



The packets and parcels sector in Ireland

REPORT PREPARED FOR COMREG – PUBLIC VERSION

May 2015

The packets and parcels sector in Ireland

Executive Summary	1
1 Introduction	7
1.1 <i>What this study covers?</i>	7
1.2 <i>Overview of research method</i>	8
1.3 <i>How is the report structured?</i>	10
2 Parcel and packet sector overview	11
2.1 <i>Overview of main operators</i>	11
2.2 <i>Packet and parcel products and services</i>	14
2.3 <i>Estimated size of packets and parcels sector in Ireland</i>	19
3 Analysis of market dynamics	29
3.1 <i>The evolution of the packet and parcel sector</i>	29
3.2 <i>Senders' requirements</i>	33
3.3 <i>How operators currently compete</i>	35
3.4 <i>Competition leading to changes in the structure of the parcels sector</i>	40
3.5 <i>Key market dynamics findings</i>	40
4 Future prospects for the sector	43
4.1 <i>Customers' future expectations and requirements</i>	43
4.2 <i>Opportunities and challenges faced by parcel operators</i>	45
4.3 <i>Demand projections for the next three years</i>	52
5 Conclusions	57
Bibliography	59
Annex 1: Aggregated results from the Questionnaire	63
Annex 2: Supply Chain	71

The packets and parcels sector in Ireland

Figure 1. Key trends in the packets and parcel sector	2
Figure 2. Estimated packet and parcel sector volumes (2011-2016)	3
Figure 3. Future opportunities for packet and parcel sector	5
Figure 4. Challenges for packet and parcel sector	6
Figure 5. Packets and parcel value chain	8
Figure 6. SME survey participants by sector of the economy	9
Figure 7. Sender/receiver matrix	18
Figure 8. E-Commerce growth by sector	19
Figure 9. Operators used by SME senders between 2011-2014	23
Figure 10. Growth in volume in Ireland between 2011-2013 (millions of items)	25
Figure 11. Growth in value of packets and parcel sector between 2011-2013	26
Figure 12. Change in demand for packet and parcel services from 2012-2014	30
Figure 13. Main drivers of increased demand between 2012-2014 (split by firms that send mostly B2B and mostly B2C)	31
Figure 14. Top two criteria when choosing packet and parcel operator	33
Figure 15. How much did you spend on packet and parcel services in 2014?	35
Figure 16. Per item price to send a packet and parcel, broken down by sender type and destination	38
Figure 17. Change in prices paid by senders between 2012-2014	39
Figure 18. What would you like to see parcel and packet operators do differently in the future?	44
Figure 19. Estimated value of online spending in Ireland (billions)	46

Figure 20. Online Turnover per capita (2011)	47
Figure 21. Forecast change in B2C parcels in the UK by retail sector	48
Figure 22. Forecast spend on packet and parcel services over the next three years	53
Figure 23. Forecast growth in packet and parcel volumes to 2016	54
Figure 24. Expected growth in value of packet and parcel sector (€ million)	55
Figure 25. Parcel Supply Chain	71
Table 1. Features defining parcel delivery services	14
Table 2. Packet and parcel maximum dimensions	16
Table 3. Estimated size of packet and parcel sector in Ireland, 2013	20
Table 4. Estimated share of sector volume by operator in 2013	21
Table 5. Estimated share of sector value by operator in 2013	22
Table 6. Volume share of sector by segment in 2013	24
Table 7. Value share of sector by segment in 2013	24
Table 8. Domestic versus overseas online purchases	32

Executive Summary

Frontier Economics has been commissioned by the Commission for Communication Regulation (ComReg) to undertake a study of the Irish packets and parcels sector. Frontier undertook this study with our research partners Amárach Research and Postal Logistics Consulting Worldwide.

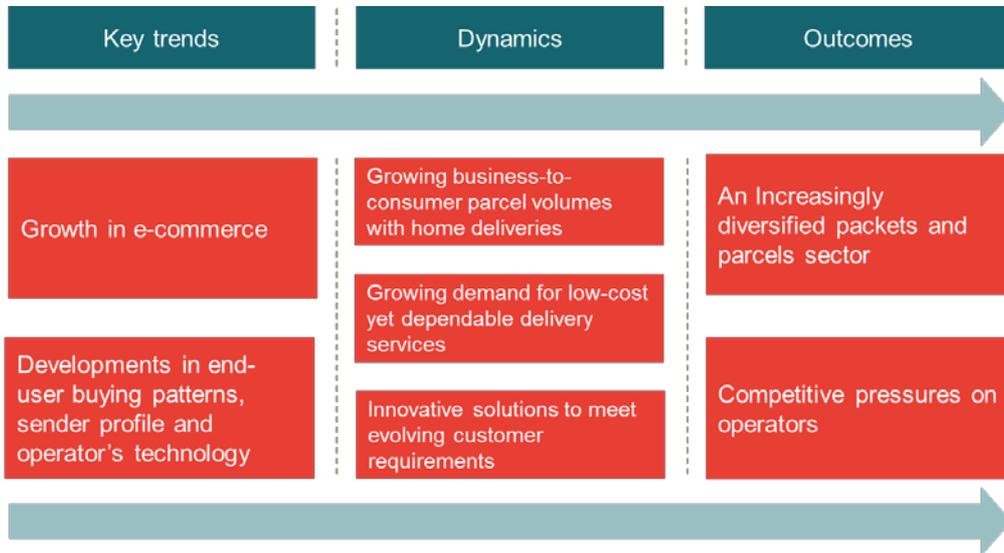
Packets and parcels are an increasingly important part of the much broader mail sector. While traditional mail volumes have decreased, packet and parcel volumes have increased, mainly driven by the growth in online purchases for home delivery. Consequently business-to-consumer (B2C) oriented volumes are growing; this brings about its own challenges for operators in relation to home delivery.

The developments in technology, consumer buying patterns and online retailing, have led to a diversified marketplace of packet and parcel operators. At one level, the mass movement to online purchases and fulfilment has led to a growing need for low-cost yet dependable delivery services. This has led to significant opportunities for operators to provide innovative solutions and develop new and evolving business models, including operations for low cost cross-border delivery such as drop-boxes/lockers.

On another level, operators have had to become more responsive to customer demands (businesses and private consumers) as their requirements have become more complex and exacting. This has been facilitated by the role of technology, for example providing a seamless interface between online retailers and the parcel and packet operations. The dynamic nature of the sector has also meant that the dividing lines between segments have become more blurred. For instance, large online e-retailers now provide outsourced warehousing and fulfilment services to SMEs, which can reduce the need for cross-border deliveries if it allows, for example, additional overseas firms to have a local presence.

These key trends are summarised below in Figure 1.

Figure 1. Key trends in the packets and parcel sector



Source: Frontier Economics

Our research method

Our research methods include both primary and secondary research. We aggregate and analyse the information from a wide variety of sources across the sector.

The primary research was conducted in early 2015 and includes interviews of a cross-section of packet and parcel operators and a postal questionnaire sent to a number of packet and parcel operators. On the sender side, we interviewed in-depth a broad range of business users that are large senders of packets and parcels. Large senders comprise a significant proportion of the market. SMEs are also a significant customer segment and a significant contributor to economic activity in general. We therefore also surveyed 166 business decision makers across a sample of SMEs in Ireland in respect of their sending of packets and parcels.

Key findings

This study considers the range of packets and parcel services in Ireland, including all packets and parcels sent from Ireland and sent to Ireland, and standard and express delivery services. To that end, the study takes a relatively broad view on how the packet and parcel sector is defined at the product/service level.

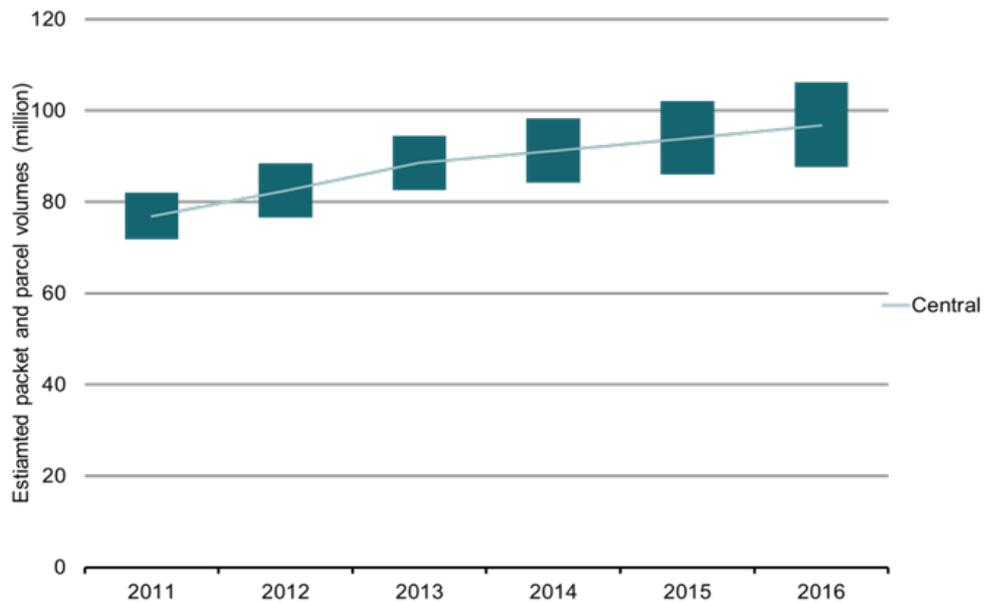
There is a range of various parcel and packet delivery service operators in Ireland, ranging from the national postal operator, domestic couriers and parcel operators, global integrators, and other mail or freight firms that also offer parcel services. We find that eight operators account for about 90% of the market.

Their customers come from all segments of the economy. In particular, the trend of increasing e-commerce is evident across a range of sectors.

We estimate that the size of the sector in 2013¹ was between €430 million and €520 million. This has grown by about 5-6% per annum over the three years to the end of 2013. In terms of volume, we find that there were between 83 million to 94 million items carried in 2013 across the sector.

There is a general consensus in the sector that volumes will continue to grow over the next three years, predominantly driven by further growth in online shopping. Several of the senders we spoke to in the in-depth interviews identified online sales as a key source of growth for their businesses and for parcel service demand. We estimate that growth across the sector will be 2-4% per annum over the three years after 2013, but growth in the B2C segment will be more pronounced (6-8%). Using our estimates for the sector’s current volumes and the projected growth rates, we estimate that volumes in 2016 will be between 90 million and 109 million items per year and that the value of the sector in 2016 will be between €470 million and €593 million. Our estimated sector volumes from 2011 to 2016 are shown below in Figure 2.

Figure 2. Estimated packet and parcel sector volumes (2011-2016)



Source: Frontier Economics

¹ At the time of the research, 2013 was the most up-to-date year available for several firm’s financial information, and we have therefore used this year as the basis of our estimates of sector size.

We find that business-to-business (B2B) and B2C were roughly the same in 2013. However, in terms of value about 57-62% was B2B, 35-40% B2C, and 3-4% consumer-to-consumer/business (C2X). B2B had a greater share of value due to a higher average price per item.

The study takes a relatively broad view on how the packet and parcel sector is defined at the product/service level, which will clearly impact the market share of operators that may otherwise have a greater share of the particular segment with which they largely operate.

Estimates based on public data, as outlined in the report, suggest that An Post is the largest operator with between 30-40% of packet and parcel volumes. Nightline, DPD and GLS are the next largest with respective shares between 10-15%, and Fastway and DHL are estimated to have 5-10% of volumes.

We note that some operators (including An Post) have higher shares by volume than by value. Primarily this is due to express operators (such as DHL, UPS, TNT, etc.) having higher average per item prices, than traditional parcel operators, therefore increasing their relative value market share estimates.

In respect of pricing, most pricing is done on a bespoke basis, except for over-the-counter sales to consumers. There is a significant amount of price discrimination; with large volume senders typically receiving lower prices.

SMEs' average annual spend in 2014 on parcel services stood at nearly €11,000, but the mean score is a limited guide to spending given the huge variety in spending by different types of firms.

Overseas destined volumes are significantly more costly than domestic items. SMEs reported an average cost to send a packet or parcel for delivery in Ireland of €8.53 while the average cost to send a packet or parcel abroad was €17.33. However, our central estimates of the market value and volume have an implied average price across the sector of €5.40. The difference is driven by the significantly lower prices for large senders, achieved due to their volumes and because goods are typically sent by larger senders to end-users via 'standard' services rather than SMEs which may use more express or value added services.

We found that, while the level of services provided has increased, prices have generally remained fairly stable over the last three years. This is seemingly due to a highly competitive market and, in particular, the increasing power of senders with growing sales.

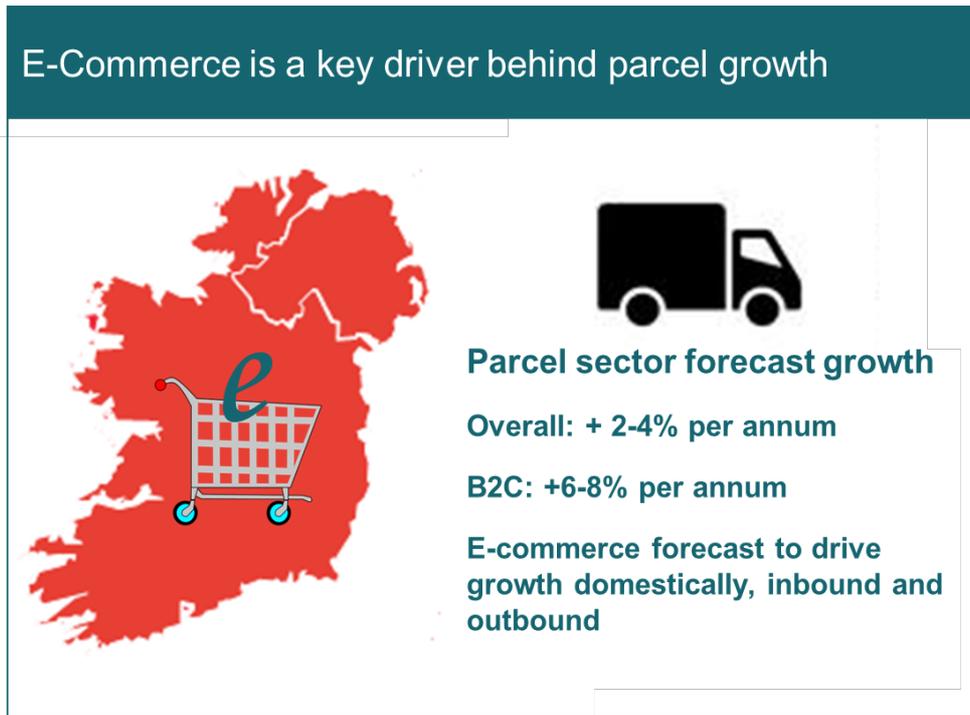
In general, we have found that senders appear to have a good understanding of their end-users' (receivers) needs, and that they work with parcel and packet operators to meet these needs in order to increase online sales.

Senders have told us that the most valued criteria for choosing parcel and packet operators are price and reliability. This shows that while the sector is becoming increasingly diversified in terms of the offerings available, key for operators is

ensuring their basic offering meets senders' needs of a reliable and cost-effective delivery service.

The consensus across the sector is that the main future opportunities are around continued growth in e-commerce, as summarised in Figure 3.

Figure 3. Future opportunities for packet and parcel sector



Source: Frontier Economics

E-commerce is driving more home deliveries, as end users purchase domestically and abroad. The changing market context has presented a number of opportunities and challenges for parcel and packet delivery operators, mostly in relation to the increasing amount of B2C volumes.

The challenges to address mainly relate to difficulties in home delivery, as summarised in Figure 4.

Figure 4. Challenges for packet and parcel sector

Source: Frontier Economics

Sector participants identified occupants not being at home during the working day, returns, fraud, and non-unique Irish addresses, as key challenges to overcome. To address these, operators are innovating using more technology to contact end-users, delivering at specific addresses chosen by the end users (e.g. workplace or parcel locker).

There is also a question in relation to the sustainability of business models. While there are growing volumes, competition has been noted by some operators as being strong. In particular, there are operator concerns with regard to senders' expectations for very low prices and increasing levels of services.

1 Introduction

Frontier Economics has been commissioned by the Commission for Communication Regulation (ComReg) to undertake a study of the Irish packets and parcels sector. Frontier undertook this study with our research partners Amárach Research and Postal Logistics Consulting Worldwide.

ComReg is aware of the growing demand for packet and parcels deliveries. The packet and parcel sector is generally seen as a key area of growth for the postal sector. This growth in packet and parcels comes at a time when the traditional letter volumes, on the other hand, are experiencing sharp decline over the last years.

While the increasing importance of the packets and parcels markets has led to a significant amount of research internationally – both at the strategic corporate level and at the regional regulatory level – there is, as yet, no in-depth study of the Irish parcel and packets sector more generally.

The objective of this study is to address some of this knowledge gap for all stakeholders regarding the Irish packets and parcel sector with primary and secondary research.

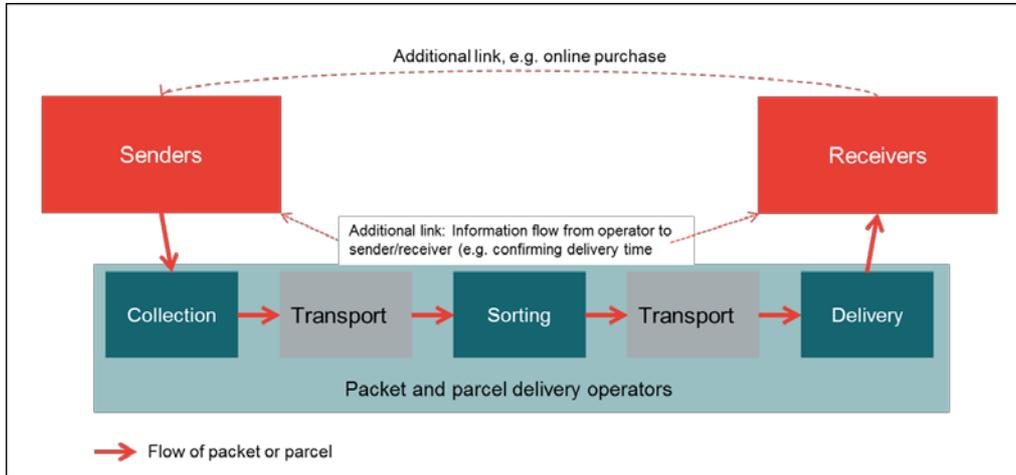
1.1 What this study covers?

This study considers the range of packets and parcel services in Ireland, including both inbound and outbound services. While the sector was traditionally divided into standard and express delivery markets, these definitions do not reflect the current complexities of the sector as it has evolved alongside e-commerce, or the relative importance of numerous different service offerings (such as standard, deferred, express or same day delivery, tracking, alternate delivery address, etc.).² The dimensions of the various products and services involved are discussed in more detail in Section 2. For now, however, it is worth noting that the study takes an expansive view on how the packet and parcel sector is defined at the product/service level, although we consider more narrowly defined sub-segments of the sector in various parts of our analysis as noted throughout the report. It is also worth noting that this expansive view on the packet and parcel sector looks at the wider sector than just the segment regulated by ComReg, which in accordance with its legislative mandate, is limited mainly to the provision of universal postal service packets and parcels.

² European Commission, (2012), An integrated parcel delivery market for the growth of e-commerce in the EU, *Green Paper*.

The value chain of the packets and parcels sector is summarised in Figure 5.

Figure 5. Packets and parcel value chain



Source: Frontier Economics

1.2 Overview of research method

Our research methods include both primary and secondary research. The research was conducted in early 2015. In aggregating and analysing the information from a wide variety of sources across the sector, we seek to depict as rich and robust a picture as possible of the Irish packet and parcel market.

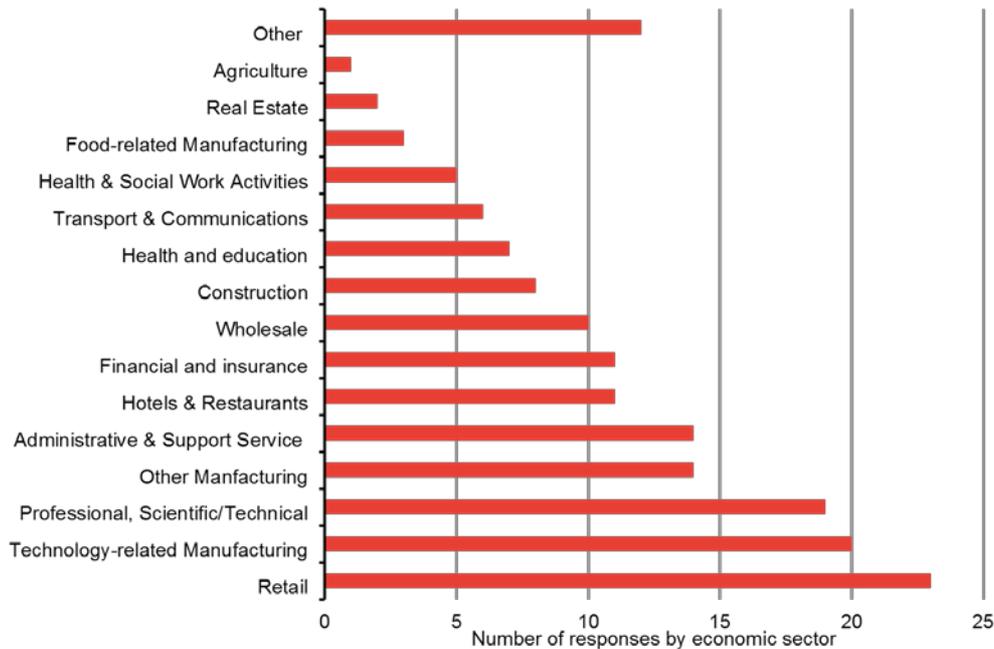
The study includes a large component of primary research, as summarised below.

- 10 interviews of a cross-section of packet and parcel operators. These ranged from the universal postal service provider (An Post), courier and express firms, other parcel operators, postal brokers and foreign delivery operators. The four main global integrators declined to be interviewed;
- Responses from a further eight packet and parcel operators to a questionnaire sent;
- Nine interviews with a broad range of high volume senders of packets and parcels shipments;³ and

³ Including participants in the retail, pharmaceutical, manufacturing and government sectors. The participants were, in part, identified from our operator research.

- A survey of 166 business decision makers across a sample of SMEs in Ireland in respect of their sending of packet and parcels. Figure 6 shows the breakdown of respondents by economic sector.

Figure 6. SME survey participants by sector of the economy



Source: Amárach SME Survey, February 2015

We have also undertaken a literature review to help identify:

- the relevant markets for exploration, including product lines, functional levels in the supply chain and sender types;
- trends in growth in the sector, both international and, potentially, in Ireland;
- current and future trends in the sector; and
- estimates of the value of the sector in comparator countries.

We have also benchmarked some of our findings from the primary research with other domestic and international data. Benchmarking has provided:

- potential trends in the Irish market relative to markets in other jurisdictions, which in some cases may have more advanced e-commerce networks; and
- comparator measurements for estimates such as market value and volume, which has added additional robustness to our estimates.

A full reference list is provided in the bibliography.

1.3 How is the report structured?

The remainder of the report is structured as follows. It provides:

- An overview of the parcel and packet sector in Ireland;
- An analysis of the market dynamics; and
- A discussion on future prospects for the sector.

2 Parcel and packet sector overview

This study considers the range of packets and parcel services in Ireland, including all packets and parcels sent from Ireland and sent to Ireland, and standard and express delivery services. To that end, the study takes a relatively broad view on how the packet and parcel sector is defined at the product/service level.

This section sets out the scope of the market and sub-markets in the packet and parcels sectors under study in analysing:

- the sector's main operators;
- estimates of size of the sector;
- estimates of share of supply for the main operators; and
- the products and services supplied in the sector.

2.1 Overview of main operators

Parcel and packet services are supplied by a large range of operators in Ireland. The bulk of parcels are delivered by eight main operators which consist of a mix of domestic mail and parcel operators together with large global integrators. Global integrators have a world-wide presence and provide time-defined delivery through their own integrated networks or occasionally through local business partners. In Ireland, global integrators typically operate their own delivery services, although not necessarily on a nation-wide basis.

The main operators are discussed briefly below. We estimate that these operators account for about 90% of the market by value and volume.

Description of main operators

An Post is the national operator and the operator of universal postal services in Ireland. An Post has a large retail network throughout the country, including 1,100 Post Offices and 2,500 affiliated retailers via the PostPoint payment channel. We estimate that packets and parcels account for about 12% of An Post's total turnover and about 19% of its mail business. An Post's public reporting states its turnover in 2013 was €811.7 million, of which €515.6 million was from its mails business.

DHL Express is a large global integrator owned by Deutsche Post. DHL has an extensive worldwide delivery network. DHL pulled out of its domestic Irish business in 2009 but is still a large player in the market. In particular, DHL has a large component of international volumes which it delivers itself in Ireland. DHL Express's public reporting states it had turnover in Ireland of €76.5 million in 2013.

DPD is owned by La Poste.⁴ DPD has an extensive European delivery network. DPD has primarily been a specialist B2B operator, but is increasingly expanding into supplying high-end B2C customers. DPD is currently trialling technology to give consumers a two hour time window for expected delivery and opening a parcel shop network that aims to be within 10 minutes of everyone's home. This reflects a desire to benefit from the growth of e-commerce parcels without compromising their desire for higher unit revenue. DPD's public reporting states its turnover in Ireland in 2013 was €48.5 million, up from €37 million in 2012, which is about 30% growth in two years. DPD has about 190 employees in Ireland.

Fastway is a franchised courier company operating on a national basis with regional franchises each with franchised courier pick-up and delivery operations. Fastway has 225 franchised couriers. It divides Ireland into nine regions and has a depot in each region. Fastway employs about 150 people in administration, sales, warehousing and accounts, there are about 50 contract drivers and 22 hub operators. Fastway is also affiliated with Payzone, to provide an online service called Parcel Connect.⁵ Turnover information is not made public.

GLS is owned by Royal Mail in the UK. GLS describes itself as a specialist in parcel transport with its own network covering the whole of Ireland in conjunction with Parcelforce in Northern Ireland. GLS also has an extensive European delivery network. GLS has its hub in Dublin and six depots throughout Ireland. GLS had 55 employees in 2012/13. GLS advised that it also has a number of subcontracted drivers. Turnover information is not made

⁴ La Poste is the mail service of France.

⁵ Parcel Connect is an online service that allows customers to get their parcels delivered to a range of local shops. Currently 1,030 retailers provide a Parcel Connect service in Ireland.

public.

Nightline is a domestic parcel carrier which primarily does next day delivery of track and traced items. Nightline employs a total of 700 people across its business. Its hub and spoke is centred in Dublin.⁶ Nightline also provides logistic services and has its network of 100 alternative delivery points, including Parcel Motel Lockers and Parcel Motel Points (affiliated shops). Turnover information is not made public.

TNT Express Ireland is a subsidy of the global-integrator TNT, a publicly-listed company based in the Netherlands.⁷ TNT Express Ireland employs approximately 200 people in Ireland and has its hub near Dublin airport. Its main offerings in Ireland are express delivery and freight transport services. TNT's public reporting states its turnover in Ireland was €40.3 million in 2013.

UPS is another global integrator with an extensive worldwide delivery network. UPS's public reporting states its turnover in Ireland was €47.8 million in 2013, and that it had 272 employees. UPS primarily offer an express service, mostly targeted at business-to-business volumes.

There is also a large tail of other operators in the sector that carry smaller volumes of parcels. These include:

- large global integrators (such as, currently, FedEx) that have a smaller presence in Ireland;
- postal operators (such as DX Mail) that also provide packet and parcel services, in particular in the B2B segment (as discussed further below);
- freight operators that also provide some parcel services; and
- smaller local parcel or express delivery firms.

To better understand these operators and the services they provide, we sent questionnaires to a number of operators. Aggregated results from the questionnaire are outlined in Annex 1. The responses to the questionnaire show that these operators mainly offer domestic parcel and freight delivery services five days a week, with some operators offering weekend delivery. Their main customers segments are business senders in the pharmaceutical, manufacturing and retail sectors. The mix of value added services varies from operator to operator, with most offering track and trace and requiring a signature upon delivery. Real time tracking and customer procedure help are less common among the smaller operators.

⁶ In April 2015, Nightline announced it is opening a new depot dedicated to servicing its Parcel Motel traffic.

⁷ In April 2015, FedEx announced its intention to purchase TNT Express.

There are also other firms – such as parcel brokers – that do not have their own delivery networks but play an active role in the market in that they match supply and demand, often via an electronic platform. According to our interviews, parcel brokers appear to be a growing niche area, especially serving small business customers.

An overview of operators' supply chains are provided in Annex 2.

2.2 Packet and parcel products and services

This section provides an overview of the packet and parcel services that are provided in the sector. Overall the market has evolved in recent years to provide a wide set of service levels and value added services in order to meet the growing range of needs of senders, in particular in response to the opportunities and challenges presented by e-commerce.

Table 1 below outlines the combination of features that typically define a parcel delivery service offer.

Table 1. Features defining parcel delivery services

Features	Options
1. Speed of delivery	standard, express, guaranteed time
2. Delivery options	days of week, alternate delivery/collection points
3. Delivery destination	domestic, cross-border
4. Size	packets, parcels, freight
5. Value added services	track and trace, time windows, returns

Source: Frontier Economics

Speed of delivery

It is the guarantee of the speed of delivery that is a key differentiator across parcels products.

- Express parcels refer to parcel delivery services with a certainty day of delivery (e.g. next day, two days) or time of delivery (e.g. before 9am, before 10am, before noon). These are normally guaranteed services with compensation payable if the parcel does not arrive on time. Such services need parcels to be barcoded to allow their tracking in time and location ('track and trace') and the IT systems to enable the service to be provided and allow accurate information for the customer. Such services are mainly

used by B2B customers and cost more than standard parcel services and are provided by more specialist operators.

- Standard parcel services in Ireland are typically delivered on the basis of a next day service although with no guaranteed time of delivery.

Delivery options

In terms of the days of the week served, most operators interviewed only offer Monday to Friday delivery services. However, Saturday deliveries are on the increase in response to demand from senders. In 2013, Nightline started collecting and delivering on Saturdays to all destinations in the country. DX also do Saturday deliveries but no collections. Fastway is currently considering extending its service to include Saturdays.

There are three delivery service options in addition to delivery to the home/business address. For example, Nightline has alternative delivery locations throughout Ireland through its Parcel Motel Locker network. Another alternative delivery service offered are shops acting as parcel drop off and sometimes collection points (Nightline's Parcel Motel Points, GLS have 160 Parcel Shops, An Post has c.1,100 post offices that accept returns while Fastway has Parcel Connect). A third option is the use of safe places, possibly by driver agreement, with the option of taking a photograph of the location used, time delivered and geocode stamping. The fourth is the operators depots, which senders can have their items redirected to. These alternative delivery options are discussed in further detail in the Supply Chain section below.

Delivery destination

In addition to their domestic service all large operators offer an international service through a variety of partners. GLS, TNT, UPS, FedEx and DPD, all have their own networks.

Item size

An Post differentiates packets from parcels by the size and weight of the item. An Post's maximum dimensions for packets and parcels are shown in Table 2. As packets exceed the letter and flat formats and can weigh up to 2 kg, packets are suitable for delivery of a large share of e-commerce purchases, such as accessories, books, and DVDs.⁸ It is typically easier for An Post to deliver packets on its walking/cycling postal delivery routes, compared to larger parcels that require delivery vans. The other operators interviewed do not generally

⁸ Copenhagen Economics, (June, 2013), "E-commerce and delivery - A study of the state of play of EU parcel markets with particular emphasis on e-commerce"

distinguish between packets and parcels, although Nightline offers a discount for items below 2kg.

Table 2. Packet and parcel maximum dimensions

Item	Maximum weight	Maxim size
Packet	2kg	Length + height + depth = maximum 900mm Maximum individual dimension = 600mm
Parcel	20kg over counter 30kg for contract customers	Length: 1.5 m Width + depth: 1.5 m

Source: An Post,
<http://www.anpost.ie/AnPost/What+Are+You+Sending+Details.htm>

The product specification for a packet delivery service is similar to that of a parcel delivery service with similar value added features. For instance, An Post's ExpressPost service offers day-certain delivery, track and trace, proof of delivery and recipient signature available online for both packets and parcels. The distinction is therefore not obvious on the basis of these attributes. In contrast, these products differ in price.

Value added service

A growing number of value added services are provided by operators, expanding the product range available, although many of these services are increasingly becoming part of the standard service offering. Some of these value added services are summarised below.

- **Track and trace:** A track and trace service is provided by the majority of operators. A barcode is scanned at key points in the delivery chain allowing the tracking of a parcel's location in the delivery chain.
- **Proof of delivery:** A proof of delivery, i.e. capturing a signature, is typically an additional extra to the 'track and trace', and some delivery operators charge a surcharge for this.
- **Returns service:** Most operators also offer a returns service, which is mainly collection and return direct to the sender. Nightline provides a returns

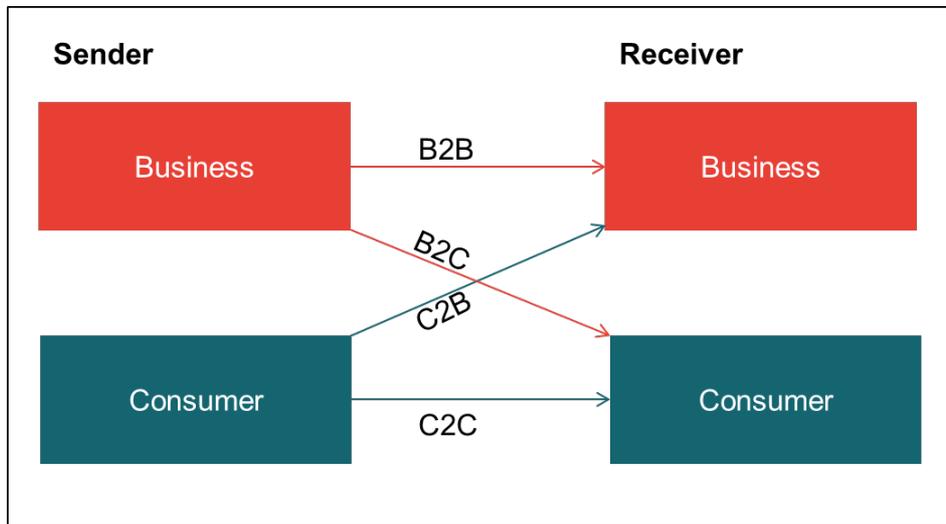
service in conjunction with Collect+ (Nightline are Hermes' partner in Ireland⁹) and ship back in bulk to the UK via Belfast, and some direct trunking into the UK mainland. Nightline provide a free returns service if returning to one of their 'Parcel Motel' retail partners. Parcels for return can be collected from customers as well as being dropped off in a parcel shop. Fastway offer Parcel Connect shops for the drop off of returns.

- Checking returned items: Another operator's service is to check the goods are actually those being advised for return so the retailer could give credit before they actually received the goods.
- Fraud prevention: One operator is currently trialling fraud prevention, looking for multiple deliveries for one address where transactions may have been undertaken fraudulently.
- Time windows: Selective time windows for delivery are sometimes available, mainly in Dublin and Dublin County. One operator said it was not a huge market. Another operator said it was looking to provide it though this would be made available for business customers only.

Classification of B2B, B2C and C2C services

Figure 7 demonstrates that businesses and consumers send parcels to both businesses and consumers. These are referred as B2B (business-to-business) and B2C (business-to-consumer) for example. As C2C and C2B account for relatively little of the sector, they are often combined and referred to as C2X.

⁹ Hermes is a large multi-national parcel operator. Its UK business is a network of 9,000 independent couriers. Hermes also offers delivery and collection in the UK via 3,500 "myHermes ParcelShops".

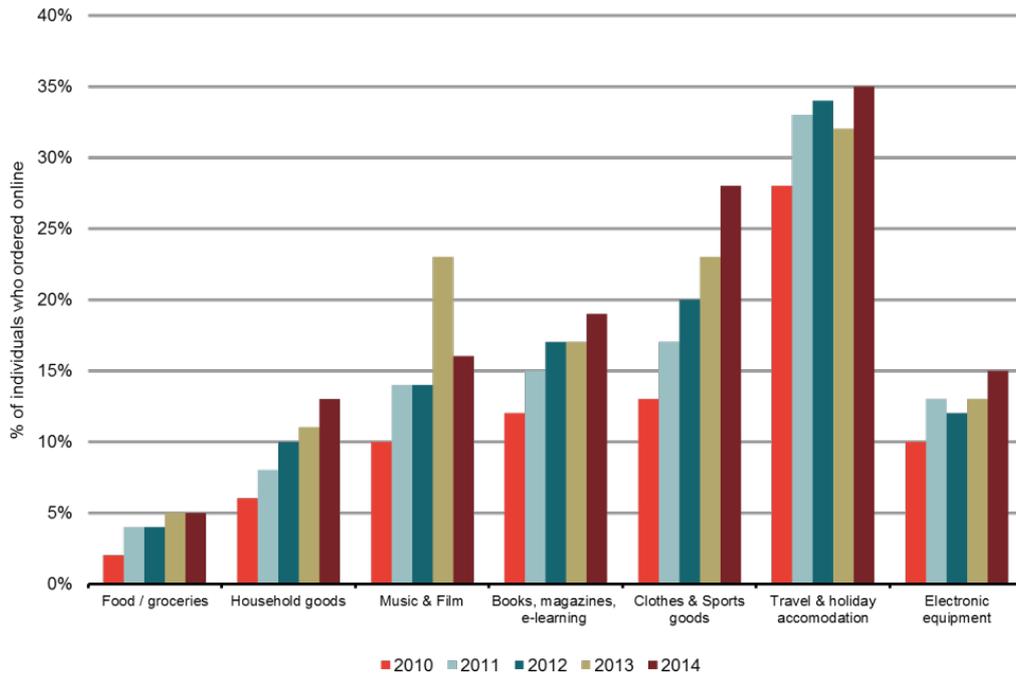
Figure 7. Sender/receiver matrix

Source: Frontier Economics

Our research has shown that almost all sectors of the economy (e.g. fashion, manufacturing, pharmaceuticals, home wares, etc.) are now quite active users of packet and parcel services, driven by the growth of e-commerce in general and consumer online shopping in particular.

Operators interviewed advised that their customers (senders) covered the full spectrum of economic sectors. This fact was confirmed with our survey of SMEs and interviews of large parcel senders. A review of the senders surveyed shows that demand for packets and parcels comes from a wider cross-section of the economy.

Other evidence shows that e-commerce is growing in Ireland across all major e-commerce categories (see Figure 8), and therefore increasing B2C volumes are likely to arise from a range of sectors.

Figure 8. E-Commerce growth by sector

Source: Eurostat

2.3 Estimated size of packets and parcels sector in Ireland

Because the parcel market appears highly competitive, operators have been concerned about releasing confidential information. This is particularly true when it comes to revenue and volume figures. This provides challenges in accurately estimating the sector size and segments within the sector. Our estimates of the overall size of the parcels market are based on a triangulation of public accounts, regulatory accounts, public statements by companies, other data gathered throughout our research and our own analysis. We also considered other sources of data in order to ensure robustness of our estimates. These other sources included e-commerce average spend data, benchmarking with data from other European countries and a direct comparison with more fulsomely available UK data. We also took into account assessments available from various European Commission reports.

2.3.1 Current size of the packet and parcels sector

Our estimates for the total size of the parcel and packet market are provided in Table 3. We find that the value of the packet and parcel sector in Ireland is between €430 million and €520 million. Our central estimate is €480 million. Note these estimates are for 2013, as this was the last year that fulsome data was available for some sources. In relation to volumes, we find that between 83 million and 94 million items were carried in Ireland in 2013. Our central estimate is 89 million items.

Table 3. Estimated size of packet and parcel sector in Ireland, 2013

	Value	Volume
Low	€430 million	83 million
Central	€480 million	89 million
High	€520 million	94 million

Source: Frontier Economic estimates

2.3.2 Share of volume by operator

Our estimates for operators' volume share of supply are outlined in Table 4. These estimates are based on published accounts, regulatory accounts, and public statements by companies. Where public data is not available we have had to make assumptions, including average per unit prices in order to estimate volumes. For An Post, for which detailed data is only available for its USO products, we have had to make assumptions in relation to non-USO volumes and revenues, which have been informed by the proportion of USO versus non-USO revenues in its regulatory accounts.

As noted previously, the study takes a relatively broad view on how the packet and parcel sector is defined at the product/service level, which will clearly impact the market share of operators that may otherwise have a greater share of the particular segment with which they largely operate.

These estimates suggest that An Post is the largest operator with between 30-40% of packet and parcel volumes.

Nightline, DPD and GLS are the next largest with respective shares between 10-15%, and Fastway and DHL are estimated to have 5-10% of volumes¹⁰.

We note that some operators (including An Post) have higher shares by volume than by value. Primarily this is due to express operators (such as DHL, UPS, TNT, etc.) having higher average per item prices, than traditional parcel operators, therefore increasing their relative value market share estimates.

Table 4. Estimated share of sector volume by operator in 2013

Operator	Percentage share
An Post	30-40
Nightline	10-15
DPD	10-15
GLS	10-15
Fastway	5-10
DHL	5-10
UPS	0-5
TNT	0-5
DX Network Services	0-5
Other	5-10

Source: Frontier Economics estimates based on company accounts, regulatory accounts and public company statements

2.3.3 Share of value by operator

Our estimates for operators' value share of the sector are outlined in Table 5. Again, An Post is estimated to be the largest operator with between 20-30% share of supply by value. This is less than An Post's share by volume, primarily due to express operators having higher per item prices. DHL and UPS are

¹⁰ We note that there is very little information available on the size of FedEx's Irish business. One comparator that is publicly available is the number of staff employed. FedEx employs 153 staff in Ireland, compared to 200 staff in TNT Express Ireland and 272 in UPS. In the context of the proposed FedEx acquisition of TNT, FedEx's European market share has been estimated at 5%, compared to 12% for TNT and 16% for UPS. This indicated that FedEx may well be smaller than TNT and UPS in Ireland, although we note that our estimate of FedEx's share accounts for a substantial proportion of our estimated "other" share.

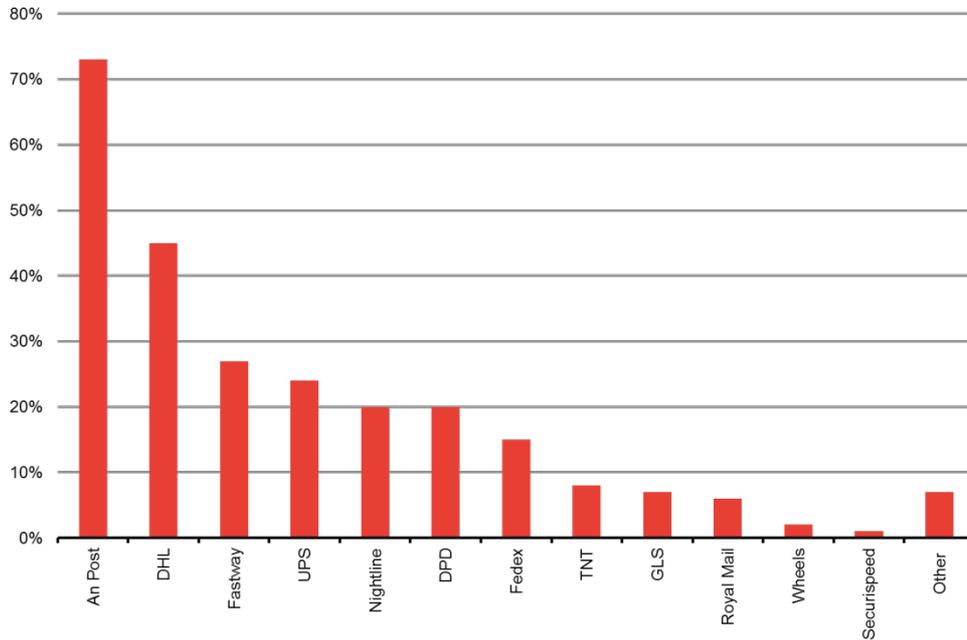
estimated to have between 10-15% share by value. Note that both of these operators operate primarily in the express and international parts of the sector, and thus achieve higher average revenue per item than traditional parcel carriers.

Table 5. Estimated share of sector value by operator in 2013

Operator	Percentage share
An Post	20-30
DHL	10-15
UPS	10-15
Nightline	5-10
DPD	5-10
GLS	5-10
TNT	5-10
Fastway	5-10
DX Network Services	0-5
Others	5-10

Source: Frontier Economics estimates based on company accounts, regulatory accounts and public company statements

The views expressed by the SME senders of parcels are consistent with the above picture. Some 73% of respondents reported using An Post over the last three years as shown in Figure 9. DHL is the second most quoted parcel delivery operator by the SME parcels senders interviewed. Note that SME parcel senders may have used more than one operator.

Figure 9. Operators used by SME senders between 2011-2014

Source: Amárach SME Survey, February 2015

Our survey found that foreign-owned firms, exporters and B2B sectors tend to be less reliant on An Post, and use a wider cross-section of operators than domestic, B2C companies. Among the high volume senders interviewed, An Post is also the main operator of delivery services, especially for those selling to Irish consumers. An Post's broader delivery network and localised knowledge were noted as reasons for choosing An Post.

2.3.4 Share of sector by market segmentation

Our estimates for volume share of the sector by mail sender/receiver categories are shown in Table 6. This shows that B2B accounts for between 45-49% of the parcel and packet sector by volumes, with B2C accounting for about 47-51%. Using our central estimates of the sector volumes, we then also estimate the volumes in each segment as shown below.

Table 6. Volume share of sector by segment in 2013

	B2B	B2C	C2X	Total
Proportion	45-49%	47-51%	3-4%	100%
Value	Low	40 million	41 million	89 million
	High	44 million	45 million	

Source: Frontier Economics estimates

Our estimates for share of the sector by mail sender/receiver categories are shown in Table 7. This shows that B2B accounts for between 57-62% of the parcel and packet sector by value, with B2C accounting for about 35-40%. Using our central estimates of the sector value, we then also estimate the value of each segment as shown below. It is worth noting that B2B has a larger value share than volume share due to higher average per item prices for B2B, which is substantively due to the greater use of express services in the B2B segment.

Table 7. Value share of sector by segment in 2013

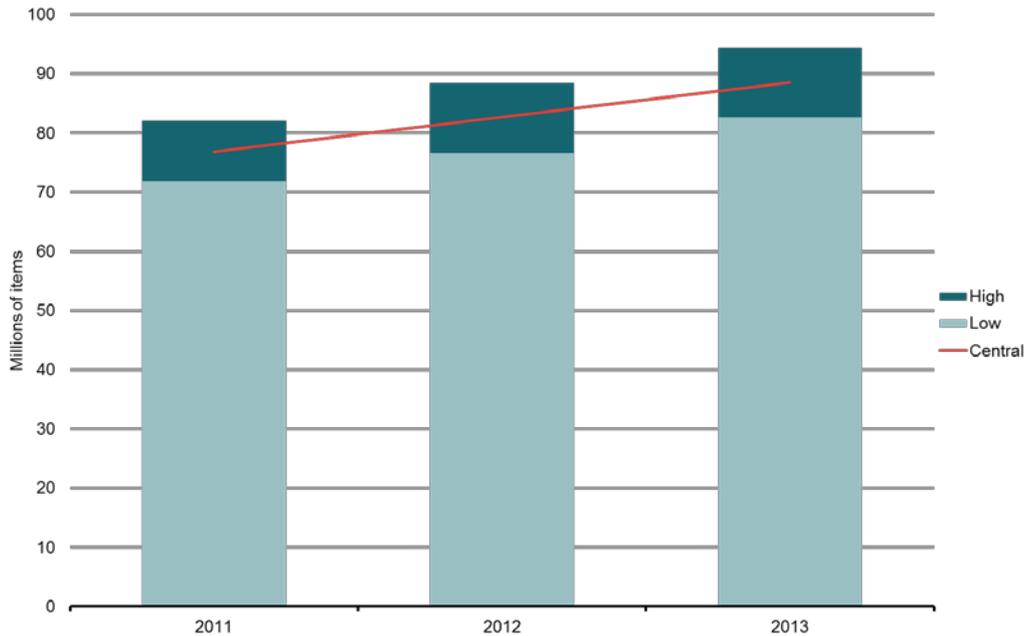
	B2B	B2C	C2X	Total
Proportion	57-62%	35-40%	3-4%	100%
Value	Low	€272 million	€167 million	€478 million
	High	€295 million	€191 million	

Source: Frontier Economics estimates

Recent growth in parcel and packet volumes

Based on published company accounts and data from our interviews with operators, we estimate that volumes have grown in Ireland by about 7% per annum over the last three years (Figure 10). Using our central estimates, we therefore consider that volumes have grown from 77 million in 2011 to 89 million in 2013.

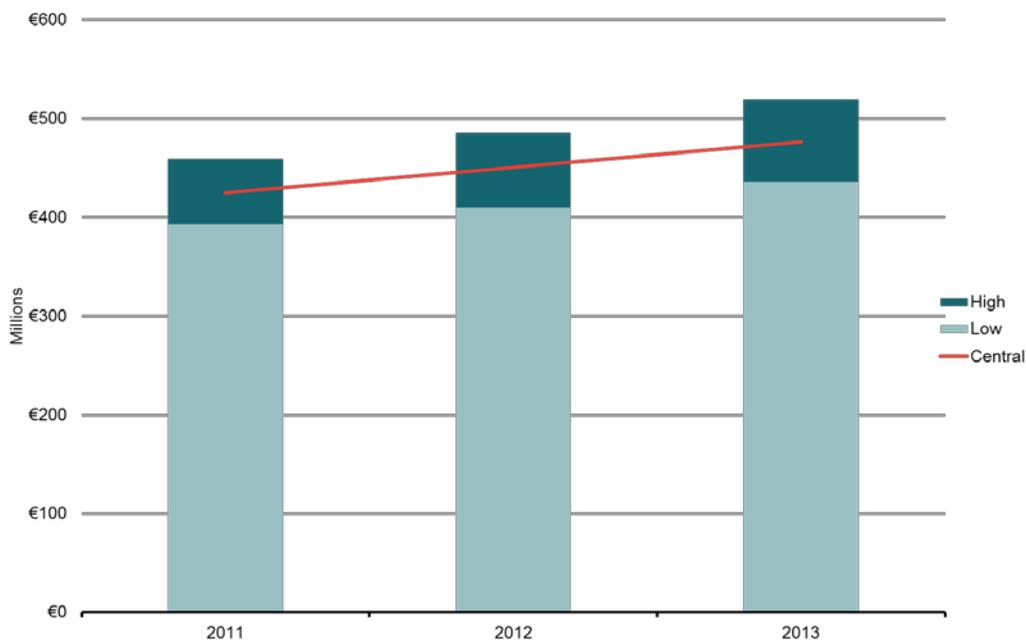
Figure 10. Growth in volume in Ireland between 2011-2013 (millions of items)



Source: Frontier Economics estimates

Note: Further detail of how these estimates are obtained is in the following section.

We have used published company accounts and data from our interviews with operators to estimate growth in market value. We estimate that the market value has grown by, on average, 5-6% over the last three years (Figure 11). Our central estimate is that the sector grew from €430 million in 2011 to €480 million in 2013. The lower growth in value compared to volume is consistent with what operators have advised us. Part of the reason for this is that as senders grow their businesses and achieve higher volumes, they expect lower per item prices, and therefore relative revenue growth suffers as a consequence.

Figure 11. Growth in value of packets and parcel sector between 2011-2013

Source: Frontier Economics estimates

Summary of market overview key findings

Some of the key findings that emerge from our market overview research include the following:

- **Main operators:** There are a large number of packet and parcel operators in Ireland, but the largest eight operators account for about 90% of the sector.
- **Market evolution:** Overall the market has evolved in recent years to provide a wide set of service levels and value added services in order to meet the growing range of needs of senders, in particular in response to the opportunities and challenges presented by e-commerce.
- **Economic sectors driving demand:** E-commerce is growing in Ireland across all major e-commerce categories, and operators advised their main customers come from a broad cross-section of the economy. Increasing B2C volumes are likely to arise from a range of sectors.
- **Sector size:** We find that the value of the packet and parcel sector in Ireland is between €430 million and €520 million. In relation to volumes, we find that between 83 million and 94 million items were carried in Ireland in 2013.

- **Suppliers' share of supply:** An Post is estimated to be the largest operator by value, while seven other firms have over 5% of share of supply. In respect of volumes, An Post is estimated to be the largest operator, while five other firms have more than 5% of the market. The main differences in value and volume shares are primarily due to express operators having a higher average per item price.
- **Segment splits:** We estimate that the volumes of B2B and B2C parcels were roughly the same in 2013, but B2B had a greater share of value due to a higher average price per item.
- **Recent growth:** We estimate that volumes have grown in Ireland by about 7% per annum over the last three years, and total value of the sector has grown by, on average, 5-6% over the last three years.

3 Analysis of market dynamics

This section provides analysis of the current market dynamics in the parcel and packet sector in Ireland. Namely, the section includes a discussion on:

- how the sector has evolved in recent years;
- senders' requirements; and
- how operators currently compete.

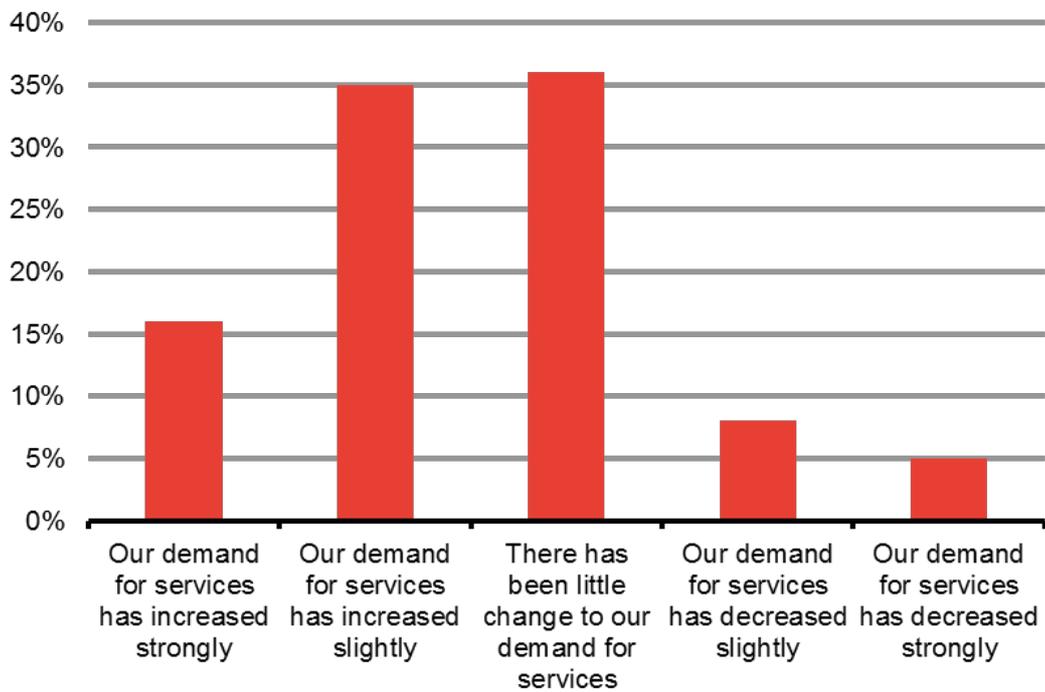
3.1 The evolution of the packet and parcel sector

This section outlines some of the recent trends in the Irish parcel and packet sector and how the sector has evolved in recent years.

While traditional mail volumes have declined in recent years, there has been significant growth in packet and parcel volumes, albeit a smaller volume. This is a similar trend to what is happening internationally. For example, some estimates show that seven out of the top ten global postal players' main source of revenue will no longer be mail by 2020.¹¹

We asked senders how their demand for packet and parcel service has changed between 2012 and 2014 (Figure 12). About half of respondents stated that their demand has increased, while about a third stated there was little change in their demand. Those that stated their demand had decreased were more likely to be smaller companies (less than 10 employees) and more likely to predominantly sell to other businesses rather than consumers.

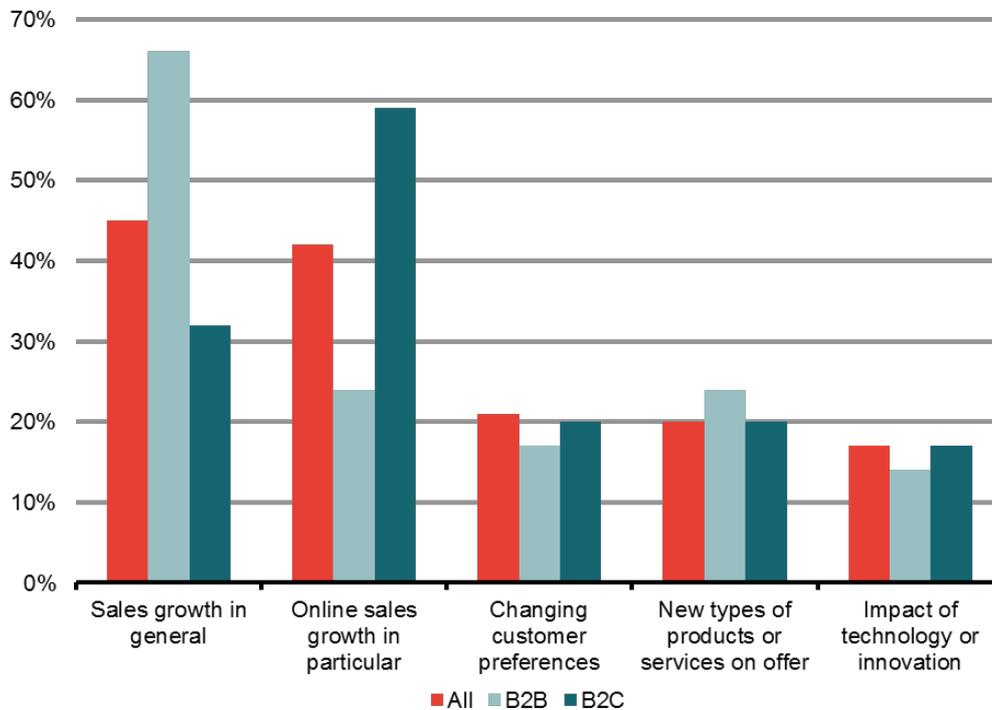
¹¹ Boston Consulting Group, "Focus on the Future – building a new compelling position for posts", June 2012

Figure 12. Change in demand for packet and parcel services from 2012-2014

Source: Amárach SME Survey, February 2015

As set out in Figure 13, sales growth in general has driven much of the increase over the past three years – especially for business-to-business sectors – however, the growth of online sales has been even more impactful for business-to-consumer sectors (Figure 13).

Figure 13. Main drivers of increased demand between 2012-2014 (split by firms that send mostly B2B and mostly B2C)



Source: Amárach SME Survey, February 2015

Business-to-consumer segment

A major trend in consumer purchasing behaviours over the last decade is the growth in online retailing. As consumer shopping habits have changed, consumers are increasingly having their online purchases delivered to them. This new trend means a new source of demand for parcel services from businesses and retailers who introduce online sales channels to serve their customers.

Several of the senders we spoke to in the in-depth interviews identified online sales as a key source of growth for their businesses and for parcel service demand. Some indicated growth rates for online sales of 100%-200% per annum, and double-digit growth is the norm right now. Moreover, the increasing penetration of smartphones and tablets is also changing purchasing patterns. One retailer saw their share of sales via mobiles grow from less than 10% of all online sales to over 50% in just one year.

Aside from online sales, other factors such as weakening euro vs sterling and the dollar has seen some retailers (including those with UK parent companies) enjoy a pick-up in demand from, for example, Northern Ireland. In general, increased export demand due to a weaker euro has the potential to lead to further growth

in outbound parcel volumes, and this is likely to remain the case if the euro remains weak relative to Ireland's major traded currencies. On the other hand, it also has the potential to decrease inbound parcels to the extent that imports become more expensive.

Amárach previously undertook research in respect of end-users¹² and found that a large proportion (37%) of online purchases for home delivery were made solely from overseas websites. The amount of overseas purchases is high compared to other comparator countries. About 15% of EU consumers currently shop online across borders, compared to 44% shopping online domestically.¹³

Table 8. Domestic versus overseas online purchases

How often do you order products online for home delivery?	%
International/overseas websites	37
Irish & international websites	48
Irish websites	13
Don't know/can't remember	2

Source: Amárach Research digital shopper survey, April 2014

This is consistent with what was advised by the operators interviewed. Operators stated that many of the large senders in the sector are large UK-based retail companies. Many of the main high-street shop brands, that now have significant online volumes, run their e-commerce divisions out of the UK and deliver from there to Ireland.

Business-to-business segment

The post-2008 decrease in economic activity appears to have impacted on packets and parcel volumes in some parts of the sector. In particular, the business-to-business volumes appear to have been adversely impacted. Despite the more recent upturn in economic activity, operators reported in general low-to-no growth in recent years in B2B, while there is also evidence that some operators' that their B2B volumes have declined.

¹² Amárach Research digital shopper survey, April 2014

¹³ Post and Parcel, (March, 2015), "EU Commission seeking action on cross-border parcel shipping prices" <http://postandparcel.info/64309/news/regulation/eu-commission-seeking-action-on-cross-border-parcel-shipping-prices/>

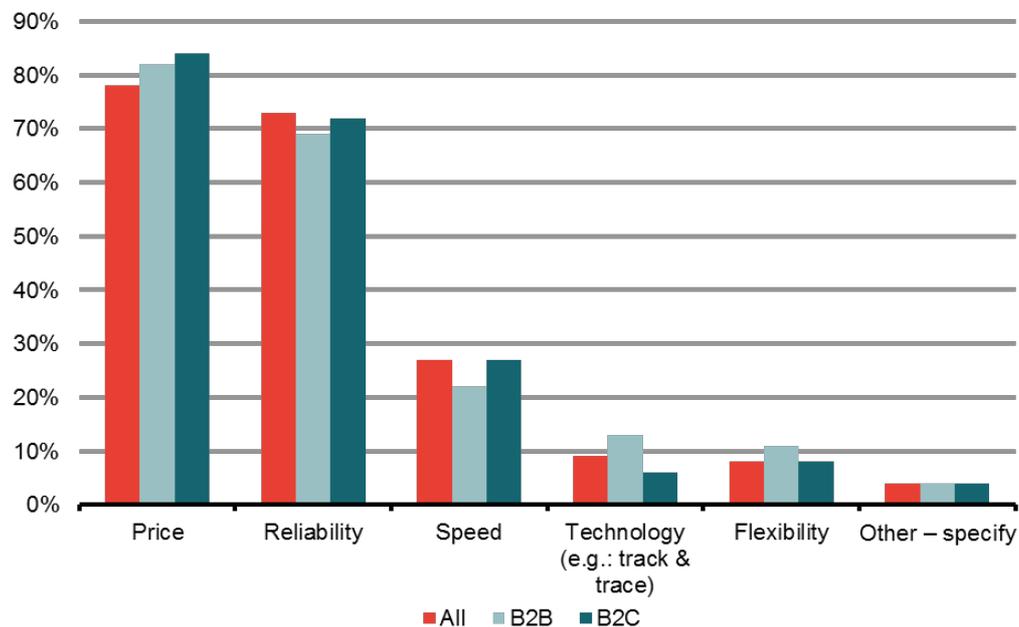
3.2 Senders' requirements

This section outlines some key aspects of senders' requirements in the sector.

We spoke to a number of indigenous exporters in our in-depth interviews and it is clear that they have access to – and need for – a very wide range of delivery services, including freight, pallets, contract packaging, warehousing, chilled distribution and other features. Some sectors – such as food & pharma – are increasingly regulated, including the distribution of samples and products. This in turn is driving a demand for increasingly sophisticated operators who can deliver high quality, standardised services throughout Europe and further afield. They recognise the need to pay a premium for some of these features, but it is a commercial trade off they are happy to make if it delivers operational and financial benefits, including higher sales and more loyal customers.

We asked SMEs what their top two criteria are for choosing their main packet and parcel operator (Figure 14). It is clear that price and reliability are the two main factors driving a SMEs choice of operator, with price being the number one criteria. All other criteria scored much lower, with speed being the third most important factor when choosing an operator.

Figure 14. Top two criteria when choosing packet and parcel operator



Source: Amárach SME Survey, February 2015

Among larger firms spoken to, there is much more emphasis on the importance of track & trace services from their operators, especially in relation to its impact on customer experience, for example delays and delivery times. Some operators

offer an integrated or seamless interface with companies' own websites, which the customer valued and see as a competitive advantage.

Ultimately, given the increased importance of B2C volumes, parcel and packet customers' demand will ultimately be derived from end-consumers demands. As such, it is important to also consider the requirements of end-users. European research has found that the most important delivery aspects for e-shoppers are low delivery prices, home delivery, access to electronic delivery notifications and track and trace, as well as convenient return options.¹⁴

Increased confidence in, and use of, e-commerce, requires delivery systems that meet both e-retailers' and e-shoppers' needs, including providing:¹⁵

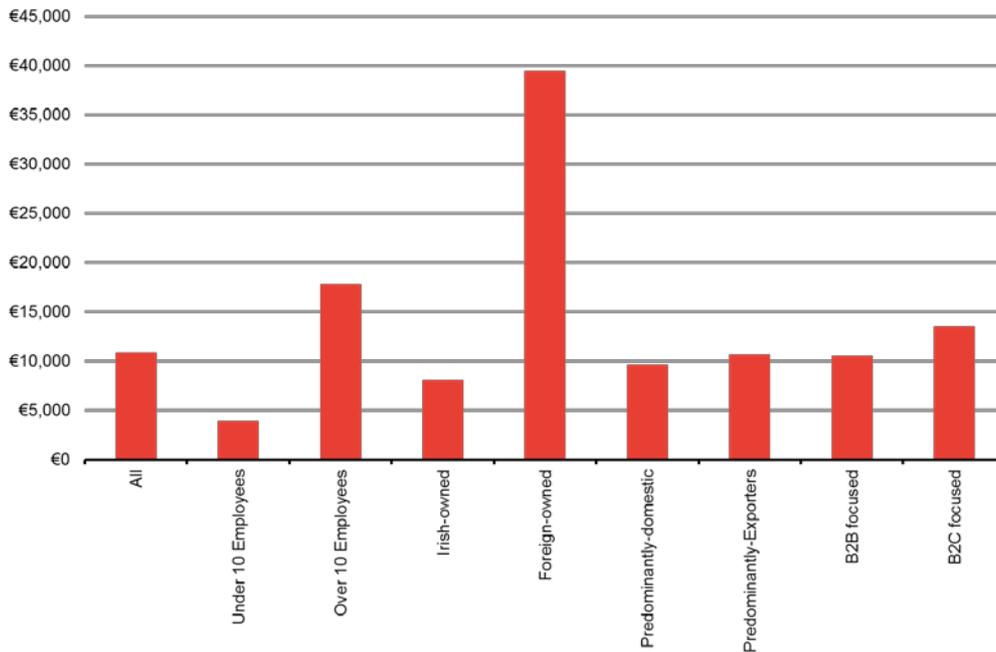
- an adequate choice of delivery services (including pick-up solutions);
- affordable prices of delivery services;
- good quality and reliability of delivery services;
- adequate timing and speed of delivery services;
- the provision of the right delivery related information at the right place/time ; and
- good quality and reliability of return procedures.

Spend

We asked SMEs in the survey how much they spent on packet and parcel services in 2014. The average annual spend in 2014 on parcel services stood at nearly €11,000, but the mean score is a limited guide to spending given the huge variety in spending by different types of firms. Not only do larger firms spend considerably more, but so also do foreign owned firms.

¹⁴ Copenhagen Economics, (June, 2013), "E-commerce and delivery - A study of the state of play of EU parcel markets with particular emphasis on e-commerce"

¹⁵ Copenhagen Economics, (June, 2013), "E-commerce and delivery - A study of the state of play of EU parcel markets with particular emphasis on e-commerce"

Figure 15. How much did you spend on packet and parcel services in 2014?

Source: Amárach SME Survey, February 2015

3.3 How operators currently compete

This section assesses how operators currently compete in the parcel and packets sector. We review their approach to:

- Price competition; and
- Brand competition.

3.3.1 Price competition

Most of the pricing of packet and parcel delivery services in Ireland is done via bespoke agreements between operators and senders. Prices are therefore negotiated on a bilateral basis.¹⁶

Given the competitive nature of the sector, there is very little public transparency in relation to prices, or how they are set. However, operators typically price on the basis of cost-driven factors and demand-driven factors.¹⁷

¹⁶ These prices may or may not be directly passed-through to consumers in the case of B2C transactions. While some e-retailers charge for delivery, many others offer 'free' delivery or free delivery over a certain purchase threshold.

In respect of cost-driven factors, operators price higher for services that cost more to deliver. Heavy or larger parcels are often more expensive as the delivery costs are higher. For example, air freight costs are typically much higher for heavier parcels. Also, weight and size impact the amount of parcels that can be carried on a walking or cycling delivery route. Due to economies of scale, increased volumes tend to decrease the average costs of delivery service provisions. Operators therefore typically offer discount to large volume customers.

In terms of demand-driven factors, pricing may be higher where demand is not price sensitive, perhaps due to lack of alternatives, while pricing may be lower where demand is very price sensitive. In the Irish context this has meant that there has been strong downward pressure on pricing as senders have become more sensitive to prices, as advised by a number of operators.

While most packets and parcels are priced via bulk contracts, many operators provide a tariff list for single items. For example, An Post has a tariff for over the counter customers (including in conjunction with DHL for overseas parcels). GLS has a tariff for its parcel shops. Single item prices tend to be substantially above contract prices offered across the sector.

¹⁷ Copenhagen Economics (2012), "Pricing behaviour of postal operators".

Pricing for large senders

We asked large senders of mail in our in-depth interviews about how they negotiate their prices with operators. All of the respondents advised that they negotiate their parcel delivery contracts every year with their operators. The recent volatility in transport costs (especially falling oil prices) means that they are unwilling to lock themselves into multi-year contracts, especially also given the intense competition and jockeying between service operators.

For large senders, the price they pay is driven by average weight/volume considerations and the degree to which parcels and packages are standardised and therefore predictable from a collection/sorting/delivery perspective. There are fewer opportunities for retailers to achieve standardised rates, except in the case of lower weight items, simply because of the huge number of individual products they offer online.

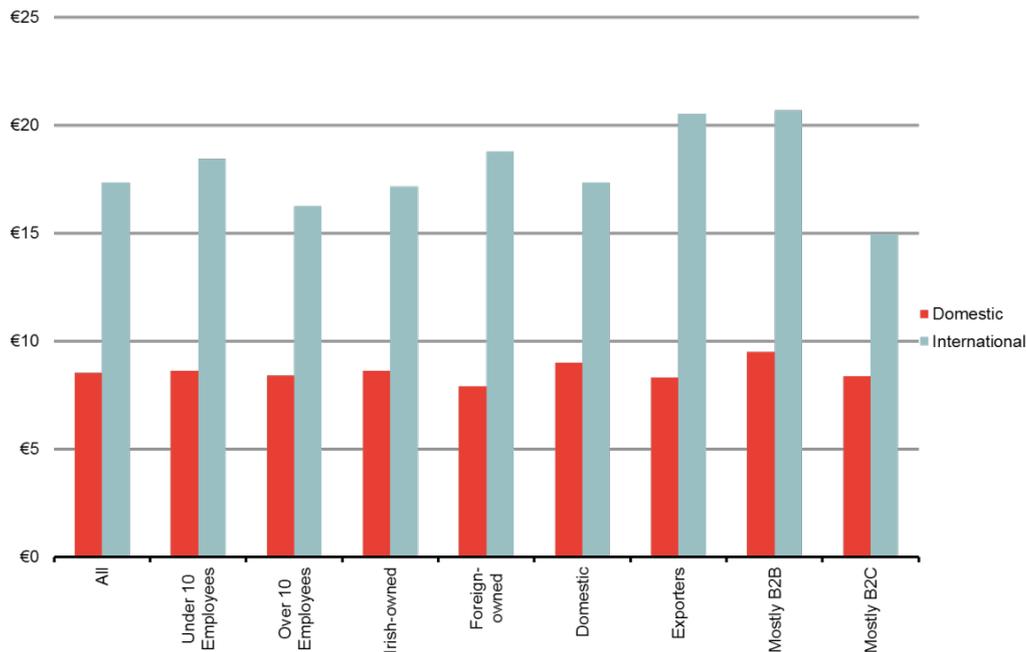
Larger firms and organisations spend considerably more than the SME average. Typically they put in place fixed price contracts (usually six figure sums and higher) as part of a budgeting exercise. Such contracts will also include SLAs and other criteria, plus ‘claw back’ arrangements in relation to fuel surcharges should transport costs fall significantly.

Current prices

We asked senders to estimate their current average spend per parcel for delivery. The average cost to send a packet or parcel for delivery in Ireland was €8.53 while the average cost to send a packet or parcel abroad was €17.33¹⁸. We note that the services purchased will be a mix of standard parcel and express parcel services, and therefore the average amount is higher than the cost of a standard parcel price for most businesses. To that end, we note that firms that mostly send B2B have a higher average price than firms that mostly send B2C, which is consistent with these customers demanding a higher proportion of value-added services or a higher proportion of express mail.

¹⁸ This compares to An Post’s average revenue per domestic packet or parcel of €3.77 per item, and €7.11 for outbound, according to An Post’s 2013 Regulatory Accounts.

Figure 16. Per item price to send a packet and parcel, broken down by sender type and destination



Source: Amárach SME Survey, February 2015

We also note that these prices are higher than the implied average price we found in our total market size. For example, our central estimates of the market value and volume have an implied average price across the sector of €5.40. However, we note that our customer survey primarily consisted of SMEs as the main unit of response, whereas very large senders comprise a significant proportion of the market,¹⁹ and their average spend is likely to be substantially less because of their volume scale and that they predominantly purchase standard parcel delivery services. In fact, the above table shows larger firms tend to spend slightly less per package – domestic or abroad – than smaller firms, possibly reflecting the economies of scale that go with larger contracts.

Regardless of company type, overseas delivery rates run at more than twice domestic delivery rates.

Changes in prices

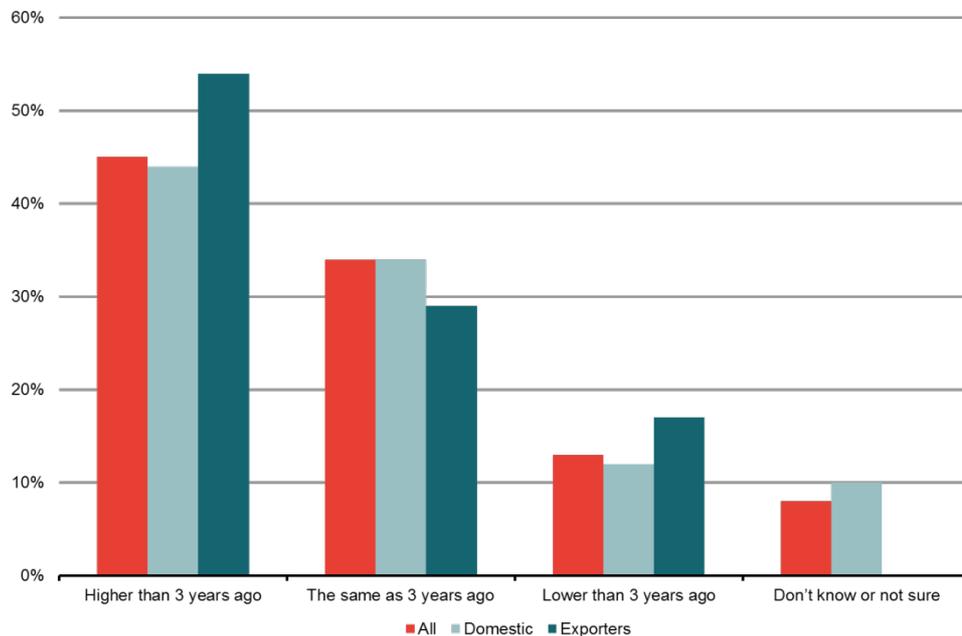
Most operators we interviewed stated that there have been little changes in prices in recent years.

¹⁹ An operator advised that there are about 30 large contracts that all operators want to win as they account for such a large proportion of the market.

Some operators stated that average prices have gone down, driven by lower contract prices. Others stated that prices went down during economic downturn. The importance of providing competitive prices was also noted as key to operators keeping current volumes.

We also asked senders to compare their current prices with prices three years ago. More than half of those surveyed stated that prices are the same or less than they were three years ago, while just under half said that prices are higher than three years ago (Figure 17). The majority of exporters in our survey have seen average prices rise, possibly reflecting exchange rate trends and fuel premia as they impact on amounts charged by service operators.

Figure 17. Change in prices paid by senders between 2012-2014



Source: Amárach SME Survey, February 2015

3.3.2 Brand competition and customer switching

There were mixed views from operators as to the extent of loyalty and customer switching in the market. Some advised that customers were loyal, while other operators had different views.

We asked senders the extent to which they switched operators. One in four SMEs has switched its main operator in the past three years, which indicates a significant degree of churn in the market.

3.4 Competition leading to changes in the structure of the parcels sector

There has been some structural change in Ireland in recent years, although the majority of key players remain the same. Of those operators spoken to, most quoted the loss in Ireland of Target Express in recent years as the most significant change. Some also noted the exit of NPX.²⁰ An operator quoted DHL getting out of domestic traffic (in 2009) as a major event.

There was not any strong opinion voiced that there would be more consolidation in the coming years, although some noted such things are hard to predict. The feeling was best expressed in the statement that it was ‘fiercely competitive but enough there for everyone’.

A recent proposed change to the industry structure is the FedEx announcement of its intention to purchase TNT Express.

There was no strong view expressed that further entry into the market was likely. One operator felt that Ireland was too small a market and whilst competition was always possible any new entrant would need significant backing to break into it. It was also noted by one operator that freight companies, in particular pallet companies, were looking to move back into the parcels market.

3.5 Key market dynamics findings

Some of the key findings that emerge from our market overview research include the following:

- **Strong growth in B2C:** Operators, SMEs and large senders identified online sales as key sources of growth for their businesses and for parcel service demand.
- **Little overall B2B growth:** operators reported in general low-to-no growth in recent years in B2B, while there is also evidence that some operators’ B2B volumes have declined.
- **SMEs choice of operator:** price and reliability are the two main factors driving a SMEs choice of operator
- **SME spend on parcels:** The average annual spend in 2014 on parcel services stood at nearly €11,000, but the mean score is a limited guide to spending given the huge variety in spending by different types of firms.
- **Negotiated pricing:** Most pricing is done on a bespoke basis, except for over-the-counter sales to consumers. There is a significant amount of

²⁰ NPX, or Nationwide Parcel Express, provided primarily B2B domestic parcel and the B2B international parcel markets.

price discrimination; with large volume senders typically receiving lower prices.

- **Current prices:** SMEs reported an average cost to send a packet or parcel for delivery in Ireland of €8.53 while the average cost to send a packet or parcel abroad was €17.33. However, our central estimates of the market value and volume have an implied average price across the sector of €5.40. The difference is driven by the significantly lower prices for large senders, achieved due to their volumes and because goods are typically sent by larger senders to end-users via 'standard' services rather than SMEs which may use more express or value added services.
- **Changes in prices:** We found that, while the level of services provided has increased, prices have generally remained fairly stable over the last three years. This is seemingly due to a highly competitive market and, in particular, the increasing power of senders with growing sales.

4 Future prospects for the sector

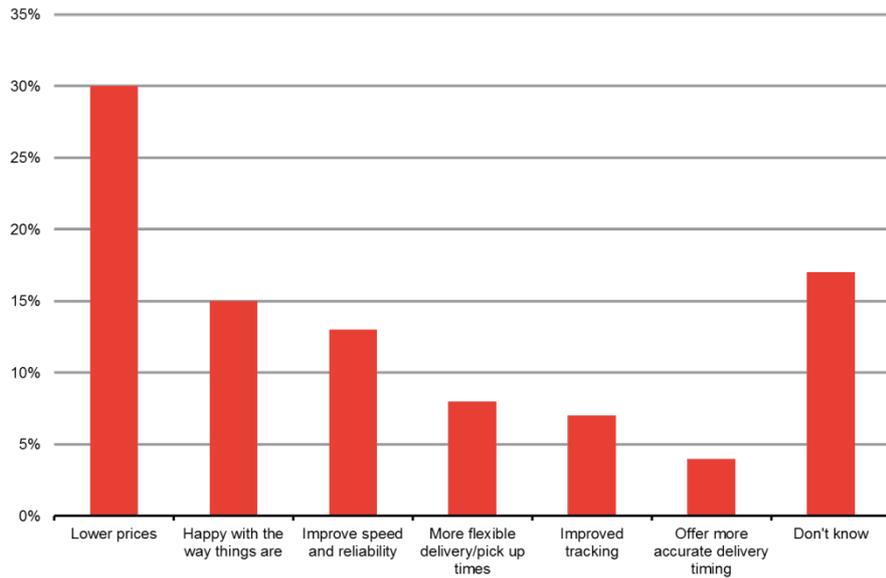
This section sets out the results of our analysis of the future prospects for the packets and parcel sector over the coming years. We came to a view on future prospects in considering:

- customers' future expectations and requirements from parcel and packet service operators between 2015 to 2017;
- the opportunities and threats identified by parcel and packet delivery service operators; and
- demand projections.

4.1 Customers' future expectations and requirements

As part of the survey we asked SMEs what changes or improvements they would like to see in the services they receive from parcel operators (Figure 18). Again lower prices top the list of future changes (though only for 3 in 10 SMEs). Beyond price, however, only small minorities of firms want other improvements – speed and flexibility for instance. 15% of SMEs are happy with the selection of operators they've got already – and the services they provide.

Figure 18. What would you like to see parcel and packet operators do differently in the future?



Source: Amárach SME Survey, February 2015

Due to growth in online shopping, end-user demands for faster, more flexible delivery options is in turn driving the requirements of large B2C players such as retailers. Our interviews with large senders revealed that next day delivery guarantees – and even same day deliveries – is something they see emerging in the UK and other markets and they would like to see this in Ireland.

Diversification of sender requirements

Our in-depth interviews with large senders of packets and parcels found that there was an increasing diversification of senders' requirements.

For example, some large customers advised that they would like to see greater flexibility in relation to delivery times. In particular, weekend deliveries are seen as a likely future need especially for end-users as many are not home during the week or able to take deliveries at work. While senders appreciate the options of alternative delivery addresses, for many of their end-users it is more convenient if they have the goods purchased online delivered to their door at a time that is convenient to them.

In respect of further innovations, large senders discussed the increasing role of "reverse logistics", or returns. For example, they want their operators to offer a seamless process for collecting unwanted products from end-users. The ease of returns is often cited as a significant facilitating factor in the growth of online retail, in particular in areas such as fashion and home ware.

Other, more specialist firms would like to see more effective 'chilled packaging'. This would enable them to increase their ability of sending food samples or products in a cost effective manner. In particular, effective chilling can help those retailers increase their market by enabling them to send to locations abroad which take several days to reach.

4.2 Opportunities and challenges faced by parcel operators

This section outlines the opportunities, challenges and threats identified over the coming years.

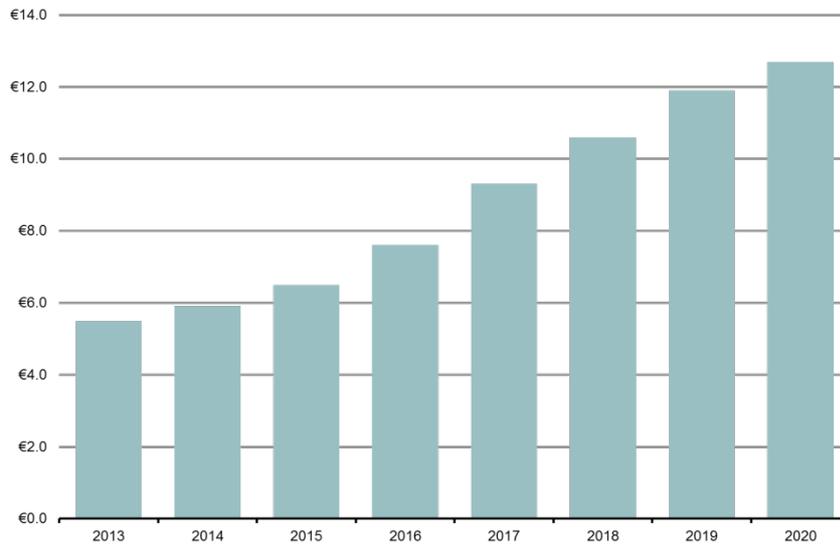
4.2.1 Opportunity: E-commerce

While e-commerce has already provided significant growth across the sector in recent years, operators consider there is an ongoing opportunity in relation to increased demand stemming from e-commerce in future years. In fact, the size of the e-commerce market in Ireland has been estimated to grow from €5.9 billion in 2014 and to be €12.7 billion by 2020,²¹ which indicates significant further growth is likely in the B2C segment in particular. Operators typically advised us

²¹ UPC, (2014), The Second UPC Report on Ireland's Digital Future

that much of their forecast growth is likely to occur in the B2C segment over the next few years.

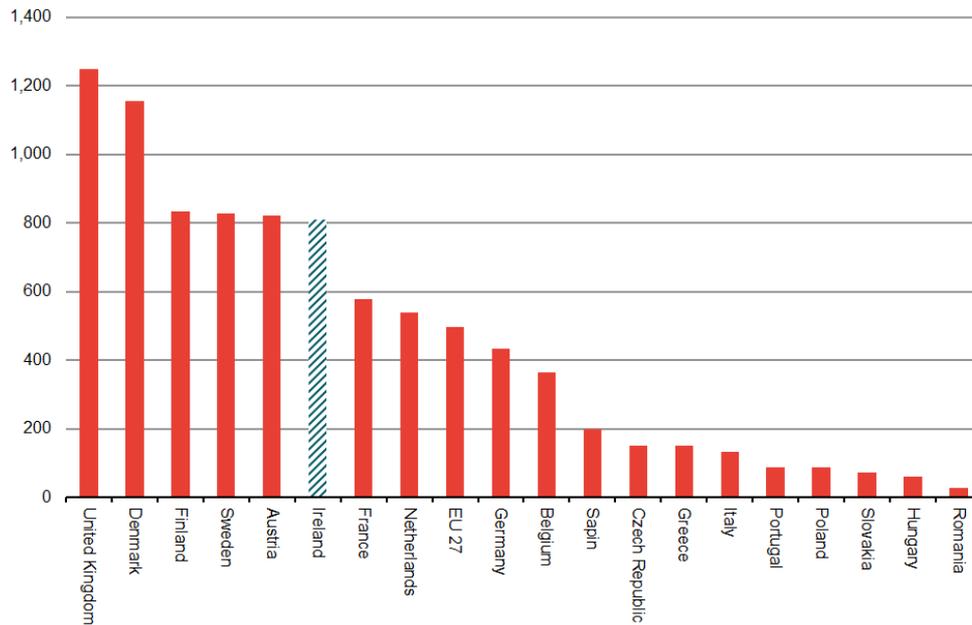
Figure 19. Estimated value of online spending in Ireland (billions)



Source: UPC, 2014, The Second UPC Report on Ireland's Digital Future

The main driver of e-commerce-derived parcel volume is the amount that consumers spend online. Online turnover in Ireland is above the EU average, but is about a third less than in the UK (Figure 20). Large UK retailers are increasingly promoting themselves in Ireland, and thus there is the potential for Ireland's market to grow significantly as it catches up to the UK at the frontier.

Figure 20. Online Turnover per capita (2011)



Source: Data for online turnover: IMRG (2013); Data for GDP per capita: Eurostat

Operators also discussed how they work with senders to help overcome some of the challenges with increasing business-to-consumer traffic, as outlined in the section below, and that this provides a further opportunity for increased sales as enhanced consumer delivery experiences will only serve to increase e-commerce growth even further.

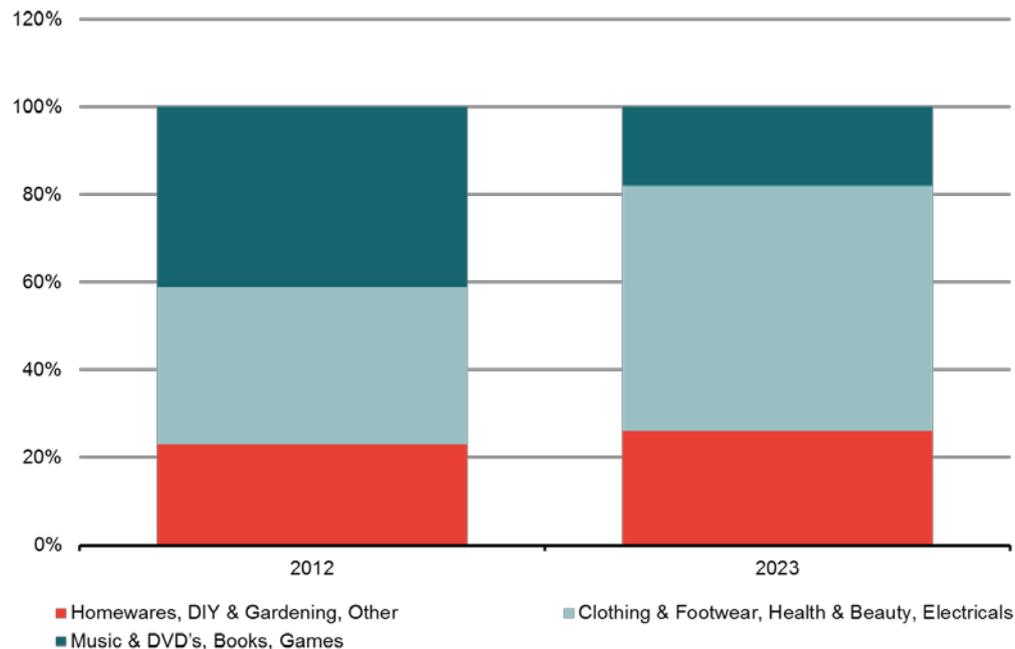
While e-commerce has been growing over a range of sectors, this does not necessarily translate directly into similar growth patterns for B2C packets and parcels. For instance, while in the past there has been significant growth in books being delivered by parcel via platforms such as Amazon and Book Depository, online book purchases are increasingly switching to e-books, and therefore require no physical delivery. Other potential displacement technologies include 3D printing, which could potentially significantly alter how goods are moved.²² Figure 21 shows estimated B2C parcels in the UK by broad retail categories in 2012 and 2023.²³ While similar forecasts are not available for Ireland, we would

²² Royal Mail and iMakr recently announced a partnership, which includes trialling a 3D printing and home delivery service. <http://3dprint.com/29015/royal-mail-3d-printing-imakr/>

²³ Outlook for the Mail Market to 2023, PwC <http://www.royalmailgroup.com/sites/default/files/The%20outlook%20for%20UK%20mail%20volumes%20to%202023.pdf>

expect Ireland to follow broadly the pattern of the UK due to similar technological developments (e-books, music downloads) and similar retail stores being present.

Figure 21. Forecast change in B2C parcels in the UK by retail sector



Source: PWC UK Report

4.2.2 Challenge: Increasing amount of home deliveries

Growth in home delivery brings about the following challenges in relation to non-deliveries, non-unique Irish addresses, fraud and returns.

Undeliverable items at the home during working hours

The market is increasingly focused on home delivery rather than B2B, and customers are not always home to receive their delivery. ‘Carded’ delivery attempts are no longer acceptable to many senders and end users find picking up parcels inconvenient.

Therefore e-retailers have emphasised the importance to operators of customer convenience in delivery. Alternative delivery address and options, as discussed earlier are one means of addressing this issue. Our interviews suggested that the number of carded deliveries has reduced significantly due to a number of delivery initiatives, including providing alternative delivery options to shops or affiliated outlets.

Other options included ‘Click and collect’ where customers buy online and then pick the item up in-store. These items are often delivered by parcel operators from a retail outlets warehouse or distribution centre, or that of its operators, to in-store. It is often felt that this is more cost effective or convenient than delivering the product through the retailers’ usual freight network used for bulk restocking.

Another option that is likely to be offered in the future is ‘pay and leave’ where customers purchase a good in-store and the good is delivered directly to the consumers’ home that evening.

More generally, the option of evening delivery and weekend deliveries are being explored more. Adding weekend deliveries can be a serious adjustment for an operator’s delivery network in terms of staffing the additional day or days. Other operators noted that they would be unlikely to offer weekend deliveries as they consider other options are sufficient to overcome issues of non-delivery.

Non-unique Irish address

According to one operator some 600,000 addresses in Ireland out of a total of 2.2 million are non-unique. This prevents easy delivery to the home of this subset of addresses.

Faced with a current lack of postcodes until Eircodes are introduced in mid-2015,²⁴ operators have had to develop their own geocode systems, use of mobile numbers to phone customers for directions and relying on local knowledge. Large operators have been better placed in developing these alternatives – because of scale and incumbency position. Looking forward Postcodes should help to alleviate the issue of non-unique addresses.

Fraud

The provision of a choice of delivery locations other than the home of the intended end user brings higher risks of fraud. This is because there is an uncertainty as to whom the parcel is given to or even if it has actually been delivered. The provision of an actual home address may give confidence to the sender but may have been used by someone else. Children may use third party addresses to obtain goods their parents may not wish them to have. Finally there is an issue of a one-off use of an address for multiple purchases that are effectively stolen.

Operators are providing a number of options to alleviate this type of issue. One operator is doing so by looking for multiple fraudulent deliveries for one address. Another option is true safe places, possibly by driver agreement and with the

²⁴ www.eircode.ie/what-is-eircode

possibility of them taking photographs of the location used, delivery time and geocode stamping.

Returns

For the operator, a returns service is in effect a collection and delivery. However the collection has to come from an end user who ideally wants the collection from home at a convenient time. This is probably more difficult to schedule than a home delivery and possibly more costly. For the retailer though if end users can easily and conveniently return online purchased products, then they will be more likely to buy online. Therefore to drive sales e-retailers work with operators to give customer (end user) return options. This includes the following:

- Allowing end-users to return goods via post offices, affiliated shops or lockers.
- Arranging a collection from an alternative location such as a workplace.
- Some operators offer additional services to retailers, for example checking returned goods. This allows earlier crediting of the goods before they actually reach the retailer. This is designed to prompt the customer (end user) to make another purchase straight away.
- We understand that in the UK, Royal Mail has recently launched a portal to help its customers (end users) manage returns.²⁵ The portal provides retailers (senders) with data on which items are being returned, from what customers (end users) and the reasons for these returns. It also allows end users to print off returns label, which enable them to track the progress of the good through the returns process. This is similar to services offered by large e-retailers, such as Amazon.

4.2.3 Threat to growth in demand

Delivery operators need to be fit for purpose and offer a service of quality to support the increasing e-commerce. Such operators play a critical role in e-commerce success.

Cross-border e-retailers and foreign parcel operators depend on the provision of a high quality service by Irish parcel operators that ensure the final mile delivery.

Several operators identified delays by Customs and Excise holding up inbound shipments of parcels from outside the EU as an issue.

²⁵ Post and Parcel, (March 2015), "Royal Mail helps retailers improve returns experience" <http://postandparcel.info/64240/news/royal-mail-helps-retailers-improve-returns-experience/>

4.2.4 Threat: macro economy

The business-to-business parcels market has suffered decline during the recession but is now showing signs of recovery with some positive growth. The success of this segment is highly dependent on the state of the economy and GDP growth is a key driver for this market segment. Whilst all operators interviewed saw optimistic signs from the economy they all felt the economic situation remained fragile²⁶.

The exchange rate has the potential to impact on the packets and parcel sector over the coming years. The Euro has recently weakened against its major trading currencies, including the Pound. As noted earlier, this has the potential to further increase outbound parcels as Irish exports become relatively cheaper than previously. On the other hand, it also has the potential to decrease inbound parcels to the extent that imports become more expensive.

4.2.5 Threat: Sustainable business models

The Irish market has seen some exit of parcel operators. Interviewed operators referred to the loss in Ireland of Target Express in recent years, and others referred to the exit of NPX²⁷. Another operator reported that DHL exited the domestic parcel market in 2009 with a focus on international inbound and outbound. FedEx has also recently announced its intention to purchase TNT Express.

Several operators interviewed were confident that with improving growth prospects, their business would be financially viable. Nonetheless a number of others highlighted two main pressures: price competition between operators and the increasing bargaining power of retailers as retailers consolidate.

In relation to price competition in the market, one operator noted the competitive threat of international operators with a desire to grow their business in Ireland and with substantial financial backing. Another noted unrealistic price expectations from senders. Still certain operators have managed to keep prices stable thanks to the fact that the owner drivers, which most of the operators depend on, had not had a rate rise for years.

It was noted that as a share of parcel demand was increasingly coming from a smaller number of senders, certain senders were gaining in bargaining power. Operators are then competing with one another for these large volume senders.

²⁶ For example, an operator commented that new rules on mortgage deposits may slow down nascent growth in the housing market and so the economy as a whole.

²⁷ Target Express was providing B2B and B2C parcel services, and NPX was a parcel broker.

The senders' demand to have their parcels "tracked" creates further infrastructure burdens on parcel delivery services, having to create complex IT systems. Operators are concerned by the investments required.

They stated that there are still plenty of opportunities but need to avoid the 'race to the bottom'. The way forward is to help senders to sell better to their end users with a superior delivery experience.

Nonetheless, there have been recent uplifts in tariffs by some operators. One operator stated that price increases in the range of 2% to 3% last year had been witnessed.

4.3 Demand projections for the next three years

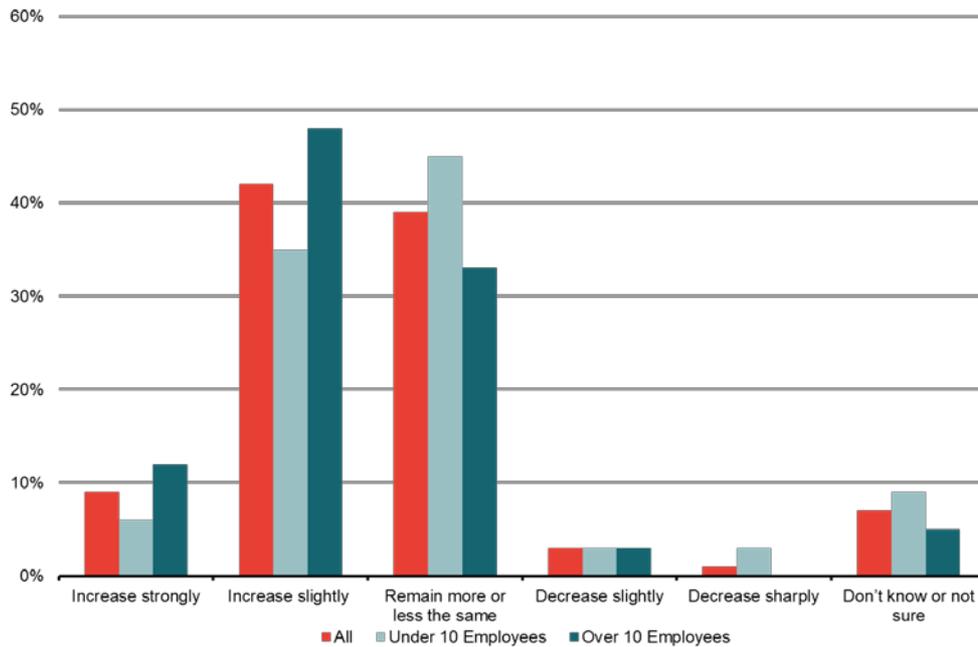
Our sender research suggests that a significant demand growth could be expected over the next three years.

Several of the firms we spoke to in the in-depth interviews identified online sales as a key source of growth for their businesses and for parcel service demand. Some indicated growth rates for online sales of 100% to 200% per annum (and double-digit growth is the norm right now). Moreover, the increasing penetration of smartphones and tablets is one of the underlying factors driving websites to have more responsive designs.²⁸ One retailer saw their share of sales via mobiles grow from less than 10% of all online sales to over 50% in just one year.

A majority of senders expect to spend more on parcel and package delivery services over the next three years, a slightly higher proportion than have seen spending rise in the past three years. Larger senders are expected to drive a lot of the increase. Exporters are the most bullish (67% expect to spend more), but most types of firms expect to spend more rather than less (on balance) on parcels services in the medium term.

²⁸ ComReg, (2014), "Irish Communications Market: Key Data Report – Q4 2014", states that by the end of 2014 there were 3,337,147 mobile voice and data subscribers using 3G/4G networks in Ireland, and that this figure can be taken as an indication of the number of smartphone users accessing advanced data services such as web/internet content, online multiplayer gaming content, Video on Demand (VoD) or other equivalent advanced data services. This represents approximately 68.2% of all mobile subscriptions.

Figure 22. Forecast spend on packet and parcel services over the next three years

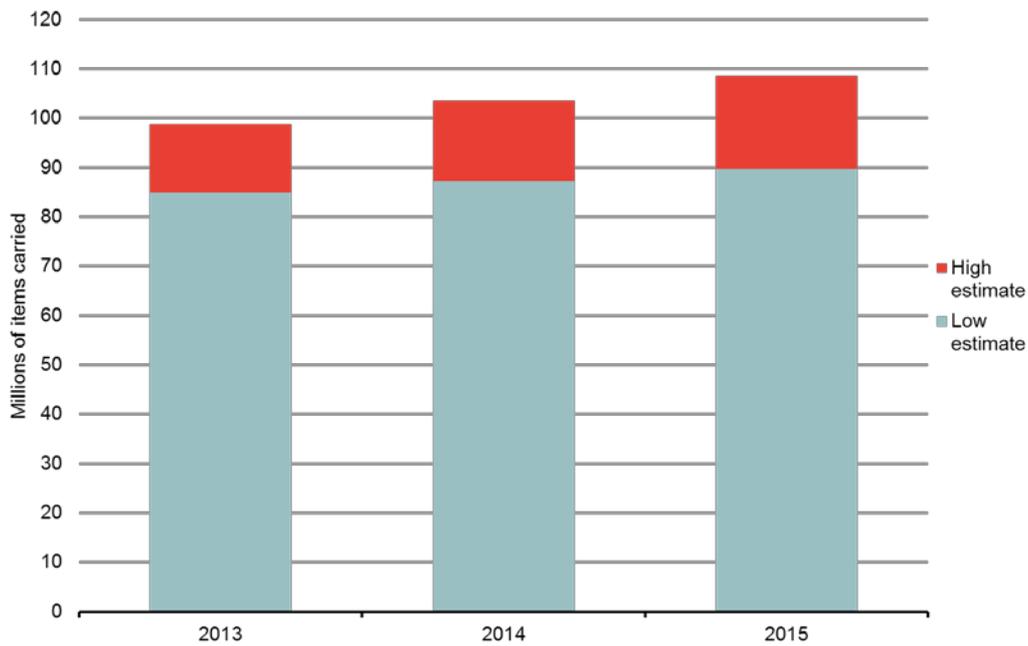


Source: Amárach SME Survey, February 2015

On the operators’ side, we also found expectations of significant demand growth over the next three years. While most of the forecast demand is from B2C volumes, there is some expectation that B2B will potentially also increase by a small amount as the general economic conditions improve.

Based on the findings of our research, we estimate that the packet and parcel volumes in Ireland will grow between 3-5% per annum. As noted above, most of this growth is expected to come from the B2C segment (7-9%), which will also see an increase in returns (C2B) volumes. Expected B2B growth ranges from a low estimate of no growth to a high estimate of 2% per annum across the market. We note that some operators’ expectations will be above these amounts, while others will be below, depending on expected shifts in future shares of supply.

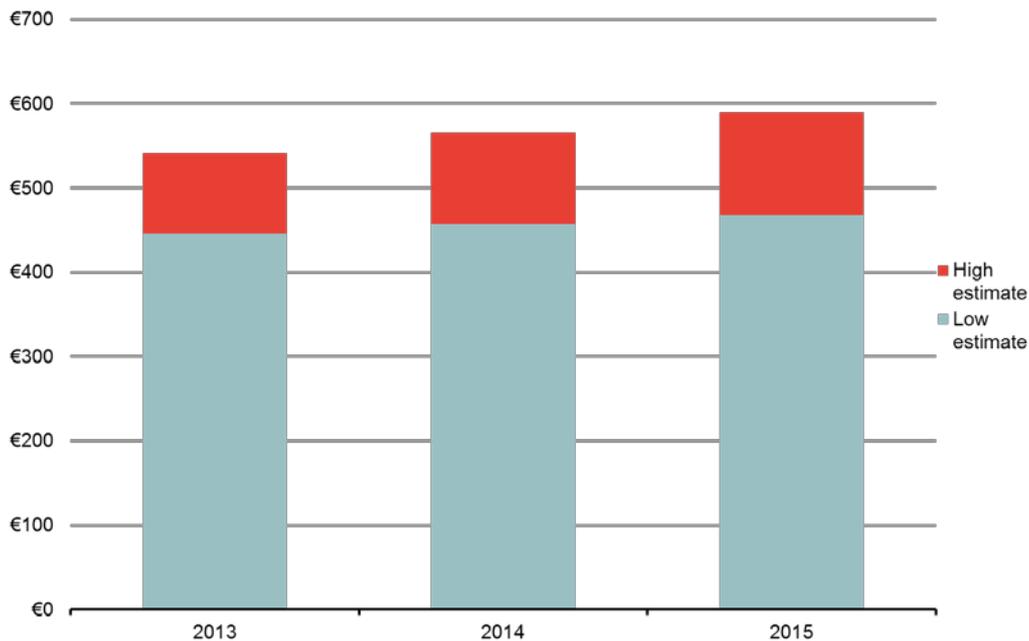
Using our estimates for the sector’s current volumes and the projected growth rates, we estimate that volumes in 2016 will be between 90 million and 109 million items per year.

Figure 23. Forecast growth in packet and parcel volumes to 2016

Source: Frontier Economics

Based on the findings of our research, we estimate that the value of the sector will grow between 2-4% per annum. Most of this growth is forecast to come from the B2C segment (6-8%). Growth in value in the B2B segment is expected to be more muted (0-2%).

Using our estimates for the current value of the sector and the projected growth rates, we estimate that the value of the sector in 2016 will be between €470 million and €593 million (Figure 24).

Figure 24. Expected growth in value of packet and parcel sector (€ million)

Source: Frontier Economics

Key future prospects findings

Some of the key findings that emerge from our market overview research include the following:

- **Understanding end-user needs:** In general, we have found that senders appear to have a good understanding of their end-users' (receivers) needs, and that they work with parcel and packet operators to meet these needs in order to increase online sales.
- **Future requirements:** Due to growth in online shopping, end-user demands for faster, more flexible delivery options is in turn driving the requirements of large B2C players for example retailers, such as weekend deliveries or same day deliveries. SMEs identified price as the main changes or improvements they would like to see in the services they receive from parcel operators.
- **Growth:** The consensus across the sector is that the main future opportunities are around continued growth in e-commerce, driving more

Future prospects for the sector

home deliveries, as end users purchase domestically and abroad. The changing market context has presented a number of opportunities and challenges for parcel and packet delivery operators, mostly in relation to the increasing amount of B2C volumes.

- **Challenges:** The challenges to overcome, relate to difficulties in home delivery as occupants not being at home during the working day, returns, fraud, and non-unique Irish addresses. To overcome these, operators are innovating by using more technology to contact end-users and delivering at specific addresses chosen by the end users (e.g. workplace or parcel locker).
- **Threats:** There is also a question in relation to the sustainability of business models. While volumes are growing, competition has been noted by some operators as being strong. In particular, there are operator concerns with regard to senders' expectations for very low prices and increasing levels of services.
- **Growth:** We estimate that growth across the sector will be 2-4% per annum over the three years after 2013, but growth in the B2C segment will be more pronounced (6-8%).

5 Conclusions

This study has aggregated and analysed data from a wide range of sources in order to increase the knowledge of the packet and parcel sector in Ireland. Packets and parcels are an increasingly important part of the broader mail sector. While traditional mail volumes have decreased, packet and parcel volumes have increased, mainly driven by the growth in online purchases for home delivery. Consequently business-to-consumer oriented volumes are growing; this brings about its own challenges for operators in relation to home delivery.

Our main findings have been summarised throughout the report. In general we find that packets and parcels are an increasingly important part of the broader mail sector. Packet and parcel volumes have increased, mainly driven by the growth in online purchases for home delivery. Consequently business-to-consumer oriented volumes are growing; this brings about its own challenges for operators in relation to home delivery.

The developments in technology, consumer buying patterns and online retailing, have led to a diversified marketplace of packet and parcel operators. At one level, the mass movement to online purchases and fulfilment has led to a growing need for low-cost yet dependable delivery services. This has led to significant opportunities for operators to provide innovative solutions and develop new and evolving business models, including operations for low cost cross-border delivery such as drop-boxes/lockers.

On another level, operators have had to become more responsive to customer demands (businesses and private consumers) as their requirements have become more complex and exacting. This has been facilitated by the role of technology, for example providing a seamless interface between online retailers and the parcel and packet operations. The dynamic nature of the sector has also meant that the dividing lines between segments have become more blurred. For instance, large online e-retailers now provide outsourced warehousing and fulfilment services to SMEs, which can reduce the need for cross-border deliveries if it allows, for example, additional overseas firms to have a local presence.

As we have been commissioned to produce a research report we have steered away from making specific recommendations. There are a number of areas, however, where the knowledge of the sector could be increased from further research and/or data collection:

- **Inbound and outbound volumes:** While our research has found that a significant number of Irish consumers purchase goods online from overseas websites, thus driving international inbound volumes, we have not been able to determine the proportion of the market accounted for by inbound traffic. Likewise our research has not been able to identify outbound volumes. The confidentiality of operators' data in respect of

volume splits makes such estimations difficult, however this may be an area for future research as such estimates would provide insight into the degree of cross-border trade in packets and parcels from and to Ireland

- **Longer term trends:** Our research has focused on recent changes, current market dynamics and near-term trends and issues. Longer-term trends have not been considered in as great detail. Factors from greater market integration to consumers' buying trends, from technologies such as 3D printing to transport and environmental policies, could all impact the longer term outlook for the sector, and therefore such longer term trends could be an avenue for future research.
- **Updating data:** As ComReg's regulatory oversight is limited mainly to the USO, ComReg does not have the power to collect data on the wider packet and parcel market and there is currently little in the way of ongoing data collection or dissemination for the wider packets and parcel sector. While this research provides a snapshot view of the current sector and future expectations (given current knowledge), regularly collecting and updating quantitative aspects of this research may provide market participants with valuable information over time. However, this would require the co-operation of all market participants which may not be forthcoming due to claims of confidentiality and commercial sensitivities.

Bibliography

Accenture, (2012) “Achieving High Performance in the Postal Industry - Research and Insights”

Amárach Research, (2014) “Research Questionnaire - S14-004 Wave 2 Parcel Omni Q’s”

An Post, (2013) “Delivering Progress in Challenging Markets - Summary Regulatory Financial Statements”

An Post, (2013) “Delivering Progress in Challenging Markets - Annual Report”

AT Kearney, (2011) “Courier, Express and Parcel: Can it Keep the Momentum?”

ComReg, (2012) “An Post’s price application - consultation on ComReg’s consent to change the charges of certain postal services within the scope of the universal postal service relating to postal packets weighing less than 50 grams” 12/138

ComReg, (2013) “Large Postal Users Survey” 13/107

ComReg, (2014), “Irish Communications Market: Key Data Report – Q4 2014”

Copenhagen Economics, (2012) “Pricing behaviour of postal operators”

Copenhagen Economics, (2013) “E-commerce and delivery - a study of the state of play of EU parcel markets with particular emphasis on e-commerce”

Copenhagen Institute for Futures Studies, (2009) “Communication trends and the role of mail - report for the International Post Corporation”

European Commission, (2012) “Press Release - commission launches consultation on integrated parcel delivery market to boost e-commerce in the EU” IP/12/ 1289

European Commission, (2012) “MEMO - green paper consultation on cross-border parcel delivery frequently asked questions” IP/12/923

European Commission, (2012) “COM(2012) 698 final Green Paper - an integrated parcel delivery market for the growth of e-commerce in the EU”

European Commission, (2013) “Press Release - commission presents roadmap for completing the Single Market for parcel delivery” IP/13/1254

European Commission, (2013) “COM(2013) 886 final Communication from the Commission - a roadmap for completing the single market for parcel delivery build trust in delivery services and encourage online sales”

Eurostat, (2012) “Industry, trade and services - statistics in focus”

Houses of the Oireachtas, (2013) “Joint committee on transport and communications - report on Promoting a Sustainable Future for the Post Office Network” 31TC004

International Post Corporation/ Post Europe, (2012) “Realising Europe’s potential - e-commerce and the postal operators”

International Post Corporation, (2013) “A roadmap to facilitating e-Commerce - 21st Conference on Postal and Delivery Economics”

International Post Corporation / The Boston Consulting Group, (2012) “Focus on the Future - building a new compelling position for posts”

Le Groupe La Poste, (2013) “E-commerce and opportunities for cross-border parcels in Europe”

Ofcom, (2013) “Review of postal users’ needs - an assessment of the reasonable needs of users in relation to the market for the provision of services in the United Kingdom”

Post and Parcel, (2014) “H1 results confirm overall growth trend for global postal industry” <http://postandparcel.info/62990/news/h1-results-confirm-overall-growth-trend-for-global-postal-industry/>

Post and Parcel, (2014) “Nightline Group to boost automation with Postea technology” <http://postandparcel.info/60784/news/it/nightline-group-to-boost-automation-with-postea-technology/>

Post and Parcel, (2014) “Smiths News launches UK parcel shop business with Amazon” <http://postandparcel.info/63054/news/companies/smiths-news-launches-uk-parcel-shop-business-with-amazon/>

Royal Mail Group, (2013) “Preliminary results for the year ended 31 March 2013”

Triangle, (2014) “UK Parcels Distribution Survey Programme 2014 - parcels Benchmarking Research Proposal”

Universal Postal Union, (2014) “Development strategies for the postal sector: an economic perspective”

WIK Consult, (2013) “Main Developments in the Postal Sector (2010-2013) - study for the European Commission, Directorate General for Internal Market and Services”

Wolfgang Digital, (2014) “Irish E-commerce - study Q2 2014”

Annex 1: Aggregated results from the Questionnaire

In addition to the interviews with the main operators, we also sent questionnaires to a number of smaller operators. We received a total of eight responses to the questionnaire. While these responses provided some interesting data on operators, because of the small sample compared to the SME interviews, we have not placed as much weight on these results in our overall findings. We also note that the respondents tend to be smaller or more diversified (e.g. freight and logistics) companies compared to the larger parcel operators we interviewed, therefore the results from the questionnaire alone may not be fully reflective of the entire market.

1. Company

Q1. Which of the following <u>activities</u> does your business cover?	
	<i>Activity offered by the following % of respondents</i>
Letter delivery	62.5%
Parcel delivery	87.5%
Packet delivery	87.5%
Logistics	87.5%
Freight Delivery	87.5%
Other (please specify)	Freight forwarding, warehousing

Q2. How many <u>staff</u> work in your parcels/packets business?						
<i>Summary of respondents answers (%):</i>	<i>1-5</i>	<i>6-10</i>	<i>11-20</i>	<i>21-50</i>	<i>51-100</i>	<i>100+</i>
	25%	12.5%	25%	25%	12.5%	0%

Q3. What part of the <u>value chain</u> do you work across? (please tick)	
	<i>Offered by the following % of respondents</i>
End-to-end	62.5%
Final Delivery	75%
Upstream (i.e. sorting, collection and transportation)	50%

2. Product/service

Q4. What parcel and packet <u>product(s) / service(s)</u> do you offer? (please tick)	
	<i>Summary of respondents answers (%):</i>
Day/time definite	87.5%
Next day delivery	87.5%
Economy (e.g. 2-3 days)	50%

Q5. What <u>value added services</u> do you offer? (please tick)	
	<i>Summary of respondents answers (%):</i>
Track and trace	75%
Signature required	100%
Real time tracking	37.5%
Customer procedure help	62.5%

Q6. Do you make a distinction between packets and parcels?

Summary of respondents answers:

- 62.5% of respondents stated that they did not make a distinction.
- 37.5% of respondents make a distinction based on weight and size but did not specify measurements.

Q7. What is the geographic scope of your parcel delivery services?

Summary of respondents answers:	
Regional	87.5%
National	100%
International	75%

Q8. How many days of the week do you deliver?

Summary of respondents answers:

- 50% of respondents offer a 5 day service
- 12.5% of respondents offer a 6 day service*
- 37.5% of respondents offer a 7 day service*

*weekend service at an extra cost

3. Customers

Q9. To what sectors of industry do your top 5 customers belong?	
<i>Summary of respondents answers:</i>	
Retail	75%
Pharmaceuticals	62.5%
Manufacturing	62.5%
Information Technology	50%
Financial	37.5%
Household	37.5%
Transport	25%
Catering	25%
Packaging	12.5%
Engineering	12.5%
Agriculture	12.5%
Craft	12.5%

Q10. What percentage of senders are from businesses, and by implication the share for households?					
	0-20%	21-40%	41-60%	61-80%	81-100%
Business senders	-	-	-	37.5%	62.5%
Household senders	100%				

Q11. What share of total revenue is generated by your top 5 customers?						
	0-20%	21-40%	41-60%	61-80%	81-100%	N/A
Summary of respondents answers:	25%	-	25%	12.5%	25%	12.5%

4. Demand for your products and services

Q13. How much has your company grown in volume over the past three years?							
	0%	1-5%	6-10%	11-15%	16-20%	>20%	N/A
Domestic	-	62.5%	-	12.5%	12.5%	-	12.5%
International	-	12.5%	12.5%	-	12.5%	25%	37.5%
Express	-	12.5%	-	25%	-	12.5%	50%

Q14. What were the main drivers of this growth?	
Summary of respondents answers:	
<ul style="list-style-type: none"> • Increased advertising and marketing • Competition going out of business • Economy upturn • Price drop 	

Q15. What are your volume growth projections over the next five years?							
	< 0%	0%	1-5%	6-10%	11-15%	16-20%	>20%
Domestic	-	12.5%	37.5%	12.5%	12.5%	12.5%	12.5%
International	-	50%	12.5%	-	-	12.5%	25%
Express	-	50%	12.5%	-	-	50%	12.5%

Q16. Will growth come from existing customers sending more items or new acquired customers?	
---	--

Summary of respondents answers:

- New: 75% of respondents that answered the question
- Both: 25% of respondents that answered the question

5. Competitors

Q17. Who are your main <u>competitors</u>?²⁹	
For domestic parcels	Nightline, Johnson Logistics, Superior Freight. DPD, Fastway, An Post
For outbound international parcels	DHL, Pallex, Palletways, TPN
For express parcels	TNT, DHL, An Post
For inbound international parcels if applies	UPS, DHL

²⁹ Note that as some of the respondents main business is freight rather than parcels their main competitors may also tend to be integrated freight firms that also deliver parcels.

Q18. Do you think you will have more, less or the same number of customers next year?

Summary of respondents answers:

- 100% of respondents think that they will have more customers next year

Q19. What do you think the total parcels/packets market is worth in Ireland?

Summary of respondents answers:

- Values ranging from €75 million to €400 million

6. Market trends

Q20. What are the main challenges/threats, opportunities, and future innovations faced by parcel delivery service operators?

Challenges/ threats	<ul style="list-style-type: none"> • Lack of postcodes • Lack of profit in parcel operators – only those operators who are multinational and get subsidies from European HQ are surviving • Competitors undercutting each other • Fuel prices
Opportunities	<ul style="list-style-type: none"> • Continued growth in the e-commerce sector
Future Innovations	<ul style="list-style-type: none"> • Involved with ‘Pallet Network Ireland’ • Introduction of a working post code system

Q21. Do you think the postcode system in Ireland has had an impact on competition in the parcel delivery market?

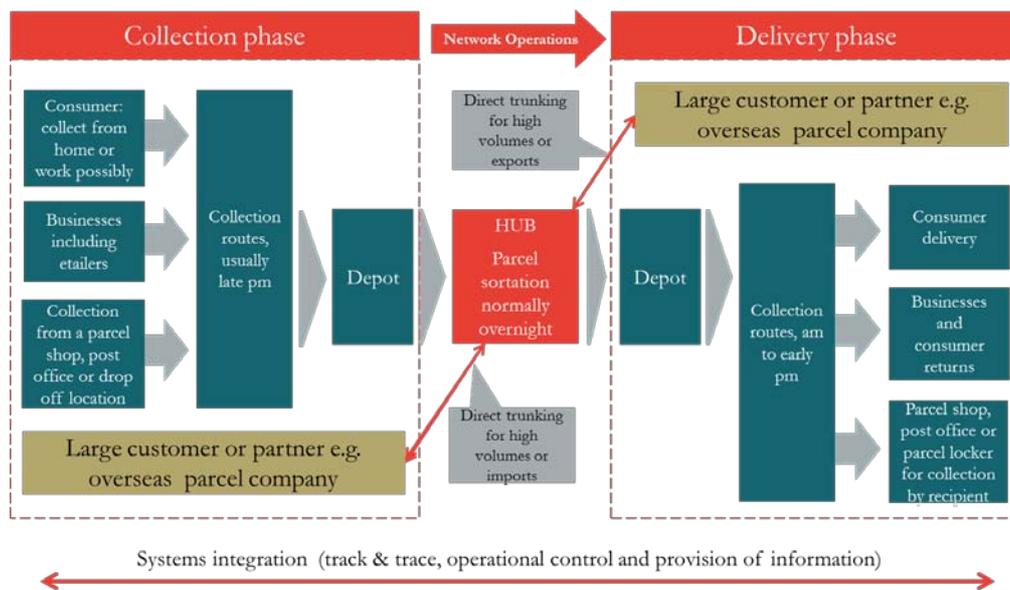
Summary of respondents answers:

- The lack of a postcode system in Ireland adds considerable cost and this is impacting on developing a sustainable B2C sector

Annex 2: Supply Chain

The supply chain for parcel delivery services involves a number of different steps shown in Figure 25. The figure provides a stylised overview of the steps involved.

Figure 25. Parcel Supply Chain



Source: PLCWW

All operators use hub and spoke models with hubs in or near Dublin. A small courier or freight operation may only have one location which acts as a depot and a hub. Major operators have a separate depot and hub.

Collection

The choice of collection options varies according as to whether the sender is a business or a private household. Regarding household senders, some operators are not willing to do household collections and so the sender may have to drop off their parcel at a post office, parcel company depot or parcel shop. Collections are transported to a local depot for consolidation and are then transported to the hub. Senders with a sufficient volume may have a collection that goes direct to a hub.

Collecting from and delivering to a business is normally straightforward during working hours on a working day. Problems can occur such as poor addressing, premises being unexpectedly closed or traffic delays preventing getting to the place during open hours. However contingency measures can often be made.

Sortation

The parcel sorting operations are largely manual unlike the modern letter sorting operations. The leading parcel operators have automated systems driven by IT systems linked to their track and trace systems for parcels.

Technology is critical for a parcel delivery operation. Track and trace (i.e. the ability to know where a parcel is in the pipeline) for parcels is a standard offer for many operators. This allows better delivery options for recipients. End users can get the notice of delivery, alternative place and time of delivery options and assurance of delivery on time and packages undamaged. A small operator though, or some An Post products, may not provide track and trace.

Incumbent postal operators have to invest in automation and track and trace technology as these are features that have never figured in legacy postal products. Given the size of Ireland's population and the scale of investment required, this suggests that automation in Ireland is limited. PLCWW advised that the volumes of domestic parcels in Ireland are unlikely to justify investment in such technology. Most recent initiatives for An Post in the parcels area have been about process improvement rather than investment in technology.

We also note that Eircodes are soon to be introduced into Ireland, providing a postcode system for the whole of the country. However, some operators have advised that unless Eircodes are geo-linked they will provide limited benefit in respect of improved manual sortation of packets and parcels.

Vertically integrated operators or upstream and downstream operators

An Post is the sole parcel delivery operator that is vertically integrated in that it provides an end-to-end service from collection to delivery at destination with its own infrastructure and fleet and own staff.

Other operators offer an end-to-end service to their customers but operationally sub-contract some activities to third parties. The final delivery can be subcontracted to local delivery firms or self-employed drivers. These operators use a mix of own and contract staff. They rely on either self-employed or employee drivers for the delivery function and typically have their own staff in hubs and administration³⁰. For deliveries, drivers either own their van for delivery or lease it from the parcels operator³¹.

³⁰ An Post still has an employee only model but retain some owner drivers in Dublin from the SDS parcel subsidiary it closed about eight years ago

³¹ One operator interviewed said their driver could use the delivery van for other goods provided they did not compete against their activities.

There are franchise models where regional operators undertake collection and delivery while the hub and connecting transport networks can be franchised or provided either by the lead franchisee or franchisor. This is the approach taken by Fastway in Ireland^{32 33}.

³² APC in the UK and DPD also rely on a franchise model in their respective countries.

³³ In remote areas a carrier may subcontract to local provision, as with AJG Couriers in the Scottish Highlands and Islands who deliver on behalf of a number of other companies. In this instance local collection is also provided.

Frontier Economics Limited in Europe is a member of the Frontier Economics network, which consists of separate companies based in Europe (Brussels, Cologne, London & Madrid) and Australia (Melbourne & Sydney). The companies are independently owned, and legal commitments entered into by any one company do not impose any obligations on other companies in the network. All views expressed in this document are the views of Frontier Economics Limited.

FRONTIER ECONOMICS EUROPE

BRUSSELS | COLOGNE | LONDON | MADRID

Frontier Economics Ltd 71 High Holborn London WC1V 6DA

Tel. +44 (0)20 7031 7000 Fax. +44 (0)20 7031 7001 www.frontier-economics.com