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LOGISTICS REPORT

Amazon's Free Shipping Pushes Small Retailers, Delivery Firms to Compete

Shipping companies are vying for the chance to speed up deliveries for startups and national chains

By *Brian Baskin*

April 8, 2017 7:00 a.m. ET

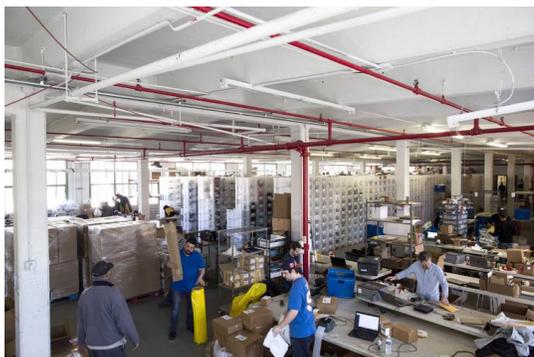
Shipping companies, ranging from startups to the biggest package handlers, are vying to help small retailers compete with Amazon.com Inc.'s [AMZN -0.53%](#) rapid expansion of free shipping.

Logistics companies say demand for fulfillment services has ballooned in the past year, as Amazon casts a bigger shadow across the retail world and the shipping market. Retailers are rushing to offer faster, cheaper delivery to keep customers from flocking to Amazon Prime, which promises two-day shipping on millions of items. Shipping companies fear the e-tailer will starve their networks by handling more of its own orders.

They see a lifeline in going after smaller customers, ranging from retail startups to midsize national chains that can't afford to match the billions of dollars Amazon, Wal-Mart Stores Inc. and other major retailers are spending to speed delivery.

It is a shift in strategy for companies like FedEx Corp., which until recently tailored their e-commerce services mainly to giant retailers needing to quickly process thousands of shipments a day. Now, they are betting even tiny online storefronts will pay for access to nationwide networks of warehouses, trucks and planes that can whisk online orders to customers' doorsteps in less than 48 hours—even if Amazon's growing same-day delivery service remains out of reach for most.

"There is no universe where you can beat Amazon's shipping prices," said Stefan Weitz, chief product and strategy officer at Radial, which handles online orders from about two-dozen warehouses and clients' stores. "I don't have to beat Amazon. I have to get close enough to provide a service level to my customers."



Employees package products for shipment in ShipBob's Brooklyn warehouse. PHOTO: BRIAN HARKIN FOR THE WALL STREET JOURNAL

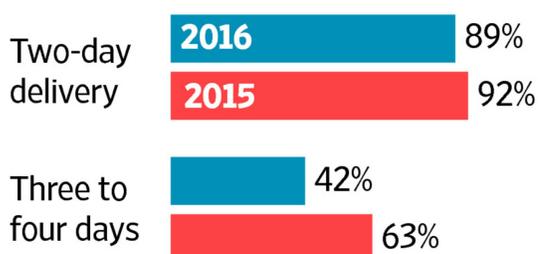
Sterling Partners, a private-equity firm, formed Radial about a year ago by acquiring eBay Inc.'s e-commerce solutions unit and merging it with another online shopping services provider. The company works with national chains, including Dick's Sporting

Goods Inc. and PetSmart Inc. Radial uses sales and other data to determine where to keep inventory, so it is the warehouse in Jacksonville, rather than Minneapolis, that has plenty of sandals to ship to shoppers in Miami. The company is one of the largest shippers using United Parcel Service Inc.'s ground service, allowing it to offer lower rates to retailers, a spokeswoman said.

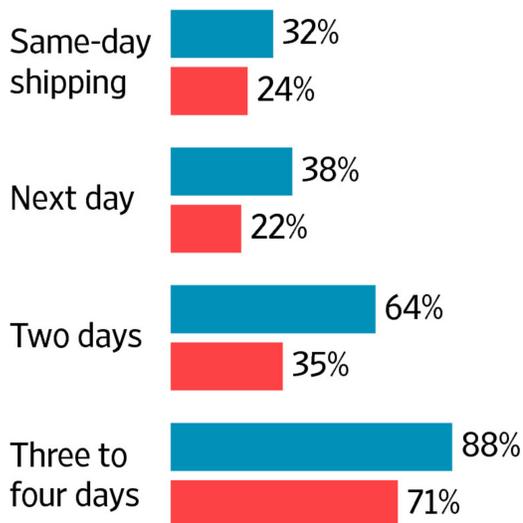
Price Point

A recent survey shows how shoppers increasingly want faster, cheaper shipping.

Share who consider 'fast shipping' to mean...



Share who would pay nothing extra for...



Source: Deloitte online survey of 5,038 consumers polled Sept. 6-20, 2016.

THE WALL STREET JOURNAL.

In February, FedEx said it had started a new service managing fulfillment for smaller retailers. The company can pack merchandise from up to 400 sellers in a distribution center in Indianapolis and, soon, a second facility in southern California, said Ryan Kelly, a senior vice president at FedEx Supply Chain. A technology platform will distribute inventory across different locations, allowing customers to reach 98% of Americans via two-day ground shipping. FedEx previously offered that level of service mainly to department stores and other big customers that needed multiple warehouses for themselves, Mr. Kelly said.

Newer entrants include startups like ShipBob, which runs fulfillment centers in Los Angeles, Chicago and Brooklyn, and Red Stag Fulfillment, operating out of three facilities in Tennessee and Utah. These companies pool orders from hundreds of customers to negotiate lower shipping rates than the retailers could get on their own.

Just north of Brooklyn's Sunset Park neighborhood, ShipBob, which opened its first warehouse less than two years ago, stores merchandise from over 300 retailers in rows of neatly stacked white plastic bins. Workers walk the aisles, plucking out jars of artisanal mustard and organic

conditioner, which they hand off to packers who prep the items for shipping.

ShipBob in February more than doubled the size of its Brooklyn warehouse and plans to open a fourth facility in May as some of its customers' sales take off.

"We help them to grow, and they help us to grow," said Kieran O'Leary, director of operations at the Brooklyn warehouse.



Kieran O'Leary, left, director of operations at ShipBob's Brooklyn warehouse, works with a colleague. ShipBob in February more than doubled the size of its Brooklyn warehouse. PHOTO: BRIAN HARKIN FOR THE WALL STREET JOURNAL

Amazon pioneered many of the tactics these companies are using. Fulfillment by Amazon, started in 2006, today ships items for third-party sellers of all sizes out of all of the company's 149 fulfillment centers world-wide, including 75 in North America, a spokesman said.

"Amazon is rewriting the book on fulfillment," said Satish Jindel, president of research firm SJ Consulting Group Inc. "They do it from A to Z—they get you the visibility, make sure the product is available and take care of the order."

LOGISTICS REPORT

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Many sellers are wary of handing over fulfillment to Amazon, which is selling more products under its own brand. ChannelAdvisor says Amazon handles less than 3% of client orders not placed on the site. Radial, ShipBob and others promise in marketing materials to help smaller retailers meet the higher expectations for shipping set by Amazon.

Peter Wong said he hired Red Stag to level the playing field with bigger sellers online. Mr. Wong is chief operating officer at SwimSpray, which makes a spray that removes chlorine from skin and hair. He said negotiating directly with big delivery companies was "embarrassing" because SwimSpray didn't have the order volumes to secure steep discounts. Companies that didn't specialize in fulfillment couldn't ship orders out reliably.

"Ultimately, what [Red Stag] allowed us to do is focus more on selling rather than focus on how do we get something from point A to point B," Mr. Wong said.



ShipBob's warehouse in Brooklyn. PHOTO: BRIAN HARKIN FOR THE WALL STREET JOURNAL

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