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Parcel Shipping and E-Commerce: Unpacking the Shakeup in Competition

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EXECUTIVE SUMMARY

The rise of e-commerce in the 1990s signaled a shift in how consumers buy consumables and even some durable products. Today, the online shopping channel parallels “brick and mortar” retailing and is expected to make further incursions into total retail sales as shopping platforms such as Amazon, eBay, Walmart, and Target drive expansion. Without the shipping logistics networks to deliver smaller parcels to the doorsteps of businesses and consumers, however, innovation and growth in e-commerce would not be possible.

Many consumers take the speed and efficiency of today’s sophisticated national, regional, and “last-mile” parcel delivery networks for granted. But it is not lost on them that for as many options as they have in online shopping, competition in parcel shipping matters just as much. Indeed, the e-commerce and parcel shipping markets are inextricably linked and over the last several years, they have undergone significant change. Carriers now compete on multiple fronts — shipping rates, speed and tracking capability, ease of claims resolution, and choice in carriers for delivery, especially in the harder-to-reach, rural parts of the U.S. Competition in parcel shipping directly affects the prices that consumers ultimately pay for delivered e-commerce goods.

The injection of competition in parcel shipping in the U.S. has come not from the largest legacy carriers, UPS and FedEx, or the U.S. Postal Service, which has a universal service obligation. Rather, competition has been spurred by smaller or disruptive players like DHL, OnTrac, Veho, and Amazon. This transformation has chipped away at the market power of the UPS-FedEx duopoly. Nonetheless, this two-firm stronghold still accounts for a substantial share of the parcel shipping market, elevating the importance of competition to benefit consumers and spur innovation and growth.

This Progressive Policy Institute (PPI) report unpacks the state of competition in the parcel shipping market. It reveals changes over time that parallel the rise of e-commerce. The analysis reveals market dynamics associated with a concentrated market that features the UPS-FedEx duopoly of legacy parcel carriers. After setting the table on the state of competition, the analysis takes up novel questions, including the benefits of expansion by non-traditional business models that can deliver benefits to consumers, and keep prices down in the important e-commerce retail channel.

I. INTRODUCTION

The rise of e-commerce in the 1990s signaled a shift in how consumers buy consumables and even some durable products. Where bricks and mortar storefronts were once considered a distinct retail distribution channel, the online shopping channel now parallels bricks and mortar for many classes of products, such as fashion, food, beverages, hardware, and furniture.[1] E-commerce's incursion into total retail sales in the U.S. is growing, accounting for about 16% of total U.S. retail sales in 2024.[2] This figure is expected to rise to 20-30% by the late 2020s as online retail shopping platforms such as Amazon, eBay, Walmart, and Target drive expansion.[3]

Advances in technology and the efficiency of logistics and supply chain management systems will continue to have a major impact on the growth of e-commerce. But the state of competition in an important complementary market — courier, express, and parcel shipping ("parcel shipping") — continues to have a major impact on e-commerce. Parcel shipping markets include global, U.S., and last-mile delivery networks encompassing air and different modes of surface transportation. Carriers compete on several dimensions: price, quality (e.g., speed and tracking capabilities), and choice of carriers for delivery in rural areas of the U.S. This competition directly affects the prices that consumers pay for e-commerce goods.

Parcel shipping markets, especially for smaller parcels, have become more competitive over time, particularly in the last-mile delivery segment. Despite a gradual reduction in the dominance of the legacy carriers, UPS-FedEx, the duopoly is still a fixture in the market.[4] Indeed, sources estimate that the combined revenue share of UPS and FedEx in parcel shipping currently exceeds 60%.[5] The entrenchment of the duopoly is apparent in their strategic decision-making and pricing.

The structure of the parcel shipping market contrasts sharply with the dynamic and competitive e-commerce market — a dichotomy that could perversely work to constrain innovation and benefits to U.S. consumers. This PPI report unpacks the state of competition in parcel shipping and why it matters for growth in the burgeoning e-commerce sector and the businesses and consumers that rely on it. The report highlights the economic arguments that support the idea that entry and expansion by non-legacy package carriers provides important competitive discipline. This limits the market power of the UPS-FedEx duopoly, lowering shipping costs, and ultimately the prices for delivered e-commerce goods to consumers.

II. THE GROWTH OF E-COMMERCE AND CRITICAL ROLE OF PARCEL SHIPPING

A. Retail Channels, the COVID-19 Pandemic, and Rise of E-Commerce

Consumer spending in the retail trade sector accounts for about 6% of total U.S. GDP.[6] This sector includes both e-commerce and brick-and-mortar distribution channels. The explosive growth of the e-commerce channel in the U.S. and globally reflects fundamental changes in consumer behavior, the advent of new business models, and technological advances. E-commerce has transformed the U.S. retail sector. The COVID-19 pandemic, in particular, played a pivotal role in changing consumers' shopping preferences. For example, growth in e-commerce averaged about

14% year-over-year beginning in the mid to late 2010s. It surged during the COVID-19 pandemic, with average annual growth rates of 24% from 2019-2021, and has normalized at about 8% per year since.[7]

In contrast, brick-and-mortar retail sales growth averaged about about 6% per year through the COVID-19 pandemic and spiked just after. But the projected growth rate for brick-and-mortar retailing moving forward is expected to be only half that of e-commerce.[8] The different growth rates in e-commerce versus brick-and-mortar retailing highlight that consumers have come to expect an ever-expanding range of goods from e-commerce retailers. These reach beyond traditional e-commerce items like books and small electronics to household goods and bulk purchases, available on-demand and delivered directly to their doorsteps.

Growth in e-commerce has necessitated a dramatic expansion of the parcel shipping market to connect consumers to their retail purchases. The supply chain involves a number of stages or segments that bracket an e-commerce platform or online retailer. On the vendor side is manufacturing and procurement. On the consumer side is online sales and delivery. To support the growing demand for parcel shipping, the industry runs on complex, sophisticated transportation logistics networks to move goods to and within the U.S. These include ocean, air, and surface transportation, warehousing, and distribution centers. Last-mile delivery services, in particular, are a critical segment of the parcel shipping market and an essential input to delivered e-commerce goods.

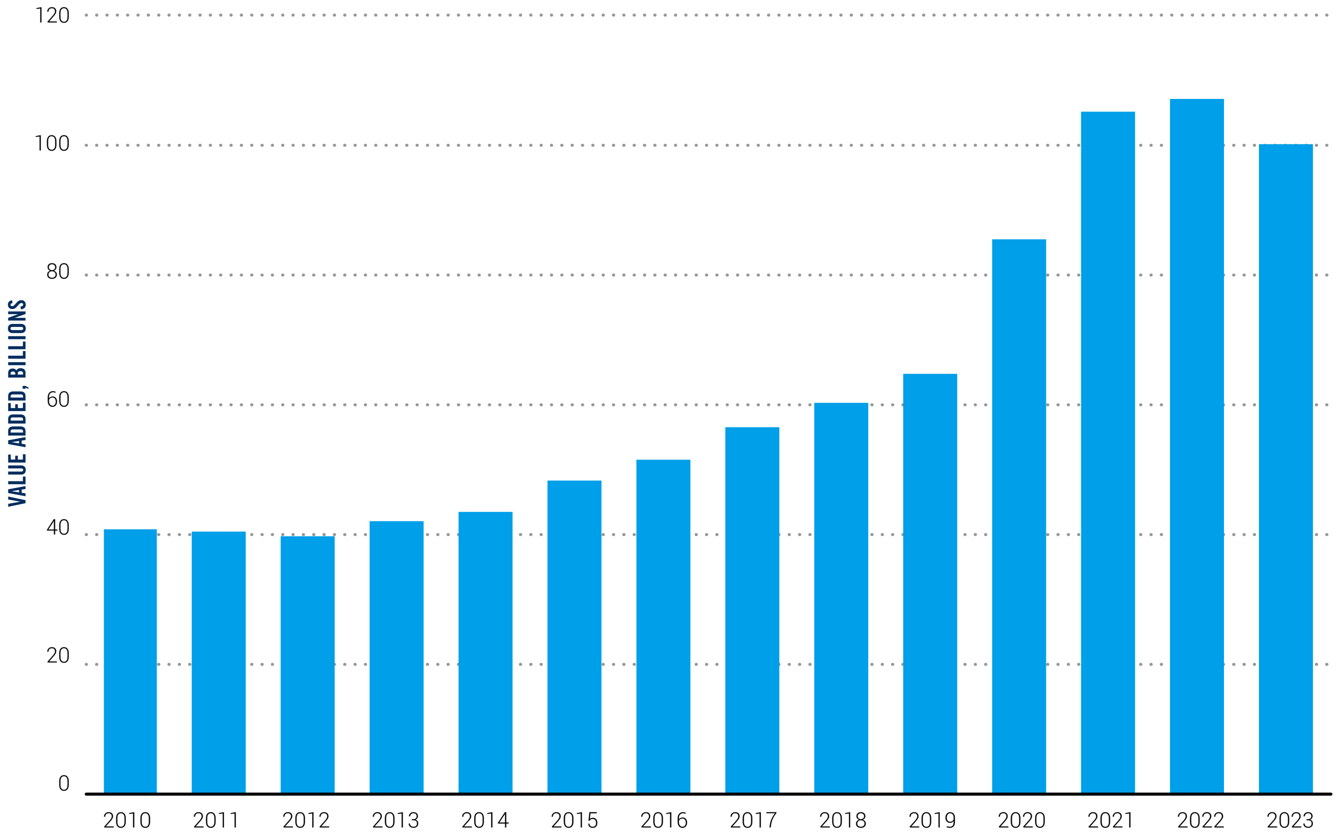
The largest domestic shipping companies, UPS and FedEx, operate and lease more than 500 and 700 aircraft, respectively, with hundreds of thousands of vehicles supporting their domestic delivery operations across hundreds of facilities.[9] Amazon, which entered the last-mile delivery market for packages ordered on their platform in the last decade, has amassed a significant logistics operation, with a global transportation network infrastructure, including cargo hubs in the U.S.[10] As of the end of 2023, Amazon operated more than 110 aircraft and 70,000 motor vehicles with a goal of 100,000 electric transport vehicles by 2030.[11]

B. Growth in Parcel Shipping

In 2024, about 22 billion parcels were shipped in the U.S., a nearly 95% increase in volume from just eight years earlier.[12] Parcel volume in this market is expected to increase to 23-35 billion through 2029. As services like Amazon Prime have normalized low-cost, two-day (or faster) shipping, consumers are placing more orders with the expectation that they will be delivered faster. UPS and FedEx have responded by bolstering same-day, one-day, and weekend delivery capabilities. As discussed later, however, rapid growth in demand has stressed their legacy systems.[13]

As parcel volume has increased, so too has the economic impact of the industry. The couriers and messengers sector focuses on time-sensitive deliveries, differentiated from typical mail delivery services by speed, security, and availability of real-time information through tracking, user interfaces, and mobile apps.[14] This segment of the shipping market has seen significant growth in recent years.[15] As shown in Figure 1, the value added by this sector has more than doubled between 2010-2023, rising from about $40 billion to nearly $100 billion. The spike in demand in 2020 continued to increase in 2021 and 2022, with only a slight decline in 2023. In 2024, the industry employed approximately 909,000 employees, up more than 75% just ten years prior.[16]

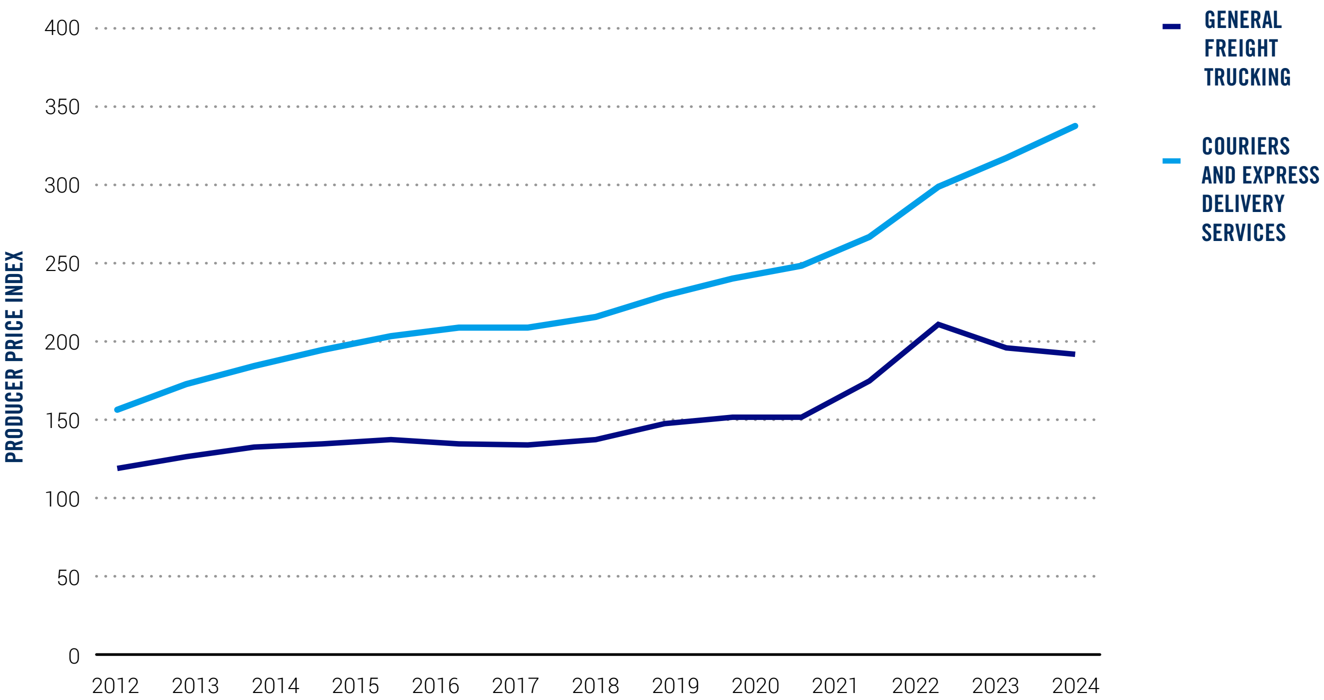
FIGURE 1: VALUE ADDED TO GDP, COURIERS AND MESSENGERS, 2010-2023



Source: Bureau of Economic Analysis
Not seasonally adjusted

Rapid expansion of the parcel shipping sector has put upward pressure on prices." For example, as shown in Figure 2, the Producer Price Index (PPI), or measure of the cost of goods and services to businesses for the couriers and messengers segment, has steadily risen over the last 15 years. Price indexes are influenced by a number of factors, ranging from the impact of technology and operational efficiency improvements on cost, to resource and capacity constraints, to broader economic performance. However, rising prices for parcel shipping, particularly against the backdrop of growing demand for last-mile delivery services, are a notable development.

FIGURE 2: PRODUCER PRICE INDEX BY SECTOR, 2010-2024



Source: Bureau of Labor Statistics
Not seasonally adjusted

Consider the increase in the PPI in the courier and express delivery services sector, in comparison to general freight trucking. Though each sector faces its own unique dynamics that influence price levels, the two are similarly affected by factors such as fuel prices and maintenance costs. From 2010 to 2024, the PPI for the courier and express delivery service sector rose by a cumulative 115%, or a 5.3% annual growth rate.[17, 18] During the same period, the general freight trucking PPI grew cumulatively at 61%, or only 3.3% annually. Another important factor that influences price levels is the structure of the parcel shipping market, which features the legacy UPS-FedEx duopoly.[19] This raises questions about the ability of the large, legacy shipper to exercise market power to extract higher prices from e-commerce shippers.

III. COMPETITION AND THE UPS-FEDEX PARCEL SHIPPING DUOPOLY

A. Competition and the Structure of the Parcel Shipping Market

UPS, FedEx, USPS, and Amazon Logistics are major players in the parcel shipping market. The table below shows market shares for both package volume and revenue for 2024.[20] By volume, USPS held the largest share, at 31%, followed by Amazon, at 28%. But by revenue, UPS held the highest share, at 34%, followed closely by FedEx with 31%, while Amazon had the lowest, at 17%. Between 2022 and 2023, Amazon and smaller players (i.e., “other”) in the shipping market had the highest growth in volume and revenue share. This reveals important information about market dynamics in shipping.

TABLE 1: PARCEL SHIPPING MARKET SHARES BY VOLUME AND REVENUE (2024)

	VOLUME (BILLION)		REVENUE ($ BILLION)		2024 $/PACKAGE
CARRIER	PACKAGES	SHARE	REVENUE	SHARE	
USPS	6.9	30.8%	32.1	15.8%	4.7
UPS	4.7	21.0%	69.7	34.3%	14.8
FEDEX	3.7	16.5%	63.2	31.1%	17.1
AMAZON LOGISTICS	6.3	28.2%	31.1	15.3%	4.9
OTHER	0.8	3.5%	6.9	3.4%	8.9
TOTAL	**22.4**	**100.0%**	**203.0**	**100%**	**10.1**
UPS+FEDEX		**37.5%**		**65.4%**	

Source: Pitney Bowes

For example, the shipping market is considered highly concentrated, as measured by the Herfindahl–Hirschman Index (HHI), a common measure of market concentration in an industry or market, with levels of about 2,500 based on volume and 2,600 based on revenue.[21] Markets at high levels of concentration are typically less conducive to competitive outcomes outcomes based on the price and non-price dimensions (e.g., quality, service, and innovation) of competition. The combined market share for the two largest players, UPS and FedEx, is almost 40% based on volume and about 65% based on revenue. Two-firm, or duopoly, control of a substantial proportion of total market output raises the concern that, instead of competing hard, firms instead "follow" each other on strategic decisions regarding price, quality, or innovation.

The gap between volume- and revenue-based market shares for UPS and FedEx provides important insight into the intensity of competition in parcel shipping. Table 1 shows revenue per package for each carrier, revealing that USPS and Amazon Logistics have the lowest unit costs ($4.7-$8.9 per package). Smaller players have slightly higher unit costs of about $5.9 per package. On the other hand, UPS and FedEx have the highest unit costs of all carriers, or about $17.1 per package $14.8 and $17.1 per package (FedEx).

Volumes have an impact on unit costs, but so do shipping prices. For example, UPS and FedEx volumes range from between -17% to 5% of the average in the market, yet their unit costs are between 47% to 70% higher than the average. This means that higher prices are the driving force behind higher unit costs for the large legacy players. The lack of competitive intensity between UPS and FedEx is obvious in the "stickiness" of their prices, but also in the near-simultaneous announcement in late 2024 that they would both hike rates by 5.9% for 2025, and other strategic decision-making in response to increased competition in the parcel shipping market.[22]

B. Shaking-Up Competition With New Entry

UPS and FedEx both have large global, national, and last-mile delivery networks. With similar networks of air cargo and surface transportation, UPS and FedEx appear to differentiate their services on the basis of technology, service offerings, inventory management, reliability, and a focus on suburban and rural areas.[23] But the COVID-19 pandemic spurred a restructuring of package delivery, magnifying the challenges of broader economic in package logistics and delivery.

For example, limits on the capacity of FedEx and UPS to handle larger volumes for major e-commerce rivals have played a role in the entry of new last-mile delivery competitors. This trend has continued, as higher rates and labor contract negotiations limit their competitive intensity and ability to respond to more disruptive, nimble players.[24] Meanwhile, rising demand for last-mile delivery has attracted entry or expansion in parcel shipping by DHL and Amazon Logistics, and independent carriers such as OnTrac, Better Trucks, Jitsu, and Veho.[25]

The lower unit costs for Amazon and smaller carriers likely signal a shift to smaller parcels and more efficient logistics systems, but also more intense price competition.[26] New carriers are also competing on non-price factors and expanding options for shippers. Penetration of the shipping market by Amazon is a notable example. Between 2018 and 2023, for example, the company increased its share in shipping from about 6% to 27%, driven largely by growth in e-commerce.[27]

These dynamics have put more competitive pressure on UPS and FedEx. In the late 2010s, the companies responded by shedding demand on their systems for delivery of Amazon products. For example, UPS cut back significantly on delivering for Amazon, in part, to focus on more profitable niche markets, while FedEx stopped delivering for Amazon in 2019.[28] In this span of time, Amazon increasingly internalized delivery of products sold on its platform. For example, in 2019, Amazon shipped about 47% of packages using its own delivery services—a figure that increased to 72% in 2024.[29] The legacy carriers, therefore, have adjusted to changes in the shipping market but still appear to remain less responsive to more intense price competition.

C. EXPANSION BY NON-TRADITIONAL SHIPPING BUSINESS MODELS

As last-mile delivery competition increases, Amazon has made inroads into shipping more parcels for vendors selling on its own website, but also in expanding shipping service for other e-commerce retailers and channels. Amazon's first foray into third-party shipping began in 2020 but reporting indicates that the company paused the effort due to the COVID-19 pandemic and restarted it around 2021. At the time, Amazon was reportedly transporting cargo for USPS and offering Fulfillment by Amazon for Walmart and eBay.[30]

Amazon Shipping has advertised its shipping services on the basis of transparent rates, pickup and delivery seven days a week, more efficient claims resolution, and warehouse-to-door tracking.[31] Successful expansion, however, depends on numerous factors. For example, Amazon must have sufficient network capacity to absorb higher demand for shipping from channels other than its own e-commerce platform. How it handles capacity fluctuations related to surges in demand around Prime Days remains to be seen and while reporting indicates that Amazon has excess capacity in its system to offer third-party shipping services, that could change with market conditions. Amazon is also likely to have to partner with other services, such as USPS, to reach all delivery destinations, especially in rural areas of the country.[32]

These and other factors will ultimately determine if Amazon can attract small- to medium-sized businesses and enterprise shippers to switch away from UPS and FedEx, especially if they stand to lose any volume-based discounts. Encroachment by Amazon and other rivals would inject additional price competition. More competitive discipline would reduce the influence of the UPS-FedEx duopoly. This would benefit shippers through lower prices and higher quality and, ultimately, consumers in the rapidly growing e-commerce market.

Amazon's expansion into third-party shipping is unlikely to escape scrutiny. It is a large e-commerce retailer and the only competitor that is fully integrated into both the e-commerce and parcel shipping markets. Even in light of the potential to break the UPS-FedEx duopoly, critics might argue that as a third-party shipper, Amazon could use bargaining leverage to negotiate less favorable parcel shipping terms for e-commerce rivals, thus limiting their ability to compete. This scenario is highly unlikely. Strategic discrimination against rival e-commerce retails would risk costly underutilization of Amazon's logistics network. And with only a 28% market share in parcel shipping, Amazon lacks the large market position that would be necessary to risk squeezing out rivals.[33]

IV. CONCLUSION

This PPI report examines the important role of parcel shipping in the e-commerce sector. The analysis reveals that the benefits of e-commerce are contingent on competition in the parcel shipping market. But the legacy UPS-FedEx duopoly in shipping is inconsistent with vigorous competition and the lower prices, higher quality, and faster innovation that it generates. Entry and expansion by disruptive and smaller shipping rivals could significantly change the competitive dynamics in the shipping market, lowering the costs of delivered parcels, and generating benefits to e-commerce businesses and consumers.

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