



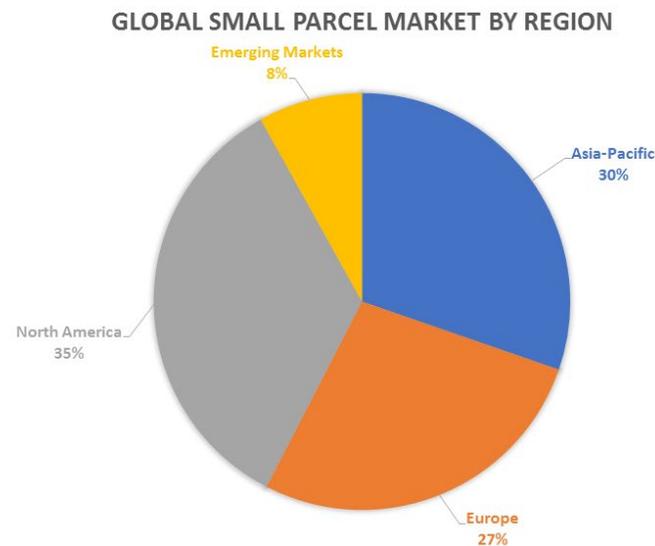
## Global Small Parcel Market Insights – Q1 2019

In our on-going contribution to supply chain thought leadership, Spend Management Experts is releasing its Q1 2019 “Global Small Parcel Report”. The report will offer a quarterly review and opinion of the state of the small parcel industry. Key content will include trends, M&A activity and partnerships, challenges, and disruptions to the market.

### Global Small Parcel Market Size

E-commerce continues to drive double-digit growth within the global small parcel market. According to Spend Management Expert’s proprietary market sizing, the 2018 global small parcel market increased 12.9% from 2016 to \$245.51 billion.

In terms of regional share of the global market, it has changed little since last year with the exception of Europe losing a percentage point to North America:



Year-over-year growth by region:

- Europe noted almost 3% growth due to growth in East Europe, Russia and Turkey.
- APAC noted a 6.1% increase growth with China the regional market leader growing at 8.0%.
- North America grew at 9% with the US, the regional market leader growing at 10%.
- Emerging markets, including Africa, Middle East and South America, grew at 6.4%.





## Asia-Pacific Region Trends

Competition within the last mile delivery numbers in the thousands in China and is fierce with the 'winner' often the one with the lowest last mile delivery rate. Alibaba's logistics subsidiary, Cainiao, has attempted to create a standard for Chinese providers that is not simply based on the lowest rate. In addition, quick and efficient last mile delivery options are expanding across China via the testing of drone delivery and alternative delivery pick up points.

The average delivery cost in 2016 and 2017 was 12.7 yuan (\$1.83 USD). However, in anticipation of great demand during China's National Day Holidays and the upcoming Double 11, five of the largest logistics companies in China—ZTO Express, YTO Express, STO Express, Yunda Express and Best Express—have raised their charges for parcel delivery services to Shanghai by ¥0.5 (US\$0.07) per order, on average.

According to China's State Post Bureau, the volume of parcels delivered rose 26.6% to 50.71 billion in 2018. In terms of revenue, the revenue from parcels delivered increased almost 22% to approximately \$89.1 billion

Japan is facing a labor shortage that is impacting its delivery companies – Japan Post, Yamato and others. In 2016, Yamato raised rates for the first time in 27 years. In 2017, Amazon Japan K.K. raised its shipping rates by up to 50% due to rising logistic costs. The company had charged ¥350 (\$3.28) for orders under ¥2,000, but the fee was raised to ¥400 for products shipped to Honshu and Shikoku islands and ¥440 for shipments to Hokkaido, Kyushu, Okinawa and smaller islands.

Meanwhile, a greater focus has been placed on Southeast Asia and India. Amazon is investing heavily in each region. There are reports that Amazon plans to invest up to \$1 billion in Indonesia after it expanded into Singapore in 2017. India has become another hot spot as well. Amazon, Alibaba and JD.com are all competing for a slice of India's \$33 billion e-commerce market by investing in distribution facilities, expanding services and more. Earlier in the year, Walmart expanded its presence in India by acquiring one of India's largest home-grown e-commerce providers, Flipkart.

The three integrators, DHL, FedEx and UPS are all expanding their offerings as well by extending cut-off times for express delivery services, expanding alternative pick-up points and in the case of UPS, forming partnerships with Chinese Express provider, SF Express to enhance cross-border and last mile delivery services in China and the U.S.

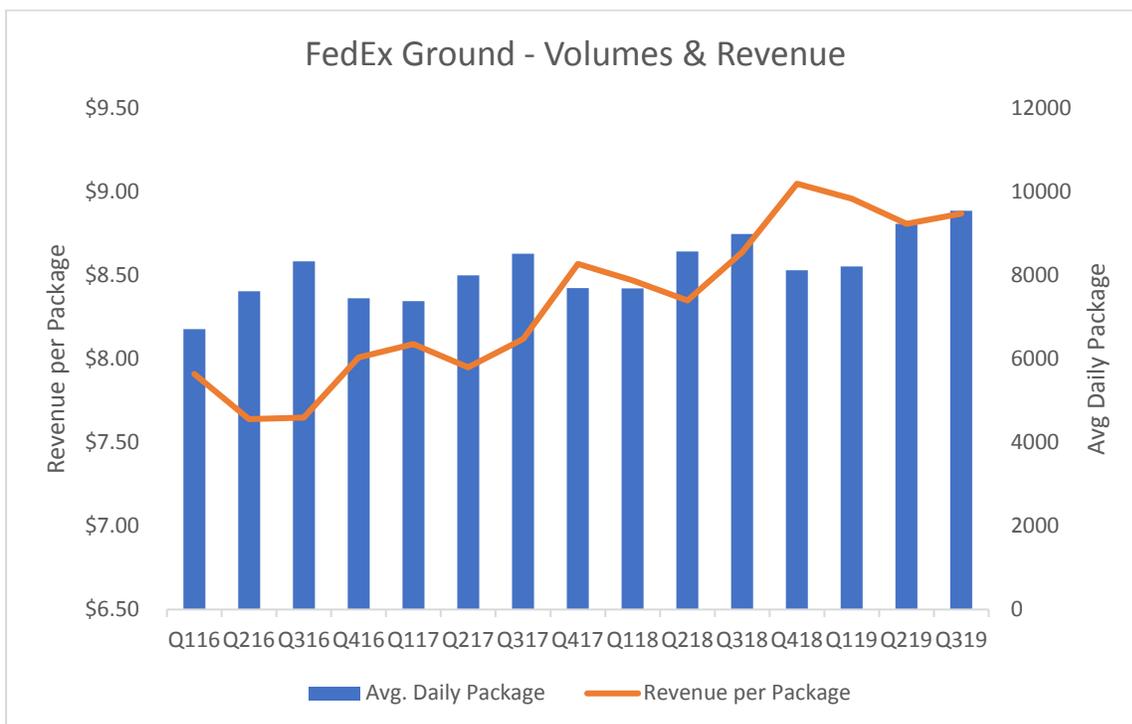
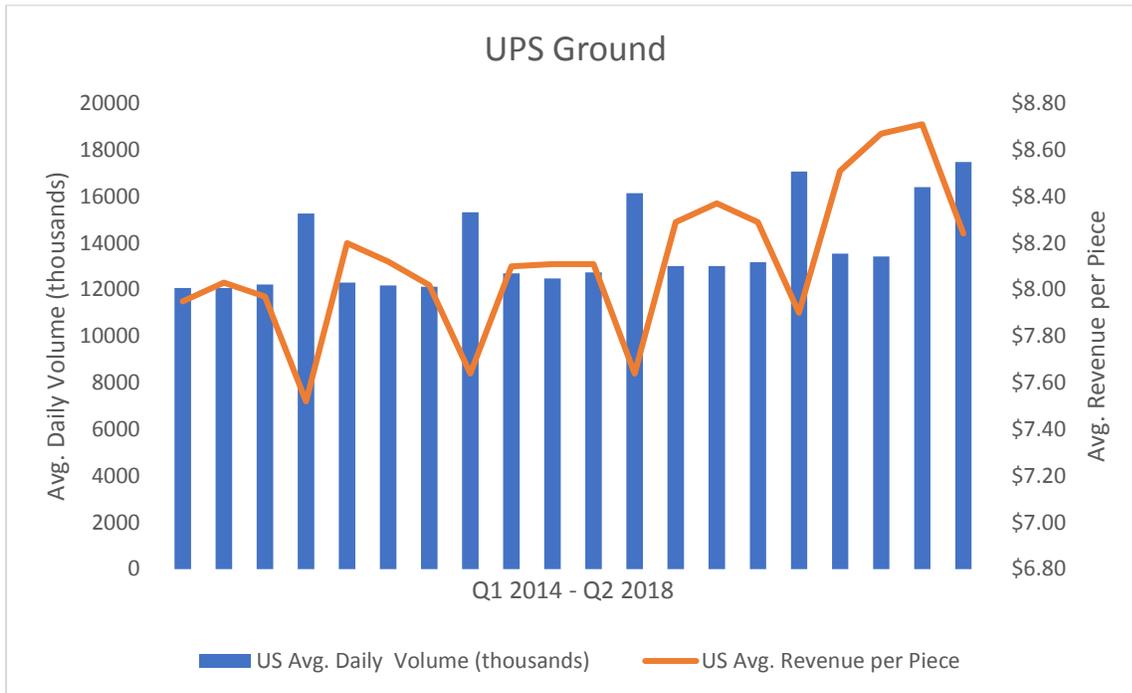
## Europe Region Trends

A number of post offices (privatized, semi-privatized etc.) are competing within the small parcel last mile delivery area. Typically offering some of the lowest rates, post offices such as Post Nord and Bpost have been among the most creative in terms of services – delivering and putting grocery items in refrigerators, mowing lawns and checking in on the elderly. Subsidiaries of UK's Royal Mile and France's La Poste have made acquisitions throughout the world to expand cross-border e-commerce services. DHL is piecing together a Pan-European service by partnering with various post office for their European e-commerce solution.





## Average Daily Volume & Average Revenue Per Piece





But Amazon may be knocking on the door as a viable option for last mile delivery in North America. In 2018, the company introduced its Amazon delivery service partners program and earlier this year, Amazon announced it would cut fees, including fuel surcharges and extra charges for home deliveries.

In addition, Amazon is a licensed non-vessel operator carrier, allowing the company to arrange and book ocean freight shipments. Additionally, Amazon is the tenth largest air freighter in terms of capacity and continues to take on more air capacity to satisfy faster last mile delivery options.

## Concluding Thoughts

While increasing volumes will drive more innovative ways to deliver last mile, innovation will come at a price from legacy providers such as FedEx and UPS. Particularly in the U.S., the duopoly, FedEx and UPS, are changing the small parcel game by changing policies and increasing not only annual rates but also accessorial fees associated with such growing trends as residential delivery.

Globally, rates will also rise as cross-border e-commerce grows. DHL, FedEx and UPS will benefit from this trend but margins will be tight as competition intensifies.

Meanwhile, Amazon, Alibaba, JD.com and likely others will continue to build out innovative global and regional logistics networks while remaining as customers of the 'big three'. But at the same time, these new entrants will be putting 'the big three' on notice that they are gaining in logistics capabilities and will potentially be major competitive threats.

So, who are these new entrants and how can they disrupt the likes of DHL, FedEx and UPS? We'll cover these new entrants in our next quarterly update.