Issue in Focus

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# Same-Day Delivery: An Opportunity for the Postal Service?

*This brief discussion of an "Issue in Focus" contains candid observations and opinions from staff members of the Office of Inspector General.*

Same-day delivery has been subject to a great deal of hyperbole. Already called the holy grail of online retail by the likes of *Forbes* and *The Wall Street Journal,* it reached peak hype last December when Amazon's Jeff Bezos speciously announced that delivery by drone was imminent. In truth, same-day delivery *is* getting off the ground, but only idiomatically. In a growing number of cities, shoppers can purchase goods online and have them delivered within hours at surprisingly affordable prices. A number of enterprises are hot to gain this competitive advantage — even the U.S. Postal Service is conducting a pilot — but consumer response is tepid. Even if companies overcome the logistical and economic hurdles presented by same-day delivery, the service will not take off unless consumers are willing to pay for it.

## Rushing Retailers

Except for florists and a few other types of retailers, same-day delivery never drew widespread attention until e-commerce exploded in the late '90s. Flush with cash and confidence from a booming economy, several startups hoped to capitalize on the new trend in shopping by delivering products purchased online within hours instead of days. But, due to the bursting of the dot-com bubble and their poor business models, they went belly up nearly as fast as they could make a delivery. Like many dot-com era products, version 1.0 was a bug-ridden flop.

Version 2.0 looks more promising because it is backed by mature enterprises with the name recognition and liquidity to make a stronger push. Soon after winning the price battle over brick-and-mortar stores, e-tailers opened a new front in the retail wars: instant gratification. Consumers, they observed, paid higher retail prices in stores if it meant receiving purchases instantly. To combat this, in 2008 Barnes & Noble — which wisely sold books online while its biggest competitor, the now-defunct Borders, did not — started delivering books in Manhattan the same day they were purchased. The potential for same-day delivery really took off after Amazon started building fulfillment centers near major urban areas throughout the country and began offering the service in limited localities in 2009.

Still kicking, store-based retailers realized that their expansive physical presence enabled them to compete with e-tailers in a world of one-click shoppers. And, in an interesting convergence, eBay and Google have partnered with them not only to deliver their wares, but also to hawk them through consumer-friendly platforms. If the number of e-tailers and traditional retailers offering same-day delivery continues to grow, it may go from competitive advantage to standard delivery option.

**Major U.S. Retailers Offering Same-Day Delivery**

| | Who | Where | When | How Much |
|---|---|---|---|---|
| Direct-to-Consumer | Amazon Local Express Delivery | Baltimore, Boston, Chicago, Indianapolis, Las Vegas, New York City metro, Philadelphia, Phoenix, San Bernardino, Seattle, Washington D.C. | 7 days in some locations<br>12 p.m. deadline | $8.99 + $0.99 / item<br>$3.99 / item (Prime members) |
| | Barnes & Noble | Manhattan | Weekdays<br>11 a.m. deadline | $5 or more (nonmembers)<br>Free (members)<br>$25 order minimum |
| | Nordstrom | Bellevue, La Jolla, Seattle | 7 days<br>1 p.m. deadline | $15 |
| | Verizon Wireless | Dallas, Philadelphia, Pittsburgh, New York City, San Francisco | 10 a.m. deadline | $19.99 |
| | Walmart To Go | Parts of CA and VA, Denver, Philadelphia | 12 p.m. deadline<br>Someone must be home for delivery | $5 – $10<br>Minimum order totals required |
| Third-Party Platform | eBay Now<br>Major retailers, e.g. Best Buy, Home Depot, Macy's, Target, Walgreens | Chicago, Dallas, New York City, San Francisco | 7 days<br>9 p.m. Mon–Sat, 6 p.m. Sun deadline<br>1-hour delivery | $5 / order<br>$15 minimum order<br>Free returns |
| | Google Shopping Express<br>Major retailers, e.g. Costco, Staples, Target, Walgreens, Whole Foods | San Francisco, San Jose | 7 days<br>4:30 p.m. deadline | $4.99 / order<br>6-month free trial<br>Free returns |

Sources: DealNews and provider websites.

By foot, bike, car, and truck, a slew of startups — even a resurrected one — are providing delivery services, right along with the Postal Service's Metro Post. Among them:

- Deliv will soon shuttle goods from more than 600 shopping malls owned by Macerich, Westfield Group, Simon Property Group, and General Growth Properties — most of them located in California and Chicago.
- Instacart claims to deliver groceries in 2 hours for $3.99 an order or for $99 a year, but the costs of items are determined by Instacart rather than the grocery stores. It is currently available in select areas of Boston, Chicago, and San Francisco.
- Metro Post began delivering packages in San Francisco in June 2013 and expanded to New York City in December 2013. The service is a checkout option at "participating retailers" and promises same-day delivery for orders placed by 2 p.m. Costs are determined by retailers.

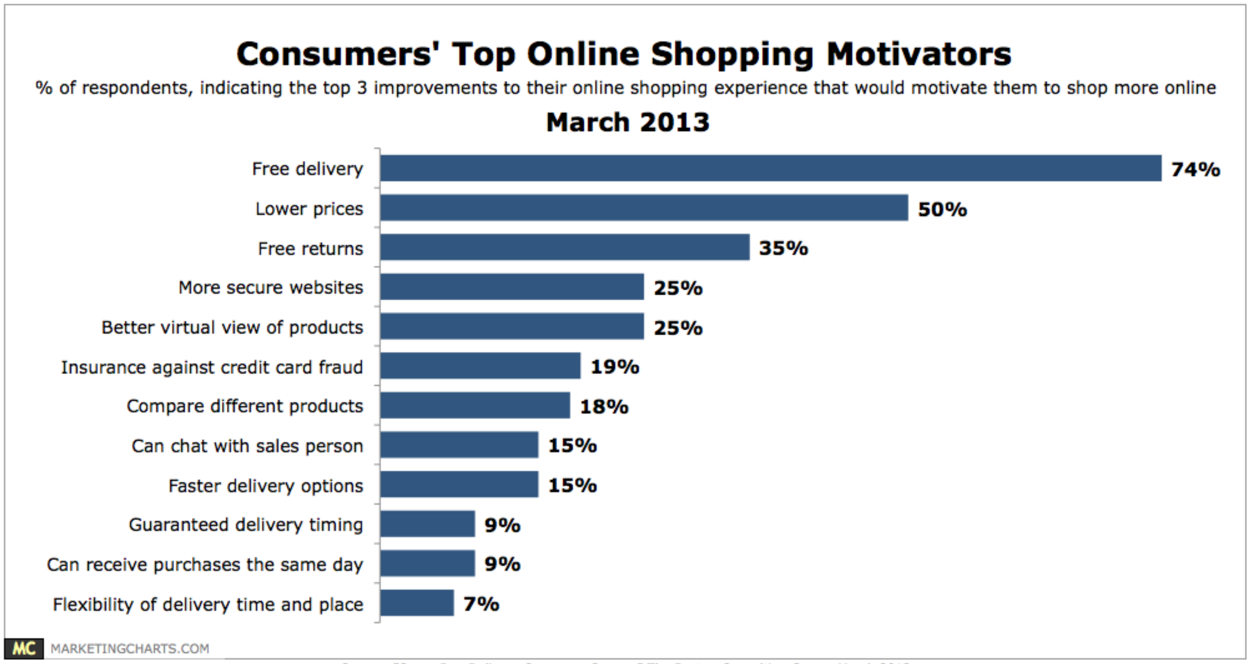
The list of providers highlights the entry of new carriers as a potential disruption among the traditional parcel shippers. While the Postal Service has launched a pilot program, there is little evidence to suggest that UPS and FedEx have officially entered the market. UPS, through its Strategic Enterprise Fund, invested $2 million in UK startup Shutl in late 2012, but Shutl was recently acquired by eBay (details about the purchase were not disclosed). Beyond that, UPS and FedEx appear to be offering same-day delivery services not through partnerships with retailers to facilitate e-commerce, but as a la carte options, with several caveats, for account holders.

## Cool Consumers

Despite the rush of new offerings, the most important factor to same-day delivery's success — consumer demand — is developing more slowly. Most of the prices being charged are in line with the value consumers place on the service: $6 to $10, according to the Boston Consulting Group. However, same-day delivery is expensive to provide, making many retailers and analysts skeptical of its long-term viability. Heavily backed by tech companies and investors, those retailers and couriers that offer it have the cash on hand to lock in customers with low prices. But these prices can stay low only if demand for same-day delivery grows so widespread that it generates enough volume to recover its high cost.

Retailers and couriers have not publicly said much about package volumes, and they are likely to remain tight-lipped for the time being. (One exception has been eBay CEO John Donahoe, who recently downplayed eBay Now when speaking at a technology conference.) But we do know that consumers, at least so far according to two major surveys, care far more about delivery cost and reliability than speed.

Consumers surveyed by Forrester cited low prices and cheap delivery as the top two reasons they would return to an e-tailer's site, while fast shipping was a lowly number 14. Similarly, 74 percent of respondents to a Boston Consulting Group survey chose free delivery as most important to their online shopping experience, but only 9 percent cited same-day delivery (see chart below). Indeed, anecdotes from those in the same-day delivery industry paint a similar picture, as experts point to the lower cost of one- or two-day shipping and free in-store pickup as more attractive options.



Source: "Same-Day Delivery Consumer Survey," The Boston Consulting Group, March 2013

These attitudes create an interesting dynamic to the same-day delivery market. Consumers are being given an option for something few of them say they want, and there are hurdles to convincing them otherwise. In one model, consumers will have to seek out same-day delivery through specialty websites like eBay Now or Deliv. Having consumers select the delivery method before purchasing items inverts the shopping experience and could undermine use. It also requires consumers to shop through new websites. In the other, they will have to opt to pay extra for the service on a store's checkout page. As it happens, the top reason consumers abandon shopping carts is "unexpected costs," which translates to shipping fees in online retail. Combined, these factors could quash same-day delivery in all save a few niche markets.

## Potential for the Postal Service

Same-day delivery raises challenging questions for the Postal Service. Will consumer demand increase as the service becomes more widespread? How will it disrupt the parcel delivery business, which the Postal Service is relying on to replace revenue lost from declining First Class Mail? Do the potential rewards for providing the service now outweigh the risks? As with many new products, earlier movers often have an advantage. With same-day delivery, the window to enter the most profitable markets will not remain open long.

To be sure, the Postal Service has some unique advantages that could allow it to succeed where others have failed. For example, it has the space to provide microwarehousing to retailers, and it arguably has the infrastructure and capacity to take on a new delivery channel. But, clearly, the first phase of the Metro Post pilot raises questions about the thoroughness of its planning, marketing, and execution.

According to the OIG's recent audit of the pilot in San Francisco, only six retailers — all of them small and local — participated after a large retailer, 1-800-FLOWERS, pulled out. Further, despite a goal of delivering more than 25,000 packages over 5 months, just 95 were shipped. As such, the pilot recovered a mere $760 of its $10,000 investment — the relatively low cost here perhaps being the silver lining. The Postal Service announced it would end same-day delivery in San Francisco in March while continuing the pilot in New York City.

In San Francisco, the Postal Service does not appear to have positioned itself to gain traction with either retailers or consumers. It entered a crowded market where many retailers had existing relationships with other couriers. And unlike the convenient, buy-and-deliver platforms offered by Google, eBay Now, and Instacart, consumers may see Metro Post simply as a more expensive shipping option due to its back-end design. The Metro Post website is a great example of this quandary: for a program that needs to woo retailers, the site is curiously aimed at consumers but lacks actionable information about how to use the service.

The Postal Service is right to test same-day delivery on a relatively modest scale. As First Class Mail continues to decline and further disruptions to postal operations are sure to come, new revenue streams will be crucial to the Postal Service's survival. Consumer preferences could very well change as offerings are refined (consider tablets before the iPad was introduced), and entering the market in urban areas where demand is likely to be higher is crucial before other dominant players emerge. If the Postal Service applies lessons from the San Francisco pilot to New York City, where officials say several large retailers are participating and package volume is already greater, it could be well positioned if demand for same-day delivery rises without having invested too much if demand stays low.

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