Dynamic Development of Cross-border E-commerce through Efficient Parcel Delivery

A study for DG Growth

Delivering for the future II: Workshop on developments in the postal sector

Brussels, 19 September 2018

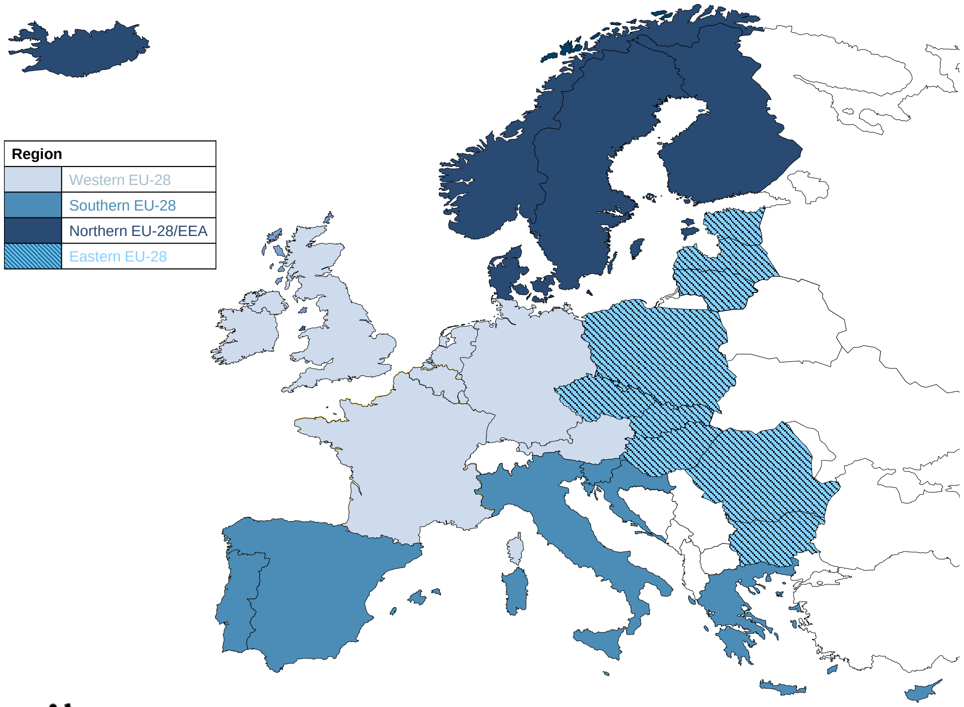
- Purpose, scope and status of the study
- Trends in e-commerce and delivery markets
- Consumer needs: First results of the WIK survey
- E-retailers‘ needs: Initial observations
- Emerging conclusions
- Next steps

Purpose of the Study

- EP IMCO asked the Commission to conduct a pilot project on the 'dynamic development of cross-border e-commerce through efficient parcel delivery'
- Study to improve understanding of
  - the state-of-play and the developments in the EU delivery markets and
  - the needs of consumers and e-retailers in relation to cross-border e-commerce and delivery services
- Study to provide input for
  - evaluation report on the regulation on cross-border parcels (2020) and
  - application report on Postal Services Directive (expected 2019/2020)

Scope of the Study

Geographical scope: EU-28 and EEA



Parcel delivery services

- Parcels: Postal items containing goods weighing up to 31.5 kg
- Parcel delivery services:
services involving the clearance, sorting, transport and distribution of parcels
- Parcel delivery service providers:
carriers that clear, sort, or distribute parcels
- Cross-border parcel delivery service:
delivery of physical goods *as individual parcel* from warehouse of selling company to consumers in another country
- **Emphasis on B2C cross-border shipments (intra-EU and extra-EU)**

Elements & Methodology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Evolution of parcel delivery markets

- Demand for parcel delivery services (domestic and cross-border)
- Supply of delivery services and technological innovations
- Interoperability and standardisation
- Role of the USO for parcel delivery services


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Employment and working conditions in the parcel industry

- Overall sector employment
- Role of social partners and social dialogue
- Wage policies, working time and subcontracting
- Important trends in labour markets


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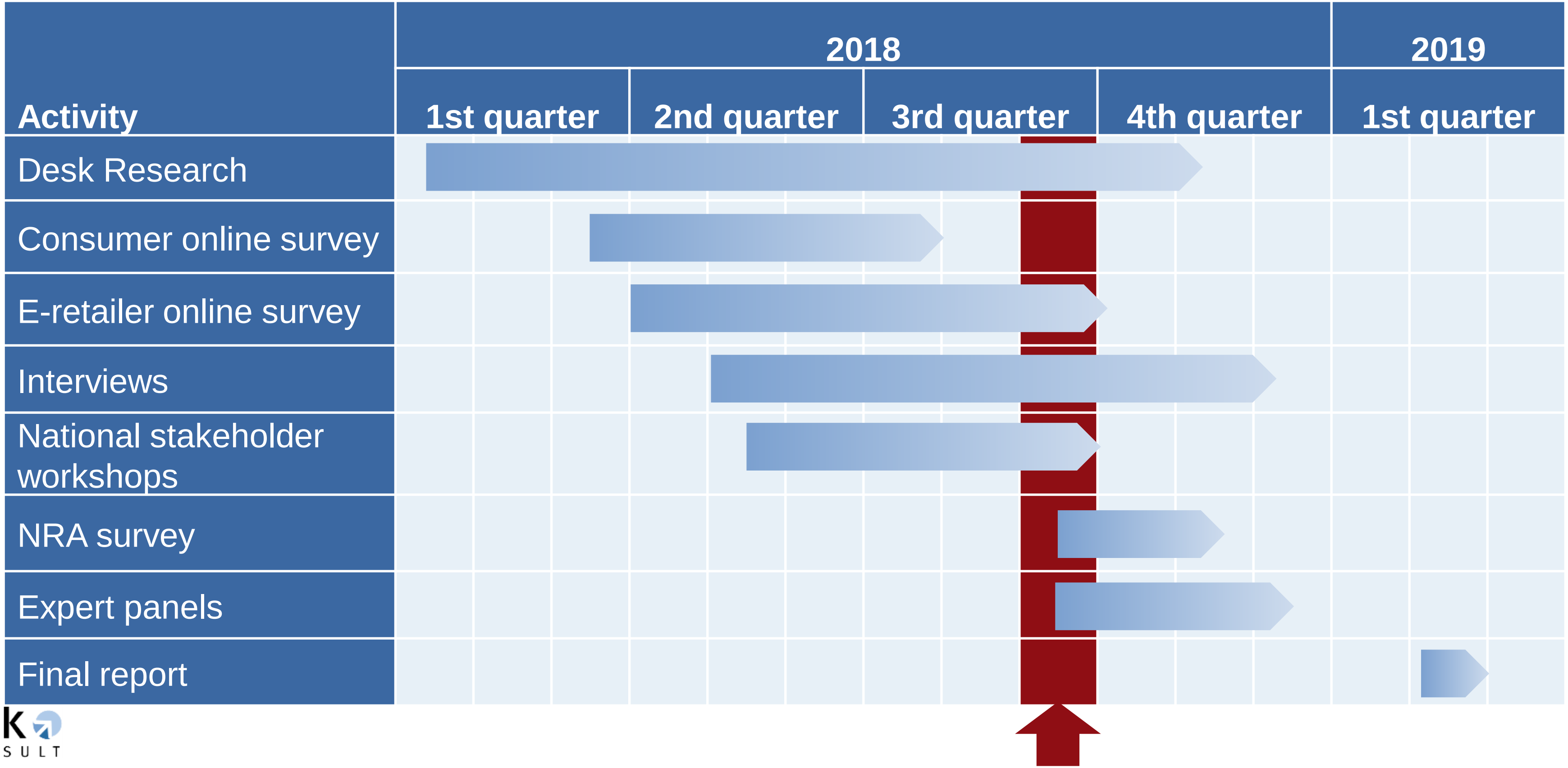
Environmental impact of parcel delivery services

- Overview of main environmental challenges
- Key drivers to promote more sustainable transport and delivery modes
- Industry initiatives to promote sustainable operations

Tools:

- Research
- Interviews
- Experts panels
- National stakeholder workshops
- Consumer survey
- E-retailer survey
- Brief survey of NRAs
- Dedicated chapters for each topic

Status of the project



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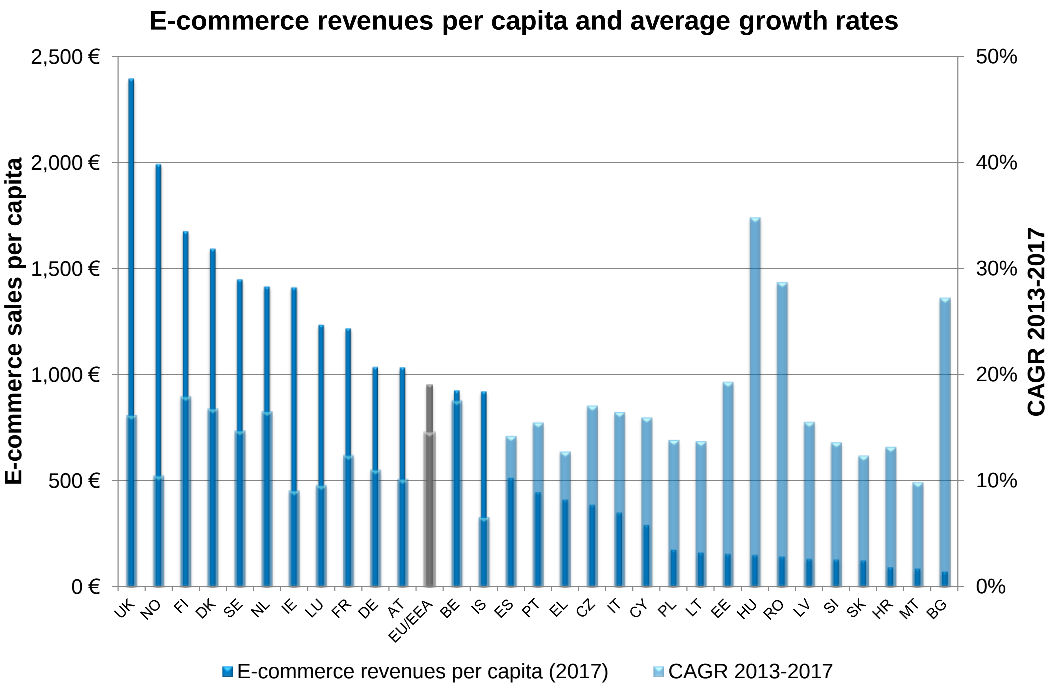
E-commerce and the Single Market: A Success Story

- E-commerce has significantly pushed development of the Single Market
- E-commerce has immensely facilitated the way consumers can buy goods and services from abroad, and enabled enterprises (producers and retailers) to sell goods and services cross-border
- Remaining challenges mainly caused by the heterogeneity of European national markets in terms of infrastructure, legal conditions, digital and logistical readiness, and culture/languages
- Effective cross-border delivery and return solutions for e-retailers are one important aspect in the success of e-commerce

B2C e-commerce grows dynamically in Europe

- B2C e-commerce markets keep growing at average rates of 10-30%, even in maturest markets
- Established for fashion, books and electronics
- Higher growth in cosmetics/drugs, groceries/food and furniture
- Consumers and enterprises increasingly confident in purchasing/selling online, domestically and cross-border
- Large companies are relatively more active than small enterprises

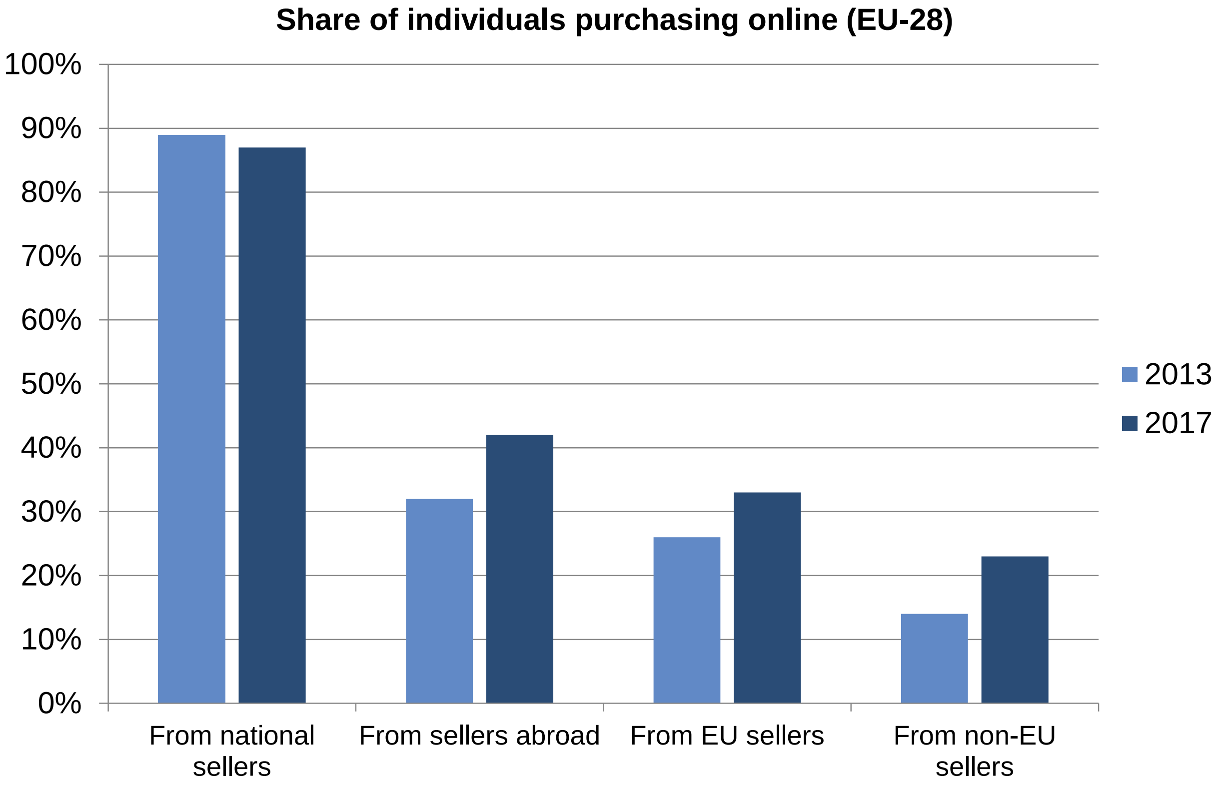
E-commerce more developed in Northern/Western EU than in Southern/Eastern. Higher growth in South/East



Source: WIK-Consult based on Eurostat and E-commerce Europe (2018)

Cross-border e-commerce gains importance

- Experts agree that cross-border e-commerce outgrows domestic
- Available consumer research supports this observation
- UK and Germany are major export markets



Source: Eurostat

Dynamic developments in delivery markets since 2013

- Parcel revenues & volumes grew in Europe
  - ➢ Est revenue €55b (2013) to €65b (2017)
  - ➢ Share of B2C parcels is increasing while B2B share is stagnating
- Avg. revenues down due to changing product mix and growing demand power
  - ➢ "... big ones are taking a much bigger part of the market than the smaller ones" (Herna Verhagen, PostNL)
  - ➢ Amazon alone reported to account for ~20% of total shipments at DHL Parcel and Hermes in Germany; ~9% of DPD group volume

Cross-border grew more than domestic

- AT Kearney reports strong growth in international standard and express shipments in Europe. Cross border estimated to €16.2bn / 720m items for 2016 (13 countries, items <70kg)
- Deutsche Post, La Poste and Royal Mail report strong growth of small packages and heavy letters
- Cross-border flows between neighbouring countries promote emergence of 'country clusters' (see next slide)

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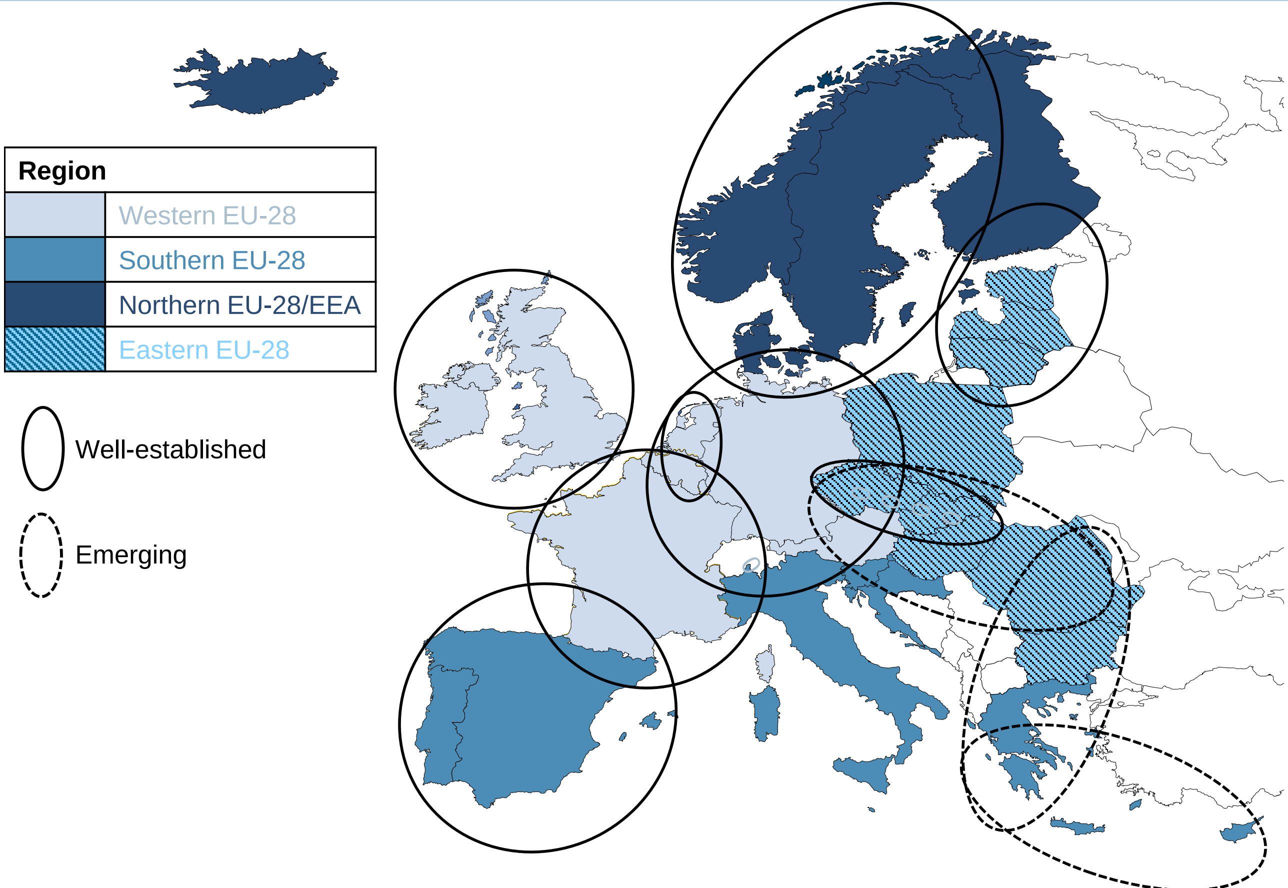
Regional clusters for cross-border deliveries



European parcel networks have grown. Cross-border parcel & express improved generally

Integrators

- Focus on international express shipments
- Highly capital-intensive business model (own operations in most countries)
- Standard delivery services internationally
  - Only business customers
  - Highly reliable
  - Fully visible (high-level tracking)
  - Short delivery times
  - Guaranteed and/or time definite delivery
- High quality, high prices for e-retailers
- Key players in Europe:
  DHL Express, UPS, FedEx/TNT Express

European ground parcel networks

- International and domestic shipments
- Less capital-intensive business model: own operations & partnerships
- Service levels vary between countries
  - Mainly business customers
  - Services for very small senders / consumers in many countries (growing)
  - Tracked services (but with frictions)
  - Less expensive than integrators
- Growing from B2B to B2C business:
  DPD Group, GLS
- Emerging European B2C networks:
  DHL Parcel & Hermes Europe

On the rise: Regional and local carriers for B2C deliveries

Regional carriers

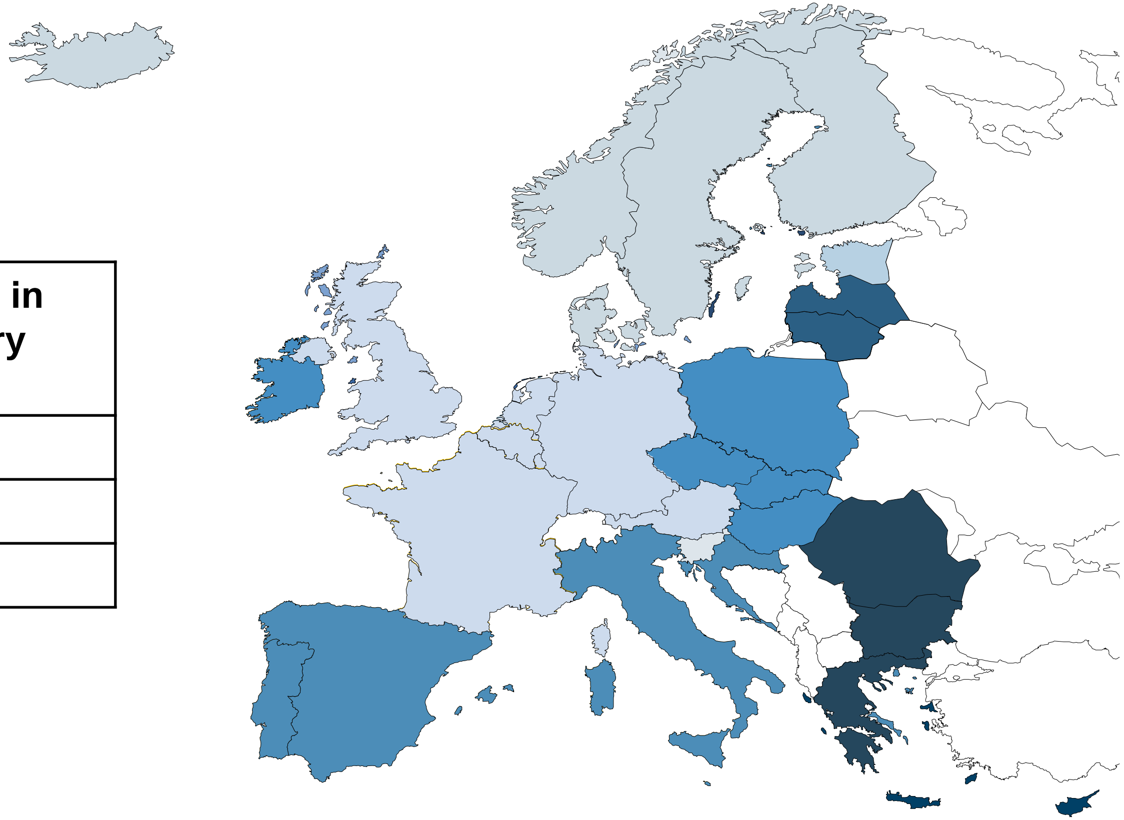
- Emerging and well-established networks covering more than one country
- Often partners to European parcel networks
- Examples:
  - DK, FI, NO, SE: PostNord (DPD)
  - Baltic countries: Omniva (Eesti Post), Itella (Partner DHL Parcel and GLS)
  - Spain/Portugal: SEUR (Geopost/DPD)
  - Greece/Cyprus: ACS Courier (DPD and GLS)
  - Bulgaria/Romania: Speedy (DPD)
  - Netherlands/Belgium: PostNL

National and local B2C carriers

- 'Traditional' B2C delivery companies, e.g. Yodel in UK and Mondial Relay (Hermes Europe) in FR/ES/BE
- Emerging B2C carriers since 2013, e.g.
  - Zásilkovna (similar model to Mondial Relay, active in CZ, SK, HU and PL)
  - InPost (PL, in cooperation with Allegro)
  - DAO 365 (DK) specialized in lightweight parcels
- Local B2C delivery networks in urban areas
  - Amazon Logistics (in DE, ES, FR, IT, UK)
  - Instant delivery (food/groceries), e.g. Foodora, Deliveroo, Lieferando, Picnic
- National postal service providers remain important players in B2C deliveries (see next slide)

USPs remain important B2C players in most of EU/EEA

USPs' est. volume share in B2C e-commerce delivery (2017)	
	>50%
	20-50%
	<20%



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WIK Consumer Survey: Key facts

- Online consumer survey conducted in 30 countries
- Total sample: 17,037
- Consumers sourced from representative national online panels
- Average interview length: 27 minutes
- Fieldwork period: 28 June-26 August 2018
- Weighting used to adjust data, avoid sample bias. Data weighted by gender and age. Corresponding quotas applied to stratify sample.

Sample size by MS			
AT	518	IS	57
BE	521	IT	1040
BG	521	LT	523
CY	72	LU	102
CZ	522	LV	514
DE	1049	MT	102
DK	524	NL	524
EE	517	NO	524
EL	527	PL	1049
ES	1051	PT	518
FI	520	RO	519
FR	1045	SE	522
HR	523	SI	520
HU	524	SK	521
IE	519	UK	1049

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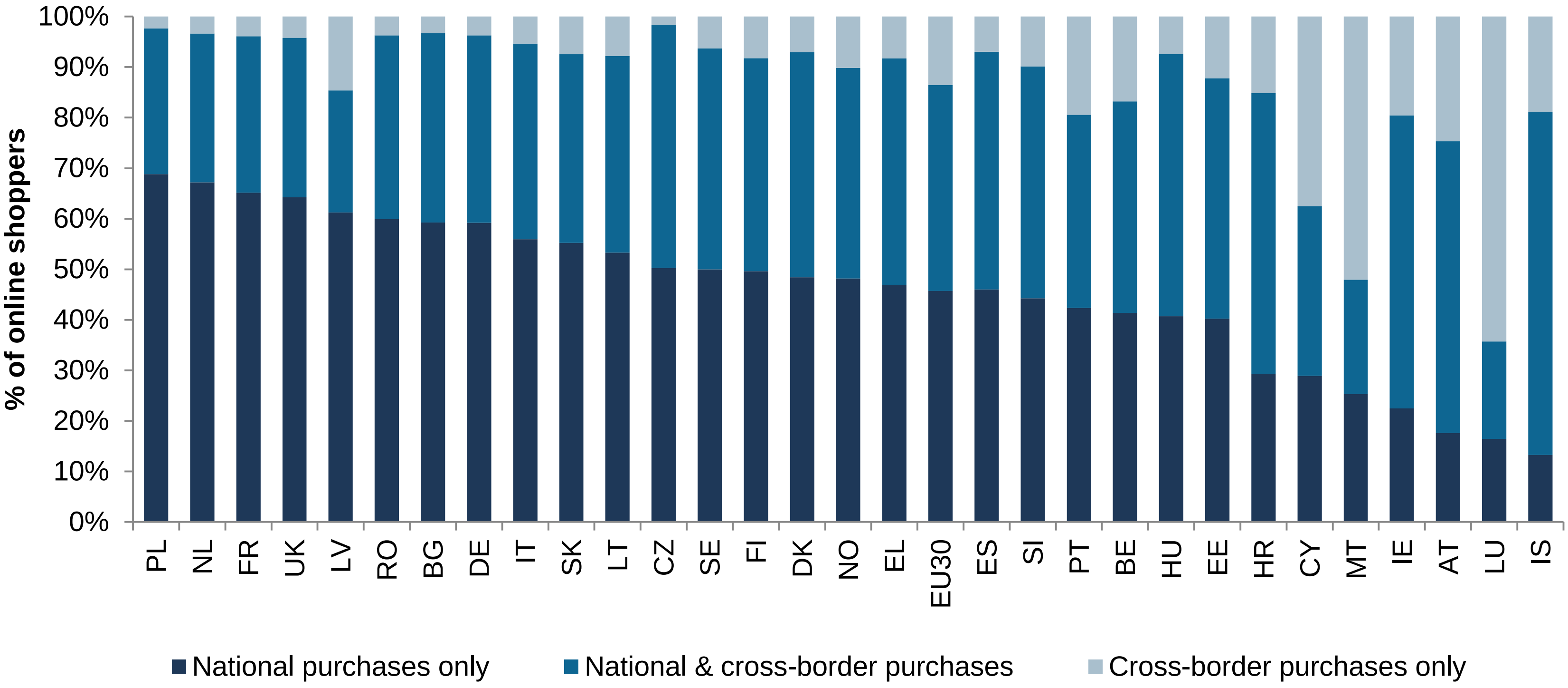
Methodology: Service Quality Score

- Concept introduced by Parasuraman et al. (1988) to evaluate for service quality. Service quality defined as "comparison of what [consumers] feel service firms should offer with their perceptions of the performance of firms providing the service."
- WIK used ***seven service dimensions*** of delivery process, each including *two to six items* (=statements about expectations and perceptions with their latest e-commerce transaction). For each item, expectations and perceptions were solicited using five-point Likert-scale ("Completely disagree" to "Completely agree").
- Perceived service quality calculated as weighted difference between perceptions and expectations. Weights derived from the importance respondents awarded to each dimension on a five-point ordinal scale ("Not at all important" to "Very important").

Seven service dimensions applied for e-commerce delivery

- Information on delivery and return conditions before purchase
- Information on the status of delivery after purchase
- Charges for delivery and returns
- Delivery time
- Delivery location
- Delivery quality
- Management of returns

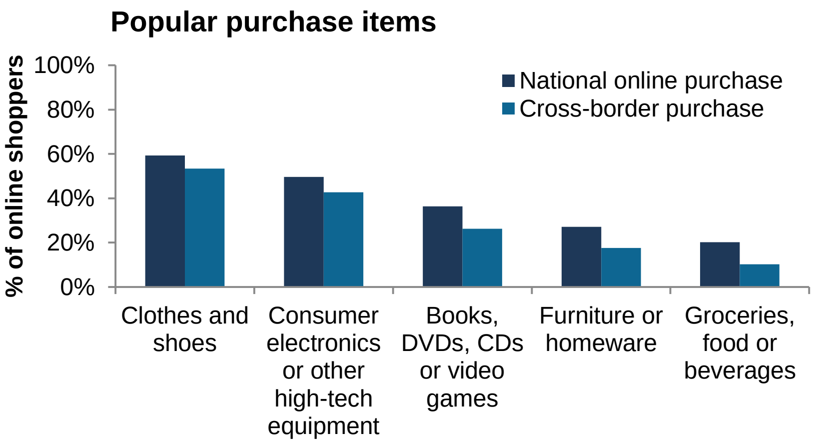
In different Member States, 31% to 87% of all online shoppers have bought abroad last year

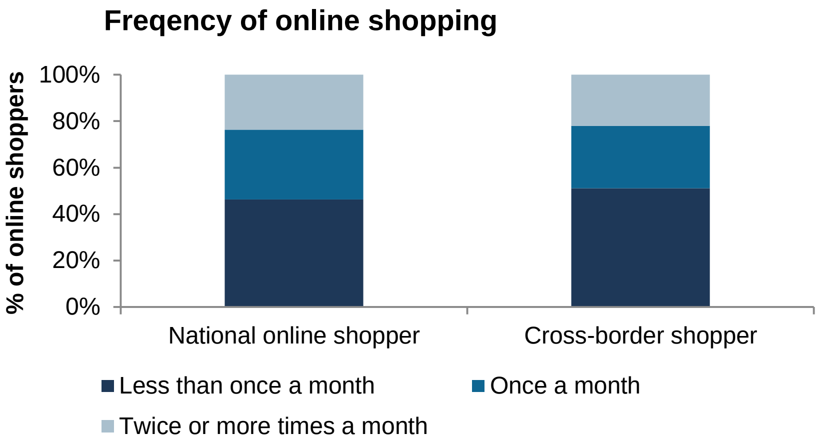


N=17037. Question: Within the past 12 months, have you…(a) purchased a physical item/item that had to be delivered from an online shop or a seller on an online marketplace in the country you currently live in?; (b) purchased a physical item/item that had to be delivered from an online shop or a seller on an online marketplace in a country other than the country you currently live in? Multiple choice.

Most consumers buy fashion and electronics, half of all consumers buy at least once a month

- Most popular national and cross-border online purchases involve fashion (59 and 53%) or electronics (50 and 43%)
- 54% of all domestic e-shoppers buy online at least once a month, and 49% of cross-border e-shoppers





N=17037. Question 1: Over the course of the last 12 month, which of the following items have you purchased from an online shop or a seller on an online marketplace in the country you currently live in/*in countries other than you currently live in*? Multiple choice. Question 2: On average, how often do you purchase items from online shops or sellers on online marketplaces in the country you currently live in/*in countries other than you currently live in*? Single choice. "No answer/don't know" were considered for figure above (1%-2% of respondents).

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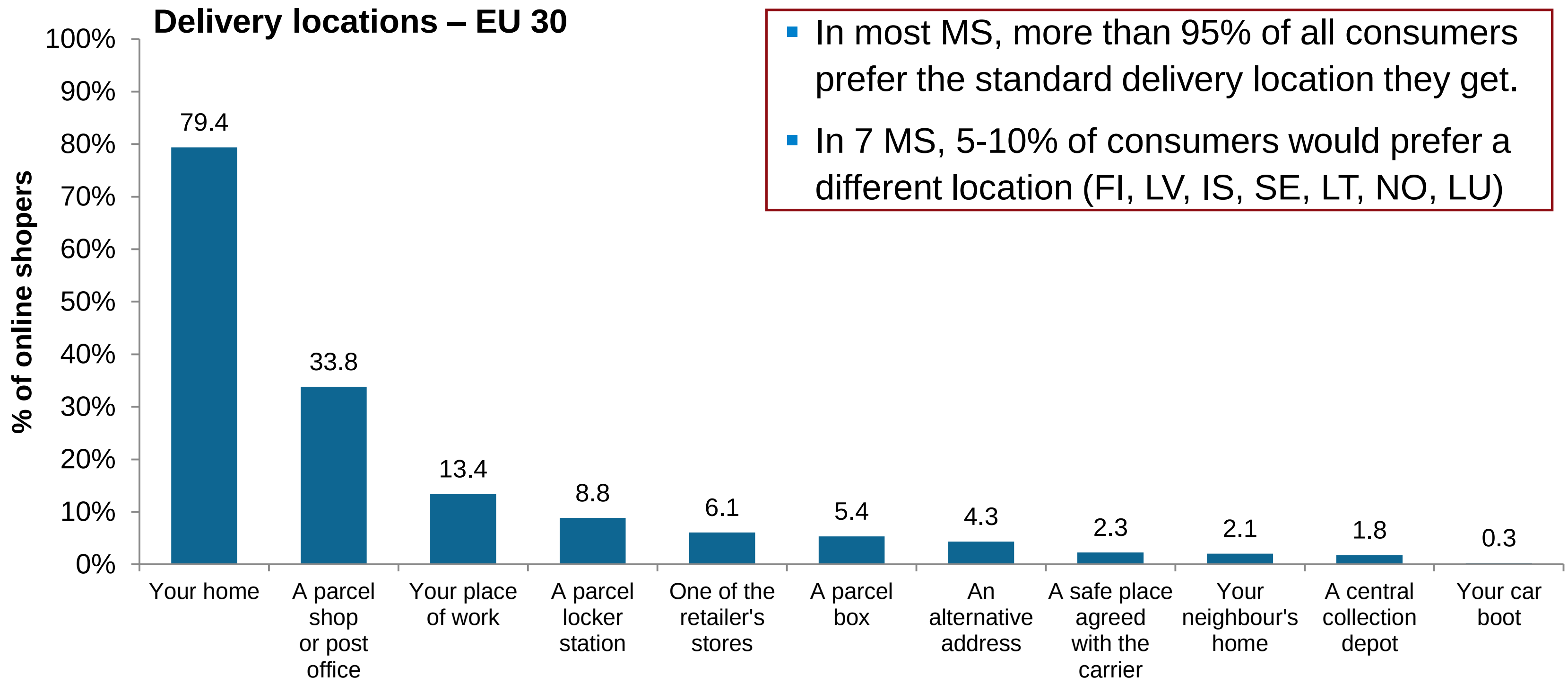
On average, home is the most preferred delivery location for European online shoppers …



- In most MS, more than 95% of all consumers prefer the standard delivery location they get.
- In 7 MS, 5-10% of consumers would prefer a different location (FI, LV, IS, SE, LT, NO, LU)

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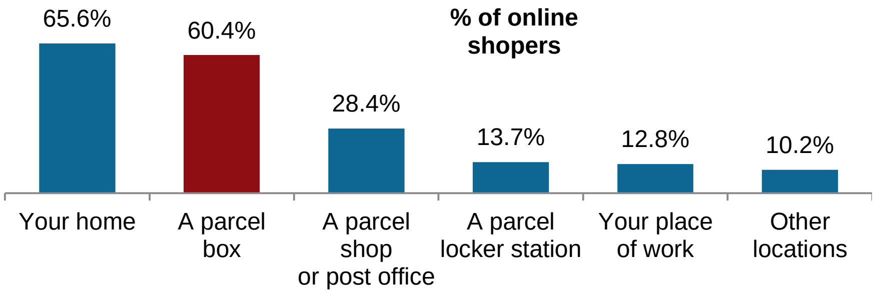
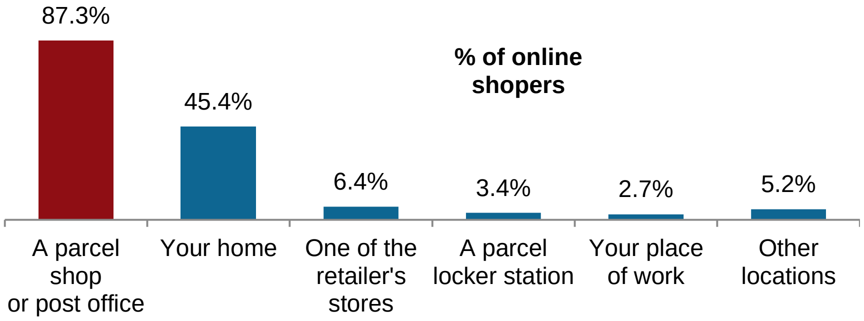
N=17037. Question: Where do you usually have your parcels delivered to? Multiple choice.

… but there is great diversity in delivery locations across Member States

Delivery locations - Estonia

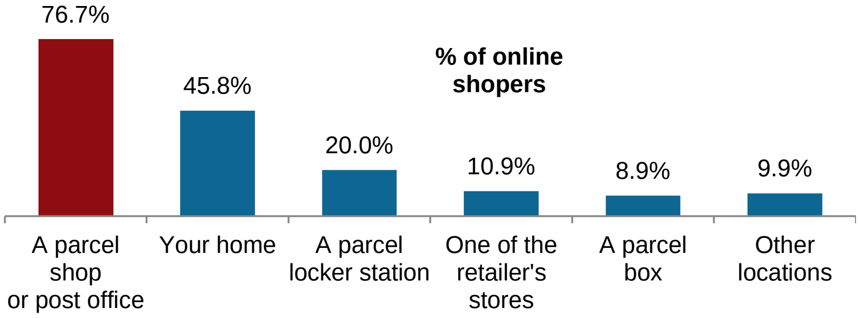


Delivery locations - Sweden



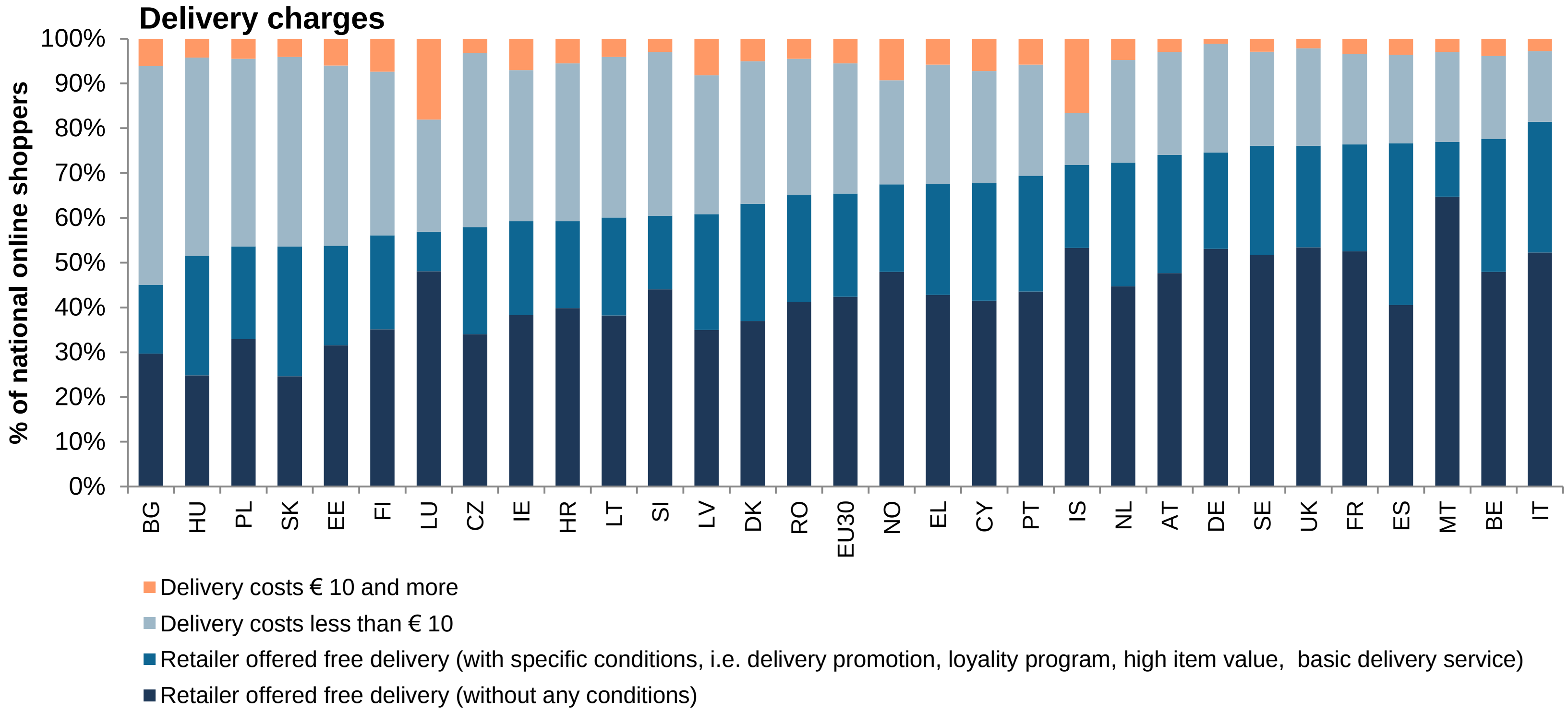
Delivery locations - Poland

Delivery locations - Finland



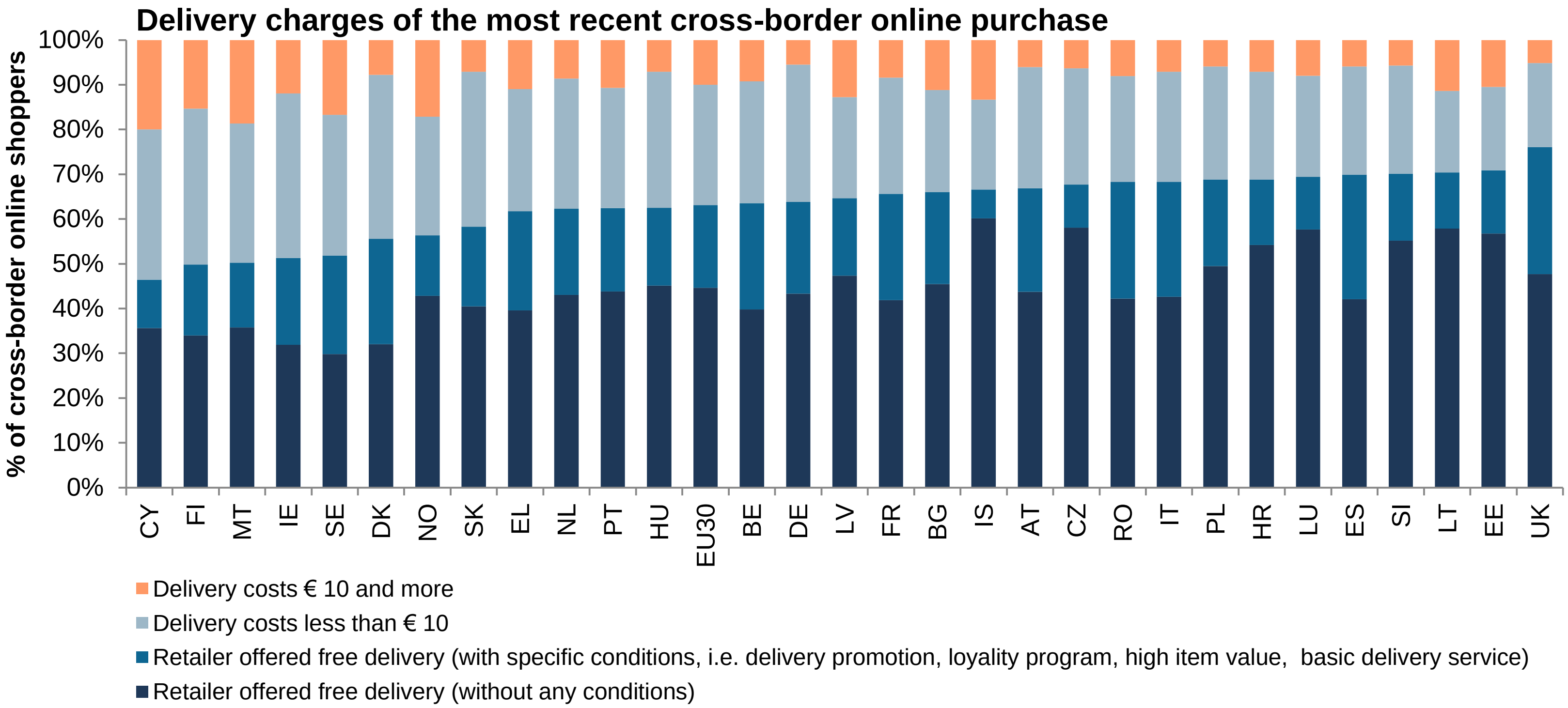
N=17037. Question: Where do you usually have your parcels delivered to? Multiple choice.

For 45% to 82% of all online shoppers, the most recent domestic online purchase was offered at ‘free delivery’



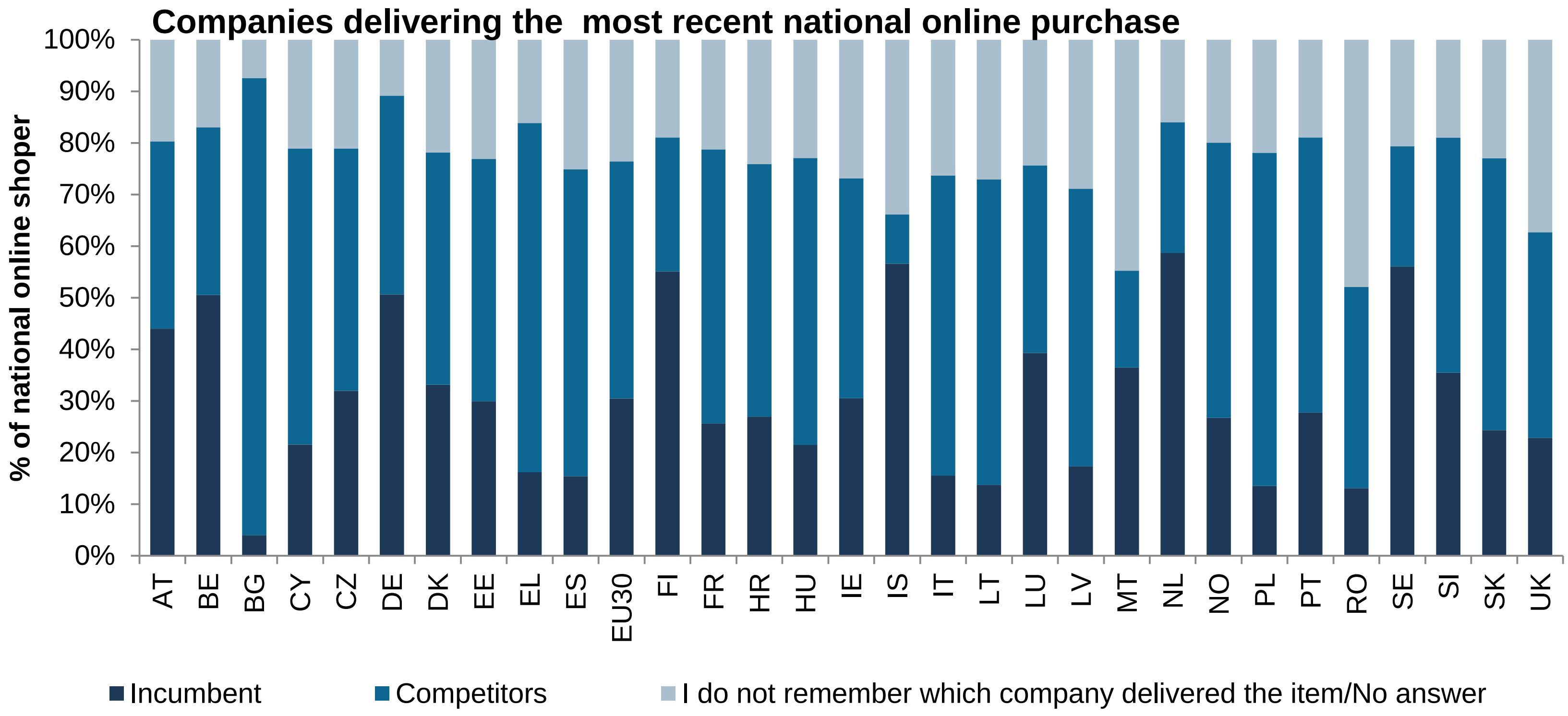
N=15403. Question: Please specify the delivery cost for your most recent purchase from an online shop or a seller on an online marketplace in the country you currently live in. Single choice. “No answer/don’t know” were not considered for figure above (3% of respondents).

Even for cross-border purchases, ‘free delivery’ was offered to 46% to 86% of all consumers at the last order



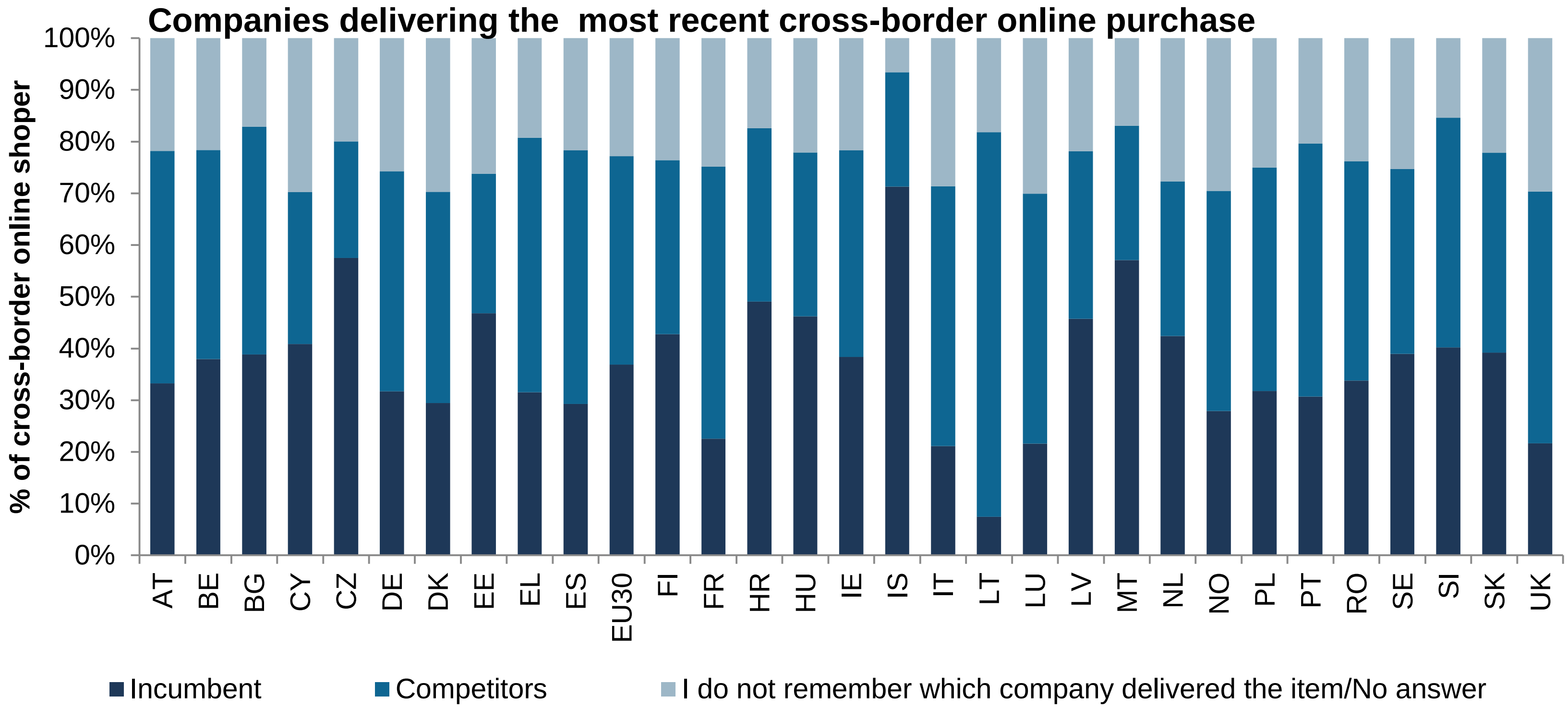
N=8212. Question: Please specify the delivery costs for this purchase. Single choice. “No answer/don’t know” were not considered for figure above (3% of the respondents).

Across Member States, USPs delivered very different shares of e-commerce (consumers' last purchase)



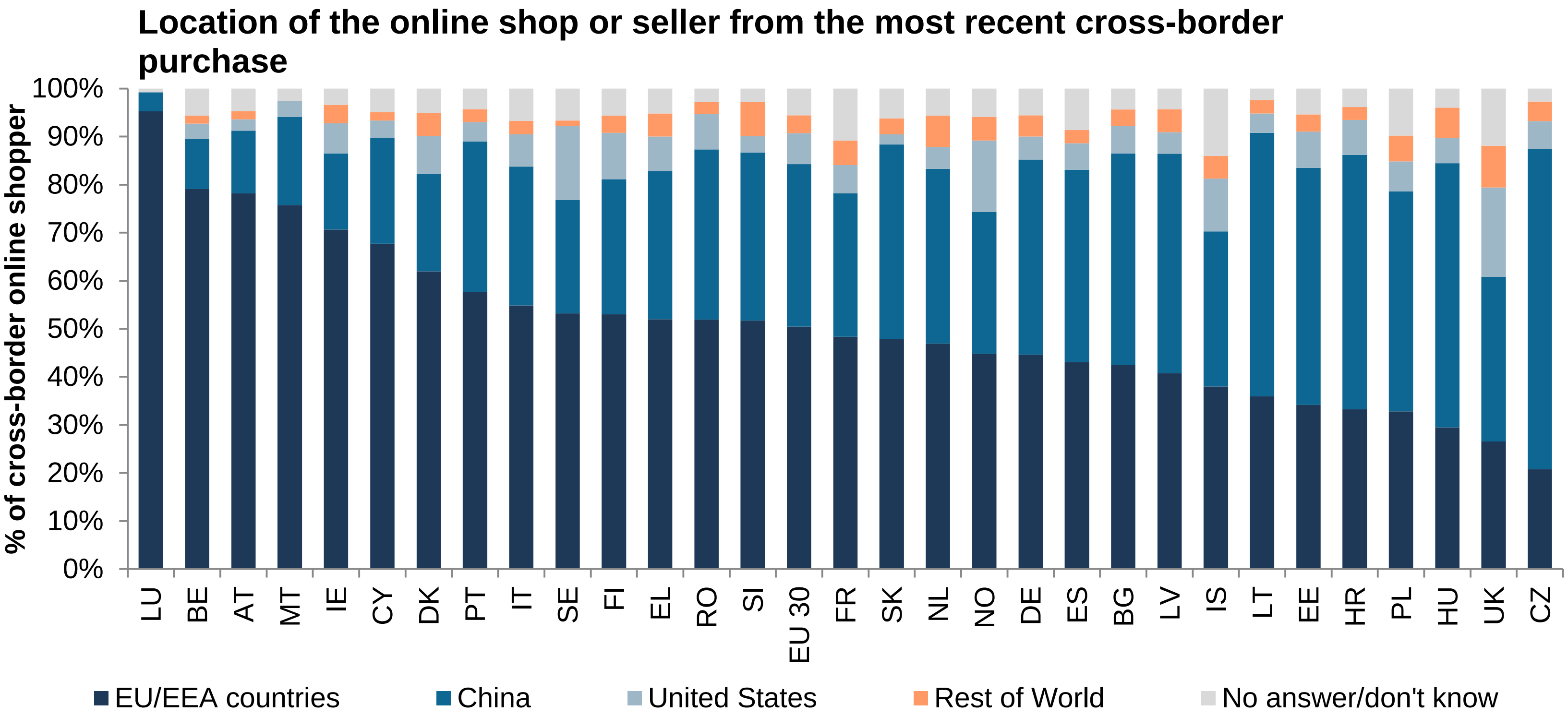
N=15403. Question: Which company delivered the item you last purchased from an online shop or a seller on an online marketplace in the country you currently live in? Single choice.

For inbound cross-border, USPs are slightly more significant than for domestic e-commerce shipments



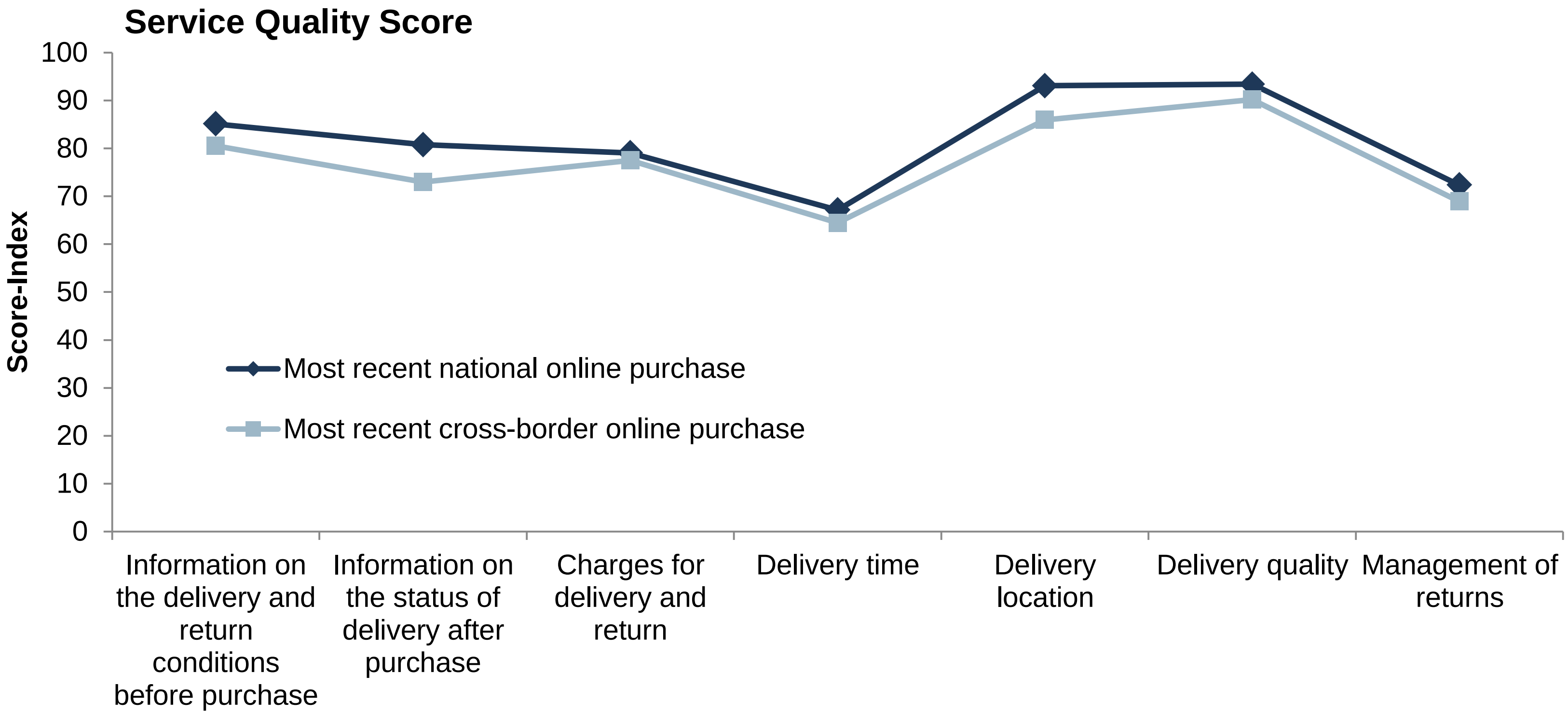
N=8212. Question: Which company delivered the last item you purchased from an online shop or a seller on an online marketplace in a country other than the one you currently live in? Single choice.

Half of all cross-border purchases were from other EU Member States. China is next most important



N=8212. Question: Thinking of your most recent purchase from an online shop or a seller on an online marketplace in a country other than the one you currently live in, where was the online shop or seller located? Single choice.

Consumers value service levels in e-commerce delivery. Domestic rated slightly better than cross-border



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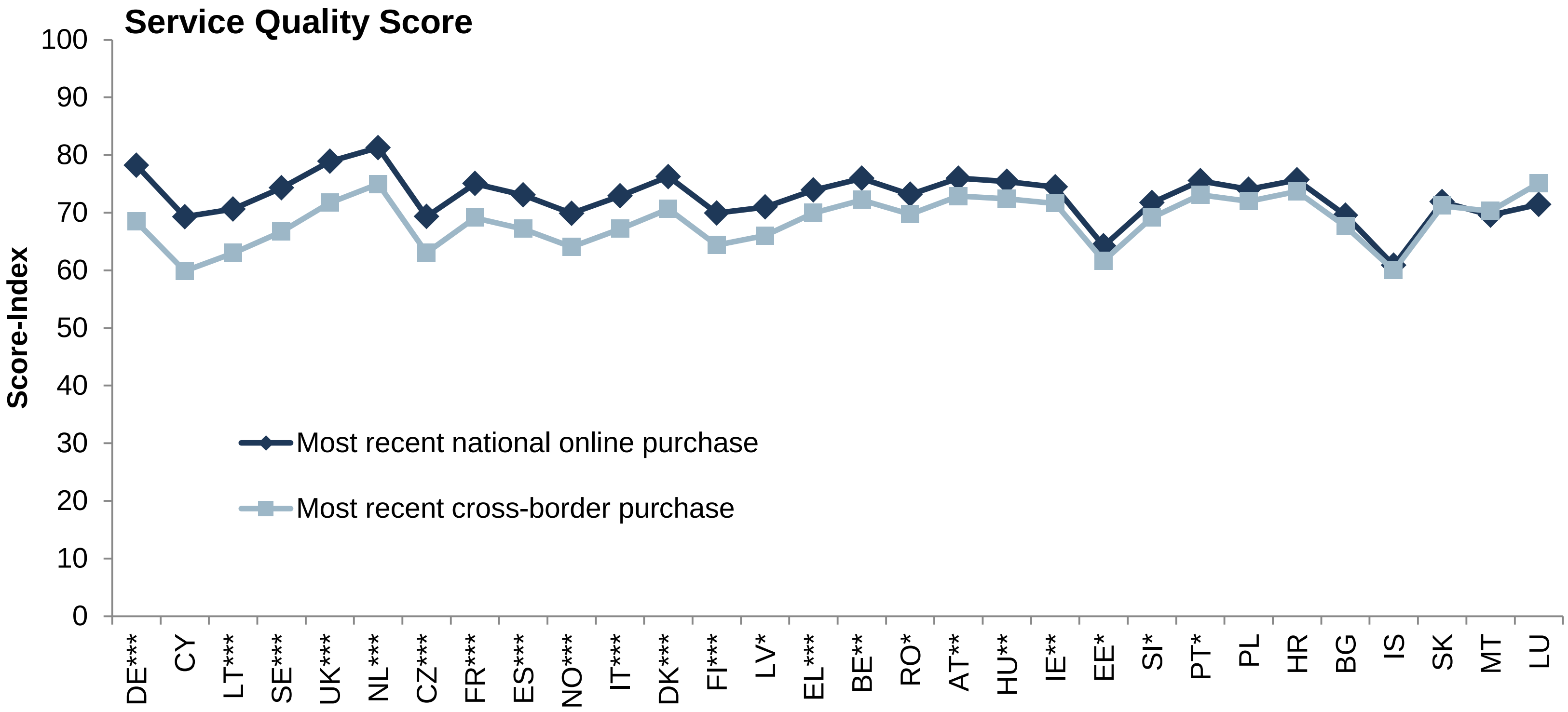
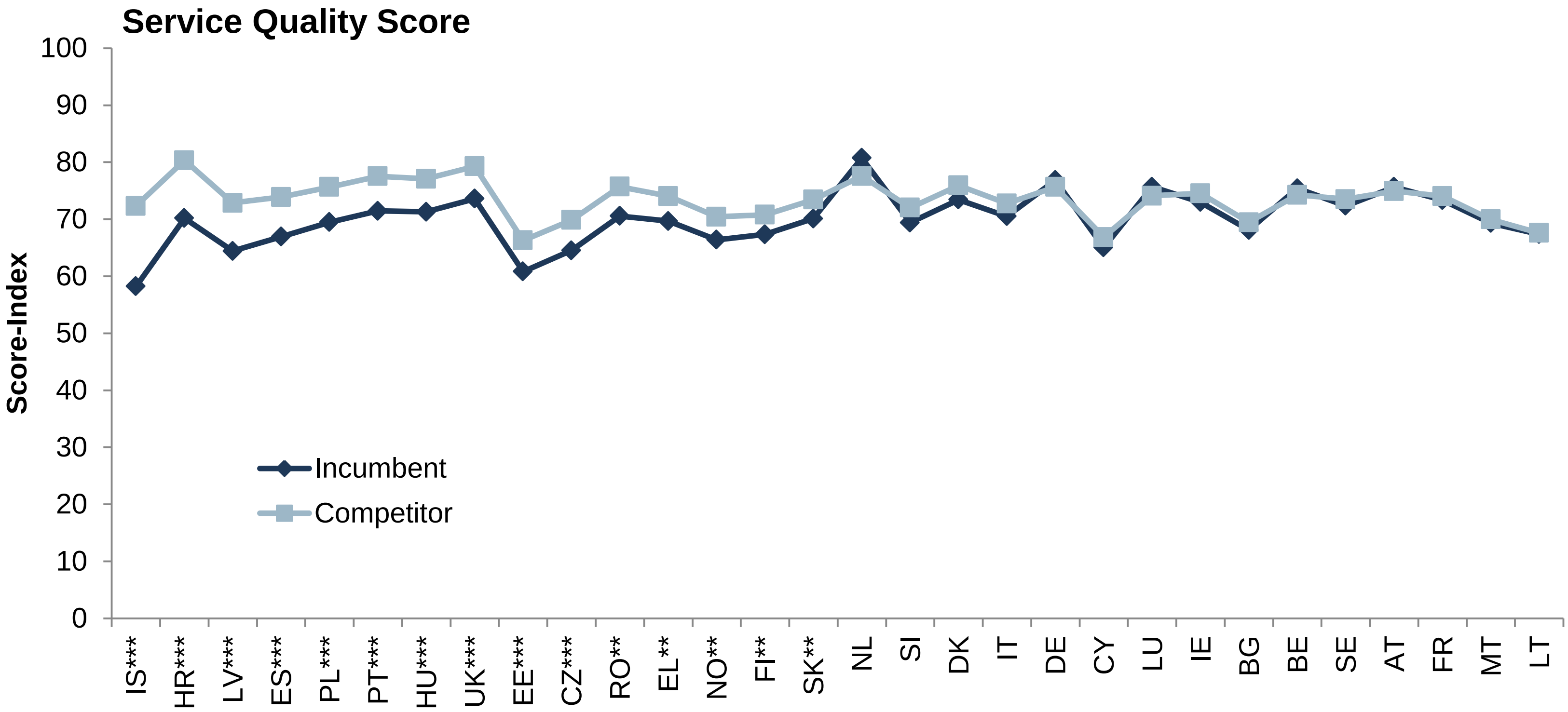


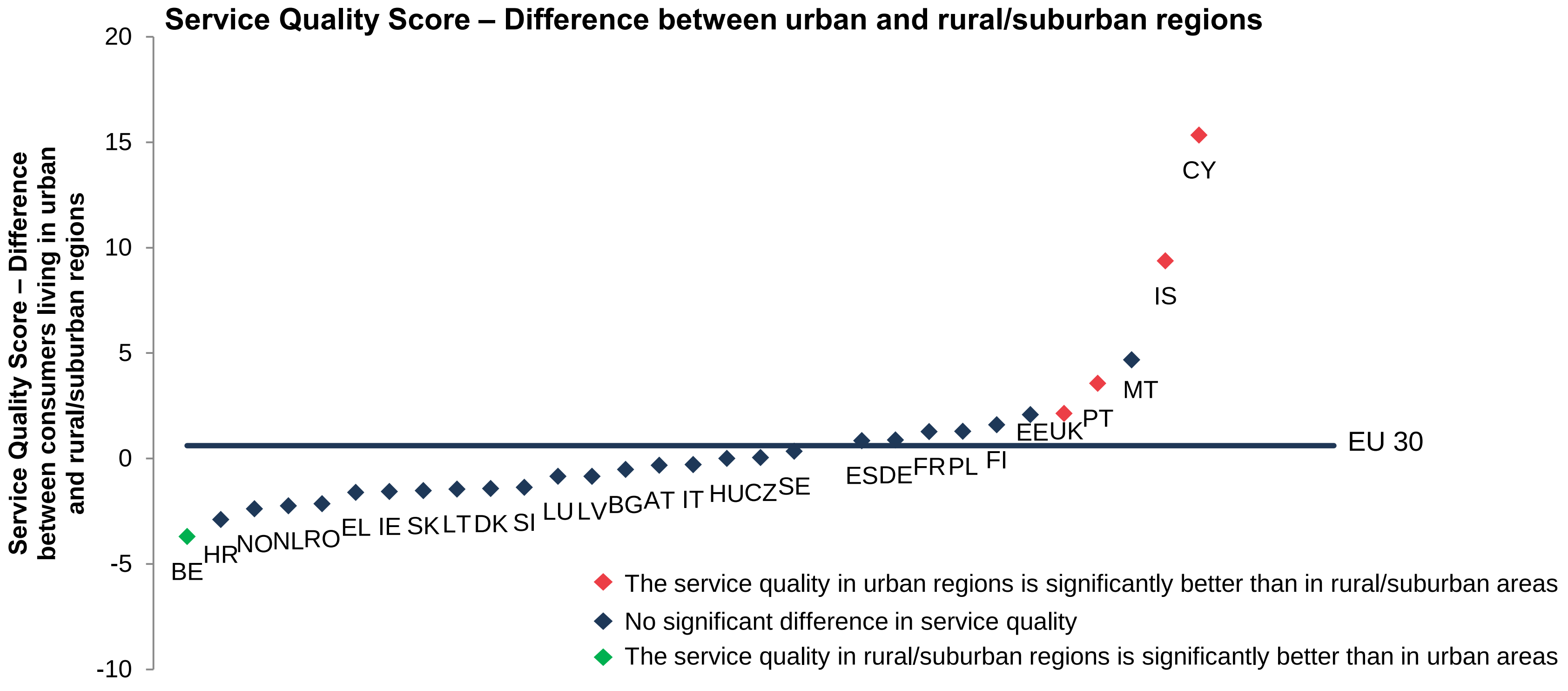
N=17037.
Significance: *0.10, **0.05, ***0.01

Overall, consumers are almost equally happy with delivery by USPs and other carriers



N=17037.
Significance: *0.10, **0.05, ***0.01

Only in 4 of 30 Member States, rural/suburban delivery is rated significantly worse than urban delivery



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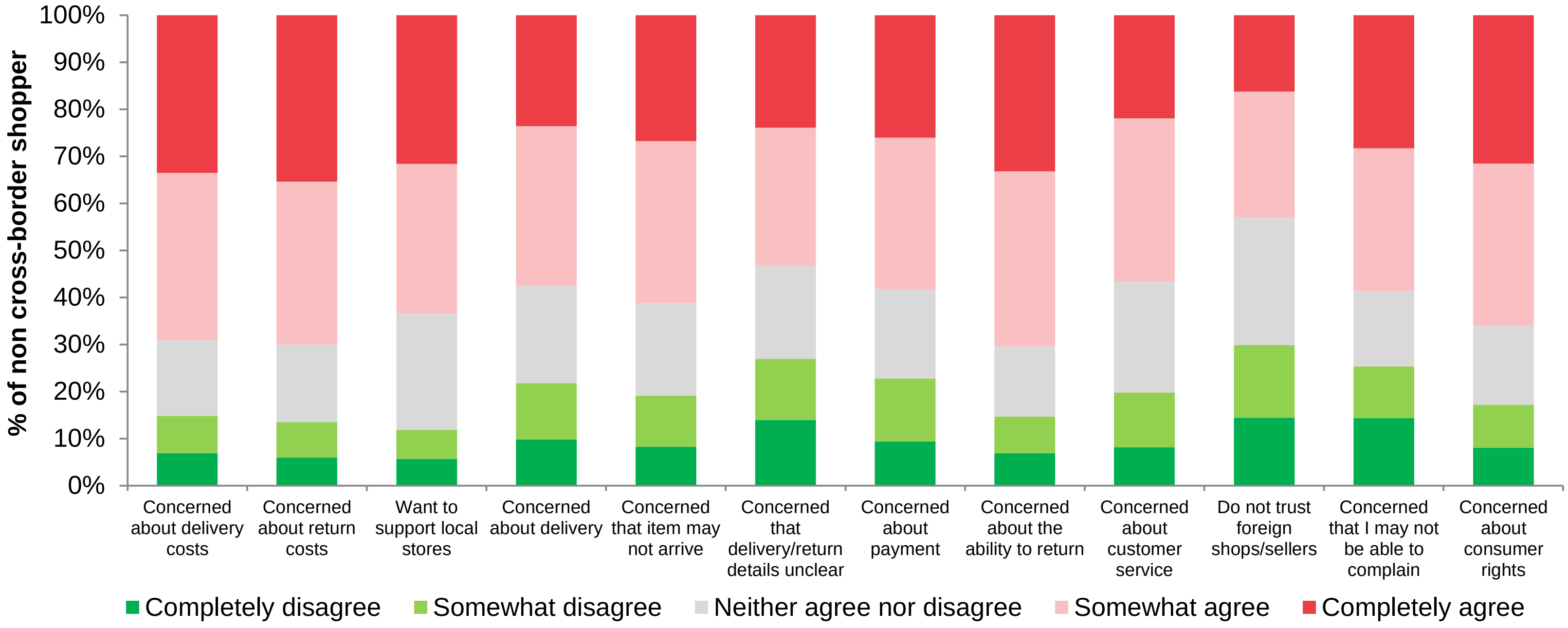
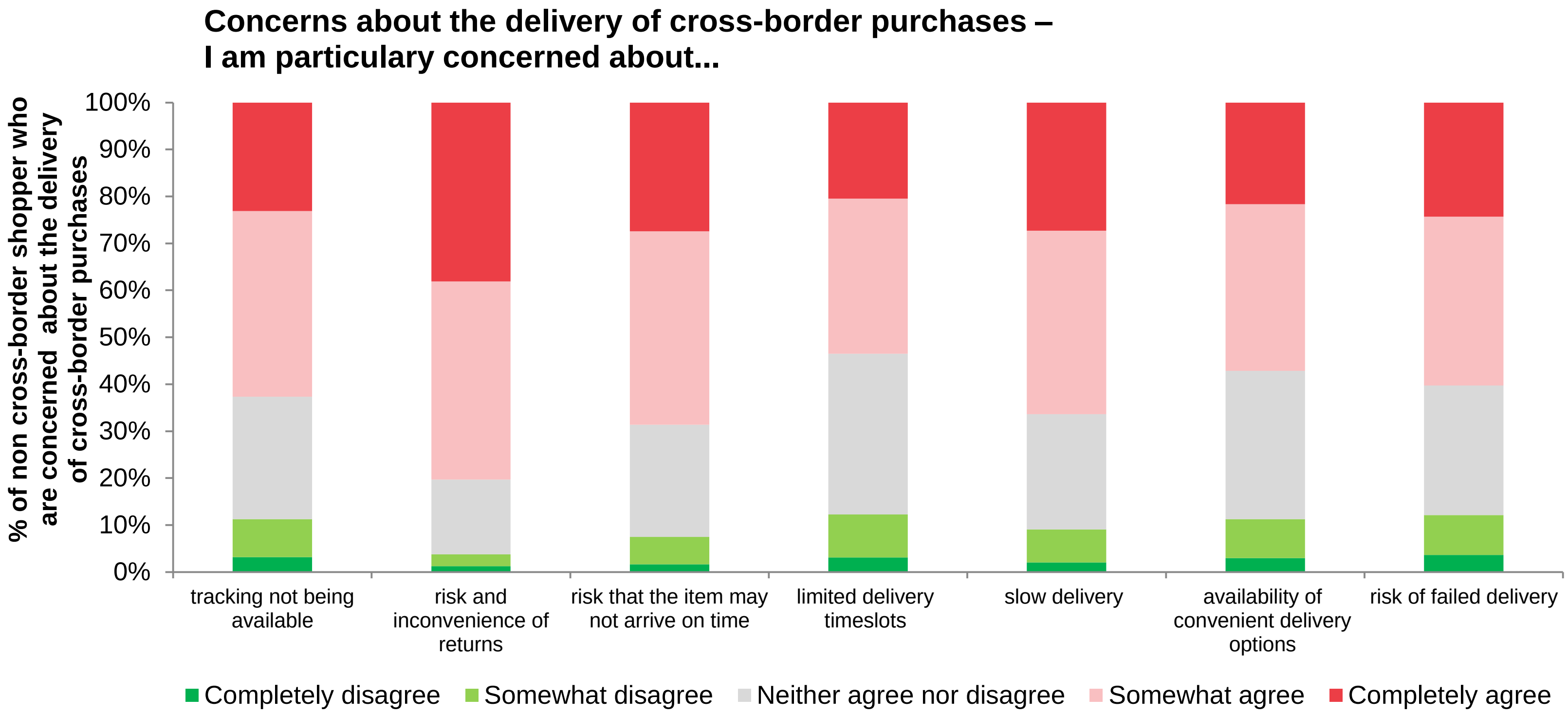
Concerns about delivery and returns are an issue for those consumers that do not buy cross-border

I have refrained from purchasing from online stores and sellers on online marketplaces in countries other than the one I currently live in because...



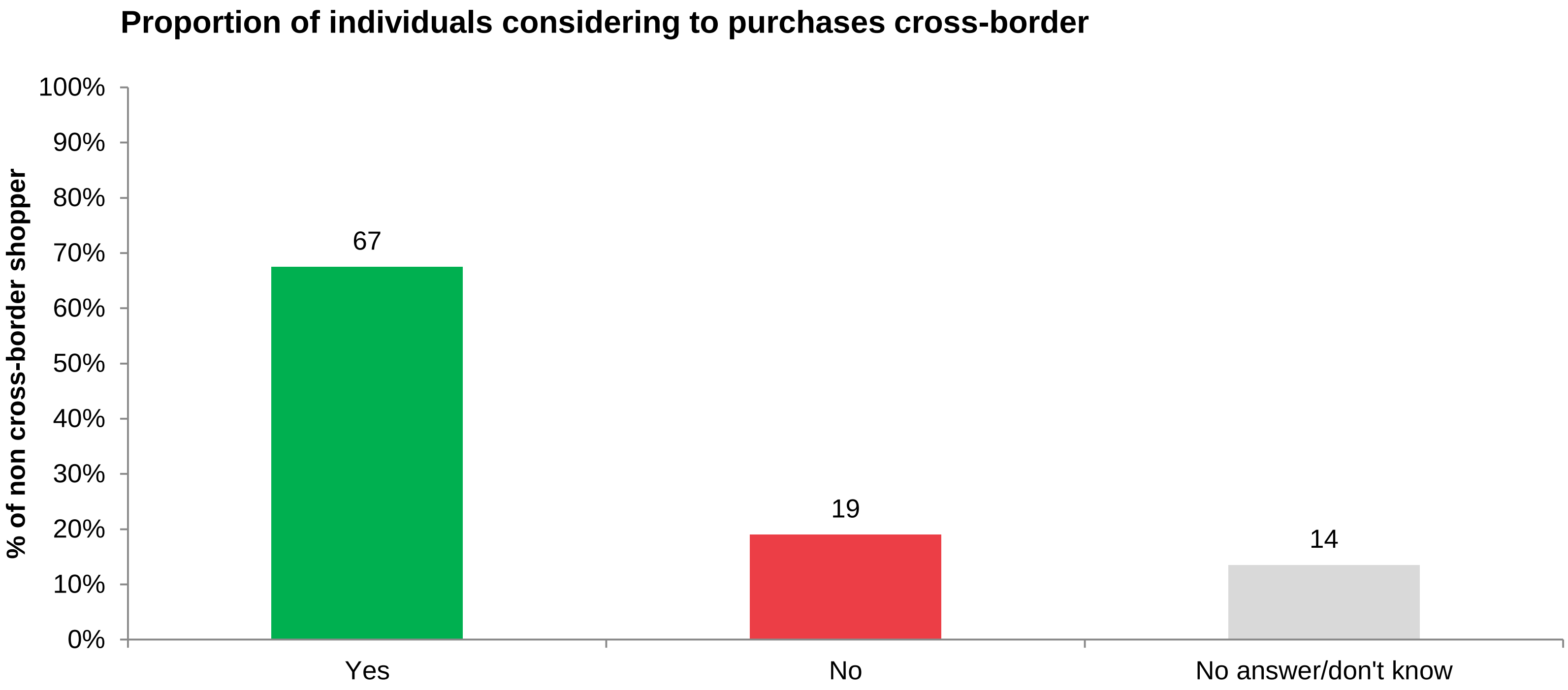
N=8633. Question: Why have you refrained so far from purchasing an item from an online shop or a seller on an online marketplace in a country other than the one you currently live in? Single choice. EU 30. No answer/don't know" were not considered for figure above (3% of respondents).

Doubts about returns are the single most important issue for consumers that do not buy from foreign e-retailers



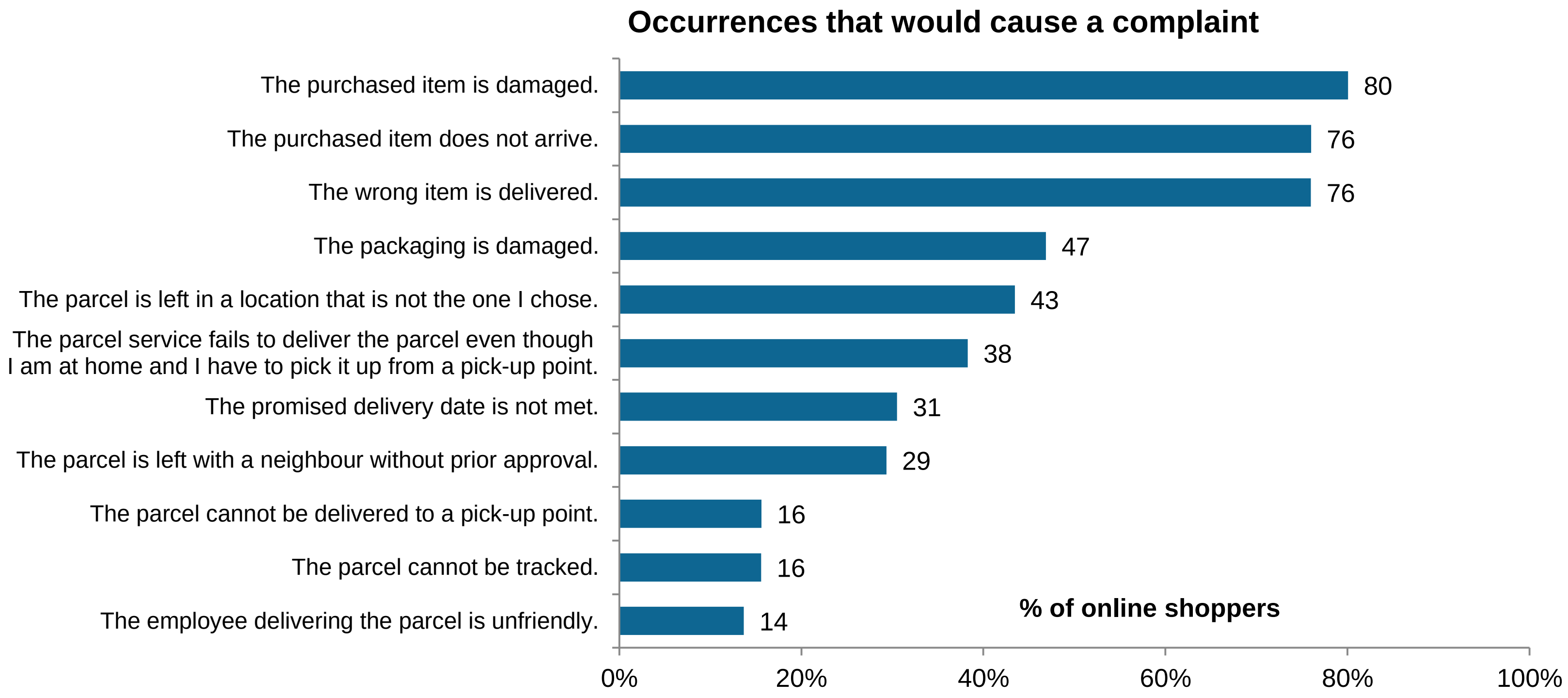
N=6838. Question: Regarding the delivery of items purchased from online shops or sellers on online marketplaces in countries other than the one you currently live in, what exactly are you concerned about? Single choice. EU 30. “No answer/don’t know” were not considered for figure above (2% of the respondents).

Two thirds of e-shoppers that do not buy from abroad so far would consider buying abroad in the future



N=8633. Question: Would you consider purchasing from an online shop in a country other than the one in which you currently live in the future? Single choice. EU 30.

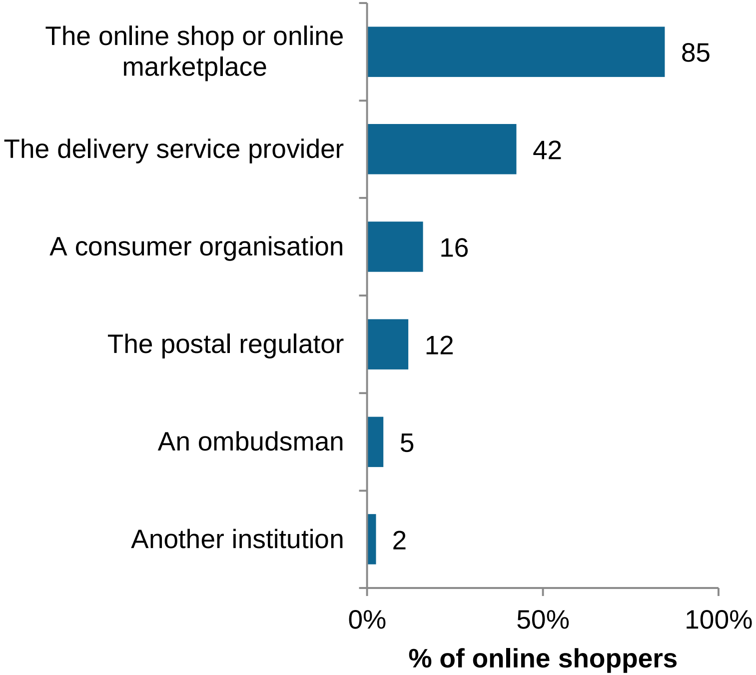
Damage and misdelivery are most important reasons for consumers to complain



N=17037. Question: Which of the following occurrences as part of an online purchase would cause you to file a complaint? Multiple choice. EU 30.

Consumers complain to e-retailers or parcel carriers first. Practices for dispute resolution vary across EU

Complaint would be first addressed to



Unresolved complaint would be escalated to

Initial \ Escalation	Postal regulator	Consumer organi-sation	Ombuds-man	National ADR body	Eur platform for online DR	Courts of law	Other
Online shop / marketplace	19%	51%	15%	20%	15%	8%	5%
Delivery service provider	21%	55%	19%	26%	19%	11%	6%
Postal regulator	4%	48%	29%	40%	33%	20%	10%
Consumer organisation	20%	6%	24%	53%	39%	23%	13%
Ombudsman	18%	42%	1%	56%	50%	40%	25%
Other	13%	28%	17%	41%	41%	36%	41%

N=17037. Question 1: To whom would you address your complaint in case of delivery problems? Question 2: To whom would you address your complaint if it was not resolved satisfactorily? Multiple choice. EU 30.

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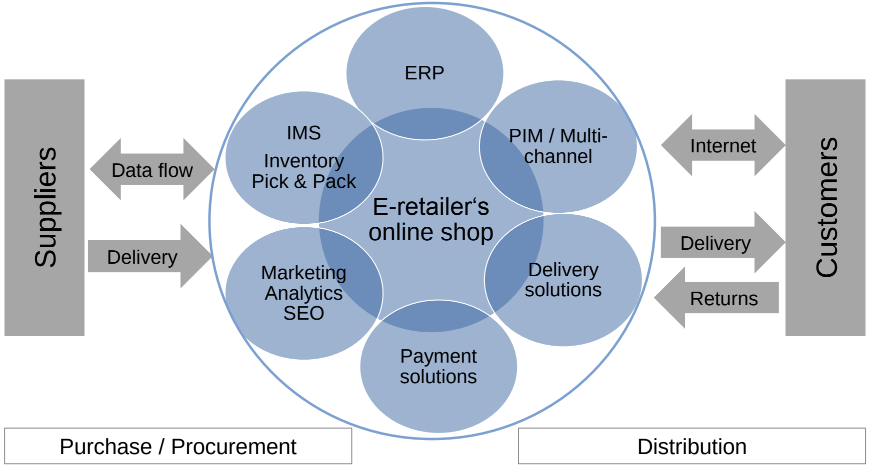
E-retailers are very different in size and skill levels

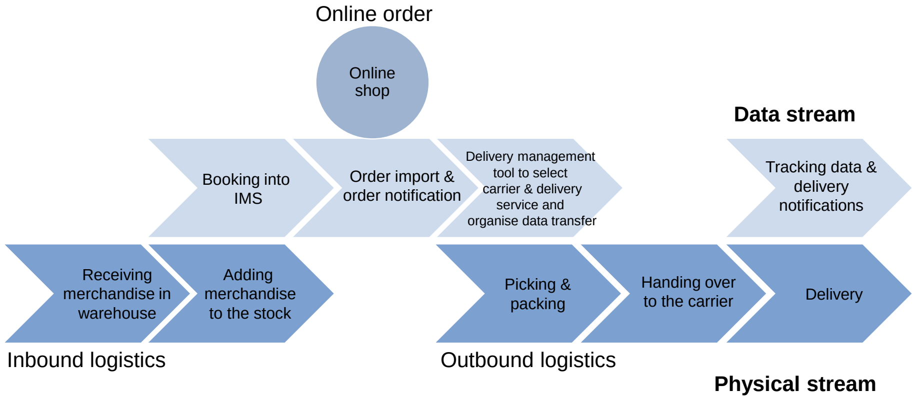
E-retailers' stylized supply chain



- Business model 'Wholesaling & warehousing'
- Delivery only one element but essential for B2C
- E-retailers look for convenient, cost-effective delivery (& return) solutions

- E-commerce complexity depends on
  - Size (revenues / # online orders)
  - number of products and product categories
  - number & location(s) of warehouse(s)
  - geographical reach of the business

E-commerce fulfilment



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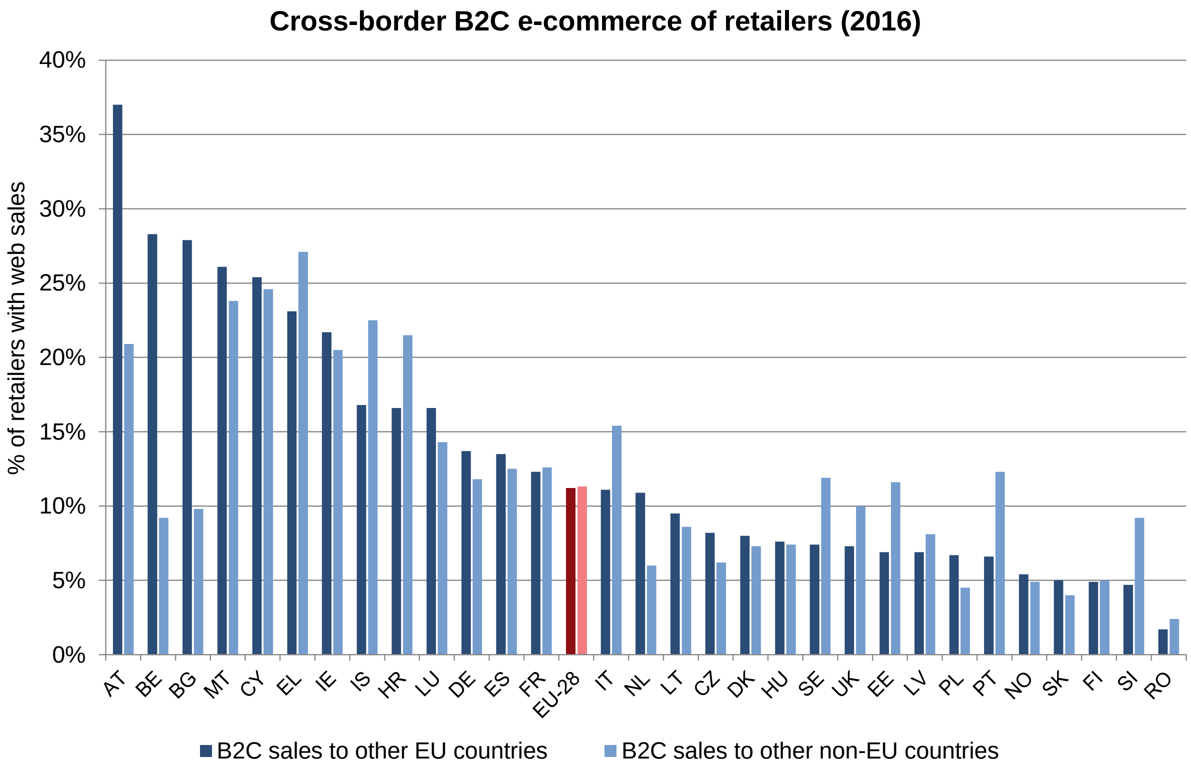
E-retailers' international focus varies across MS

- Experts estimate that cross-border e-commerce outgrows domestic e-commerce
- UK and Germany major export markets (in volume and revenues)



Source: TNS (2017)

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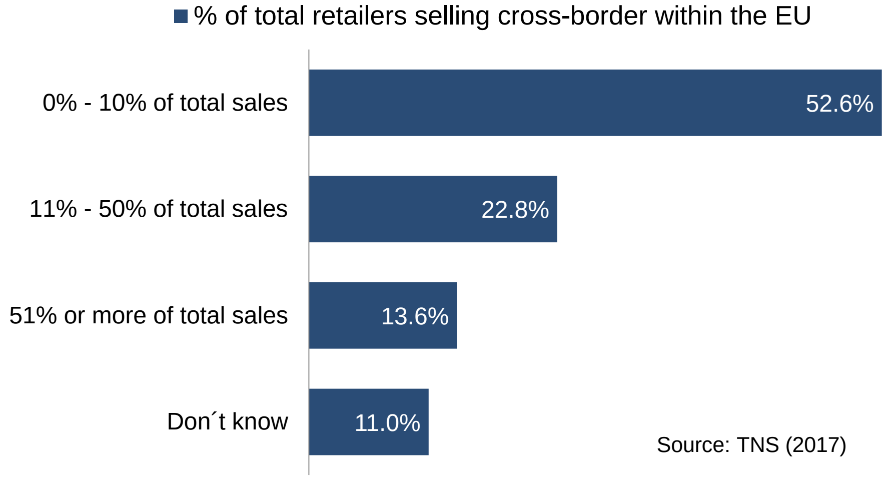
Few e-retailers have a dedicated international strategy

E-retailers w/o international strategy

- Receive occasional orders from abroad
- No established processes for international shipments and returns



Source: TNS (2017)

E-retailers with international strategy consider

- Market conditions (growth potential, competition, price levels)
- Legal issues in destination countries
- Cultural differences (marketing, delivery/return & payment habits)
- Language (translations, after sales services)
- International shipping conditions and/or (local) fulfilment service
- Returns and associated costs
- Online marketplaces as 'low-cost' option to expand internationally before establishing a customized online shop

E-retailers want simple solutions

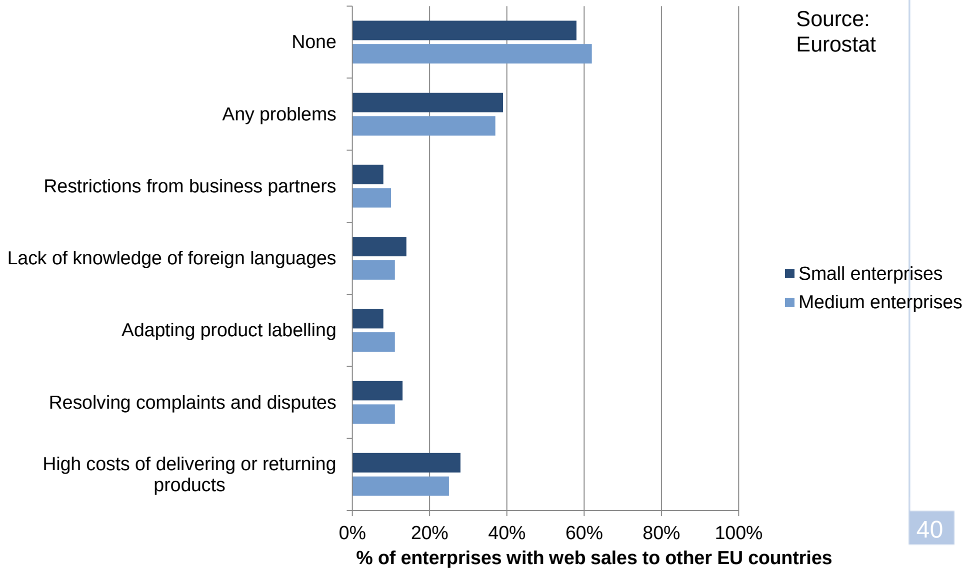
E-retailers' needs

- E-retailers have a customer-centric approach: retaining online buyers is key
- E-retailers often have limited capacity in logistics
- E-retailers need simple solutions for delivery & return services that are
  - ➢ Easy to find
  - ➢ Appropriate (product-specific)
  - ➢ Cost-effective
  - ➢ Technically integrable with smooth processes of data exchange
  - ➢ Reliable / in time
  - ➢ Visible (tracking)
  - ➢ Reflect consumer needs (delivery options)

Cross-border sales: Challenges

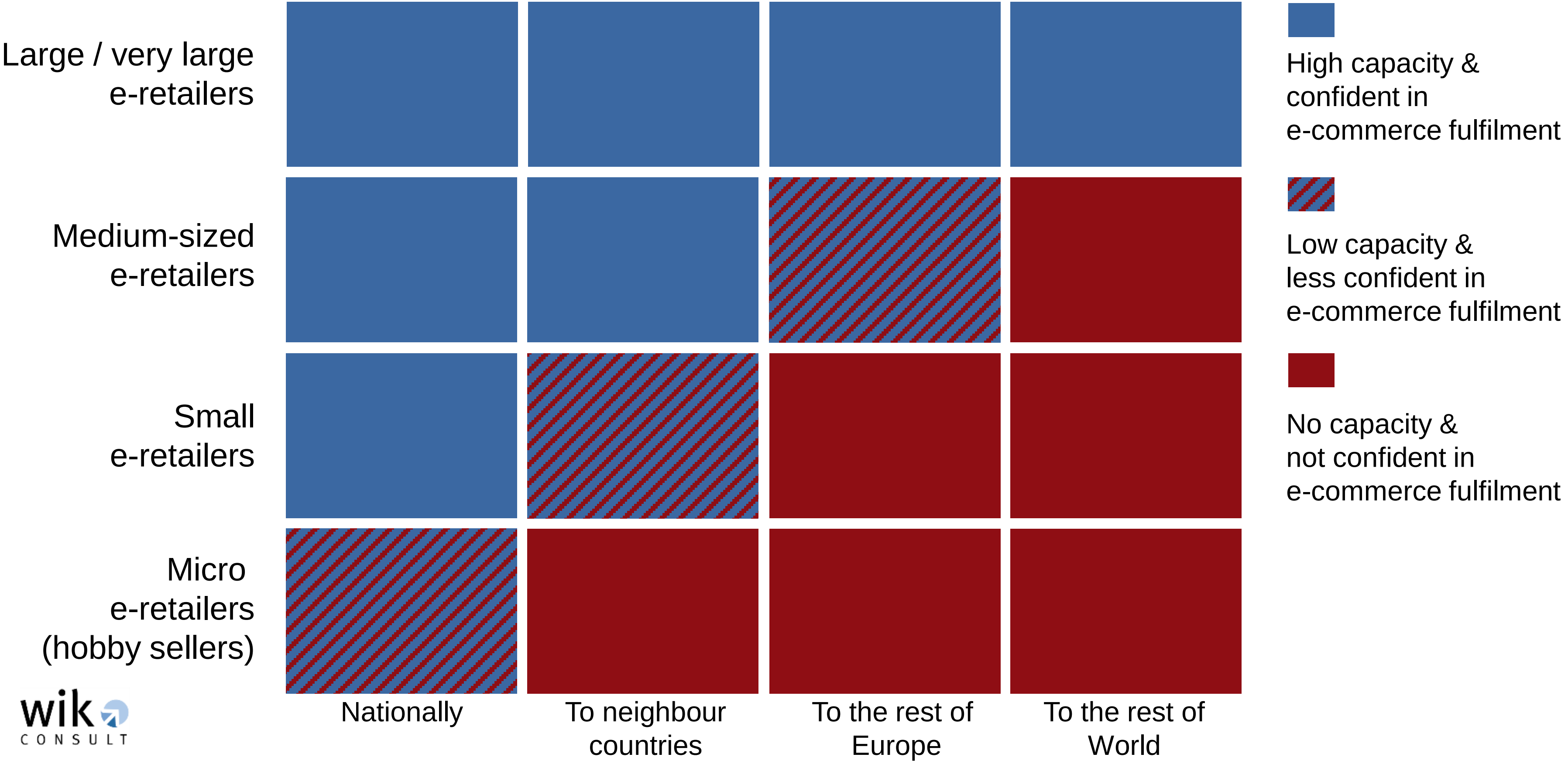
- ~60% of enterprises report no difficulties selling online to other MS
- High costs of delivery/ returns an issue

Difficulties when selling to other EU countries (2017, EU-28)



Source: Eurostat

Capacity and confidence in e-commerce fulfilment depend on e-retailers’ size



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Emerging Conclusions

E-retailers and consumers are making cross-border grow

- E-commerce continues to grow across Europe. Cross-border grows quicker than domestic. Future developments depend on VAT regime and the impact of Brexit
- E-commerce growth rates tend to be higher in less developed national e-commerce markets (notably in the Eastern EU Member States)
- Substantial share of cross-border e-commerce from China/Hong Kong. Trend to locate warehouses and logistic hubs within the EU to reduce delivery time of China
- Parcel markets are growing across Europe. In the most developed markets carriers are struggling with managing this growth by increasing capacity.
- WIK consumer survey shows wide use of cross-border e-commerce by consumers. Overall, consumers are happy with service quality. Some areas for improvement in some Members States
- Consumers in Europe have different expectations regarding price options, preferred delivery options, payment channels, and return policies

Emerging Conclusions

Parcel operators and related services improve to meet e-retailers‘ needs

- E-retailers seek opportunities to export but many e-retailers lack transparent information about customer preferences, expectations and habits, legal requirements, taxation and consumer protection rules in other countries
- For delivery, e-retailers want simple, standardized products at competitive prices. Small e-retailers find it more difficult to expand cross-border than large e-retailers
- International online marketplaces (such as eBay, Etsy, Fruugo, pixmania etc.) and intermediaries (such as SaleSupply and FBA) are reducing transaction cost
- Carriers have improved international and domestic delivery services. Improvements in cross-border result from expanding pan-European parcel networks (DPD, DHL, UPS, Hermes etc) and better cooperation of national postal operators (IPC Interconnect).
- Many parcel operators are investing in sales channels and solutions for SME e-retailers. Additional improvements for SMEs result from emerging intermediaries (e.g. parcel brokers, delivery management platforms).
- Indications of differences in regulation faced by parcel carriers in the Member States. Differences relate to authorisations, financial contributions, transport rules etc.

Emerging Conclusions

Sustainable growth presents challenges for parcel industry

- Overall sector employment growing in line with volume growth. In the largest parcel markets, carriers are increasingly finding it hard to recruit qualified drivers.
- Working conditions very diverse among Member States, and often based on minimum wages and working standards in the Member State.
- Subcontracting is common practice in parcel delivery. Labour regulations for subcontracting appear to differ substantially among Member States (but lack of transparency).
- Sustainability reports by parcel carriers demonstrate industry awareness. As an important pollutant, particularly in inner city areas, carriers are increasingly acting to reduce their environmental impact. Initiatives include electric delivery vehicles, micro-hubs and delivery by e-cargo bikes.
- Mode of transport is key determinant for the environmental impact for parcel delivery, with air transport having the highest emissions per item. Low terminal dues for import (air) parcels lead to increasing air transportation.

Purpose, scope and status of the study

Trends in e-commerce and delivery markets

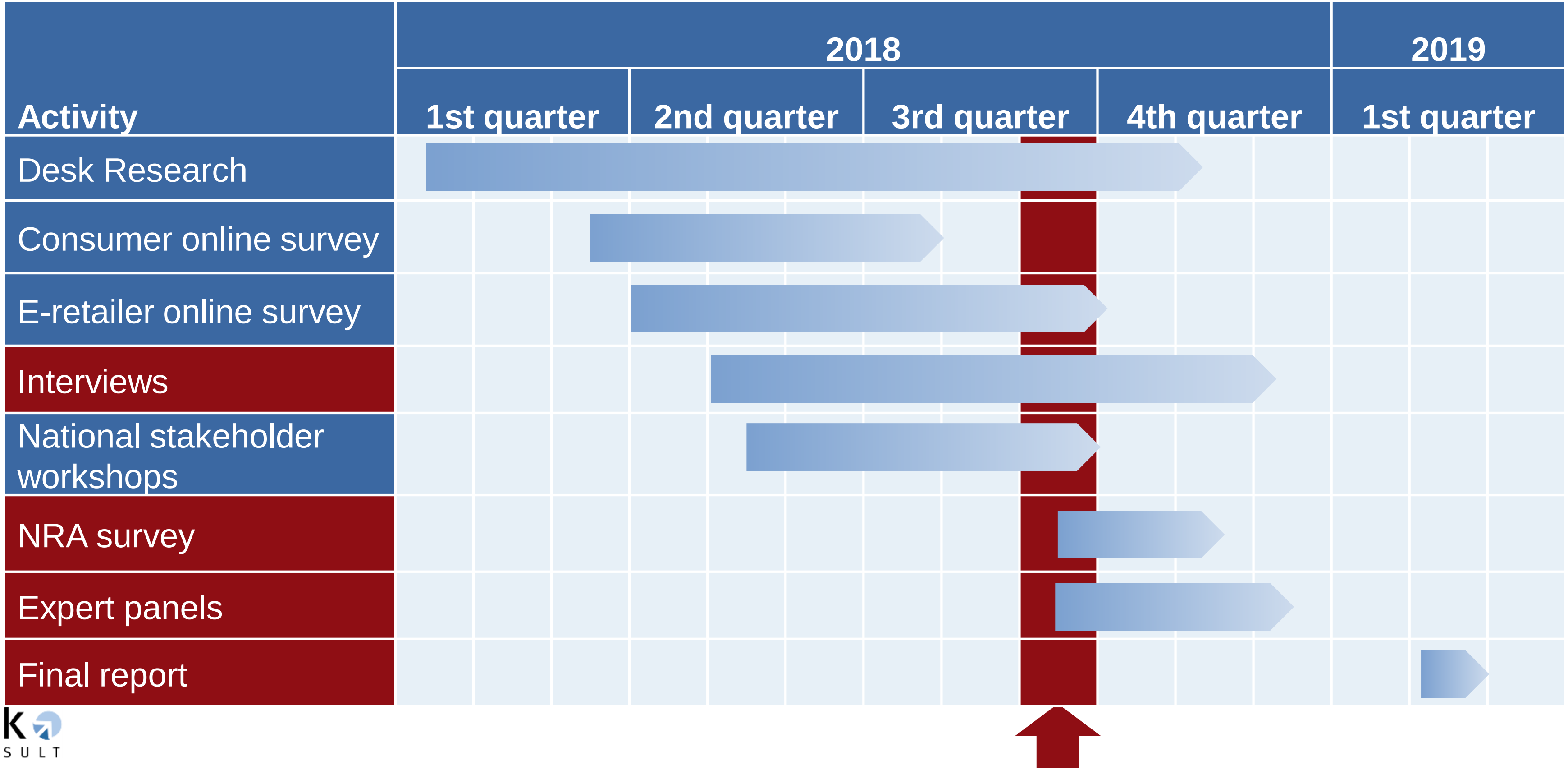
Consumers‘ needs: First results from the WIK survey

E-retailers‘ needs: Initial observations

Emerging conclusions

Next steps

Next steps


Activity
2018
2019
1st quarter
2nd quarter
3rd quarter
4th quarter
1st quarter
Desk Research
Consumer online survey
E-retailer online survey
Interviews
National stakeholder workshops
NRA survey
Expert panels
Final report

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