Amazon offers employees $10K and 3 months’ pay to start their own delivery businesses

Sarah Perez, TechCrunch, 5/13/19

Following news of Amazon’s plans to reduce Prime shipping down to one day, the company announced an expansion of its Delivery Service Partner program, which includes a new incentive encouraging Amazon employees to start their own package delivery company. The partner program, first announced last year, includes access to Amazon’s delivery technology, hands-on training and a suite of other discounts for assets and services like vehicle leasing and insurance. For employees, it now includes a $10,000 incentive, too.

The retailer says it will fund startup costs up to $10,000, as well as the equivalent of three months of the former employee’s last gross salary, to give the employees the ability to get their new business off the ground without worrying about a break in pay.

Amazon said last year that people were able to start their own delivery business with only $10,000. At the time, military veterans were able to get that $10K reimbursed, as Amazon was investing a million into a program that funded their startup costs. The new incentive to do the same for any employee — and offer them three months’ pay on top of that — is a much broader commitment. And it’s one that makes sense, given Amazon’s lofty ambitions to double the speed of its shipments.

Employees — or any other entrepreneur — who wants to become a delivery partner, can lease customized blue vans with the Amazon smile logo on the side, and take advantage of other discounts, including fuel, insurance, branded uniforms and more.

Before the launch of the partner program, Amazon had relied on its Amazon Flex crowdsourced workforce to help it reduce costs. But these gig workers often faced too much uncertainty with regard to their pay because of things like fluctuating gas prices that cut into profits, lack of insurance and the general logistical challenges that come from trying to deliver packages from a smaller, unbranded personal vehicle.

Delivery partners, meanwhile, could earn as much as $300,000 in annually by growing their fleet to 40 vehicles, Amazon claims. The company said last year it expected that hundreds of small business owners will hire tens of thousands of drivers across the U.S.

That is already happening. Since the launch of the program in June 2018, more than 200 small businesses have hired “thousands” of local drivers, Amazon says this morning. It expects to add hundreds more small businesses this year, as well.

The incentive to employees also comes at a time when Amazon is increasing automation in its warehouses that will potentially put some workers out of jobs. A report from Reuters this morning noted that Amazon is rolling out machines that will automate a job that’s currently held by thousands of workers: boxing customer orders. Some of these workers could be candidates for the delivery partner program now, given they may be looking for what’s next — before they’re laid off.

For Amazon, the funds it’s investing to help employees transition to this new business could be recouped as the retailer reduces its reliance on UPS, UPS and FedEx by shifting more of its business to its own network where it has control. In the near-term, however, Amazon’s delivery partners will benefit from its plans to spend $800 million to make one-day shipping the Prime default.

WHY AMAZON IS GIVING EMPLOYEES $10,000 TO QUIT

LOUISE MATSAKIS, Wired, 05.14.19

The so-called last mile of delivery—getting an order to the customer’s door—has long been an obsession for ecommerce companies. To make the journey as efficient as they can, some have engaged in extreme experiments. Take Walmart: Two years ago, it tried asking its employees to deliver online orders before and after work, in their own cars. That idea was later abandoned, but the problem of the last mile remains, even for the biggest retailers. Now, Amazon is offering to pay its employees thousands of dollars to deliver packages—they just have to quit their current jobs first.

Last June, Amazon created the Delivery Service Partner program to help entrepreneurs create businesses delivering packages for Amazon. The idea was to get orders moving fast, without the relying on UPS or FedEx. Amazon said it would offer employees up to $10,000 in startup costs to leave their current jobs to join the program, as well as three months of gross pay. The initiative arrives as Amazon is pushing to deliver Prime orders within one day instead of two, making the last mile all the more important.

Not just anyone can sign up. You need to invest at least $10,000 and have liquid assets of at least $30,000. (The latter requirement is lowered for employees.) Those rules may be one of the reasons Amazon is now turning to its own workforce for help. The company says more than 200 delivery partners have sprung up in the past year, but the US labor market remains extremely tight, and it’s not clear how many more people are in a position to join the program. What’s more, Amazon appears to prefer contracting with smaller delivery companies. On its website, it says partners typically have fewer than 100 workers and 40 vans. There may be only so much growth left for Amazon’s current partners, while its delivery needs seem to have no limit in sight.

Delivery partners are considered outside contractors—the drivers who work for them aren’t Amazon employees. While they can technically do work for any company, Amazon provides partners with access to branded vehicles that can be used only for hauling Amazon packages. That employment setup helps Amazon compete with companies like FedEx, which also has third-party drivers in its branded vans and trucks. And it saves Amazon the responsibility of providing drivers with benefits like health insurance.

That doesn’t mean Amazon has avoided using individual delivery drivers entirely. Since 2015, it has relied on its Uber-like Flex platform, where contracted drivers sign up for shifts delivering packages for $18 to $25 an hour. The program is likely cumbersome to run, says Cathy Morrow Roberson, founder of consulting firm Logistics Trends & Insights. She says companies shouldn’t depend on crowdsourcing for their entire last-mile strategy, since it’s hard to plan around such a precarious workforce.

Amazon Flex has also proven to be a public relations nightmare. A series of media investigations have documented the grueling work that can come with delivering for Amazon and how drivers must submit to the use of facial recognition.

Delivery partners, by contrast, can manage their drivers however they choose. That freedom may prove attractive to many current Amazon employees interested in starting their own company. Becoming a delivery partner could also be a smart business decision, especially since self-driving delivery services are still years away. While Amazon is quickly automating other parts of its supply chain, it will continue to need drivers ensuring that packages make it the last mile.

In the meantime, Amazon’s rivals are catching up: Walmart just announced it’s going to provide next-day delivery too.
Owning an Amazon delivery business:
The risks, rewards and economic realities of the tech giant’s new program for entrepreneurs

BY TODD BISHOP, GeekWire.com, July 15, 2018

Amazon has a new idea for anyone who has dreamed of owning and running a small business, but was daunted by the hurdles, or didn’t know where to start: Launch and run an independent company of your own to deliver its packages.

Intrigued? As with any new business, it won’t be easy. That’s why Amazon promises to help you get started, and provide a steady source of revenue once your company is up and running. It’s a rare opportunity to hitch your entrepreneurial fortunes to one of the fastest-moving companies in the world.

But even with Amazon’s help, it will take an immense amount of work and effort to make your new package delivery business even modestly profitable.

That is a key takeaway from GeekWire’s analysis of the Amazon Delivery Service Partner program. This program is a new effort by the tech giant to spark the creation of hundreds of small businesses across the country. Launched with its help, Amazon hopes these businesses will ultimately employ tens of thousands of delivery drivers in Prime-branded blue vans and uniforms.

In the weeks following Amazon’s June 27 announcement, we’ve been examining the economics of the program. We’ve talked with logistics and delivery experts, peppered the company with questions, read the fine print in the application materials, and compared the new program to similar delivery businesses. Our goal was a deeper understanding of Amazon’s strategy, and the potential risks and rewards for these new delivery business owners.

Amazon offers these projections for the Delivery Service Partner program, but cautions that they are unproven estimates.

For Amazon, the need to expand its delivery capacity will be illustrated again this week. Prime Day, now in its fourth year, creates another peak shopping season for the company. Prime Day has already surpassed Black Friday and Cyber Monday as Amazon’s busiest shopping day, requiring even more from the company’s delivery infrastructure.

Here are the major pros and cons we found in the Amazon Delivery Service Partner program.

- The financial barriers to entry in the Amazon program will be significantly lower than for other contract delivery businesses. That makes it more accessible to a wider range of entrepreneurs.
- The profit potential appears lower than for similar delivery businesses, according to logistics industry experts who have analyzed Amazon’s initial public projections.
- Amazon’s help promises to reduce or remove many of the traditional hurdles to starting and operating a small business.
- That help comes with strings attached, including that Amazon-branded vans can only be used to deliver Amazon packages.
- Delivery Service Partners will benefit from Amazon’s massive negotiating power with third-party vendors.
- Limitations on fleet size may prevent any Delivery Service Partner from gaining too much negotiating power over Amazon.
- These are hands-on businesses, not passive investments to be operated from across the country.

**Owning an Amazon delivery business**

Amazon “DSP” business owners will build and manage a team of 40 to 100 of their own employees, with fleets of 20 to 40 vans delivering packages seven days a week, 365 days a year, serving thousands of customers.

The company describes the job in a “day in the life of an owner” timeline in its Delivery Service Partner application materials. Daily duties will include scheduling drivers, setting up routes, rallying the team in a morning huddle, tracking progress throughout the day, working with Amazon to troubleshoot problems, debriefing drivers upon their return, and making sure vans are properly fueled and parked at the end of the day.

But first comes the nitty-gritty work of building and launching the business: securing the required licenses; vetting and hiring employees; lining up key business services; setting up a pay structure and benefits; working with legal and corporate advisers; building a “customer-obsessed culture” and coaching your team to “exceed expectations on every delivery.”

All of this will sound familiar to anyone who knows the company’s legendary leadership principles. Amazon says a key trait of successful delivery partners will be resilience and the ability to handle “the ambiguity of a fast-paced, ever-changing business,” while delivering results with a “can-do attitude.”

The company says many people who served in the military will have the traits required for success as Delivery Service Partner business owners. Amazon is committing $1 million to reimbursing up to $10,000 in startup costs for qualified U.S. military veterans.

Serving thousands of customers daily isn’t easy, but the smiles are incredibly rewarding. And there will be little time to waste after launching. “Successful owners add five additional routes in their 5th, 9th, and 11th week, bringing their business to 20 or more routes after three months,” Amazon says.

Sure, it may sound exhausting. But look at the upsides.

Amazon has negotiated special deals on van leases; data plans; mobile devices; insurance, HR, legal and accounting services; vehicle maintenance; and other programs for new delivery business owners. The company will provide technology, tools and a
comprehensive playbook to run a delivery business, a three-week owner training program, driver assistance on the road, ongoing support from an account manager, and the ability to benefit from its decades of experience putting brown boxes on doorsteps.

Delivery Service Partners will also get the benefit of operating out of an Amazon delivery station, reducing or eliminating the need to operate their own facilities.

It’s the business equivalent of a meal kit — providing not just the recipe but also the ingredients to cook up a new company, plus a customer service line to call when you get stuck on the first course. All of the deals and assistance will reduce the cost of launching the business to as little as $10,000, Amazon says.

But perhaps most importantly, Amazon will remove one of the biggest hurdles facing any new business: revenue. The company promises its delivery partners a fixed monthly payment based on the number of vehicles they operate with Amazon, a separate rate based on the length of their routes, and a per-package rate based on the number of packages they deliver successfully.

A steady stream of work

Amazon says the total revenue potential will be $1 million to $4.5 million once a company reaches critical mass. One early Delivery Service Partner business owner, who took part in an Amazon pilot program, says the impact of that revenue has been meaningful. Olaoluwa Abimbola, an immigrant from Nigeria who previously drove in the Amazon Flex delivery program for individual contractors, has hired 40 people in the first five months at his package delivery company in Aurora, Colo.

“We don’t have to make sales pitches for loads every day, or go to a job board and start nit-picking on what to do. There is constant, constant work. Every day. All we have to do is show up,” Abimbola said. “There is always work to do. Great, steady income. It’s been fantastic.”

Bottom line: Once established, a delivery business could realize annual profits of $75,000 to $300,000 — if successful, and if Amazon’s projections are accurate.

Those estimates are where some delivery and logistics veterans are focusing attention. “I think there’s a massive opportunity here, but only for the right person,” said Tony DiNitto, an Austin-based former FedEx route manager who brokers the purchase and sale of delivery routes and has analyzed the Amazon program. DiNitto acknowledges that he is biased toward the value of FedEx Ground contract businesses over other delivery operations. However, the comparison to FedEx Ground provides important context for Amazon’s new initiative.

The “massive opportunity” comes from the low startup expenses, a fraction of the cost of acquiring an established FedEx Ground route. DiNitto, who closely tracks data on FedEx contract business sales, estimates that the average FedEx contractor controls between 5-to-15 routes on a daily basis. Acquisition costs average between $700,000 and $950,000 to buy a business consisting of multiple FedEx Ground routes. Amazon’s promise of as little as $10,000 in startup costs makes the Delivery Service Partner program a much lighter lift for someone just getting started.

However, the ultimate earnings potential doesn’t look nearly as strong. DiNitto points to Amazon’s best-case scenario of $300,000 in profits on 40 routes, full capacity under the initial structure of the Amazon Delivery Service Partner program. That’s $7,500 in annual profits per route. In contrast, he said, many contractors operating independent FedEx Ground delivery businesses can make $25,000 to $30,000 in annual profits per route, more than three times as much.

In other words, by those numbers, Amazon is following its tradition of asking its partners to be comfortable with lower profit margins to take part in its meteoric growth.

We relayed this profit comparison to Amazon, but the company declined to speculate on the profit potential of an Amazon delivery business as compared to the FedEx program. To be sure, the definition of “route” may vary depending on the situation, and it’s tricky to make an apples-to-apples comparison between an established program and one just getting off the ground.

But with the creation of this program, Amazon can establish an entirely new set of economic realities with delivery partners of its own making. “Amazon isn’t getting in this world because they were happy paying UPS / FedEx levels of prices for their 5 billion shipments they made in 2017,” DiNitto said, referencing the company’s Prime shipment volume for the year. “They’re doing it to squeeze out every drop of profitability that was found in the logistics industry in their never-ending customer obsession mission.”

Those economics are important because Amazon is spending record amounts on shipping: Its gross shipping costs totaled nearly $22 billion in 2017, up more than 35 percent from the prior year, according to its financial reports. An expense of $22 billion is a huge consideration given the company’s own thin margins — $3 billion in annual profits on $178 billion in net sales last year.
For now, Amazon says it isn’t looking to replace UPS, FedEx, the U.S. Postal Service or other delivery services. Instead, the company sees a need to expand its “last-mile” delivery capabilities.

“As we started our multi-year planning a few years ago, we realized that given the growth of e-commerce and the growth of our business in general, we really needed to look at how we were going to meet our capacity over the long term,” said Dave Clark, Amazon’s senior vice president of operations, announcing the new delivery initiative at a media event in Seattle.

**Sparking small businesses**

Clark cited the potential for the Amazon Delivery program to create hundreds of new small businesses, following in the footsteps of Amazon’s marketplace for third-party sellers, which last year accounted for more than 50% of items sold across Amazon.com. These initiatives supporting new entrepreneurs and small businesses are important for Amazon’s growth, but they also give the company a way to counter negative sentiment about the impact of e-commerce on Main Street retailers across the country.

But the economics of Amazon’s last-mile delivery also promise to pose a challenge to these new businesses. UPS and FedEx are already cutting Amazon deals on shipping, leaving little room for further savings for the company, if Amazon wants its delivery partners to be profitable, wrote analysts Jonathan Root and Robert Jankowitz of Moody’s Investor Service, in a July 2 research note assessing the impact of the new Amazon program.

“Assuming discounts of 20% and 15%, respectively, we estimate that Amazon pays a per-package rate of about $6.50 to UPS and about $7.35 to FedEx for Ground services,” they wrote. “We believe these rates would leave little profit margin for other vendors if Amazon seeks to improve its net shipping cost by lowering the per package fees it will pay to its local delivery contractors.”

On the other hand, geography could work in the favor of Amazon Delivery Service Partners. The initial map of available Delivery Service Partner routes shows that these businesses will operate in many of the most populous cities and regions, where the economics of delivery are often stronger thanks to population density and the volume of business.

In other words, Amazon is leaving the less lucrative business of rural package delivery to FedEx, UPS and the U.S. Postal Service. That’s a tough subject for the company given everything happening in the political realm. The announcement of the new program came a few months after Amazon’s economic impact on the USPS was publicly questioned by President Donald Trump in a series of widely-discussed tweets.

However, the Moody’s analysts say they don’t view the new Amazon Delivery Service Partner program as an immediate threat to established delivery giants. “We anticipate that the new Amazon delivery vendors will capture mostly incremental order volumes, at least through 2020, suggesting that it will be quite some time before Amazon’s expanded contractor fleet potentially reaches the scale it seeks,” they write. “We also believe that the level of profitability that the contractors will achieve remains a question mark.”

This is part of a broader push by Amazon into logistics and delivery. The Seattle-based tech giant is increasingly handling the shipping and delivery of items purchased on its site, leveraging everything from its fleet of Prime-branded planes to its a growing retail footprint.

Amazon has also partnered with established delivery businesses in the past who have larger fleets of non-Amazon-branded delivery vehicles. In addition, the company contracts with individual drivers to deliver packages through its Amazon Flex program, often likened to Uber for package delivery. But the new initiative takes a different approach.

“Rather than Amazon saying we need 100 drivers today,’ Amazon will say to 3-4 operators, ‘We need each of you to get us 25 drivers today,’ and the responsibility of staffing and managing drivers is held by four contractors, not all by Amazon,” said James Thomson, a partner at Buy Box Experts, a consulting firm for third-party Amazon sellers. Thomson previously oversaw Amazon’s recruitment of third-party sellers as the Amazon Services business head.

But even with all the help they’ll get, Amazon emphasizes that these will be independent package delivery companies. This independence is key from a legal perspective. A series of costly court cases have dogged FedEx Ground’s program, challenging the company’s contention that FedEx Ground operators were independent contractors, asserting that they should have been classified as employees. FedEx is in the process of transitioning from its previous Contracted Service Provider approach to a new Independent Service Provider model that establishes new requirements for participating, while giving contract businesses additional flexibility.

It’s becoming a familiar issue for companies and workers in the emerging gig economy.

And that’s where the setup of Amazon’s new program is especially interesting. Delivery Service Partner companies will hire drivers as their own employees, including health benefits, effectively shifting the burden of direct employment away from Amazon and to the independent delivery companies, adding a new twist to their small business economics.

On online forums popular among UPS and FedEx drivers, a big question is whether existing delivery companies could improve their economics and operational efficiencies by delivering packages from the same trucks for both FedEx Ground and Amazon’s
Delivery Service Partner program. Asked about this, an Amazon spokesperson said the company’s branded delivery vehicles can only be used to deliver Amazon packages.

The company doesn’t explicitly preclude the possibility of operating an Amazon Delivery Service Partner business using non-Amazon vehicles, which could allow companies to deliver both types of packages. Amazon emphasizes the independent nature of these companies, saying that Delivery Service Partner owners “are empowered to build their businesses as they see fit.”

However, skipping the company’s negotiated deals on leased vehicles could put the owners at a financial disadvantage. Amazon says getting startup costs down to $10,000 will depend heavily on taking advantage of deals negotiated by Amazon for vehicle leases, insurance, mobile devices, data plans and uniforms. Delivery companies aren’t required to take advantage of those deals, but “may not be able to achieve the startup cost figure without doing so,” Amazon cautions in its financial notes.

Additional financial requirements

In addition, the $10,000 in minimum startup costs don’t represent the entire picture. After clicking through to apply, Delivery Service Partner applicants are told they will need a strong credit history and at least $30,000 in liquid assets to take part in the program. An Amazon spokesperson says the company wants to ensure partners can cover startup costs and living expenses while building successful businesses. Previous business ownership is “preferred, but not required,” the company says.

And finally, Amazon makes it clear that its revenue and profit projections are unproven estimates. The company says the numbers are informed by its experience working with similar delivery companies, plus additional research, but says that actual results will vary. “We do not guarantee results of any kind, including that what a delivery company earns will exceed the owner’s investment in his or her business,” reads the fine print in Amazon’s brochure. “Each delivery company’s results will differ, and results will depend on a number of factors, including the owner’s efforts and management of expenses as well as the size of the company.”

Of course, risk factors and cautionary notes are part of any legitimate business offer. Big picture, Amazon says it believes the program represents a unique opportunity. “In this environment our entrepreneurs don’t have to fight for customers. They don’t have to fight for sales,” Amazon’s Clark said. “They get the opportunity, with our demand, to have a good consistent volume and to grow with Amazon as we grow. And as a result, they get to focus their time on developing and hiring great talent.”

Amazon declined to say how many Amazon Delivery Service Partner applications it has received, but initial interest has been strong, based on inbound inquiries to GeekWire from prospective applicants after our initial coverage was published.

So is this a smart business to get into or not? For now, it depends on your situation. And long-term, the ultimate answer may not be clear until more Amazon Delivery Service Partner businesses are up and running. Based on Amazon’s projections, “there’s a real possibility that people could find themselves working twice as hard for half the pay vs owning a FedEx route,” said DiNitto, the FedEx delivery business broker. “We won’t know for sure until we see the program flesh out a bit more to see how much time and stress it takes to successfully operate an Amazon logistics business.”

Amazon Is Gaining in Deliveries at the Post Office’s Expense, Analyst Says

By Sophia Cai, Barron’s, July 9, 2019 12:16 pm ET

Amazon Prime members can receive some packages in one day instead of two. And a broader rollout is on the way.

That’s good news for Amazon.com (ticker: AMZN), but not for the United States Postal Service, one analyst says. “We expect Amazon’s move to Prime 1-day delivery will drive higher conversion rates, leading to accelerating unit growth in the second half of 2019 and into 2020,” wrote Cowen analyst John Blackledge in a note on Monday.

He expects Amazon to be one of a number of third-party distributors that will continue to take a significant share of the U.S. market for “last mile” deliveries, those that bring a package to its final destination, typically someone’s residence.

Amazon’s additional market share—and gains in merchandise sales and revenue—will come largely at the expense of the U.S. Postal Service, Blackledge said. Growth in the volume of parcels delivered by the postal service dropped from 21% in 2016 to 6% in 2018. There was a 5% year-over-year decline in the first quarter of 2019, according to post-office figures the analyst cited. The postal service didn’t immediately respond to a request for comment.

The decline comes as Amazon ramps up some of its faster shipping programs and shifts to other options for last-mile deliveries. Blackledge estimates that the share of Amazon’s last-mile deliveries handled by the postal service will drop from about 54% in 2018 to about 35% in 2024. His previous estimate was for a share of 45% in 2024.

Other players, such as DHL International, and Amazon affiliates including its Uber-like in-house program Amazon Flex, and its Delivery Service Partner program, are picking up that market share.

Cowen estimates that these other distributors combined will account for 23% of Amazon’s delivery volume in 2019. The total will rise to 43% by 2024, Cowen predicted.

Blackledge maintained an Outperform rating on the stock and a price target of $2,500. Amazon stock was up 0.8% to $1968 on Tuesday.
Amazon is taking more and more control of how its packages are shipped to customers — and it could have big implications for the global logistics industry. The Seattle tech giant has historically relied on partners such as FedEx, UPS, and USPS to help deliver its packages. But the company is now investing heavily in its own cargo jets, trailer trucks, and related infrastructure to help support its Prime fast-shipping program.

New data from Rakuten Intelligence shows that Amazon now carries nearly 50% of its shipments. “It’s now impossible to ignore Amazon’s logistics capabilities,” Rakuten wrote. “Amazon is now its own largest parcel carrier. Let that sink in. How did a company that started selling books out of a garage in Bellevue, WA build the world’s largest vertically-integrated D2C supply chain?”

Amazon disputes the Rakuten data. “The numbers are not an accurate representation of how Amazon shipments are shared between Amazon and our carrier partners,” the company said in a statement shared with GeekWire. Other reports show lower percentages for its own shipment handling.

But in any case, Amazon’s logistics strategy is crystalizing.

As it promises faster delivery — Amazon is spending $800 million this quarter on a new one-day delivery service — the company has quickly added shipping capacity with its own logistics infrastructure. This month it added 15 more cargo planes and will have 70 in the air by 2021 — “Amazon Air” only launched in 2016. Last year, Amazon announced the Amazon Delivery Service Partner program, which lets entrepreneurs start and run their own companies, delivering items purchased on Amazon.com in distinctive blue Prime-branded shirts and vans. Amazon will also soon roll out delivery drones and is testing autonomous delivery robots.

By controlling more of its shipping process and infrastructure, the company is not only able to reduce costs but is also opening up opportunity to offer shipping capabilities as a service for other retailers, somewhat akin to the Amazon Web Services business model. Amazon will be able undercut UPS and FedEx rates by 33%, according to a Rakuten Intelligence logistics expert who spoke to Axios. “Its trucks and planes are out delivering Amazon packages anyway so it can offer shipping at cost, instead of collecting a margin,” Axios reported.

Amazon also has an advantage with speed: its average “click-to-door” duration is 3.2 days, while the industry average is 4.3 days, according to Rakuten. Though with the increases in speed, Amazon has been “a little sloppier as it gets faster,” Rakuten reported, with an average of 15% of items arriving late this year compared to 5% in 2017.

Given that Amazon already has around 50% of the U.S. e-commerce market, its move into logistics could impact the package delivery market in a big way. The competition is already responding. Earlier this month, FedEx ended its U.S. air shipping deal with Amazon.

This strategy is not cheap. Amazon’s shipping costs have ballooned recently as it aims to speed up delivery. In 2018, Amazon spent $27.7 billion on shipping, an increase of $6 billion or roughly 27.6% over the prior year, according to GeekWire research. Worldwide shipping costs reached $7.3 billion in the first quarter of 2019, up 21% year-over-year. Amazon also spent $34 billion on fulfillment expenses in 2018, up 35% from the year prior.

Rakuten noted that Amazon does have one vulnerability: lack of physical retail space. “If items are sourced closer to where the consumer is, retailers will organically save on shipping cost and increase customer satisfaction through quicker delivery,” Rakuten wrote. Competitors including Walmart and Target have that advantage.

But Amazon is making moves to address that. In addition to its 175 fulfillment centers, it is also now partnering with retailers such as Rite-Aid for package pickup services. The company also has hundreds of Whole Foods stores as a result of its $13.7 billion acquisition in 2017.
FedEx Express, the company's air cargo segment, has ended its relationship with Amazon.

According to FedEx's most recent quarterly report, the company certainly needs fewer Amazon-like customers — ones with huge volumes but low margins.

Package volume through FedEx's non-overnight air deliveries has jumped by 24%, but revenue per package has dropped by 7%.

Amazon is a big customer for delivery companies, but moving millions of Prime boxes isn't a high-margin business for some. "Amazon packages are very small, and they don’t take up a whole lot of space, but at the same time there’s not a whole lot of money to be made by moving them," Cathy Roberson, an analyst with Logistics Trends & Insights LLC, told Business Insider.

FedEx's most recent quarterly earnings highlighted that. The Memphis, Tennessee-based package carrier's segment of US deferred packages (non-priority shipments) jumped by 24%. But the revenue per package dipped by 7% — to $15.41 a package from $16.52. It shows the difference between volume and yield — a high-volume segment isn't necessarily one that drives operating profits.

US deferred packages are non-overnight air shipments that don't need to be delivered before a certain time. It comprises about a third of FedEx's domestic business.

FedEx's air cargo network was built to carry priority, overnight shipments to deliver before certain times, but e-commerce doesn't have the same time crunch or service demands. Analysts say margins at Express have declined in recent years, partially because of that mismatch in Express' network and the fastest-growing delivery segments.

"At what point do we question the scale of the Express networks?" the Barclays analyst Brandon Oglenski asked FedEx's CEO and founder, Fred Smith, during a call with investors on Tuesday. Adding: "Because we've seen decade after decade of low returns, low margins, and peak economic activity that can't put in a pretty good return, but still never really crossing that threshold of covering the cost of capital."

"The only way I can respond to that is obviously the plans and the programs we put in place were designed to create superior returns," Smith responded. "We didn't just decide to do it for the hell of it, and it reminds me a little bit about that old adage of Mike Tyson that everybody's got a plan till they get hit in the mouth."

Amazon is a prime example of low margins and high business

The margin confusion points to a key financial reasoning for FedEx's choice earlier this month not to renew its US air contract with Amazon. FedEx moved 200,000 Amazon packages a day, according to Moody's Investors Service.

Amazon made up some 1.3% of FedEx's 2018 revenue. But Donald Broughton, the founder and manager partner of Broughton Capital, told Business Insider the operating profit from that revenue was under 0.25% — "something between tiny and zero."

The relationship will end Sunday and not affect FedEx's other relationships with the company, FedEx said. "We respect FedEx's decision and thank them for their role serving Amazon customers over the years," an Amazon representative told Business Insider.

"Our strategic decision to not renew the FedEx Express US domestic contract with Amazon will also be a near-term headwind, which we expect to reverse to a positive in FY 2021, as we replace the lost volume and optimize the network," Brie Carere, FedEx's chief marketing and communications officer, told investors this week.