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UPS Store owners deliver notice of discontent

By [MATT KEMPNER](#)

The Atlanta Journal-Constitution

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The company that likes to think of itself as the tightest ship in the shipping business has sprung leaks, say some small-business owners who rely on the UPS name for their livelihood.

Owners of some of the world's nearly 5,500 UPS Stores and sister Mail Boxes Etc. outlets meet Thursday in Orlando for a convention that includes training in better marketing and tips for attracting regular shippers to retail stores.



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UPS Store owners (from left) Michael Rodriguez, Margarita Vazquez and Julio Vazquez run the shop in Lilburn at Rockbridge Road and U.S. 29. Rodriguez is a director of the Brown Board, a group of owners intent on having UPS address their concerns.



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UPS Store co-owner Margarita Vazquez helps a customer at her store in Lilburn. Many UPS Store owners claim UPS' online pricing undercuts their business, and expect CEO Mike Eskew to address their concerns at a

But a more sensitive topic is also on tap: A scheduled address by UPS Chairman and Chief Executive Officer Mike Eskew, who is expected to acknowledge an undercurrent of discontent among store owners.

UPS officials continue to portray UPS Store owners as a mostly happy lot. Yet some store owners beg to differ.

They accuse UPS of competing against them for customers and undercutting store owners on price with online offerings. They say UPS has been slow to right the situation as stores lose money.

"This is not just a business. This is people's life savings," said Andi Govitz, who owns a UPS Store on Barrett Parkway near the Town Center at Cobb mall.

"I should have broken even long ago," said Govitz, who got into the business two years ago. Instead, she has pumped \$55,000 of her personal money into the business's operations just in the last year.

She said UPS has enticed many of her customers to pay for shipping online for less than she charges.

The UPS "name and shield are on my shirt right now. They are on my sign outside. And they are my biggest competitor," Govitz said.

Scattered calls to owners of other stores in the metro area show similar concerns.

But Jerry Drisaldi, the vice president of UPS retail strategies, said profitability of stores in the network has been on the rise.

And he said that at the upcoming convention UPS would announce changes aimed at helping stores become more profitable.

Some changes have been made already. Earlier this year, UPS cut the difference between online and store charges to 7 percent from 10 percent, Drisaldi said.

While he said he didn't think the difference between online and store prices was costing store owners business, he left open the possibility of further pricing changes.

"We evaluate constantly what our rate strategy should be in the future," he said.

convention in Orlando next week.

Owners form group

But store owners worry the steps won't go far enough.

It isn't unusual to see disagreements between franchisers and the businesses who pay to use the franchiser's brand and systems. Nor is it unusual for some franchisees to fail, especially if they don't have the skills to handle a business.

But some UPS Store owners see more than that. Their concerns gained traction with the formation earlier this year of the Brown Board Owner's Association, a group of store owners intent on having UPS address their concerns.

The group has more than 1,400 "active participants," including people who regularly post comments on its online forum, said Larry Bowdoin, a member of the group's board of directors and owner of a UPS Store in Prattville, Ala. He declined to disclose the number of people who pay to be members.

Eight of the group's directors from around the nation wrote Eskew last month asking for changes, including allowing owners to increase their profit margins on UPS shipping services and creating a stepped scale for royalty percentages that store owners pay.

The letter stated that more than 60 percent of UPS Stores are losing money and "a significant sampling of the stores indicates the following: Many stores have had to close their doors or have been put up for sale, requiring in some cases that these owners file bankruptcy after losing their life savings."

UPS' Drisaldi said there had been no increase in UPS Store failings. He disputed the Brown Board's estimate of the percentage of stores that are unprofitable, though he said he didn't know what the actual number was.

Owners of unprofitable stores aren't the only ones complaining.

Barry Barnes owns two UPS Stores in Houston, both of them profitable, he said, and one of them is in the network's top 100 stores nationally. One of his marketing ideas for the stores was so good that he said the company was paying for his accommodations at the Orlando convention, where it will give him an award.

Still, Barnes said profits for his stores are shrinking as customers buy services directly from UPS online.

Some complaints stem from lingering effects of changes UPS began making in 2003 to the Mail Boxes Etc. chain, which it had bought two years earlier for \$191 million.

Most owners of Mail Boxes Etc. outlets in the United States agreed to change their business's name to the UPS Store, though the old name remains on about 290 U.S. stores and about 1,200 more in other nations.

UPS put a ceiling on shipping rates that UPS Stores were allowed to charge. Before then, rates could vary wildly among stores, and some store owners faced criticism for charging too much. Later, UPS faced more challenges when rival FedEx bought Kinko's copy centers and boasted that it offered cheaper shipping rates than the competition.

'Like we were starting over'

While some UPS Store owners say UPS made the right move on prices, they say the company didn't do enough to help the stores retain profits, such as cutting royalty fees or reducing what the stores pay UPS for shipping.

UPS doesn't disclose revenue and profit figures for the franchise retail operations, which all fall under its San Diego-based Mail Boxes Etc. subsidiary. But in its financial filings, UPS said its profits from the operations rose from 2003 to 2004, and it noted "double-digit franchise and royalty revenue growth" because of an increased number of stores.

Michael Rodriguez, who co-owns a UPS Store in Lilburn and is a director of the Brown Board, contends that UPS doesn't disclose to prospective owners the problems that many existing owners have.

While UPS says the stores have been growing financially, it acknowledges UPS Stores face a challenge in convincing customers that the outlets sell more than just shipping services.

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EVOLUTION OF UPS STORES

- 2001 — UPS buys Mail Boxes Etc., the franchiser of a network that includes 3,500 locations in the United States and 900 in other countries.
- 2003 — UPS launches a re-branding campaign for the U.S. retail outlets, most of which are renamed UPS Store. Stores in other nations remain Mail Boxes Etc.
- 2003 — FedEx announces its purchase of the Kinko's chain of copy centers.
- 2005 — The UPS franchise retail network under the Mail Boxes Etc. subsidiary includes 3,970 UPS Stores, 290 Mail Boxes Etc. outlets in the United States and 1,205 international Mail Boxes Etc., totaling 5,465 outlets worldwide.

Source: UPS, Mail Boxes Etc., news accounts.

UPS' Drisaldi said further profit growth by the stores would depend largely on other areas, including document services, mailbox rentals and notary services.

But while some store owners have increased their revenue, profits have been slower to rebound from all the changes UPS has put in place.

Such is the case for Lynn Wiginton, who owns a UPS Store on Pleasant Hill Road in Gwinnett County with her husband, Michael. They've had the business for 15 years, first as a Mail Boxes Etc. Once they made the name change, "it was like we were starting over with our clients," she said.

The couple don't intend to go to the store convention in Orlando. They can't take time off from the store after scaling back on help in a cost-cutting move.

She predicts business for UPS Stores will recuperate eventually but maybe not fast enough. "Whether a lot of people can survive, that's the real issue," she said.

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