Executive summary

This report is part of the consultancy mission regarding (economic) assistance to the Belgian Institute for Postal Services and Telecommunications (hereinafter BIPT) for the study relating to the Belgian market for the delivery of parcels in the context of e-commerce activities, granted to KPMG Advisory (hereinafter "KPMG") by the BIPT Council on 17 May 2016.

As e-commerce is winning ground, BIPT wishes to get an **elaborate insight** in the current situation on the Belgian parcel market in the context of e-commerce. More specifically this study seeks to map out the possible **obstacles** on the e-commerce market as regards parcel delivery, both at a national and at an international level, as well as to make recommendations for an **improved functioning** of the parcel delivery market in the context of e-commerce.

In order to map out the above-mentioned aspects KPMG drew on both existing **studies** and **regulation** regarding the e-commerce sector in Belgium and Europe, and on the results from the **survey** and **discussions** that have been organised in the context of this study with relevant Belgian and international e-commerce stakeholders (parcel deliverers, e-retailers, hallmarks, logistic organisations). In addition the results from the **public consultation**, published in November 2016, have been integrated in this report. In consultation with BIPT five other European countries have been selected as well (the Netherlands, France, Germany, the United Kingdom and Austria) in order to carry out a benchmark of the e-commerce market in Belgium.

In this report the regulations below, applicable to e-commerce, are discussed high-level, as well as possible points of interest in these regulations.

- Postal regulation;
- Labour legislation;
- Legislation regarding personal data;
- Legislation regarding the sustainable management of material cycles and waste products;
- Legislation regarding import rights, clearance costs and VAT of products in the case of international trade;
- Transport legislation (regarding CMR and cabotage).

Regarding the **offer** on the Belgian parcel market research carried out in this study reveals that although this market is highly concentrated, it is still characterised by the presence of a **large number of players** providing parcel delivery services. In addition to the Belgian postal operator bpost, who provides the universal service until the end of 2018, the Belgian parcel market is characterised by four other large international integrators (UPS, Fedex, DHL, TNT), as well as numerous (smaller) competing providers of parcel deliverers (among others DPD, GLS, Kiala, BPS, etc.).

Based on the survey conducted for this research, TNT represented the main market share in terms of turnover in 2015 (20-25%), followed by UPS (15-20%), bpost (15-20%) and DHL International (10-15%). Together these **four operators represent over 65% of the total turnover** generated by the consulted parcel deliverers. In terms of volumes the ranking looks different. Based on the results of the survey, **bpost is the most prominent player in terms of volume in 2015** (25-30%), followed by UPS, DPD (each 15-20%), GLS (10-15%), TNT, DHL Parcel and Post NL (each 5-10%). Together these seven parties represent about 87% of the total volume of the consulted parcel distributors. Both in the standard and in the express segment a **strong growth** was observed these past few years in terms of turnover and volume. Indeed, based on the data from the respondents having provided information for 2014 and 2015, a growth rate of 9.80% in turnover from standard parcels and of 3.57% in turnover from express parcels was observed. For the volume of standard parcels in 2015 a growth of 11.78% was observed compared to 2014, and for the volume of express parcels a 6.26% growth based on the data of the organisations consulted.

The Belgian e-commerce market is known for its relatively small national volume, nevertheless Belgium had the third largest growth in B2C e-commerce compared to the other European countries in 2015. Despite of this strong growth neighbouring countries such as France, Germany and the Netherlands are already more mature (infra).

Because of the relatively small national market the international market consequently becomes crucial to **Belgian parcel deliverers and e-retailers. The latter need to be able to create a sufficiently distinct profile for themselves on the international e-commerce market** in order to achieve **economies of scale.**

Although Belgium has no shortage of **strong logistic knowhow** and various innovative delivery options exist on the Belgian market, the research in this study still shows that the neighbouring countries, having launched e-commerce earlier and having taken a headstart, have known a stronger development in those fields. As Belgium is **no early adopter** in e-commerce the Belgian parcel distributors may **possibly suffer a competitive disadvantage** on their own market compared to the international players who are able to operate and provide services in more favourable conditions. This fact may however result in **additional opportunities for new players** to access a strong growing market. Late adopters can indeed quickly benefit from using the latest developments and maturity in the market.

The possible obstacles for the growth of the Belgian e-commerce market are briefly cited below:

1. **Lack of transparency** in both the delivery offer and the tariffs, quality of service, customs charges, etc.
2. **Possible weaker competitive position** compared to the neighbouring countries, among other things because of obstacles in the Belgian regulation that has not been sufficiently (or not sufficiently fast) adapted to e-commerce (for instance regarding night work and high labour costs (infra).
3. The **consumer's wishes and the trends abroad** are not sufficiently anticipated nor are they anticipated quickly enough.

1. *Lack of transparency*

The **publicly available information** regarding turnover and volumes in the European parcel market is relatively **limited and dated**, complicating a benchmarking of the different players on the European parcel market and the identification of bottlenecks and points for improvement. There is consequently a **need for more transparent data regarding the volume and turnover** on the different parcel markets in Europe.

Market data do not only seem to be lacking for turnover and volumes but also for the **current delivery options** provided, both nationally and internationally, and at what **tariffs** they are provided. These last few years the **offer regarding delivery** has become much **broader** than only home delivery, collection points and lockers. Today for instance in addition to delivery with the neighbours (an option for which the consumer may even designate a specific neighbour), there are also deliveries to a safe place such as a garage or garden house, or a place where the consumer will be at a time agreed upon (for instance start-up Parcify). It seems that it is not always easy to find this information quickly and in an orderly fashion on the parcel distributors' websites, often making it hard for e-retailers to compare the parcel deliverers and to select the most suitable service provider. To that effect the **different delivery options** offered by the parcel distributors have to be **made available** to the e-retailers **in a transparent and orderly manner** in the first place, as well as for the end-consumer for the latter to know which delivery options are included (for instance the procedure in case of a failed home delivery).

In addition to different delivery options there seems to be a greater need for **more transparency** regarding the **delivery rates** for these different delivery options. The research conducted for this study reveals that the **lack of transparency regarding the prices**, as well as the **elevated international delivery rates** are among the main **obstacles** for Belgian e-retailers and parcel deliverers to fully create a distinct profile for themselves on the international e-commerce market. 57% of European Internet users turn out to shop online, but only 16% of the SMEs sell their products and/or services online, less than half of which (7.5%) abroad. Research conducted by the Université Saint-Louis has shown that for a large number of countries the **weighted average cross-border tariff is almost three times more expensive than the domestic tariff for a similar product.** This can be (partly) put down to the fact that a parcel delivery between two cities that geographically lie close to one another but that are situated in two different countries, will not always be done according to the shortest or quickest route, but according to the route that is optimally organised within the national distribution network, namely the route with the highest volume.

Moreover, not only can the delivery rates be made more transparent, there is also room for **more clarity in the different customs charges**, both for parcel deliverers and e-retailers and end-consumers. For the latter nowadays often face unexpected costs upon the handling of the article purchased online, either in the phase of the purchase in the web shop during which unexpected delivery costs are added, or upon receipt of the parcel when additional costs are charged.

To be able to assess the efficiency of parcel markets and their capacity to meet the needs of consumers and e-retailers in the e-commerce sector, it is recommended that the different **national regulators**

in Europe each year retrieve parameters on, among other things, turnover and volume, the delivery offer and rates and complaints from the different parcel deliverers that are active on the national parcel market. These market data could then be collected and shared on a discussion platform, accessible to the different stakeholders in e-commerce. This way European market studies can be facilitated more easily and tariff comparisons are made possible as well. Although tariffs for commercial customers are often negotiated, one could restrict the platform to public tariff lists without taking into account possible discounts.

Such a European platform could moreover also have a positive influence on the selection of an international parcel deliverer in the case of international items.

The **European Commission** is currently working on a proposal including the terms and conditions for providing statistical information regarding parcel delivery and creating more transparency for rates, respectively under Article 3 and Article 4 of the draft Regulation of the European Parliament and the Council on international parcel delivery services.

2. *Possible weaker competitive position compared to the neighbouring countries because of obstacles in the regulations*

A number of issues identified on a legislative level and possibly harming the Belgian competitive position, fall under the **labour legislation**. In order to guarantee a smooth delivery of products and further competing with the neighbouring countries, it is necessary to perform activities **at irregular times**. However this is not allowed by the Belgian legislation at the time. The following obstacles have been identified in the context of this research:

- The **labour legislation** still does not seem sufficiently flexible for the e-commerce sector as it does not allow for instance, by means of (temporary) staff and/or night labour, to be able to meet deliveries at irregular times and the same day delivery trend our neighbouring countries do offer.
- **The Belgian employees' working hours are also less flexible than in the neighbouring countries.** In the e-commerce sector companies in general often deal with **peak moments** during which they need additional staff. The current Belgian legislation however does not yet provide for the necessary flexibility regarding the temporary use of personnel compared to neighbouring countries.
- Finally the **higher labour cost** in Belgium (compared to neighbouring countries) also constitutes an obstacle in e-commerce.

In order to improve Belgian companies' competitive position in the e-commerce sector at an international level, it is recommended to **amend the labour legislation, more specifically as regards night labour, labour costs and flexible working times.**

In addition there also seems to be room for improvement as regards the regulation of **tariffs for international items**. Today the UPU tariff system lays down the minimum and maximum rates for international postal items of providers of the universal postal service within the United Nations, based on specific parameters. In addition to the fact that the UPU system consequently does not apply to all international parcel deliverers, the system, and more specifically the parameters setting the minimum and maximum rates, also had different shortcomings in the past. For instance, in the past, international postal operators were able to deliver postal items more cheaply than the national operators of these markets and providers of the universal postal service in countries with a mature postal market sometimes risked not sufficiently recovering their costs for processing the postal volumes by means of the maximum UPU rates imposed. While the UPU Acts aim at fair tariffs for international postal items intended to have a favourable impact on the international postal market, they have nevertheless in certain cases disrupted the market. The REIMS system tries to provide an answer to these issues by using a tariff system that takes into account both the quality of postal services for international postal items and all costs for the delivery of postal items and the existing national rates. The REIMS Agreement however is only signed by European postal operators who are moreover, in parallel to the UPU system, exclusively providers of the universal postal service. Furthermore the REIMS Agreement is not binding either, allowing the operators not always having to abide by the rules of the Agreement. There is consequently a need for a new (re)new(ed) international system regulating the tariffs for international postal items in a fair manner and a manner that is binding for as many postal operators as possible at an international level. Also the Belgian regulatory and other public bodies can play a role in bringing about such a system, by emphasising this in the existing relevant international bodies such as the UPU and the International Post Corporation.

3. *Not sufficiently tuned in on the consumer's wishes and the trends abroad*

In order to be able to guarantee a good service and to develop a strong competitive position, it is first of all important that the **wishes and expectations of the different stakeholders** in the e-commerce sector are aligned.

An important finding in the context of this study is the observation that the **expectations and needs** of parcel deliverers and e-retailers/end-consumers regarding the delivery preferences and options are often **not really aligned**. For instance at the supply side the impression is often that consumers are always asking for an even faster delivery (translating in the new trends on the market, among which the same day delivery, delivery within hours, etc.) but research reveals that a faster delivery in general does not prevail for end-consumers. The latter primarily want a **lower delivery rate and comfort (home delivery).** In addition providers of parcel delivery services are under the impression that there is a limited **demand for evening and Sunday deliveries**, although research into the end-consumers preferences shows that a significant part of the online consumers desire this.

The observation regarding **the scope of the consumer demand for certain delivery services is on the contrary strongly influenced by the offer of delivery options an e-retailer provides to the end-consumer on his web shop.** Meeting the delivery needs of end-consumers can consequently only be successful if these services are indeed being provided by the e-retailer on the web shop. This does not often seem to be the case however, which constitutes an **obstacle for the**

demand for certain services as well as for achieving economies of scale forcing parcel deliverers to provide these services at a higher price.

To this effect account should also be taken of the **offer on the international e-commerce and parcel market.** For if the same product is offered at the same price but with a faster delivery span on the Belgian market, there is a chance of these providers overtaking a part of the Belgian market, putting the Belgian competitive position at risk.

In order to give sufficient insight into the delivery needs and expectations on the e-commerce market and consequently to better align the offer to the demand, there is a need for **a stronger collaboration between the different stakeholders.** This is possible among other things by setting up a **consultative committee/working group.** In this group both e-retailers, the national regulator, postal operators, hallmarks and consumer associations could be included in order to get sufficient insight into the different playing grounds of e-commerce. This consultative committee should be a **proactive body** closely following the **trends in e-commerce** in order to be able to **anticipate in due time** on the Belgian e-commerce market.

For instance at the level of the working group it might be examined how parcel deliverers can better anticipate the wishes of the customer as regards **delivery times and terms**, as well as the need for **more accurate information on the estimated time of delivery.** For instance giving **more frequent updates in the "last mile"** to the end-consumer could be a possible measure for improvement. To this effect also the parcel deliverer has to be provided with the technology enabling him to pass on this relevant information regarding the status of delivery to the e-retailer.

Providing **more options to the end-consumer** allowing the latter for instance to indicate in the check-out procedure how long beforehand he/she wishes to receive a notification of the estimated time of delivery, or allowing the consumer to change the time of delivery (for instance a day before the delivery), could also be measures meeting the needs of consumers for more accurate information on the delivery time.

However because of the ever increasing **congestion** issue, it is becoming increasingly difficult for parcel deliverers to provide an **accurate time of delivery** to the end-consumer, which increases the pressure on parcel deliverers and the risk of late deliveries. Whereas in urban areas there is less room for improvement as most of the parcel deliverers already have sufficient volume to organise their routes in an efficient manner - in addition to the high delivery costs and the busy traffic of these days - progress can indeed be made from the point of view of inhabitants of rural areas by providing more collection points.

Multiple parcel deliverers increasingly invest in a **more ecological parcel delivery** by means of the (electric) bicycle or electric cars, and testing projects are worked on delivering parcels by means of drones, crowdsourcing, etc. Promoting **delivery in collection points** is recommended as well, as this is less expensive and less hard on the environment than home delivery. Although the sustainable aspect is gaining terrain in the parcel distribution, research of the VIL shows that **consumers at this time are not prepared yet to pay extra for a more sustainable delivery.**

Finally the European Commission has also developed multiple proposals (in the form of a draft Regulation[1]) these past few years to improve the internal European market in the context of e-commerce, among other things the **Digital Single Market Strategy** (DSMS). The DSMS includes several proposals for initiatives (both legislative and non-legislative) oriented along three axes: **improving access to digital goods and services** for consumers and companies, creating the terms for **improving the digital networks and services** and **maximising the growth potential** of the digital economy. The simplified procedure for clearing postal items at customs (via the declaration of the CN22 and CN23 documents) which only the providers of the universal postal service can benefit from at the moment and which therefore constituting a competitive disadvantage for parcel deliverers who have not been designated as providers of the universal postal service, however has not been mentioned in the DSMS action plan. Consequently it should be looked into how the Belgian government can reintroduce on the agenda of the European Commission how to eliminate this competitive disadvantage.

[1] These proposals for a Regulation therefore are not (yet) part of the European legislation so far.