Flexible, fast, sustainable

Ways out of the parcel dilemma

PwC study, December 2018

https://www.pwc.de/de/transport-und-logistik/pwc-study-ways-out-of-the-parcel-dilemma.pdf

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What do consumers expect from parcel service providers?

How much are they willing to pay extra for additional services?

How can parcel services operate efficiently and sustainably on the last mile?

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Executive summary

Consumers want **new parcel delivery services** – and are ready to pay extra.

Parcel dilemma	Rising parcel volumes	Falling margins	Rising customer expectations	Growing regulatory pressure

Increasing pressure to act

- Increased capacity (staff, IT systems, fleets etc.)
- Investment in sustainable vehicle technology and logistics facilities
- Innovative delivery and logistical concepts

Methodology

Online panel survey of over 1,000 consumers to evaluate their preferences for (new) delivery services and logistics concepts, but also their willingness to pay for them.

Relevance of parcel services

1. Flexible (time window, choice between different parcel providers, return at home door)
2. Sustainable
3. Fast (two hours, same day, next day)

'Self-pick-up model'

57% are in favour of standard delivery to a parcel shop

53% would pay an average of €2.77 more for home delivery

'One for all'

67% are against just one local parcel delivery service in the city

- **High demand and willingness to pay,** even for parcel services, which are not jet on the market
  -> Differentiation on performance will be a critical competitive factor for parcel services and suppliers
- **Broad, flexible range of services** improves consumer satisfaction and loyalty
- Consumers' willingness to pay could **enable investment**, as long as there is corresponding differentiation on performance and price
- Implementation demands cooperation with online business
- Flexibility and speed demand **new logistical concepts** (eg, expansion of parcel shop network, longer opening hours, depot variations, distribution structure, cooperation arrangements)

Recommendation

- Establish consumer-orientated delivery services
- Introduce differentiated and transparent pricing
- Offer more flexible delivery
- Expand existing networks
- Deliver and consume in a more sustainable way

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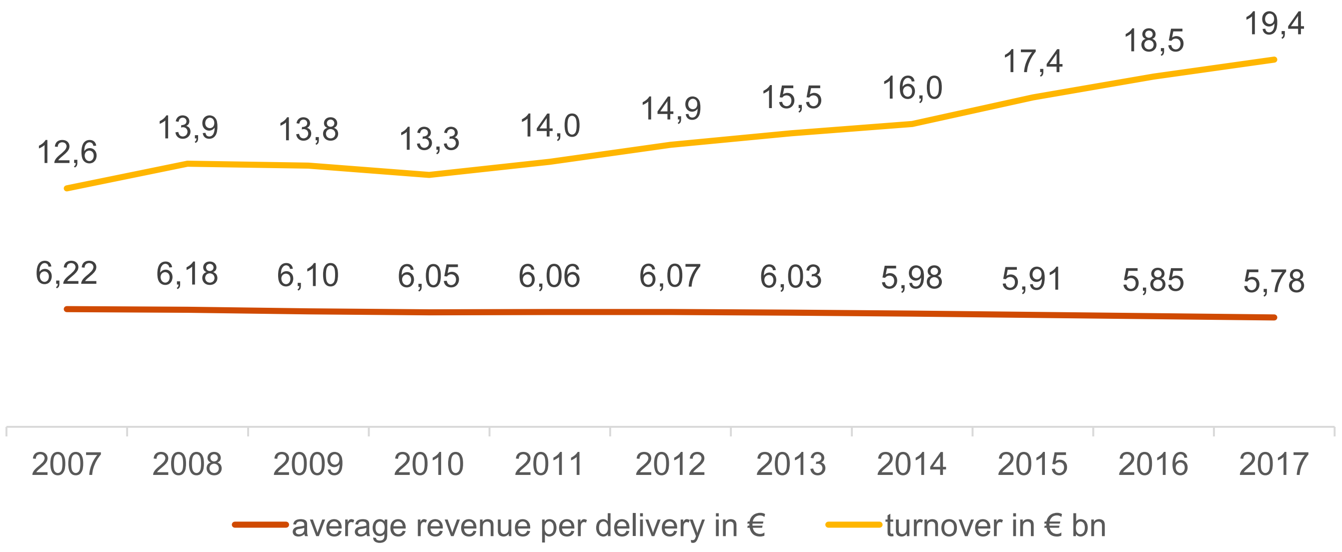
The parcel dilemma

The parcel flood: increasing volumes but falling margins



The parcel service revenues per consignment have been falling continuously since 2007

⇨ The last mile is becoming increasingly unprofitable

The parcel flood is putting parcel services under pressure in terms of both cost and investment

€19.4bn turnover in CEP market in 2017

3.35bn parcels delivered in 2017

15 million deliveries on peak days

+4.3bn deliveries in 2020

%

+6.1% deliveries in 2017

+9.7% B2C deliveries in 2017

+1.3% B2B deliveries in 2017

+5.2% more deliveries per year (growth forecast)

Source: BIEK - KEP Study 2018

The parcel debate: growing dissatisfaction, more regulations

90% want real-time tracking

72% want time windows for delivery

Increasing demands ←

91% want free delivery

Low willingness to pay

→ Dissatisfaction with parcel services

20% complain of lateness

18% complain of demand

- Record levels of parcel service complaints to the Federal Network Agency
- Political pressure and more stringent requirements, including diesel bans or green zones, which aim to reduce traffic, noise and emissions pollution
- Discussions about new delivery concepts

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Study questions:
- What do consumers expect from parcel service providers?
- How much are they willing to pay extra for additional services?
- How can parcel services operate efficiently and sustainably on the last mile?

The ambivalent consumer

- Consumers continue to have rising expectations on parcel services
- At the same time, consumers' willingness to pay is relatively low

Source: PwC, Aufbruch auf der letzten Meile – Neue Lösungen für die städtische Logistik, 2017 (preliminary survey)

The parcel flood: Increasing parcel shipments with falling margins put parcel services under pressure of costs and investment. To cope with the volume they must among others invest in personnel, IT systems and digital solutions, as well as in network expansion.

Parcel services are partially reluctant to invest, as the complexity of the parcel market and its associated costs increase risks. If large online retailers like Amazon take over their own distribution, especially in the urban area, they will withdraw the particularly profitable base load from the network. In the worst case parcel services remain only the fluctuating peak loads or less profitable peripheral areas, which would have corresponding consequences for network utilization. So far parcel services were barely able to pass on these investment costs to the customers due to their binding, long-term contract structures with online retailers.

The parcel debate: Customers have ever-higher demands for parcel services while at the same time having a rather low willingness to pay for logistical services. Besides that social and political pressure for environmentally friendly solutions is growing substantially.

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Survey results

Flexibility is more important than speed

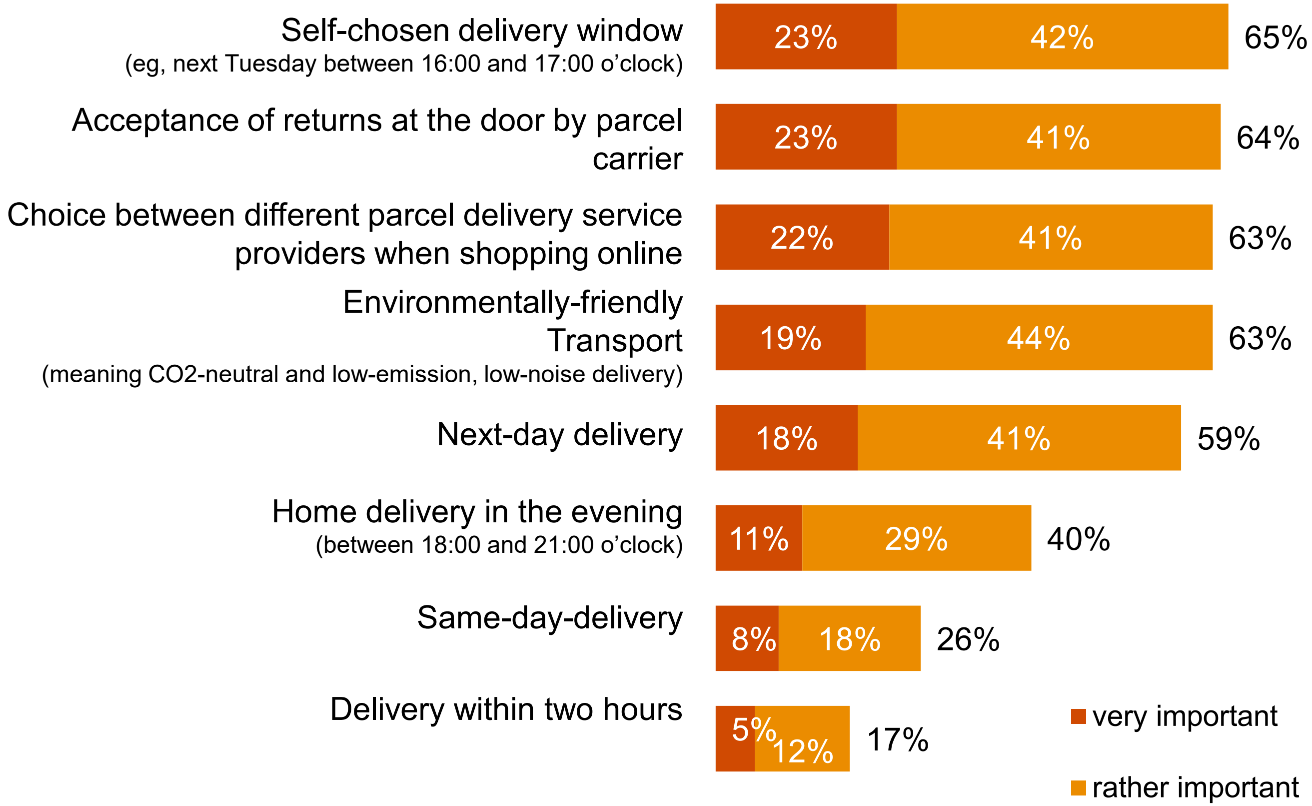
Consumers find new parcel services which are not yet available very important.

Ranking by clusters:

1. Flexibility
   - Delivery window
   - Returns at the door
   - Choice between parcel delivery companies
2. Sustainability
3. Speed

Delivery preferences show high demands of the consumers, but also acceptance for new services

Relevance Question 1: If you order goods by mail order (on the internet or by catalog), which service offerings of parcel service providers are important to you? Base: all respondents, N = 1,000 (scaled query), shown here: Top 2: very important or rather important.)



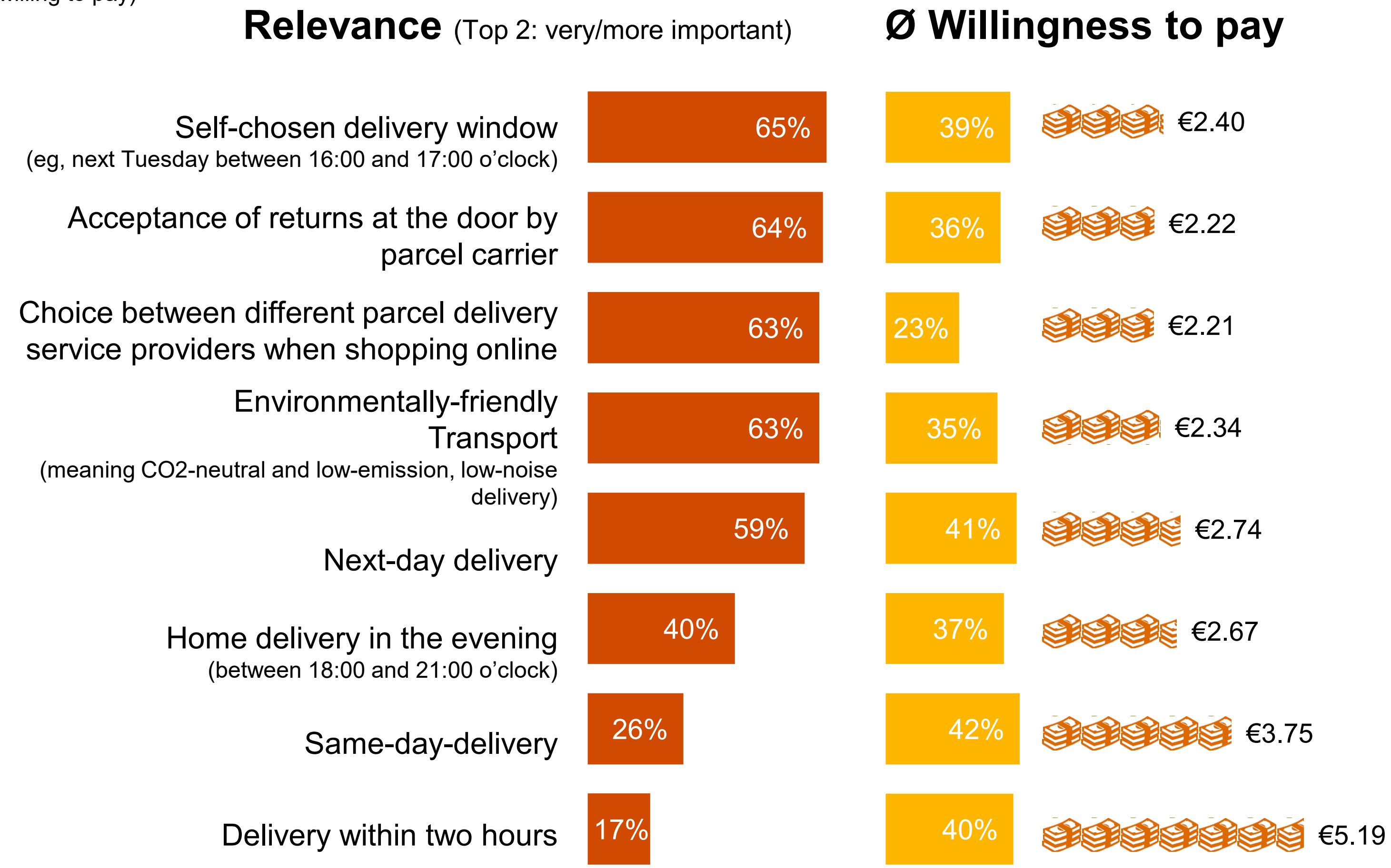
Willingness to pay exists also for services which are not yet available.

- The willingness to pay is partly below and partly above current prices for delivery services.
- It does not depend on the perceived relevance of services.

Delivery preferences and combined with willingness to pay

Question 1/2: Assuming that you order goods (by mail order on the internet or by catalog), which service offerings of parcel service providers are important to you? And how much would you willing to pay extra for these services?

Base: all respondents, N = 1,000 (Question 1: scaled query, shown here: Top 2; Question 2: Open query, Ø Euro amounts based on the willing to pay)

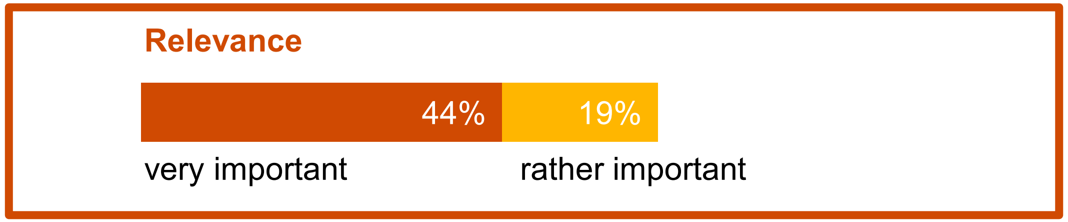


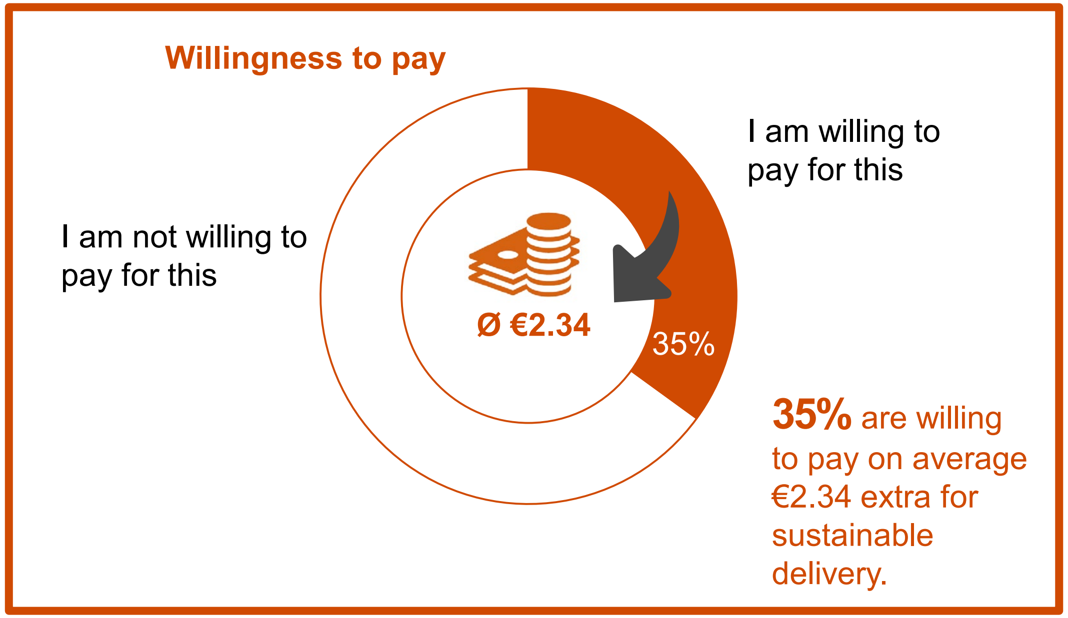
Sustainability:
high relevance but low willingness to pay

Discrepancy between high relevance 63% and limited willingness to pay 35% is part of the parcel dilemma

Relevance and willingness to pay for environmentally friendly transport

Question 1: Assuming that you order goods by mail (on the internet or by catalog), how important is an environmentally friendly transport (i.e. a CO_2-neutral as well as a low-emission and low-emission supply? (Scaled question, here indicated: Top2: very / rather important); Question 2: And how much would you be willing to pay extra for these services (open query, Ø Euro amount based on the willingness to pay) Basis: all respondents, N = 1,000



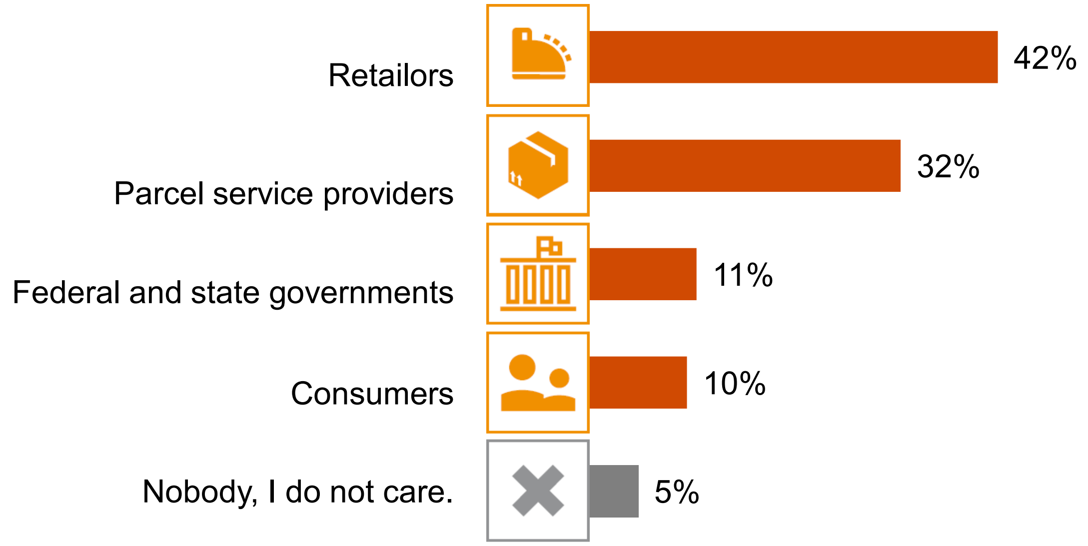


Sustainability: responsibilities need to be reconsidered

- Only 10% of the interviewed see themselves responsible for supporting environmental friendly transport.
- In the light of the gap between high relevance and low willingness to pay these results underline how urgent a quick rethinking is necessary to realize sustainable delivery on the long term.

Who's to hold accountable? Perceived responsibility regarding the topic of environmental support

Question 3: Now we come to the subject of environmentally friendly parcel deliveries. Who do you primarily see as a duty to support environmentally friendly deliveries? Base: all respondents, N = 1,000 (single appointment)



Relevance and willingness to pay vary by age group.
Young shoppers are more solvent and more open to new concepts.

Flexibility
The self-chosen, precise delivery time window is the most popular among respondents aged between 18 and 29 years. They are the most willing ones to pay (€2.96), whereas the over 60-year-olds would pay only €2.21. Returns on the home door, however, are on top of the wish list of over 60-year-olds (68%). The choice between different parcel service providers is especially important for the 30- to 39-year-olds (77%). The relevance of delivery in the evening decreases with age.

Speed
The next-day-delivery is the most important criterion for 18- to 29-year-olds (79%). They would pay an average of €3.33, customers over the age of 60 would only pay €2.29. However, both averages are far from the current prices of all providers for express delivery.

Environmental friendliness
Across all age groups, CO2-neutral and low-emission as well as low-noise transports are considered very important, but the willingness to pay decreases with age. 18- to 29-year-olds would pay €2.84 on average, over 60-year-olds only €1.98. From the consumers' point of view of the retailers have the primary responsibility to support, while parcel services are seen second, but not the customers themselves. Although the youngest shopper group has the greatest sense of responsibility, there needs to be a rethinking among all age groups so that consumers can supply can be sustainably implemented in the long term.

"One for all" on the last mile?

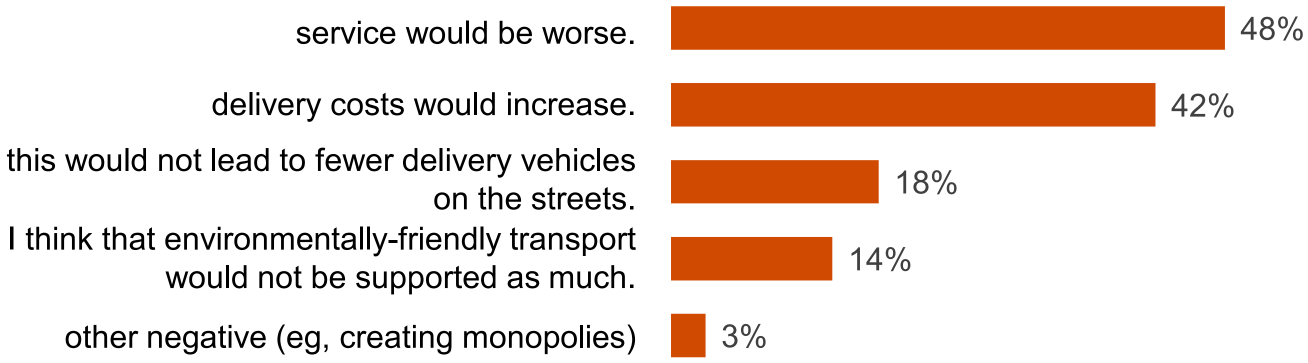
67%

regardless of age, region, educational background or income the interviewed are against the scenario that the last mile delivery will only be provided by a neutral provider chosen as part of a city tender and consolidating all providers' packet flows.

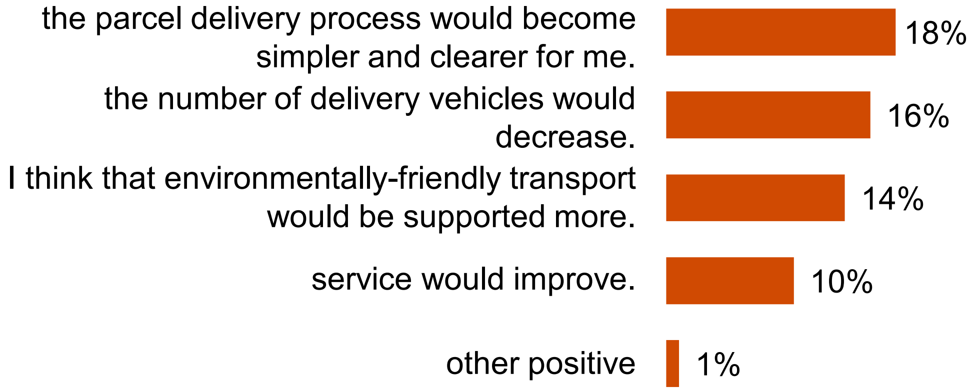
Just one local parcel delivery service? Rather not

Question 6a / b / c: Imagine that there is only one parcel service provider in your town or city. Why do you think that's generally positive? Why do you find that generally negative? Base: all respondents, N = 1,000 (single appointment)

67% are against this, because …



33% are in favour, because ...



Everything to the parcel shop?
„The self-pick-up model“

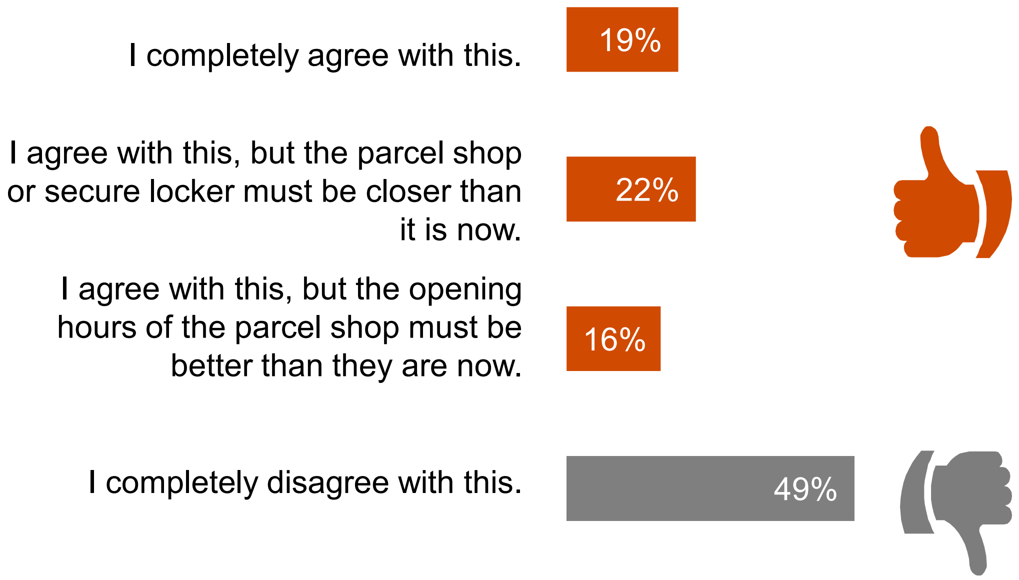
The acceptance of the self-pick-up model is surprisingly high.

57%

More than half would accept standard delivery to a parcel shop or secure locker – given better opening hours and accessibility.

Support for standard delivery to a parcel shop or secure locker

Question 4: Assuming that parcel delivery standard would be only by to a parcel shop (or packing station), but delivery to home would cost extra. How do you feel about this? Base: all respondents, N = 1,000 (multiple answers)



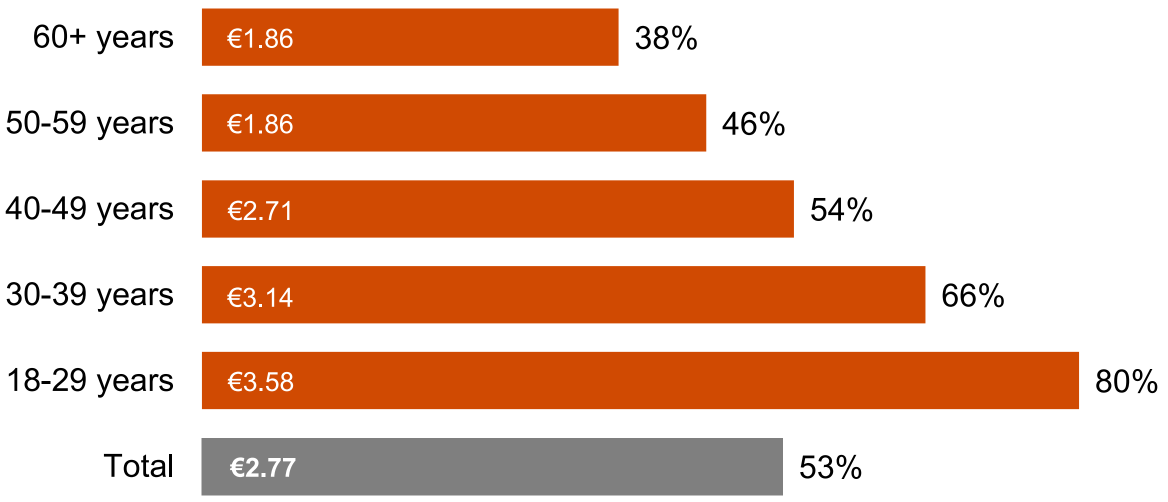
Everything to the parcel shop?
„The self-pick-up model“

€2.77

is the average price respondents are willing to pay for home delivery. Willingness to pay decreases for older respondents.

Willingness to pay for home parcel delivery

Question 5: And under the circumstances mentioned above, how much money would you be willing to pay to get a parcel delivered home?
Base: all respondents, N = 1.000 (open query: Ø-Euro-amounts based on the willingness to pay)



“One for all” on the last mile?

Proponents of this scenario argue that traffic and emissions would be reduced, because vehicle utilization and route planning would be easier to optimize for just one provider. Opponents argue that all parcel services have already optimized their routes so that there are almost no empty vans. The only effect would be that the individual stops would last longer, which in turn would hinder the flowing traffic. Potential benefits are offset by the cost of consolidation and legal requirements such as procurement and competition law issues which have not yet been finally clarified. The consumer is clearly against this scenario with 67%, because he fears service loss (48%) and higher prices (42%).

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The “self-pick-up model”

With 57%, the acceptance of this scenario is surprisingly high, especially for 18- to 29-year-olds (31% of them accept this without any restriction). This group is also the most solvent and they also have the highest average price (€3.58). Across all age groups the average willingness to pay is €2.77 was determined. Currently, several parcel service providers are only discussing a surcharge of €0.50 for home delivery. This substantial difference could offer new potential. However, only around 15% of respondents currently do not order their parcels to their homes, among other reasons, because the parcel shop network (22%) and the opening hours (16%) are not yet customer-friendly enough.

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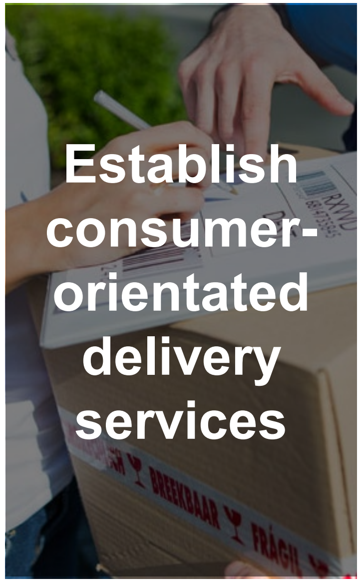
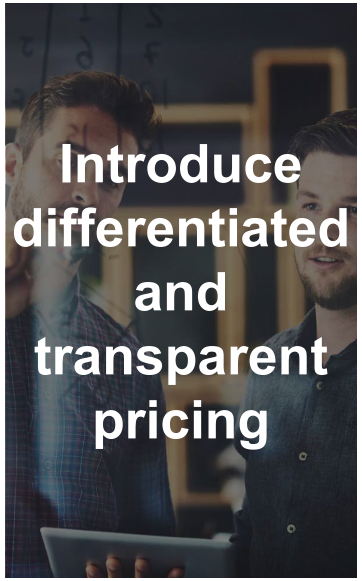
Next steps on the last mile

Next steps on the last mile

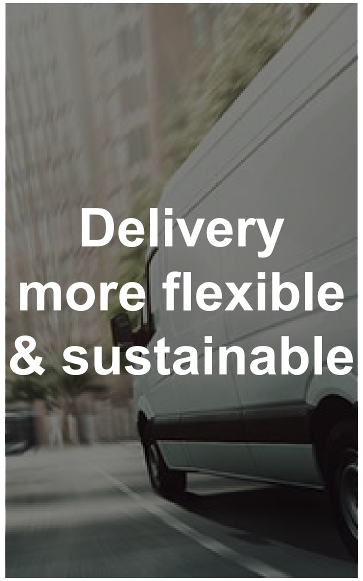
Reliable and customized delivery has a differentiating effect on parcel services providers as well as on retailors in a competitive market.



1. Flexibility
    - Delivery time windows
    - Choice of parcel service when shopping online
    - Acceptance of returns at the door by parcel service
2. Environmentally-friendly delivery
3. Speed



- Service bundle with new services
- Differentiated revenue model for sustainable development
- Increase prices according to seasonal fluctuation (eg, Christmas time)
- Implementation requires cooperation & contract modification with online retailors
- Parcel service and online retailors can benefit from improved customer journey, new customer acquisition and additional sales



More flexible delivery

- Change to collection model and additional fees for home delivery
- Expansion of parcel shop and packing station network
- Extension of opening hours
- Use of intelligent systems for capacity forecasting and route planning

Expanding existing networks

- Micro-Hubs
- Mobile Hubs
- Sharing model for depots and fleets
- Environmentally-friendly modes of transport
- Distributions structure

Deliver more sustainably

- Integrate sustainability strategies
- Use willingness to pay for all delivery services, to invest in sustainable systems
- Introduce environmentally-friendly return policy

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Study background and investigative approach

Background

This report presents the results of an online population survey entitled “**Parcel services and sustainability**’, which was carried out on behalf of PricewaterhouseCoopers GmbH WPG

Investigative approach

- Research method: online panel survey
- Target group: German consumers aged 18 and over, representing a cross-section of the population
- Sample size: N = 1,000
- Research period: May 2018
- Results were rounded up to whole numbers.

Thank you!

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