

FORTUNE

Here's Why Amazon Wants to Start Its Own Delivery Service

By **CHRIS MORRIS** Updated: February 9, 2018 10:54 AM ET

[Amazon](#) looks to be gearing up for another fight. *The Wall Street Journal* reports the company is [preparing a delivery service](#) for businesses, which would compete directly with [UPS](#), [FedEx](#) and (less directly) with the U.S. Postal Service.

“Shipping with Amazon,” as the service is called, will pick up packages from businesses, initially the company’s third party sellers, and deliver them to customers. Deliveries are reportedly set to begin in Los Angeles in the coming weeks and expand from there. News of the service sent shares of [UPS \(UPS, -0.65%\)](#) and [FedEx \(FDX, +0.04%\)](#) lower in early trading Friday.

[Amazon \(AMZN, +0.37%\)](#) has a long-standing partnership with UPS, which handles much of its Amazon Prime deliveries. That relationship is not likely to disappear in the short term, but the longer-term view is a lot fuzzier.

Amazon officials didn’t directly address the report when asked for comment by *Fortune*, but did say, “We’re always innovating and experimenting on behalf of customers and the businesses that sell and grow on Amazon to create faster lower-cost delivery choices.”

The new venture, though, is likely driven by a few factors:

Expanded Amazon Prime membership and benefits

Amazon has a pretty good handle on delivery times for items sent from its own warehouses, but when a customer orders from a third party, their Prime membership (which offers free two-day shipping on select items) is fairly useless. By handling

deliveries themselves, Amazon can theoretically speed up delivery times—and drive more people to buy Prime memberships.

Worst case, it can track deliveries on its own and not be caught in the middle when customers say they never received what they ordered.

Increases self reliance

Amazon is an ecosphere unto itself. Jeff Bezos and company like to have a hand in all aspects of the sales process. Right now, one of the most crucial parts, logistics, is out of its control. By bringing delivery in-house for third-party partners (and, presumably, for first-party goods at some point), it doesn't have to worry about partner service interruptions and how packages are handled.

You don't need to look further than the recent holiday season, when Amazon [faced delays](#), to see why it would want to explore alternatives.

Cost cutting and profit making

Amazon currently records big losses on shipping. Last year, the company spent [as much as \\$20 billion](#) ensuring its products made it to customers. By taking some (or all) of that in-house, Amazon could conceivably better control those costs, especially if drone delivery becomes as widespread as the company hopes it will.

Beyond that, though, there's a lot of money to be made in the shipping industry. UPS, in its most recent quarter, reported revenues of \$18.83 billion. If Amazon could get even a piece of that pie, it would be a big boost to its bottom line.