



DISRUPTION: IS AMAZON A RETAILER OR A LOGISTICS COMPANY?

THE SHIPPING INDUSTRY IS UNDERGOING RAPID CHANGE

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Would you like to receive your parcel the same day you buy it online – or would you prefer to collect it yourself? The logistics company Yamato, the largest door-to-door delivery service offers both these options to its customers in Japan. Amazon, one of its major clients, has learned from its main deliverer and is entering the logistics industry to offer this level of service to its customers in other countries.

In October 2014 it launched a new delivery service in the UK. “Pass My Parcel”, a partnership with Smiths News, a newspaper and magazine wholesaler, offers shoppers the choice of having their parcel delivered to one of 6000 pick-up locations.

This is not Amazon’s first move into logistics. In 2012 it launched mail delivery services in London, Manchester, Liverpool and Birmingham; today it runs the technology and logistics at its 13 hubs that work with local and regional companies for package delivery.

According to the *Financial Times*, Amazon has already secured 3% of the UK’s parcel delivery market; this is not a situation that pleases traditional carriers, but it is not one that they can ignore, either. Royal Mail, for instance, sees Amazon as a “frenemy”: on one hand, the retailer has been its largest customer, accounting for 6% of its parcels annually; on the other, it is now rapidly eating into its market share.

Consumer expectations driving change

Amazon claims that it launched Amazon Logistics because the company was concerned there was not enough delivery capacity to meet a sharp increase in online orders and a growing demand for next-day delivery, so their service intends to help other carriers when there is a high demand peak. However, Amazon’s website states that “the vision for Amazon Logistics technology is simple: to build Earth’s best delivery network”. Either way, the truth is that often delivery companies cannot reach the requirements set by consumers, and eCommerce retailers find themselves pushed to create their own solutions.

In Switzerland, for example, online shopping is decreasing, according to *The Total Retail Report 2015* by PricewaterhouseCoopers, because the consumer experience is not satisfactory. Customers claim that parcels arrive damaged and the logistics are inadequate, restrictive and not customer-oriented.

In this context it is hardly surprising that many online retailers are following Amazon’s lead and creating their own logistics solutions. In China, which has no carriers capable of delivering to all rural addresses, and where the national postal service isn’t efficient enough to serve the needs of online retail companies, Alibaba is investing 10 billion yuan in rural shipment over the next three to five years to improve delivery across the country.

The picture in Japan is very different. Yamato has built an excellent high-density delivery network that offers a two-hour delivery window and, on many routes, next or even same-day delivery. With this independent logistics partner already in place, Amazon has no need to set up its own network.

Big data, not big trucks

The big difference between Amazon and traditional logistics firms is the way that it uses big data. It has not invested in trucks to create its own network; instead, it is applying business intelligence to coordinate, improve, and leverage other companies’ infrastructure. This allows it to benefit from a huge delivery network that it does not own, at a very low cost.

Amazon's approach is evidence of wider disruption and regeneration across the logistics industry. Industry outsiders have started using the power of big data to build business models that allow them to break in to a sector that, until recently, was only open to big companies that could afford the significant cost of creating a whole new delivery infrastructure. By relying on external networks for delivery, however, they do not need to support an infrastructure, which cuts costs – and thus the barriers to entry – dramatically. Instead they invest their money in something more important: the computer intelligence that makes the system work.

Seeing into the future

Amazon has taken computer intelligence to a whole new level with its “anticipatory shipping” concept. The idea is that it will use data drawn from previous orders, product searches and so on to predict customers' buying behavior with enough accuracy to ship products to its final delivery areas before they are actually purchased. Then, when they are ordered, it will be able to deliver in a fraction of the time that other logistics companies could manage.

In a few years' time the logistics industry will be entirely different from what we see today: companies will use big data to reinvent it entirely. Unlike what has happened in other areas where big data has arrived and is being used to transform existing companies, however, the traditional big players in logistics seem to have acknowledged the beauty of big data without making real progress in using it.

Why? Probably because, as obvious and easy as implementing it may seem, the logistics ecosystem is huge and contains multiple players. In order to make big data work, they all need to act together – something which has, to date, not happened. It will do, in time; the question is whether the action will be led entirely by newcomers, or whether established players will, eventually, be able to shape the future of what used to be their industry.

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