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# 2016 Global Small Parcel Report

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Challenges and Opportunities

In our first annual look at the global small parcel market, we will address global and regional trends and challenges that small parcel providers and their customers are facing.

Topics covered:

- **E-commerce** – The phenomenal growth of e-commerce has challenged retailers’ store fronts, as well as supply chains.

- **The Amazon Effect** – Amazon’s effect continues as it builds fulfillment facilities closer and closer to customers, establishes its own global logistics network and moves into the final mile, challenging small parcel carriers.

- **The Final Mile** – The final mile is no longer just the front steps of a home. It now includes a variety of alternative delivery locations, as well as new delivery businesses.

- **Cross-border** – The growth of e-commerce has helped create growth of cross-border services. Small parcel providers have acquired niche providers to address this trend as more consumers order goods from other countries.

- **Technology** – Technology is improving efficiencies across the supply chain, including the warehouse and final mile delivery.

- **Fulfillment** – Traditional fulfillment practices are giving way to highly automated facilities, including the introduction of robots, drones and augmented reality.

- **The Players: Post Offices, Startups and the Big 3** – The small parcel has become a focus point for post offices, as well as startups, and are challenging the Big 3: DHL, FedEx and UPS.

- **Geographic Regions** – Asia Pacific, Europe, North America and emerging markets are all experiencing growth in small parcel opportunities. How big is the small parcel opportunity in each region, who are the leading providers and what are the trends in each region?
Introduction
The small parcel market is undergoing unimaginable changes around the world. Technology, the rise of e-commerce and changing consumer preferences are all disrupting a market that traditionally has had high barriers to entry. Now these barriers to entry are slowly breaking down as the status quo is challenged with such concepts as crowdsourcing, alternative delivery locations, same-day delivery and real-time tracking; however, with these new concepts come changes to networks and business model questions.

Increasing Volume
While the small parcel market undergoes transformation, the volume of parcels continues to rise.

This increase has resulted in capacity problems for carriers such as FedEx and UPS. Most memorable was the 2013 holiday season in which UPS and FedEx both grossly underestimated holiday volumes and resulted in both carriers being caught off guard by the sheer volume of parcels. As a result, both carriers struggled to meet delivery times. Since then, the focus has been on improving speed and efficiency for the two largest US small parcel providers, and this focus has included a race to automate facilities, implement new technology and new service options, and – most importantly – collaborate with retail customers. The 2013 holiday fiasco laid the seeds to Amazon’s global logistics network. The retailer’s customers were among those that were negatively affected by delivery delays.

Increasing Costs
Increasing costs are impacting both business customers and small parcel providers themselves. For business customers, free shipping is often considered a competitive advantage, but offering this service is coming at a cost, as small parcel providers increase annual shipping rates and surcharges. Meanwhile, for small parcel providers...
providers, investments in infrastructure to speed delivery and labor costs associated with these investments are also coming at a hefty price.

**Pressured Margins**

As a result of increasing volume and increasing costs, it should come as no surprise that small parcel providers are facing pressured margins. How to compete in such a market profitably is the big question; however, one can only tweak operations so much. Eventually, it will require more than that to grow profits. For the business customer, profits are also a concern, as many also face growing operation costs. For both the small parcel carrier and the business customer, the rise of Amazon is also concerning from a financial and competitive perspective.

FedEx's capital expenditure as a percentage of revenue is 8.0%. The company expects to spend at least $5.1 billion in fiscal 2017. Much of the expense will go towards facility expansion and equipment acquisition. In addition, it will take delivery of 12 Boeing 767Fs while 16 Boeing MD10s and MD11s are set for lease expiry or retirement that year. Separate from the $5.1 billion planned capital expenditures, FedEx anticipates spending $100 million for the TNT integration during the fiscal 2017 period.

UPS is also investing in facility expansion and equipment. In addition, UPS announced plans to acquire fourteen Boeing 747-800 with the first delivery anticipated in late 2017.

**The Rise of E-commerce**

E-commerce is commanding an increasing percentage of total retail sales. In the US, this percentage is currently about 8%, whereas in China, it is 13% and in the UK, the percentage is approximately 15%.
As e-commerce encompasses more of the total retail spend, what does this mean for the brick and mortar storefront? Is it an automatic death sentence? Not necessarily. The key for these retailers is to innovate and develop an omnichannel strategy linking online, mobile and store together, allowing the consumer to seamlessly purchase or return an item across any platform in an effortless manner. In addition, what’s old seems to be new again, as more and more retailers implement the click and pick up in store option, similar to the old catalog days when consumers were given a similar choice. The idea seems to be gathering steam. For example, 40% of JC Penney’s customers who pick up online orders at a store buy something else during the trip.

Despite what may seem a simple process, an omnichannel strategy is proving difficult for many retailers with a storefront. RadioShack, Borders and Sports Authority are among the growing number of retailers that have declared bankruptcy. For other retailers, such as Macy’s, Sears and Kohl’s, the closing of stores is underway, as the emphasis is placed more on online sales.

In addition, FedEx has pointed out that larger items, such as exercise equipment, trampolines and mattresses, are increasingly being ordered online and resulting in extra handling within its sorting facilities. As a result, surcharges are being applied to such deliveries in order for both FedEx and UPS to recoup costs incurred. Additionally, because of the growing volume, FedEx has set up temporary facilities for peak season dedicated to the sortation of these oversized packages. About six such facilities have been set up across the US and will be evaluated as the company looks to invest in technology and facilities that will allow them to handle this year-round growth in demand.
Fulfillment

Demand for faster delivery times has resulted in vast changes in warehousing and fulfillment operations. As e-commerce has prompted changes in the way retail is performed, it is also changing each component of the supply chain. One area that has seen growth is the demand for warehousing facilities. Logistics hubs, such as the Inland Empire located in California, are being replicated in other areas like the Lehigh Valley area in Pennsylvania; Frankfurt, Germany and Hangzhou, China. According to Green Street Advisors, e-commerce alone is responsible for 20% of current demand for warehouse space in the US, and these aren’t small facilities. In some instances, they can exceed one million square feet.

Amazon has led the way in these changes, as it regularly announces new facilities that are closer to its customers. Retailers and logistics providers including DHL, FedEx and UPS have announced similar investments, as well as expansion plans of existing facilities.

But these warehouses and fulfillment operations are not typical to those that have been around for years. Previous fulfillment business models have focused on low-cost labor and real estate locations in centralized locations within a country. Instead, these are more automated and are responding to the growing e-commerce influence.

According to real estate property management company Prologis, online retailers require three times the logistics real estate to meet needs such as:

- A wider variety of product availability versus what is available in brick and mortar stores
- Greater inventory levels
- Individual product picking and larger outbound shipping space requirements
- Increased reverse logistics (processing returns, for example)

Inside the facility, updated equipment, the increasing use of robots and the testing of drones and augmented reality are taking place. Earlier this year, DHL completed a pilot test for collaborative automated order picking in its DHL Supply Chain warehouse in Germany. The test involved a robot from French startup Effidence and is a fully automated trolley that follows pickers through the warehouse and handles most of the physical work. During the test, two robots supported the pickers by carrying the weight and automatically dropping off the orders once fully loaded.

Additionally, DHL has also conducted tests utilizing augmented reality. Equipped with smart glasses, employees navigate through the warehouse along optimized routes via the glasses’ graphics display, enabling them to find the right quantity of the right item. According to the company, the use of augmented reality increased the overall picking efficiency by 25%.

Drones within the warehouse are being tested by a number of companies. French-based Geodis is testing the use of drones to count and report inventory at its warehouse near Paris. The test combines the use of a drone with a ground-based robot. The system features indoor geolocation technology functions autonomous during the hours when the site is closed.
Walmart is also testing this technology. In late 2015, the retailer applied to US regulators for permission to test drones for home delivery, curbside pickup and checking warehouse inventories to fill and deliver online orders. The remotely controlled drone captures 30 frames per second of products on aisles and alerts the user when the product is depleted or incorrectly stocked.
The Last Mile

Competition for many delivery companies is often determined within the final or last mile. It is generally the most expensive, least efficient and most problematic part of the overall delivery process. According to a Honeywell study, over 50% of the total logistics cost is attributed to the last mile. Issues such as invalid or incorrect address details, no one being at home to accept the package or the consumer no longer wanting the package are among the reasons final-mile delivery is costly to delivery companies.

As e-commerce continues to transform the way business and consumer interact, last-mile delivery no longer assumes delivery ends at a residence. Final-mile delivery points are now located at convenience stores, grocery stores, dry cleaning businesses, lockers and more.

FedEx, UPS and USPS offer locker facilities for consumers to pick up packages around the clock. FedEx’s Ship&Get locker system is primarily available in Texas, and USPS’ GoPost lockers are located predominantly in New York City and Washington, DC.

UPS is at the forefront of alternative delivery locations. It recently expanded its European “click and collect” solution, Access Points, to the US; and by the end of 2015, UPS expected to have 8,000 alternative US locations for consumers to pick up or drop off packages.

Europe

In Europe, alternative delivery locations present a more mature business model versus what is available in the US. DHL has invested in innovative solutions, such as its own locker network, Packstations, with well over 3,000 in Germany alone. According to the company, 90% of people in Germany live within 10 minutes of a DHL Packstation. In 2014, DHL began installing Packstations outside of Germany in locations such as Italy and the Netherlands. Other delivery providers, such as Hermes, DPD and even Amazon, have also installed their own locker network throughout Europe.

In addition, click and collect is popular in Europe. According to Forrester, about one in seven online consumers in Europe use the click and collect option if available. Consumers can choose to pick up items at the store itself or an alternative delivery location, such as a convenience store.

In the UK, one company, CollectPlus, has taken the click and collect concept even further and has signed up almost 6,000 convenience stores, grocery stores and gas stations; and in return for a small fee, these businesses have become collection points for many retailers, such as House of Fraser, Asos, Amazon and eBay.

Asia Pacific

The click and collect concept is also growing in popularity in Asia. In China, online retailer JD.com, Chengdu Santai Electronic Industrial’s Sposter network and Fengchao Kuaidigui, a venture backed by express delivery companies ZTO, Yunda, STO and SF, are among businesses utilizing lockers. According to China’s State Post Bureau, approximately 15,000 lockers were put into use in 2014 and handled 1% of the total delivery volume.
Similar to CollectPlus, Chinese companies such as City100 and Mailworld are establishing collection points within stores and also school campuses. These third-party platform providers often rely on subsidies from e-commerce and delivery companies rather than charging consumers. In addition, some delivery companies have set up their own storefront networks. SF Express, for example, has established thousands of neighborhood Hey Customer outlets where users can not only pick up deliveries but also place orders, drop off laundry, try on clothes and leave their electronic devices to be repaired.

The click and collect model and locker networks are being utilized in other Asian countries as well. Singapore Post has recently introduced Singapore’s first island-wide open-parcel locker service. Called Rent-a-POP, the new service means that retailers and consumers can now rent a SingPost POPStation locker to deliver their parcels 24/7. Effectively, this means that Singapore Post is opening up the POPStation network to third parties, and it expects that it will be particularly appealing to marketplace sellers and blogshop owners. Prior to the launch, Singapore Post ran a one-month trial with online marketplaces and blogshops. During the trial, about 50% of these parcels were delivered outside of office hours. There was a 100% collection rate, with almost 90% of the parcels being collected the next day.

Emerging Markets
For much of the emerging markets in Africa, the Middle East, Asia Pacific and South America, alternative delivery locations are also growing in importance. For many consumers in these locations, poor infrastructure, such as lack of roads, prohibits many delivery companies from delivering to residential locations. In addition, addresses like we in the Western world are familiar with, are also often lacking.

Dubai-based delivery provider, Aramex has introduced click and collect locations in Dubai, and in partnership with Polish-based parcel locker specialist InPost, has built a network of lockers starting in Dubai, with plans to expand further into the Middle East and Africa.

DHL has also been active in Africa. It has over 6,000 plus retail outlets across Sub-Saharan Africa. Instead of building its own brick and mortar branches, DHL has opted to partner with local businesses who act as DHL resellers. Key retail markets for the company have been Nigeria, South Africa, Kenya, Tanzania, Uganda, Ghana, Senegal, Cote de Ivoire, DRC, Zambia and Zimbabwe. These locations allow customers to pick up and drop off packages.

Crowdsourcing
Crowdsourced shipping, where travelers bring items to people along their route, has shaken up the delivery market. Increased shipping costs and subsidizing shipping are eating into many retailers’ profit margins. In addition, delivery companies are looking for ways to expand speedier delivery options.

The on-demand taxi service, Uber, has expanded its services to include delivery of restaurant meals and groceries, as well as retail goods. UberRush, the company's one-hour delivery service expanded its API project to allow retailers to integrate the service directly into their digital products. Uber, as well as its direct competitor, Lyft, have partnered with Walmart to test its grocery delivery service.
Post offices and delivery companies, including USPS and DHL, are exploring the possibilities of crowdsourced shipping, aka person-to-person delivery. Amazon’s Flex service utilizes on-demand delivery contractors, and a large number of specific shipping startups have sprung up in recent years, such as Shipizy, Packmule, PiggyBee, Roadie and Entruster.

China’s second largest e-commerce provider, JD.com, announced a merger of its JD Daojia delivery business with Dada Nexus, China’s largest crowdsourcing delivery platform. Dada’s network covers 37 Chinese cities, with a total of 1.3 million registered delivery personnel who are crowdsourced online. It has recorded daily deliveries of more than one million during peak seasons.

One crowdsourced startup has caught the attention of UPS, which made a significant investment in order to learn more about the service. Deliv uses a smartphone app to alert prequalified drivers of a pending delivery. The driver picks up the merchandise from the retailer and delivers it to the customer. The company operates in 100 US cities on behalf of 4,000 partners, including such retailers as Macy’s and Best Buy.
Cross-Border

Cross-border buyers are defined as shoppers who deliberately buy retail products outside their domestic market over the Internet. This opportunity is one in which the Boston Consulting Group describes as a way to make the world “flatter”, in reference to Thomas Friedman’s bestselling book, “The World Is Flat”. In a 2016 study by Forrester, cross-border online B2C sales will more than double from 2015 to 2021 to $424 billion, as more consumers embrace cross-border shopping. In particular, the research firm notes that developing economies in Latin America, Asia Pacific, Africa and the Middle East will likely experience double digit annual growth over the next five years, significantly more than in Europe and North America.

According to China’s State Administration of Foreign Exchange, China’s cross-border e-commerce has reached $3.3 billion since the country began piloting cross-border foreign exchange payments in 2013. European cross-border sales are also a huge growth vehicle, with Forrester estimating this market to top $32 billion this year and grow to $45 billion by 2018. Even the United States is experiencing growth in cross-border sales with Canada, Australia and the UK, the traditional destinations for US-based retailers.

Global marketplaces such as Alibaba, Amazon and Japanese-based Rakuten are expected to benefit from this growing trend. Forrester noted that Rakuten reported a 41% growth in cross-border sales in 2015, more than twice the growth of the domestic Japanese e-commerce market. Furthermore, Forrester found that consumers in Germany, France and the UK are active cross-border e-commerce purchasers, particularly from Amazon and eBay, which makes up half of cross-border e-commerce sales from these countries.

Logistics providers are also benefitting from cross-border online B2C sales and are providing more than just transportation and warehousing services. Thanks to niche acquisitions, providers FedEx, Pitney Bowes, Singapore Post and UPS are offering specific solutions for cross-border online sales to address common issues like language, currency, payment, duties and taxes.

DHL eCommerce

DHL is present in over 220 countries and territories and is a part of Deutsche Post DHL Group. Handling over 70 million items daily on a global basis, its e-commerce group provides standard domestic and international parcel pick-up, delivery and return solutions for business customers as well as e-commerce logistics and facilitation services.

DHL e-Commerce has a global delivery network consists of more than 40 automated distribution centers around the world, including 19 distribution centers in North America. Seventeen of these facilities are located in the U.S., situated near high-volume shipping areas. Four of them—in Chicago, Los Angeles, metropolitan New York City and Seattle—also serve as international gateway processing centers.

FedEx CrossBorder

FedEx’s acquisition of Bongo has been repackaged as FedEx CrossBorder and is a subsidiary of FedEx Trade Networks. Among the solutions provided are regulatory compliance, duty calculations, package tracking,
calculating international shipping costs, secure payment processing, multi-currency pricing and credit card fraud protection. According to the company, “FedEx CrossBorder addresses international purchasing obstacles with a seamless checkout and delivery approach that accepts over 80 currencies, provides 15 payment options, manages multiple delivery options, and offers credit card fraud protection, all through a single platform.”

Pitney Bowes Cross Border E-commerce
In 2015 Pitney Bowes acquired Borderfree, which provides e-retailers in the US and UK with a variety of services, including localized e-retail sites for foreign consumers, prices in more than 60 currencies, customs clearance and fulfillment services. The acquisition complemented Pitney Bowe’s existing solutions, which enables e-retailers to show shipping costs and customs fees to foreign consumers and to facilitate overseas shipments.

Singapore Post
Perhaps not a household name when it comes to US cross-border e-commerce solutions, Singapore’s post office has been reinventing itself into a major logistics provider. In late 2015, the postal operator acquired US-based TradeGlobal, which provides digital marketing, product fulfillment and customer service for companies selling fashion, beauty and lifestyle-branded products online in North America, Asia and the United Kingdom. In addition, Singapore Post acquired US-based Jagged Peak, a company that provides logistics services for high-velocity consumer goods through 20 warehouses in the US.

The two US acquisitions have been integrated into Singapore Post’s SP Commerce, which includes web store development and operations, global fulfillment, omni-channel order management, cross-border commerce, performance marketing and customer care services.

UPS i-parcel
In 2014, UPS acquired i-parcel, which offers an integrated platform for US and UK merchants to link to e-commerce consumers in over 100 countries. The technology provides a localized look and feel on the respective merchant’s website and also offers fraud protection, fully-landed total prices – including customs duties and taxes – in local currency, and deferred international transportation as an option for low-cost goods.

Alternatives
While acquisition activity in this space has been high, other logistics providers such as DHL and SEKO, as well as Neopost, have organically created their own unique solutions. Some providers, such as Dubai-based small parcel provider Aramex, have used a combination of organically-created solutions and acquisitions to grow services. In addition, Aramex also offers its own cross-border solution, Shop and Ship, which is an online shopping delivery service that enables customers around the world to receive purchased goods from US, UK and Chinese online stores. The service is provided in more than 25 countries across the Middle East, Africa, Europe and Asia. Aramex’s recent 25% stake in Ohio-based WS One Investment is expected to play a major role for US cross-
border needs. Also, Aramex’s partnership with Australia Post will likewise play a major role in Asia’s cross-border opportunities.

SEKO Logistics has followed a similar path by combining its organically built solutions with acquisitions, such as Metakinetic, an e-commerce marketing and design firm, and Red Hot Penny, a UK-based company that focuses on building online storefronts.

The list of cross-border service offerings grows on a regular basis, but determining the best solution for a retailer will depend on the retailer’s budget, requirements and strategy. In a previous issue of PARCEL, Krish Iyer, Director of Shipping & Tracking for Neopost noted in his article, “Cross-Border 101: A Primer”, that there are differences between shipping internationally and cross-border trade. Retailers must learn these differences but also understand what the options are for each. In addition, beware of potential obstacles, such as returns management, hidden charges (e.g., country-specific duties and taxes) and political upheaval (e.g., the Brexit decision, which may change the dynamics of British cross-border e-commerce sales).
Technology

Speed is the name of the game for delivery companies, and technology is making it happen. The growth of e-commerce and a consumer market that is demanding shorter and shorter delivery times have left delivery companies such as FedEx and UPS scrambling to catch up. As a result, FedEx and UPS are investing heavily in IT to speed the delivery process and give the consumer more control over their packages.

For the delivery company, it all starts in the small parcel sorting facility. Here, items are scanned, processed and sorted for delivery – the faster, the better – to meet such requests as next-day, same-day, and in some cases, less-than-same-day delivery. Automating sorting facilities has become a priority for many delivery companies, and for UPS and FedEx, automating facilities is a strategic multi-year initiative which is currently underway.

UPS’ largest fully-automated package handling hub in Louisville, Kentucky is the size of 90 football fields. The company has tripled the number of conveyors and increased the sorting capacity by 37% to 416,000 packages per hour.

Likewise, FedEx’s largest sorting facility in Memphis, Tennessee also has miles of conveyors and can sort thousands of packages per hour. FedEx has built its own system to control and manage sorting. As a result, FedEx requires IT vendors to provide a standard interface so that it can integrate the sorting and scanning hardware into its proprietary and customized process. This process is part of its Integrated Sortation System. The system uses algorithms that control when and where to divert each package based on data recorded by the scanners situated above the conveyor belts.

Once packages are sorted and loaded in vehicles, the delivery route is optimized to provide the most efficient and fastest means for delivering packages. UPS’ On-Road Integrated Optimization and Navigation (ORION) system uses fleet telematics and algorithms to gather and calculate data to provide UPS drivers with optimized routes. The technology helps UPS drivers determine the optimal way to deliver and pick up packages within a set of stops defined by start time, commit time, pickup windows and special customer needs. The system relies on online map data, customized by UPS, to calculate miles and travel time to plan the most cost-effective routes. Full deployment on the company’s 55,000 routes in the North American market is expected by 2017; however, UPS is already benefiting from ORION. In the first quarter of 2016, ORION lowered driver miles by 1%, despite total delivery stops growing by 6%. In addition, overall productivity gains held direct labor hours to an increase of 1.8%, below the average daily volume growth.

Delivery technology is also empowering more and more consumers by providing real-time visibility. Over the years, FedEx and UPS have enhanced tracking capabilities, allowing consumers to determine where to direct their packages, customize delivery times and provide any special instructions to delivery drivers. UPS recently announced Follow My Delivery to its UPS My Choice service. The service allows members to monitor the progress of their urgent UPS Air and UPS Worldwide Express packages on a live map. The map enables delivery recipients to see a detailed view of where their package is located when it is out for delivery. UPS plans to expand the Follow My Delivery feature to more services in the future.
But it’s in Europe that delivery company, DPD, has raised the bar even further. In 2013, DPD partnered with online retailer ASOS to develop the Follow My Parcel service, enabling customers to track the delivery of their parcel, right down to their doorstep, and enabling them to see a 15-minute delivery slot. In 2014, the two companies once again partnered to develop an early warning delivery service, which offers customers night-before notice, via e-mail or text message, of what time their parcel will arrive. Customers can then choose between five different options, including delivery to a safe place, collect from the nearest depot, deliver to a neighbor, and a delivery upgrade to before 10am or Saturday morning delivery. Customers can change their options from a smartphone, tablet or desktop computer at any time, if they can’t be at home. Due to the positive response, DPD has expanded these solutions to other customers.

In 2016, DPD and ASOS once again partnered to develop a new solution, Precise. When ASOS shoppers receive a notification of their next-day one-hour delivery slot from carrier DPD, they can choose either to accept that slot or choose the exact day and hour they’d like to receive their item, at any time over the next seven days, between 11am and 5pm.

Delivery companies are raising the bar with technology investments to improve efficiency across their networks. Efficiency and speed are important in today’s environment thanks primarily to e-commerce. Those companies demonstrating the greatest gains in efficiency and speed will achieve a competitive advantage.

<table>
<thead>
<tr>
<th>Carrier Technology Capabilities</th>
<th>FedEx Delivery Manager (Fees may exist on some services)</th>
<th>UPS My Choice (Included at no cost unless otherwise noted)</th>
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<tr>
<td>Approximate Delivery Time</td>
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<td>✓</td>
</tr>
<tr>
<td>Delivery Instructions</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Alerts</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Pick up at consumer’s convenience</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Deliveries to another address</td>
<td>✓</td>
<td>$40 Annual Subscription</td>
</tr>
<tr>
<td>Deliveries on another day</td>
<td>✓</td>
<td>$40 Annual Subscription</td>
</tr>
<tr>
<td>Upgrade UPS SurePost Packages to UPS Ground</td>
<td>N/A</td>
<td>$40 Annual Subscription</td>
</tr>
<tr>
<td>Confirmed delivery Window</td>
<td>✓</td>
<td>$40 Annual Subscription</td>
</tr>
<tr>
<td>Redirect to a FedEx location</td>
<td>✓</td>
<td>N/A</td>
</tr>
<tr>
<td>Sign for a package remotely</td>
<td>✓</td>
<td>N/A</td>
</tr>
<tr>
<td>Request vacation hold</td>
<td>✓</td>
<td>N/A</td>
</tr>
</tbody>
</table>
“The Big 3”, also known as the integrators, have long ruled the small parcel market. However, they are facing mounting pressure from the changes occurring in the market. From new entrants, including Amazon to advancing technology, the Big 3 – DHL, FedEx and UPS – are facing increasing challenges and financial pressures to stay abreast of the industry they have long held in tight control.

DHL
In 2014, DHL rebranded its DHL Global Mail to DHL eCommerce as part of a move toward providing customers with new services and solutions for new markets as e-commerce continues to grow.

Services and solutions include e-fulfillment, targeted marketing, shared-use fulfillment facilities, day-definite delivery and handling international returns, in addition to B2C shipping services.

The group has been growing its global distribution network. Earlier in 2016, it opened a distribution center in Shenzhen, China. In addition, it is expanding existing distribution centers in Shanghai and Hong Kong; the centers will be able to handle 48 million and 71 million shipments a year, respectively.

DHL eCommerce is expanding elsewhere in Asia. For example, the group announced plans to build a 32,000 square-foot central distribution center in Bangkok and a network of over 20 depots located throughout Thailand. In addition, it will provide next-day delivery to all urban areas, and two- to three-day delivery to all other locations.

North America is another important location for DHL eCommerce. In July 2016, DHL announced it would invest $137 million through 2020 to build eight fulfillment centers and upgrade two existing warehouses in the US to boost its North American e-commerce capabilities. The group currently operates 20 fulfillment centers in North America, with 18 located in the US. The investment will be aimed at supporting the growing global cross-border e-commerce market.

Within Europe, DHL eCommerce maintains a strong presence. It has expanded its time-window delivery to evenings across Germany and has invested in additional automation for its sorting facilities within Europe. In early 2016, it acquired a 27.5% stake in French parcel provider Relais Colis. The investment in Relais Colis will support additional development of the French company’s network of pickup points and specialized delivery services. “This will allow DHL’s divisions, primarily DHL Parcel, to open up additional channels and expand its offering of logistics services for e-commerce customers to the French market,” DHL explains.

FedEx
Much of FedEx’s e-commerce volume is within the US. The company is in the process of automating and expanding its sorting facilities throughout the country. In addition, FedEx has improved delivery times and has introduced lockers and same-day delivery in select locations. However, with that being said, FedEx has made acquisitions in Mexico, Brazil, Africa and most recently in Europe, all of which to expand its global network.
In 2014, FedEx acquired Bongo International, a company that helps shoppers purchase goods from foreign retailers by automatically adjusting currencies, and customs and shipping costs, by location. In 2016, FedEx rebranded the service and renamed it FedEx CrossBorder. Currently, the group consolidates shipments for global e-commerce retailers in the US, Europe and Peru, but it has plans to expand services to China and Japan in 2017.

As part of its cross-border business, FedEx will also offer the cross-border services to freight-forwarding customers for the first time. The combination could make it easier for business-to-business customers to calculate international shipping costs for larger shipments, according to the president of FedEx CrossBorder.

**UPS**

Similar to FedEx, much of UPS’ revenue and volume is from the US. Investments in automation, new sorting facilities and its route optimization software, ORION, are all benefiting the company operationally within the US. The company is also investing in its networks elsewhere, including Europe and Asia, via new facilities and faster delivery times.

UPS has made a number of significant acquisitions over the years to expand its logistics capabilities. However, its 2012 acquisition of Belgium-based Kiala gave UPS a platform that allows e-commerce retailers to offer consumers the option of having goods delivered to a convenient retail location. Kiala’s platform offers consumers with fast delivery of parcels to a convenient collection point, which is typically a store, and through the Kiala platform, consumers can track their parcels online and are notified via SMS, e-mail or phone when a parcel has arrived at a specific delivery point. Since the acquisition, UPS has rebranded it as Access Point and expanded it further throughout Europe.

Access Point has since been expanded in North America and Asia and also includes lockers. UPS is working with 7-Eleven and independently owned and operated retailers to offer the locker program in select areas across the country.

Another acquisition that has had an impact on UPS operations is that of Coyote Logistics. After the 2013 holiday season debacle, UPS contracted Coyote to design a set of software to help UPS meet holiday demands through an increase in logistical efficiency. UPS is still using this software today, and the acquisition of Coyote ensures that UPS will be able to create or update its logistics software as needed, further adding to its efficiency. In addition, UPS is now able to tap into Coyote’s network of 35,000 contract carrier companies for peak season or other periods in which short-term trucking is needed.
Post Offices

According to the Universal Postal Union (UPU), there are over 663,000 postal establishments in the world. The UPU is an organization dating back to 1874 and serves as a “forum for cooperation between postal sector players.” In addition, the organization collects data from postal operations worldwide to present a united look at these entities. For example, overall revenues are still dependent on global letter-post volumes. Global letter-post volumes still account for the majority of postal revenues at 43.4% in 2013. However, this is down from 51.8% in 2002. In addition, financial services, parcels and logistics services and other services are playing a growing role.

Parcels are indeed a growing component of post offices’ revenue and volume. In 2013, 6.7 billion domestic parcels were processed, a 3.7% increase from 2012. 67 million international parcels were processed, a 5.8% gain over 2012.

But at the same time, other services as noted previously are on the rise. These services, including parcels, are playing a major role in transforming the post office into not only a destination, but inventive logistics and delivery providers.

As post offices transform, environmental pressures mount – privatization and competition. How individual post offices have adapted varies and is indicative to the needed success of transformation for these entities to remain viable.

Postal privatization talks are growing louder and louder around the world as governments seek to control budgets and cut debt. Austria, Germany and the Netherlands have each privatized postal services, and in the past year or so, this has been followed by the UK’s Royal Mail, partial privatization in Italy and Japan and an announced plan for an IPO for Poland’s postal services in 2016.
How successful has privatization been for post offices? According to a 2011 report by the Montreal Economic Institute, the cost of letter mail stamps declined 11% in Austria, 15% in the Netherlands and 17% in Germany after privatization was instituted.

Furthermore, studies conducted by additional groups note that opening mail delivery and postage rates to third-parties will ensure competition and new businesses and jobs would be created. Additionally, the British government claimed that privatization would give Royal Mail access to private capital. For Royal Mail, access to private capital has allowed it to expand and update sorting facilities, as well as introduce new services. As a result, it is competing head-on in a highly competitive UK market. How well the almost 500 year old entity succeeds remains to be seen, particularly as new entrants and service offerings enter the market. The key, as noted previously, is adaptability.

Indeed, privatization has resulted in some impressive transformations, as with Germany’s Deutsche Post, now the world’s largest logistics provider. In fact, we may see another similar transformation by Japan Post with its IPO and acquisition of global logistics provider and freight forwarder, Toll Holdings.

For logistics providers, privatization of post offices offers a “leveled playing field” in which to compete. Long backed by government funding, post offices often times present perhaps an unfair competitive advantage for logistics providers. However, this is changing.

What is driving much of this change is the parcel. It is one of the fastest growth components for post offices but still lags in terms of revenue for many. In addition, the focus on the parcel is putting post offices in direct competition with the likes of FedEx, TNT, UPS and Deutsche Post DHL, as well as a host of new entrants looking to take advantage of e-commerce – a growth machine for parcels, thus changing the look, strategy and services that post offices provide.
Amazon

Amazon is dominating headlines by constantly challenging the logistics status quo. What started out as “the leading online retailer of books” in 1994 has evolved over the last decade to become “Earth’s most customer-centric company.” To support this self-proclaimed title, Amazon has built a unique supply chain network that is transforming the way supply chains are built and managed.

Today’s logistics network is moving closer and closer to the customer. Shortening the time from order to fulfillment to delivery is critical to a growing segment of the population. These days many consumers want their packages next day, same day or even within one hour. Amazon’s fulfillment network reflects these changing customer preferences and, in some aspects, may even be responsible for changing consumer behavior.

Amazon has developed highly automated facilities and has about 85 fulfillment centers and 26 regional sortation centers. Eighteen were added in third quarter alone bringing the total added in 2016 to about 26. Once an order is placed, the order is then located via its warehouse inventory management system. Products within an order may ship from several different locations depending on product type and availability. Once located, the order is assigned a priority depending on delivery preference. For example, a “Super Saver” order may wait a few hours before being processed while an Amazon Prime order needs to be shipped the same day.

Efficient and fast as they may be, Amazon’s fulfillment costs still remain a challenge at $13.4 billion in 2015. Fulfillment costs as a percent of net sales have risen from 10.5% in 2012 to 24.6% in 2015. These costs are being driven by expansion of its fulfillment network, rising transportation costs and the hiring of tens of thousands of employees to run their massive facilities. Attempts to reduce fulfillment costs have included introducing more automation, such as robots from its Kiva acquisition, sophisticated algorithms to streamline operations and outsourcing some fulfillment facilities to Menlo Logistics, now a part of XPO Logistics.
The 2013 holiday season was an eye opener for the logistics world, as many packages did not arrive in time for Christmas. Retailers, led by Amazon, issued apologies and gift cards to customers as a remedy for broken delivery promises.

The backlash in 2013 served as a wake-up call and is considered a major factor in Amazon’s plan to take more control of its delivery network. Rising shipping costs have been a critical problem for Amazon for years. Increasing the Prime subscription fee has helped offset some of the costs, but rising shipping rates continue to be a huge obstacle. Overall, 2015 shipping costs increased 32.5% over the previous year, and net shipping costs were up 18.8%.

Amazon has been adding sortation centers to its US network to further reduce shipping costs. These centers are used to sort aggregated packages and pallets from fulfillment centers and ship to either post offices or local couriers. Amazon recently acquired thousands of branded trailers for transporting merchandise between its fulfillment and sortation centers. In addition, these centers have allowed the company to expand delivery days by offering Sunday delivery in selected cities year-round via the US Post Office.

In late 2015, Amazon was granted a NVOCC license by both the US government and the Chinese government. While Amazon has not publicly stated its plans for the license, freight forwarder Flexport speculates that Amazon could provide freight forwarding services to Chinese companies looking to export products directly into its Fulfillment by Amazon (FBA) warehouses or perhaps even cross-docking the goods to inject into Amazon’s US delivery network. In addition, Amazon could provide a service most other freight forwarders are unable to: limiting the number of cargo “handoffs” within the supply chain, as well as fully taking advantage of its strong IT capabilities to further automate the process.
During the 2015 holiday season, it was rumored that Amazon was running an air cargo operation, leasing aircraft from Air Transport Services Group. Using a previously owned DHL hub in Wilmington, Ohio to facilitate the operation, daily flights were made to Allentown, PA; Ontario, CA; Tampa, FL; Oakland, CA and Dallas, TX. It remains to be seen if Amazon is building its own air cargo network or if this was a temporary solution for peak holiday season volumes. During the same period, there were also rumors of Amazon creating a European Air Cargo network. With the assistance of freight forwarder DB Schenker, it is believed that Amazon is utilizing chartered flights from carrier ASL between the cities of Wroclaw, Poland; Doncaster, UK and Kassel, Germany; with the possibility of expanding test flights into Spain and Italy.

While Amazon did not respond to the 2015 holiday rumors, in March 2016, Air Transport Services Group (ATSG) announced agreements with Amazon Fulfillment Services, Inc., an affiliate of Amazon to operate an air cargo network to serve Amazon customers in the United States. “We offer Earth’s largest selection, great prices and ultra-fast delivery promises to a growing group of Prime members, and we’re excited to supplement our existing delivery network with a great new provider, ATSG, by adding 20 planes to ensure air cargo capacity to support one- and two-day delivery for customers,” said Dave Clark, Amazon senior vice president of worldwide operations and customer service.

The duration of the 20 leases will be five to seven years; the agreement covering operation of the aircraft will be for five years.

In addition, ATSG also agreed to grant Amazon warrants acquiring over a five-year period up to 19.9% of ATSG’s common shares.

The next month, in April, Atlas Air Worldwide announced its strategic partnership with Amazon. According to Atlas’ press release, “our new service will support the continuing expansion of Amazon’s e-commerce business and the enhancement of its customer delivery capabilities.” Similar to the ATSG agreement, Atlas will lease 20 767-300 freighters to Amazon, and like the intended use of Amazon’s trailers acquisition in late 2015, the planes will be used to move packages from Amazon’s fulfillment centers to its sortation centers, which sort them into local delivery pallets that can be taken to the post office for bulk delivery.

Additionally, Amazon is granted warrants to acquire 20% of Atlas’ common shares, and based on any incremental revenue paid to Atlas – outside of the initial 20 767s – Amazon would earn warrants to acquire as much as an additional 10% of common shares.

Lastly, as part of the agreement, Amazon received the right to appoint a non-voting board observer at signing, and then Amazon may convert that seat into the right to appoint a director to Atlas’ full board, if they exercise warrants and own at least 10% of common stock.

The Last Mile

While Amazon utilizes a variety of delivery partners such as FedEx, UPS, USPS and regional carriers, it is also tiptoeing into the last-mile delivery and is doing so in creative ways.
After first introducing Amazon Fresh in 2007 in its hometown of Seattle, the service expanded to Los Angeles in 2013 and subsequently to other metropolitan areas in New York, New Jersey, Dallas and Chicago; and internationally, in the UK in 2016. The Amazon-owned and operated delivery service primarily delivers groceries, but also delivers additional merchandise from its vast catalog.

Amazon’s Prime Now is pushing the envelope even further by providing one- and two-hour delivery service for Prime members in more than 20 US metropolitan areas and in various European cities. This may be considered a specialized service, but it has already shaped customer expectations. Amazon recently noted that in the US, Christmas Eve 2015 was its biggest day ever for two-hour deliveries.

Amazon Flex was introduced in late 2015 as a crowdsourced delivery option for Prime Now’s one- and two-hour delivery options. Amazon initially launched this service in Seattle, but has expanded it to other cities, including Portland, New York and London.

Amazon continues testing drones as an option for last-mile delivery. What was considered a joke by many just a couple of years ago may actually become a reality. The first step occurred in December 2015, when the Federal Aviation Administration (FAA) began requiring all drones to be registered. In 2016, Amazon and the UK government announced an agreement to allow Amazon to test its delivery drones in England.

A New Kind of Logistics Provider
To become “Earth’s most customer-centric company,” Amazon has had to develop a unique supply chain, but is it building its supply chain network for its own purposes or is it preparing to take on existing logistics and transportation providers?

Precedence may have already been established via its fulfillment services offered to businesses that sell on Amazon’s Marketplace platform. Besides pick and pack services, Fulfillment by Amazon (FBA) also offers Amazon Prime free two-day shipping, customer service and returns solutions. Amazon recently announced that its fulfillment services operation handled the warehousing, packing and shipping of one billion items for its fulfillment customers in 2015.

It’s highly unlikely Amazon will reach a point in which it no longer needs any transportation partners, but as e-commerce continues to grow, the dynamics around delivery will evolve. The question is whether logistics and transportation companies can keep up, or if competition will demand a new kind of supply chain network in order to succeed.

Amazon does not plan to replace its parcel carrier partners… or so the company says. “We have to have capacity for peak delivery times. We have had to take over a lot of the last-mile delivery in the UK over the last several years.” according to Jeff Bezos, CEO of Amazon.com. As a result, Bezos further noted that Amazon now uses its own trucks for about half of its last-mile deliveries because the Royal Mail has run out of capacity.

Meanwhile in Germany, Amazon is reported to have 240 delivery vans operated by six subcontractors in the Munich area. According to the newspaper Handelsblatt, they have taken a third of DHL’s business in the area.
What is next for this giant retailer, IT company and logistics provider? It continues to build out its network in Europe, as well as its Amazon Prime services, country by country. Recently, it launched Amazon Prime in Italy and has expanded Prime Now, its one-hour delivery service, to Paris after taking over a warehouse in close proximity to the city. In addition, it dropped plans to purchase the remaining 75% share in French parcel delivery company, Colis Privé.

A somewhat similar situation existed in the UK, in which Amazon had an option to acquire a small stake in delivery company Yodel, but the option was not exercised, and we now see Amazon growing its own fleet within the UK. Will we see similar actions in France and perhaps Italy?

Could Amazon take on deliveries on behalf of other companies? It’s possible, and in fact, Amazon’s European head of logistics told the newspaper, Handelsblatt, “We know we’re very good at logistics. Why shouldn’t we turn that into an infrastructure offer that others can use?”
Alibaba

Amazon’s biggest rival is Chinese-based Alibaba. Alibaba is the largest e-commerce provider in China, with an estimated 80% share of China’s e-commerce market. The company operates a number of commerce sites aimed at different types of sellers. The largest of Alibaba’s sites, Taobao, is a fee-free marketplace that connects buyers and sellers, similar to eBay but without the bidding. The company generates revenue by selling ads against select pages and search results. The other two major Alibaba sites are TMall.com and Alibaba.com. Together, the sites have 423 million annual active buyers.

Instead of building its own logistics network, Alibaba established a subsidiary, Cainiao, to manage logistics and last-mile delivery. The company was formed by Alibaba and partners including SF Express, Shentong Express, YTO Express and Yunda. Cainiao’s platform enables the delivery of an average of 57 million packages per day, which is made possible by over two million delivery and warehouse personnel and 180,000 delivery stations through Cainiao’s logistics partners.

In addition, Cainiao operates a proprietary logistics information platform that links its network of logistics providers, warehouses and distribution centers together and allows participants to confidentially share information on orders, delivery status and user feedback. This information flow and related data analysis help logistics companies achieve higher efficiency and quality service for both merchants and consumers. Through its use of “big data”, average package delivery time across China has been reduced from 3.1 days in 2014 to 2.6 days in 2015.

In 2015, Cainiao launched three-hour speedy delivery services in five major Chinese cities, which initially focused on the delivery of health care products. By the beginning of 2016, Cainiao expanded this service to 14 additional major cities and included more product categories. Next-day delivery service is also available in 50 cities. In total, same-day and next-day delivery is available in more than 700 districts and counties.

A special focus to expand e-commerce to rural China led to the creation of Rural Taobao. Alibaba plans to invest $1.6 billion in this expansion through 2019, with the ultimate goal of opening 100,000 Rural Taobao centers. The company has enlisted more than 15,000 village “partners” who help residents order goods online and assist with payment and delivery. As of August 2016, Alibaba’s delivery network covers 20,000 villages, with plans to set up 1,000 county-level operating centers and 100,000 village-level service stations. Its goal is to provide home delivery in rural areas, help villagers sell their products more widely and provide after-sales service for rural customers.

Expanding Internationally

The majority of Alibaba’s revenue is derived from China. In order to grow revenue, the company knows it needs to expand internationally, and cross-border solutions are one method. Alibaba offers bonded import logistics and AliExpress export logistics.

The company works with partners around the world, including post offices such as Australia Post, the UK’s Royal Mail, Brazil’s Correios and the US Postal Service. Typically, a shop front is created on Alibaba’s B2C marketplace, Tmall. It is then promoted by the post office, allowing Chinese consumers to order goods from the country in
which that post office is operational. The post office handles the documentation for the firms, as well as things like marketing, promotion and customer services.

In return, the post office typically will receive a commission on the sale of products and revenue for shipping them.

Besides post offices, Alibaba is also partnering with logistics providers such as Nippon Express, to encourage cross-border trade. With this agreement, Nippon Express will transport goods from Japanese companies doing business on Alibaba’s Tmall platform to China, while an Alibaba affiliate will handle the last-mile delivery. Goods will either be delivered by sea or shipped by surface in advance and temporarily stored in warehouses.

Investing in logistics providers is another means by which Alibaba is expanding its reach. Alibaba owns a 14.5% stake in Singapore Post. Among its reasons for investing in Singapore Post are the post office’s tight logistics and delivery operations in Southeast Asia. This investment will help Alibaba reduce its costs of getting items to customers or between other businesses, especially in this region.

In addition, Alibaba has invested in its logistics partner, YTO Express. Alibaba’s Cainiao and YTO Express will work together to enhance the industry’s logistics management capabilities and international and rural delivery services.
Startups

Each region presents its own host of logistics startups, such as Shippit and Lalamove in Asia Pacific; Nimber and Shutl in Europe; Postmates and Instacart in North America; and Fetchr and Africa Courier Express in the emerging market regions. But perhaps one of the most well-known startups is Uber.

Founded in 2009, Uber started out disrupting the taxi business by allowing consumers with smartphones to submit a trip request which is then routed to Uber drivers who use their own cars. Since then, the company has expanded to over 66 countries. It has further expanded this concept into other services, such as its UberEats service, which delivers meals on behalf of restaurants, and UberRush, a courier service that delivers items like groceries, takeout food, house supplies and more. Currently available in New York, San Francisco and Chicago, it has expanded its service by providing its application programming interface (API) to its app to several retail and delivery partners, including Nordstrom, 1-800-Flowers, T-Mobile, Rent the Runway and Google Express. Customers access the service via the merchant’s website, app or by phone. Uber takes a 25% cut of the delivery fee in San Francisco and Chicago, which is calculated based on distance, and 20% of the delivery fee in New York. The rest of the fee is given to the courier.

For many logistics startups, same-day delivery combined with crowdsourcing (i.e. the Uber model) is often the focus of its business, and while many of these have grabbed media attention, as well as venture capitalist funding, the reality is few – if any – are actually profitable. The reason for the lack of profitability for many of these startups is charging an unsustainable delivery fee. In addition, the classification of delivery drivers from contractor to employee has also impacted many bottom lines.

While many of the startups center on the delivery or final mile aspect, there are others that are redefining warehousing. For example, Flex is similar to Airbnb in that it matches companies that don’t have enough warehouse space with companies that have temporary warehouse space available. The service is intended to meet the needs of companies introducing products to test markets or for those with a high seasonal demand. Flex collects a transaction fee when the buyers and sellers are matched.
The Small Parcel Market – How Big Is It?

Utilizing key economic data from the World Bank, including household consumption and industrial production, as well as IMF GDP estimates, Spend Management Experts estimates the 2015 global small parcel market at $190.8 billion, a 4.3% increase from 2014. The increase is due to the growth of e-commerce, as well as other external factors, including the launch of new electronic products such as smartphones and pharmaceuticals, as well as required parts for the automotive, industrial and chemical industries.

By region, North America maintains the largest share of the global small parcel market. With 35%, the US leads the region, and in fact, had the biggest year-over-year increase as compared to other regions at 5.3% to $60.8 billion in 2015. The increase can be attributed to a reasonably strong economy, as well as healthy automotive industry and strong gains in e-commerce.

In terms of market share of the global small parcel market, North America gained share at the expense of Europe. Europe noted a 2.3% year-over-year increase and an overall 26% share of the global small parcel market to $49.2 billion for 2015. The region has experienced a sluggish economy, as it continues to struggle to regain steady, consistent growth not seen since before the global recession of 2008-2009. Despite the sluggish growth, the UK noted a 7.6% year-over-year gain to $2.7 billion in 2015. A brighter economy and e-commerce growth were among the trends that led to the UK’s growth.

Asia Pacific also gained market share at the expense of Europe, but at a much smaller rate than North America. Representing 33% of the global market, Asia Pacific noted a 4.7% year-over-year increase to $62.7 billion. The growth was led by China, which recorded an estimated 8.3% year-over-year increase to $22.2 billion. Despite the economic slowdown in this region, governments have placed a unique emphasis on e-commerce in hopes of it jumpstarting struggling economies.
Lastly, the emerging markets represent 6% of the global small parcel market. Many risks are associated with this volatile group of countries including Russia, Brazil, Nigeria and Saudi Arabia. China’s domestic market is often associated with this group as well, as its government works to shift the country’s export-focused economy to a more balanced one that includes domestic consumption.

Poor infrastructure, lack of broadband connectivity and erratic economies often describe this group.

Growing year-over-year at 2.4%, emerging markets’ small parcel size is about $10.9 billion. Although a small portion, this group represents the biggest opportunity for many logistics and small parcel providers due to population dynamics including size, younger average age and growth of the middle class.

**APAC**

Asia Pacific has long been a major destination for multi-national businesses, as supply chains have globalized and demand from Western countries for Asian exports has increased. As the region shifts from an export-dependent economy to one that is consumer-driven, logistics dynamics have changed. What was once an international supply chain dominated by air and ocean freight providers has evolved into a regional supply chain driven by e-commerce and influenced by domestic express and small parcel providers. Unlike the US, the Asia Pacific market is a fragmented and immature market struggling to keep up with huge demand. As a result, many retailers and e-commerce providers have established their own logistics solutions.
According to market research company eMarketer, a rising middle class in China, India and Indonesia, combined with a rapid adoption of mobile devices, has resulted in a boom in e-commerce spending. Retail e-commerce spending in Asia Pacific was estimated to be $877.6 billion in 2015, up 35.7% from 2014, making the region the largest digital retail market in the world with 52.5% of the total global market.

Despite the rise in online spending, Asia Pacific’s domestic supply chain is underdeveloped compared to its export supply chain. Some of the challenges being faced are inadequate warehousing, a fragmented delivery market lacking technology, competition based solely on rates, and poor customer service and service levels. As a result, logistics is viewed as a differentiator for businesses and for many e-retailers, such as JD.com, Rakuten and Flipkart, where logistics practices are kept in-house. E-tailers JD.com and Flipkart have created such successful logistics subsidiaries that they are now providing delivery and warehousing services to other businesses. In June 2016, Wal-Mart sold its Chinese-based Yihaodian website to JD.com and in return received a 5% stake in JD.com. Within four months, according to SEC filings, Wal-Mart increased its stake in JD.com to 9%.

Meanwhile, the largest e-commerce provider, Alibaba, has opted to establish a subsidiary in which logistics providers such as SF Express and YTO Express are considered partners and therefore operate as separate entities. The subsidiary, Cainiao, is approximately 40% owned by Alibaba and includes a very robust technology network. Consumers are able to track parcels as well as pick and rate delivery partners. The ability to access key data, analyze it and implement service enhancements based on such analysis rivals Amazon’s own web services here in the US.

Even though Amazon has been remarkably successful in the United States and Europe, its presence in Asia Pacific is muted in comparison. Amazon has less than five percent market share in China, where Alibaba dominates with 80% market share. Amazon is investing heavily in India. India’s domestic parcel market is crowded, as the government eases regulatory requirements for foreign entrants. DHL, Gati, DTDC, Flipkart, Snapdeal and more are all vying for a piece of the small parcel market in India by building out networks and warehouses.

Asia Pacific is also an appealing market for FedEx and UPS. Despite obtaining licenses to operate in defined local Chinese markets, as well as in other Asian domestic markets, FedEx and UPS have placed more emphasis in serving their multi-national customers. With acquisitions of cross-border specialty businesses by both companies, additional opportunities in Asia Pacific’s domestic small parcel market exist for FedEx and UPS.

Expanding cross-border solutions is a high strategic priority for many providers. For example, Alibaba acquired a 14.5% stake in Singapore Post, an innovative postal operator that has reinvented itself by focusing on e-
commerce small parcel solutions in Southeast Asia. It is also establishing a partnership with struggling Australia Post to link Chinese consumers and businesses to those in Australia. Another example is Japan Post, which is expanding its cross-border reach by partnering with retailers, such as FamilyMart and online auction provider eBay. In addition, the Japanese government issued an IPO for Japan Post last fall and in early 2015, the post office acquired Australian 3PL Toll Holdings. The IPO and acquisition of a major global 3PL could see Japan Post expanding its global reach further.

Asia’s logistics market is ripe with opportunities but is also one in which domestic providers dominate in a heavily fragmented market. Often described as the “wild west”, Asia Pacific is undergoing domestic infrastructure improvements to benefit the growing needs of consumers. While many businesses opt to keep logistics in-house, multi-national retailers wishing to expand into the region are partnering with e-commerce providers Alibaba, JD.com, Rakuten or postal provider Singapore Post to sell their goods to the Asian consumer.

Europe
The world is shrinking thanks to global trade, and while the US small parcel market is still dominated by a handful of delivery companies, Europe is much more diverse. The European market is comprised of approximately 50 countries, which is comparable to the number of states in the US market. However, small parcel players vary considerably from one country to the next, much more than they vary from state to state in the US. The current trends of the European small parcel have similarities to the US market and include:

- Click and Collect – According to Forrester, about one in seven online consumers in Europe use the click and collect option if available.
- Cross-Border – Overseas and within the region, cross-border is increasing due to the growth of e-commerce. In 2014, 15% of all individuals in the EU28 purchased goods and/or services via the Internet from sellers outside their country of residence. This is an increase of 25% compared to 2013.
- Technology – Faster, efficient technology offers complete visibility as small parcel providers seek ways to differentiate in a diverse market.

Courier, express and parcel (CEP) providers are adapting to these trends in a variety of ways and are offering new services and expanding via acquisitions. Changes are occurring at a rapid pace.

The largest CEP providers in the European market are the three global integrators: DHL, FedEx and UPS. FedEx has further expanded its European reach by acquiring TNT Express, which has a ground network linking European countries. DHL has invested in innovative solutions, such as its own locker network, Packstations, with well over
3,000 in Germany alone. According to the company, 90% of people in Germany live within 10 minutes of a DHL Packstation. In 2014, DHL began installing Packstations outside of Germany in locations such as Italy and the Netherlands. UPS’ click and collect service, Access Points, was born from a 2012 acquisition of Belgian-based Kiala and today is available in Belgium, France, Germany, Poland, Spain and the UK.

However, the Big 3 integrators are not the only delivery companies in Europe. UK-based Yodel is a popular choice for low-cost B2C delivery for retailers. The company was formed in 2010 when Home Delivery Network acquired DHL’s UK domestic business.

Germany’s Hermes is a big player in B2C delivery for retailers and the e-commerce sector. Hermes specializes in reducing delivery times by offering a four-hour time window on the morning of parcel delivery or collection, a timeframe that will soon be reduced to two hours. It is also eyeing international cross-border solutions with its BorderGuru service, which includes the tracking and management of the international logistics chain and country-specific import and customs clearance.

Postal reforms among several European countries, such as the UK, have put these former government-controlled entities in direct competition with the likes of DHL, FedEx and UPS. UK’s Royal Mail has invested in service centers in order to handle parcels quicker, as well as extend hours of operation. In addition, its European parcel subsidiary, GLS, launched a partnership with Chinese express company ZJS Express for cross-border service.

Meanwhile, post offices still under government control, such as La Poste, have achieved success by taking advantage of its protected status by expanding its role from French letter carrier to global parcel carrier via its GeoPost subsidiary. Companies such as DPD, Chronopost and Interlink Express have been folded into GeoPost’s umbrella as subsidiaries, along with investments in companies, such as India’s DTDC. La Poste is one of the largest European CEP providers, having delivered over one billion parcels in 2015.

Similarly to the US, there are a variety of crowdsourced delivery companies popping up across Europe. For example, Nimber is a marketplace that matches a person who has something they want delivered with someone traveling in the same direction. The website allows people to post details of items they want transported short or long distances. On the other side of the transaction are those traveling by foot, car or van in the same direction who agree to take the package and deliver it for a fee.

We can’t forget about Amazon. Amazon is rapidly evolving in Europe by moving further into the delivery space by offering same-day delivery and delivery of groceries in the UK, building a rumored Air Cargo network, installing lockers across Europe, and even acquiring and making investments in European parcel carriers.

The European parcel market is diverse, and while there are similarities to the US market, it offers unique opportunities for companies looking to expand into this market. Before expanding, be sure to do your homework – costs and shipping requirements can vary greatly from one country to the next.
North America

Representing the largest percentage of the global small parcel market, North America is dominated by fewer players compared to other geographic regions. FedEx and UPS command much of the share, while regional and postal players follow. Startups, many of which can be described as “Uber-style delivery” that take advantage of crowdsourcing and same-day or less delivery, are also plentiful; but few – if any – are profitable.

Amazon looms large over the region, as it builds its logistics network to meet the needs of its customers. This, in turn, has many retailers, as well as logistics providers, scrambling to keep up. Warehousing demand is high as the growth of e-commerce drives warehousing and fulfillment solutions closer to the customer. According to real estate property management company Prologis, e-commerce represents about 20% of all new leasing, up from less than 5% five years ago.

Indeed, FedEx and UPS are upgrading and expanding their facilities and networks to ensure faster delivery times, while the postal operators are introducing unique service operations, such as grocery delivery, to offset declines in mail revenue.

Meanwhile, the use of regional providers, such as OnTrac, LSO and Lasership, are growing thanks to the rise of e-commerce. Amazon utilizes many of these providers for final-mile delivery, as do other retailers, like Walmart. As part of its two-day delivery subscription service, Walmart noted it would use regional carriers to deliver more of its packages, as well as rely on eight e-commerce warehouses around the country.

In Canada, the growth of e-commerce is just now beginning to make a noticeable impact. However, it’s a bit different. According to Statistics Canada, in 2012 (the most recent year available), Canadians spent CA$7.7 billion online with retailers based in Canada; whereas, it estimated total online spending at CA$18.9 billion. In other words, nearly 60% of the money Canadians spent online in 2012 was with sellers outside the country. Retail and marketing consultants J.C. Williams Group estimated two-thirds of Canadian online shoppers buy from sites outside of Canada, while sites based in Canada accounted for 49% of total digital spending in Canada in July 2014. FedEx, UPS, DHL and Purolator (Canada Post’s freight and logistics subsidiary) are among the providers to benefit from this cross-border activity. In addition, FedEx Express has partnered with Home Hardware Stores to house full-service FedEx Authorized Ship Centers within their stores throughout the country, while UPS has expanded its Access Points to 9,000 locations in Canada.

Even though e-commerce is growing in Canada, high shipping costs have limited its growth as compared to that of the US. As a result, more US department stores, such as Nordstrom’s, are entering the Canadian market. However, Target remains a cautionary tale for many US retailers entering the Canadian market because of a poorly designed supply chain which left shelves empty and a perception that its Canadian stores were more expensive than those in the US.
Cross-border activities between the US and Mexico are also strong because of NAFTA. Manufacturing activity in both countries have greatly benefited from this trade agreement with trucking being the primary means of transport of goods between the two countries, as well as within the country. Along with the trucking companies, small parcel providers DHL, FedEx, UPS, Estafeta (Mexico’s largest small parcel provider), and other small specialized providers serve the domestic and cross-border market.

Thanks to the expanding Mexican manufacturing activity, the Mexican middle class is growing, and as a result, domestic consumption is on the rise. Cross-border e-commerce is growing, and service offerings from providers such as Estafeta and RedPack are assisting in not only the complexities of cross-border, but also handling the final-mile delivery.

Emerging Markets
The term “emerging market” was first coined by the World Bank’s International Finance Corporation. The World Bank group offers this vague description of those countries, “those countries that have growing economies and a growing middle class.”

For many of these countries, the GDP is typically below the global average but is growing at a faster rate than the average. In addition, many of these countries are undergoing profound social and political change, often for the better. According to Brookings Institute, by 2030, emerging markets’ populations will more than double in size, from 2 billion today to 4.9 billion. In addition, the think tank expects two-thirds of the global middle class will live in the Asia Pacific region by 2030, up from just under one-third in 2009.

As more businesses look toward emerging markets for growth opportunities, global logistics providers are following. Emerging markets in Africa have been of interest to several logistics providers. DHL has expanded its retail stores across the region, often partnering with local businesses. These stores offer a location to pick up and drop off packages. In 2014, FedEx Express acquired Supaswift businesses in South Africa, Botswana, Malawi,
Mozambique, Namibia, Swaziland and Zambia. The intention of the acquisition was to grow its African network and service offering, as well as to provide a complete suite of export, import and domestic solutions across Southern Africa.

South America has also witnessed interest from logistics providers. In 2012, FedEx acquired Rapido Cometa Logistica e Transportes SA, one of the largest logistics companies in Brazil. Rapido had been FedEx’s authorized representative in Brazil for 11 years. The company has 770 vehicles and trailers and about 9,000 workers in Brazil and 45 branches. FedEx will further expand its reach in Brazil, along with Argentina and Chile, via its acquisition of TNT Express. Meanwhile, UPS has organically built an impressive, but limited, ground network in Brazil primarily for B2B.

Asian emerging markets are also experiencing logistics interest, particularly as many countries experience domestic growth, and thus the need for warehousing and transportation solutions.

Indeed, the poor infrastructure in many of these countries has restricted potential growth and created higher logistics costs – poor road conditions, lack of tracking of packages, and restrictive customs and taxes that hinder cross-border growth. In addition, 75% of Earth’s population, an estimated 4 billion people, have no address. Most of those people are in emerging markets. Startups, such as What3Words and Fetchr, are addressing this issue in unique ways.

What3Words divides the world’s surface into grids measuring 3x3m and assigns a three word marker to each one. The idea is that it’s more specific than postcodes, which were invented when posting letters was the main form of communication, and it’s simpler than GPS coordinates, which are too complex for the average person to remember. The service has been utilized by the UN, which has used it to specify locations that have been hit by natural disasters. Mongolia’s post office has switched to the What3Words system because there are too few named streets in its territory. The mail network provides service to over 1.5 million square kilometers (580,000 square miles), though much of that area is uninhabited.

Based in Dubai, Fetchr has developed an app to utilize customers’ GPS coordinates as a delivery location. It allows users to take an image of their package for drivers to identify it, schedule pickup and delivery, track the package, make payment and collect the items. The app offers B2C and C2C deliveries.

Other startups, such as Argentina-based ShipNow, are looking to lower shipping costs for e-retailers. ShipNow acts as a gateway, integrating with shipping and logistics companies, as well as platforms like Shopify, and identifies the best carrier for each retail order.
Concluding Remarks

Increasing volumes and shorter delivery times are redefining a market long controlled by The Big Three; however, their grip on the market is loosening as competitive threats from startups, post offices and other companies such as Amazon make inroads into the market.

In our first annual look at the global small parcel market, we’ve identified major trends such as alternative delivery locations, technology’s role and how fulfillment requirements are changing. In addition, we sized the global market by region and analyzed each region highlighting key trends and major players.

The outlook for small parcel growth is bright for all regions. E-commerce will continue to drive much of the volume growth despite uncertain economies and will likely further result in new services and mergers & acquisition opportunities as competitors look to expand their reach into new regions and new service offerings.

As part of Spend Management Experts’ mission, we believe it is important for shippers to be knowledgeable of the small parcel market in order to negotiate rates and terms in the most effective manner. Options continue to grow and it is important to consider these options such as delivery provider, service level and fulfillment capabilities and how they relate to shippers’ strategic goals.

For additional insight in the market, subscribe to our weekly blog posts and of course if you have any questions on this report or anything else, you can contact us at solutions@spendmgmt.com.

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Sources
An array of sources was used in compiling this report. For example, economic data from the World Bank and IMF were used in the market sizing methodology. eMarketer and the US Census Bureau were utilized for e-commerce trends and the Parcel Magazine, Wall Street Journal and Techcrunch was used for small parcel trends. Press releases and the Universal Postal Union were further used for company and postal information and analysis.