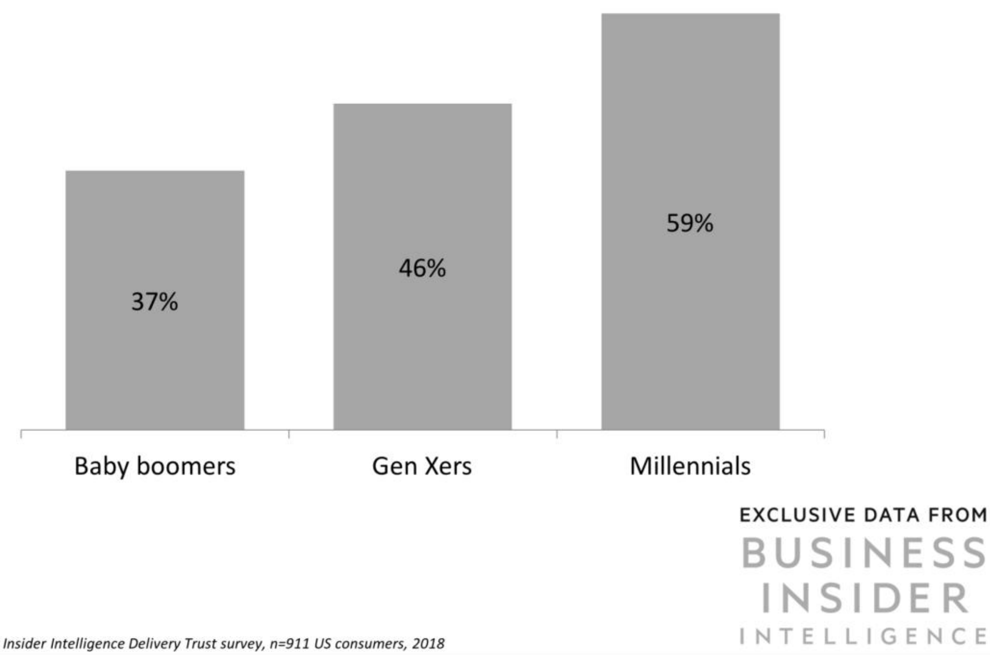

Source: Business Insider Intelligence Delivery Trust survey, n=911 US consumers, 2018

Looking beyond Amazon, legacy providers will also have to contend with the influx of crowdsourced delivery startups. Crowdsourced delivery — a delivery model that leverages local couriers to quickly get packages to customers' doors — is growing in popularity as it solves some major issues with last-mile delivery. The "last mile" of delivery — the last leg of the e-commerce experience when the package reaches a customer's doorstep — is the most expensive and time-consuming part of the delivery process because these shipments often involve a high number of stops with low drop sizes. However, crowdsourced delivery services, like those provided by Uber and Postmates, can get packages to recipients quickly and with little upfront cost by relying on part-time contractors, who use their own vehicles to conduct deliveries. These deliveries are often assigned to drivers based

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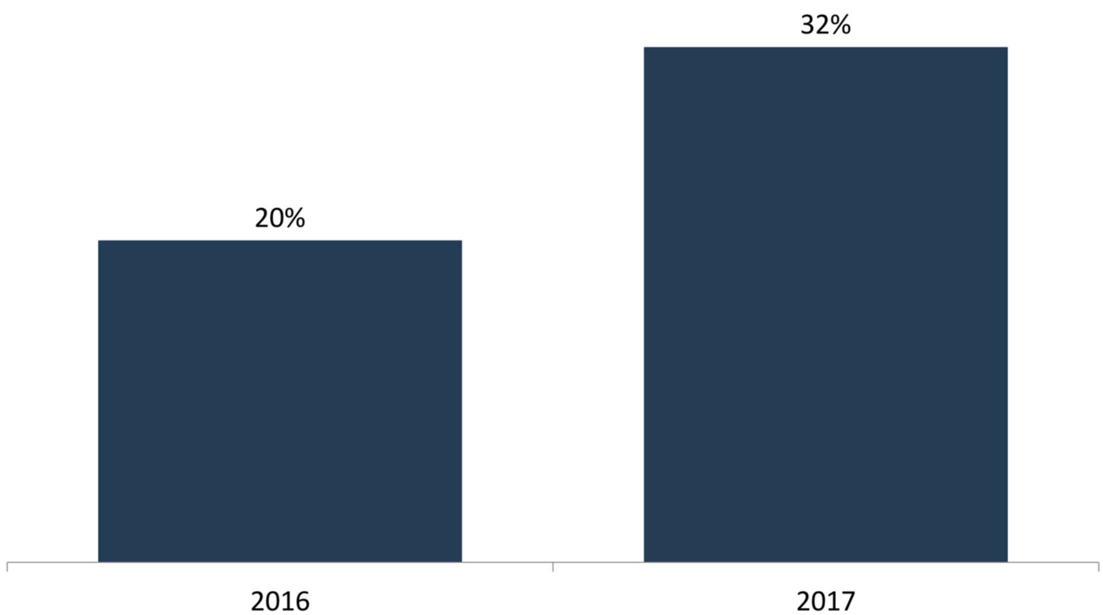
on their proximity to the pickup location, making the process even more efficient and timely.

Percentage Of US Retailers Using Crowdsourced Delivery Services



Source: Boston Retail Partners, n=500, 2017

Finding ways to hold on to last-mile delivery is becoming increasingly important for legacy firms as their main revenue source sees slower growth. Business-to-business (B2B) parcel delivery, which has traditionally been a high-margin source of revenue for delivery companies, is a very mature market — the global B2B market is expected to grow at a compound annual growth rate of only 2.3% from $49 billion in 2018 to $54 billion in 2023, according to Business Insider Intelligence estimates. This stagnation will make it even more important for legacy firms to hold on to a growing revenue source like last-mile delivery.

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There are several ways legacy companies can compete against tech challengers:

- **Continue to introduce delivery options that make it easy for consumers to change their deliveries.** For e-commerce companies, ensuring the consumer delivery experience is a positive one is important, as it this interaction impacts how the consumer views their overall shopping experience. This is likely why e-commerce companies are extremely interested in services that help consumers get their deliveries when and how they want — 69% of e-commerce firms are most interested in allowing consumers to determine when they want their package delivered, 68% want consumers to be able to directly coordinate with the delivery provider, and 67% want consumers to be notified the day of delivery, according to Accenture.

- **Adopt automation technologies to reduce operating costs and lower shipping fees for retailers.** The top reason the majority of e-commerce firms stay with one delivery provider is to consolidate parcel volume to secure discounts on their costs, according to Accenture. For legacy players, the entrance of new delivery players is expected to lead to increased competition on pricing — 25% of merchants would consider using an Amazon delivery service if it were 10-19% cheaper than their current provider, according to Internet Retailer. One way legacy firms could reduce shipping fees is by exploring automation technologies, such as warehouse robotics, autonomous and electric vehicles, and drone delivery. These technologies could reduce the costs associated with employing large workforces and fleets that run on gas, enabling providers to cut shipping fees.

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- **Investing in and acquiring startups to strengthen last-mile delivery capabilities.** By using investments in startups as a strategy, legacy providers will get access to the technology and expertise needed to quickly scale up their own capabilities. This could reduce the time and costs it takes to build an in-house solution. One example of this is UPS leading a $28 million investment round in crowdsourced deliver startup Deliv. UPS used this investment as a way to get better insight into the company's business model and track how the same-day delivery market was evolving, according to Reuters.

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