E-COMMERCE PARCEL DELIVERY IN IRELAND

A Report prepared for ComReg

02 June 2021 – Published by ComReg as Document No. 21/59 (4 June 2021)

CONTENTS

EXECUTIVE SUMMARY

In May 2015, the Commission for Communications Regulation (ComReg) published a report on Frontier Economics' study of the *'The packets and parcel sector in Ireland'*[1]. The main objective of that report was to provide publicly available information on the parcels sector in Ireland. This was in the context of growing demand for packet and parcels deliveries. At the time, there had been a significant amount of research internationally – both at the strategic corporate level and at the regional regulatory level. However, there had not been any in-depth study of the Irish parcel and packets sector more generally.

Since that study was published, the parcel delivery sector in Ireland has continued to grow significantly, primarily led by growth in e-commerce. This growth has provided an increasing number of opportunities and challenges for all the sector players. This includes major external influences on the sector, such as COVID-19 and Brexit.

Frontier has been asked by ComReg to provide an updated report on the evolution of the parcel delivery sector in Ireland since 2015, with a particular emphasis on the growth of e-commerce parcel delivery. Frontier carried out this study with our research partners Behaviour and Attitudes (B&A).

An overview of the Irish parcel sector in 2021

Sector context

The traditional parcel value chain is a helpful starting point to better understand the sector and its evolution. The sector can be separated into two sides, which are:

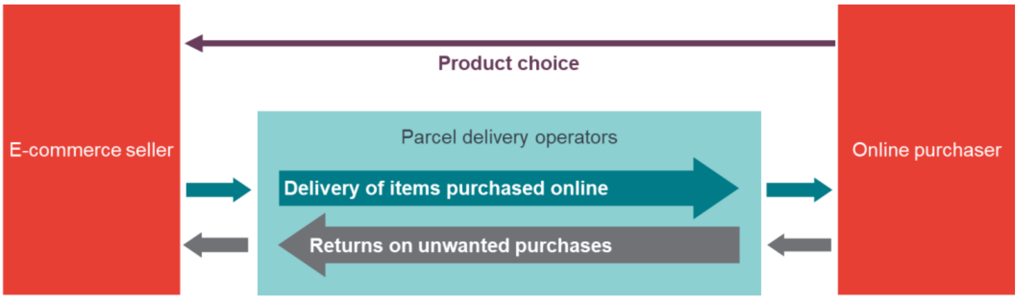
- the service provided by parcel delivery operators (the **supply** side); and
- **demand** for parcel delivery from both senders and receivers of parcels.

It is essential to study both ends of the value chain separately, as well as considering the interaction between the two ends.

In addition, on the demand side, it is important to consider the interaction between senders and receivers of parcels. This is particularly true in the context of the growing e-commerce sector, where the senders are e-commerce sellers and the receivers are consumers. This relationship covers not only the sale of goods, but also the return on unwanted purchases from consumers to sellers, as illustrated in Figure 1.

[1] Frontier Economics, The packets and parcels sector in Ireland, May 2015 (https://www.comreg.ie/csv/downloads/ComReg1547.pdf)

Figure 1 E-commerce parcel delivery value chain



Source: Frontier Economics

Ultimately, parcel delivery operators will primarily respond to demand for services (and the associated attributes) from e-commerce sellers. Final consumers usually do not directly choose the parcel delivery operator when purchasing items online. Normally, their requirements will only feed into demand for parcel delivery services (and the associated attributes) indirectly, to the extent that e-commerce sellers try to meet final consumers' requirements in the parcel delivery services that they purchase. Therefore, consumers' demand for parcel delivery services can only be met to the extent that they are reflected in sellers' demand for these services.

Operators, products and services

The Irish parcel delivery sector is made up of seven main parcel delivery operators, with a long tail of smaller and specialised operators. Over the past six years, there have been two key acquisitions among the main operators:

- TNT Express Ireland was acquired by FedEx in 2016; and
- Nightline was acquired by UPS in 2017.

Across the main parcel delivery operators, a number of product features have become increasingly standardised in recent years. For example, next day delivery, basic tracking and a network of parcel drop-off/collection points are widely offered as standard. At the same time, the sector has continued to develop to provide an increasingly diverse range of products and value added services in order to meet the growing range of needs of senders. For example, same day delivery and real time tracking.

Size and structure of the sector

The size of the sector is estimated to be between €662 million and €722 million in 2019. This suggests an average annual growth rate of between 4% and 9% between 2013 and 2019. This growth has primarily come from the business to consumer (B2C) segment of the sector, with business to business (B2B) volumes being stable.

Of the main operators, the share ranking in volume and value terms has changed between 2013 and 2019. However, the share by value of the four largest operators has decreased by 7%, while the share of volume increased by less than 1%.

In addition, while 2019 is the most recent data that is currently available, this is likely to be an underestimate of the size of the Irish parcel sector in 2021. As discussed further below, the sector has experienced further unprecedented growth since COVID-19 in 2020. While detailed figures are not yet available for 2020, the qualitative evidence collected suggests that growth was significant.

Analysis of key trends in sector dynamics

Four key trends have impacted the Irish parcel delivery sector in recent years. These are:

- e-commerce as a driver of demand;
- changing customer requirements;
- competitive dynamics in the parcel sector; and
- the impact of COVID-19 on the sector.

1. E-commerce as a driver of demand

Over recent years, there has been significant growth in e-commerce (and demand for e-commerce), with little to no growth in B2B. Almost two-thirds of consumers state they are purchasing more online over the past three years, than ever before. At the same time, there has also been an increasing prioritisation of online as a channel by sellers (of all sizes).

Cross-border e-commerce is a significant driver of this e-commerce growth. This is consistent with our 2015 study which highlighted the importance of UK e-commerce sellers. Whilst this trend remains, it is also clear that e-commerce sellers based in Asia are also a growing feature of the Irish sector, with large growth here, though absolute share of these sellers remains small.

2. Key customer requirements

In terms of parcel delivery requirements from senders, price and reliability remain the most important. However, other needs are emerging, e.g. increased levels of tracking and technology. Overall there appears to be a good understanding of these needs by operators, as backed up by sender satisfaction levels.

Delivery cost is also the primary consideration of consumers when they are selecting delivery options for online purchases. Again, high satisfaction levels (with both the delivery options available and the parcel delivery operators) indicate that consumer requirements are well reflected in sender requirements from parcel delivery operators.

3. Competitive dynamics

Parcel delivery prices are largely based on negotiated discounts from standard price lists. There appears to be a move by parcel delivery operators to a fixed pricing model with “add-ons”. That is, rather than having a long list of products with pre-determined features, operators offer a single basic delivery price with individually priced 'add-ons' (e.g. expedited delivery) available for sellers to select the product features that they require.

4. Additional impact of the COVID-19 pandemic

The COVID-19 pandemic has led to a surge in online sales and e-commerce activity. Many e-commerce companies found themselves unprepared, and considerable pressure has been put on parcel delivery networks, leading to increased issues faced by e-commerce sellers and consumers. However, feedback is that it has also opened up new opportunities. For example, as well as growth from existing online customers, many retailers have gained new online customers, with a broadening of online demographics.

Future prospects for the sector

Since March 2020, the worldwide COVID-19 pandemic, and the restrictions placed on the Irish public, led to a surge in demand for online sales, and the associated demand for parcel delivery services. However, the latest data that we have for the volumes and turnover with the Irish parcel delivery sector is for 2019. Therefore, while the operators interviewed as part of this study estimate growth of at least 40% in 2020, the actual overall volume impact of the pandemic is currently unclear.

Given this, it is too difficult to forecast how the sector will develop over the medium term. However, all players in the Irish parcel delivery sector expect the level of the demand to remain high, with COVID-19 accelerating a longer-term shift in the way that consumers shop.

- E-commerce sellers are increasingly focussed on delivery cost. This appears to be driven by the concern that consumers have reached their threshold in terms of what they are willing to pay for delivery.
- Parcel delivery operators have struggled with the COVID-related surge in demand to date (and the marked shift towards B2C). With expectations that this level of demand will remain, they are considering network expansions (and optimisation) to facilitate this going forward. However, this is not without its challenges.
- Vertically integrated e-commerce platforms are seen as an increasing competitive threat by parcel delivery operators – Amazon, in particular, is seen as a key trend setter in terms of delivery offer.
- Parcel delivery operators and e-commerce sellers are also currently dealing with two key external influences on the sector – 1) Brexit and 2) Climate change policy.
  - Brexit has had a mostly negative impact on parcel delivery operators, despite preparation – logistics/IT issues and a fall in volumes. There seems to be a divided impact on sellers – with larger businesses reporting potential opportunities linked to a competitive edge for Irish retailers vs. international competitors, and smaller businesses feeling the impact of increased costs.
  - Sustainability investments by operators have largely been driven by corporate goals as well as user demand. Although only 3% of SMEs

surveyed listed sustainability as one of the top three criteria in choosing a parcel operator, it is a growing concern for the majority of e-commerce companies interviewed particularly amongst sellers who have a more ‘premium’ offer.

Conclusion

Overall, our study has found the following in relation to the current dynamics of the Irish parcel delivery sector:

- **Sector concentration appears to be declining:** The share of the four largest operators by value decreased by 7% between 2013 and 2019, while it increased by less than 1% in terms of volume. This limited volume growth across time is particularly interesting given that the makeup of the top four operators by volume has changed during the period. A long tail of smaller specialised operators remains a key feature of the sector.
- **New operators have entered in recent years:** For example, some of Nightline’s previous management team has gone on to set up a new parcel delivery company, Coll-8. Since 2020, Amazon now operates a delivery warehouse in Dublin for certain Amazon products. This delivery service makes use of small-scale ‘Amazon delivery partners’.
- **Price competition between operators appears to have intensified:** The main operators interviewed stated that the price per parcel has been static or even declining in the last five years.
- **Operators appear to have a good understanding of the needs of e-commerce sellers, and sellers demonstrate a good understanding of consumers’ needs:** This is shown also by the high level of satisfaction with parcel delivery operators amongst e-commerce companies and SMEs that emerged from our interviews and surveys. However, we note satisfaction is lower in relation to international deliveries, with 41% of SMEs surveyed stating to be ‘dissatisfied’ with prices for sending parcels outside of Ireland.
- **Operators and e-commerce sellers have adapted well to the challenges posed by the COVID-19 pandemic:** While parcel delivery operators and e-commerce sellers were initially unprepared to deal with the significant increase in volumes resulting from the COVID-19 pandemic, they have been quick to adapt current and future plans to these challenges.

We recommend that ComReg continues its focus on information gathering and dissemination in the sector[2]. This is because:

- there has been significant growth and change over the last year, which may result in future changes to the structure and dynamics of the sector;
- the sector is important for the Irish economy and Irish consumers; and
- information dissemination by ComReg can play an important role in stakeholders understanding of the sector.

[2] This approach is consistent with that of other European National Regulatory Authorities. As part of this study, a questionnaire was sent to other European National Regulatory Authorities that are members of the European Regulators Group for Postal Services (ERGP). This sought to gather insight into how the parcel delivery sector is regulated in other European jurisdictions. This questionnaire received 23 responses.

1 INTRODUCTION

Frontier Economics has been commissioned by the Commission for Communications Regulation (ComReg) to undertake a study into e-commerce Parcel Delivery in Ireland. Frontier carried out this study with our research partners Behaviour and Attitudes (B&A).

In May 2015, ComReg published a report on Frontier's study of the *'The packets and parcel sector in Ireland'*[3]. The main objective of that report was to provide publicly available information on the parcels sector in Ireland. This was in the context of growing demand for packet and parcels deliveries. At the time, there had been a significant amount of research internationally – both at the strategic corporate level and at the regional regulatory level. However, there had not been any in-depth study of the Irish parcel and packets sector more generally.

Since that study was published, the parcel delivery sector in Ireland has continued to grow significantly, primarily led by growth in e-commerce. This growth has provided an increasing number of opportunities and challenges for all players. This includes major external influences on the sector, such as COVID-19 and Brexit.

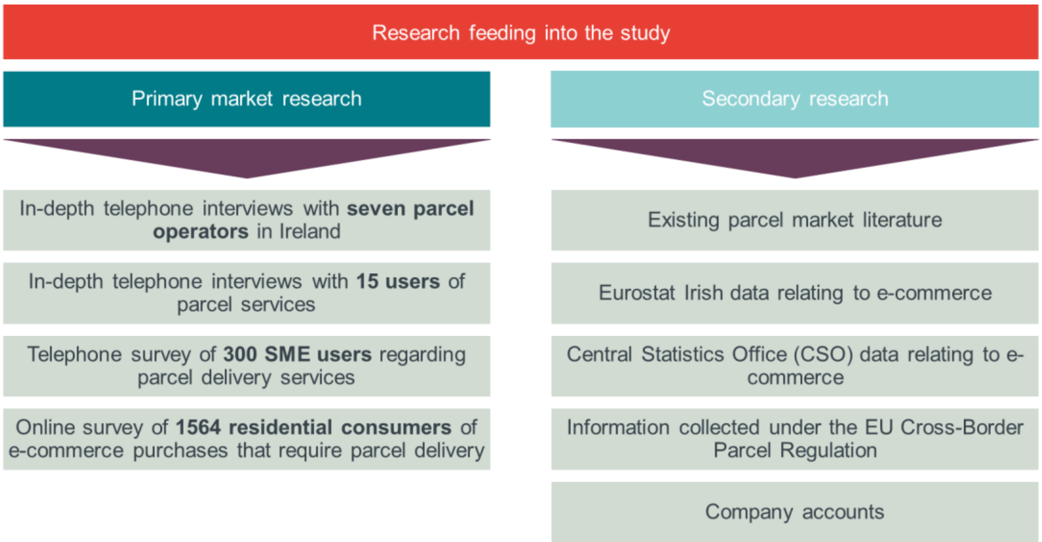
Frontier has been asked by ComReg to provide an update on the evolution of the parcel delivery sector in Ireland since 2015, with a particular emphasis on the growth of e-commerce parcel delivery. It is essential that this updated study captures the changes in the sector to ensure that the information available to ComReg, and the sector more widely, is as up-to-date as possible.

Our study is informed by both primary and secondary research, as summarised in Figure 2.

Further detail on the research methodology used across all of our research is provided in Annex A. B&A's accompanying research reports can be found in Annex C (parcel operators and users) and D (consumers).

[3] Frontier Economics, The packets and parcels sector in Ireland, May 2015 (https://www.comreg.ie/csv/downloads/ComReg1547.pdf)

Figure 2 Overview of the research conducted as part of this study



This report provides a summary of the findings and insights of this study. It is structured as follows:

- section 2 provides an overview of the Irish parcel delivery sector;
- section 3 then summarises our analysis of the key trends in sector dynamics that have occurred since our 2015 study;
- section 4 provides insight into the future prospects for the sector; and
- section 5 concludes.

2 PARCEL SECTOR OVERVIEW

KEY INSIGHTS

- The Irish sector is made up of seven main parcel delivery operators, with a long tail of smaller and specialised operators. Over the past six years, there have been two key acquisitions among the main operators:
  - TNT Express Ireland was acquired by FedEx in 2016; and
  - Nightline was acquired by UPS in 2017.
- A number of product features have become increasingly standardised in recent years. For example, next day delivery, basic tracking and a network of parcel drop-off/collection points are widely offered as standard.
- At the same time, the sector has continued to develop over recent years to provide an increasingly diverse range of products and value added services in order to meet the growing range of needs of senders. For example, same day delivery and real time tracking.
- The size of the sector is estimated to be between €662 million and €722 million in 2019. As discussed further in section 3, this is estimated to have grown significantly since 2019.
- This suggests an average annual growth rate of between 4% and 9% between 2013 and 2019. This has been driven by growth in the B2C segment of the sector, while volumes in the B2B have been stable
- Of the main operators, the share ranking in volume and value terms has changed between 2013 and 2019. However, the share of value that the four largest operators hold has decreased by 7%, while the share of volume increased by less than 1%.

This section provides an overview of the parcel delivery sector in Ireland, it provides the following:

- the context of the sector in terms of the value chain of parcel delivery, and what can be considered a parcel delivery service;
- a summary of the parcel delivery operators who are active in the Irish sector;
- the estimated size and structure of the Irish parcel delivery sector; and
- an overview of the demand side of the sector.

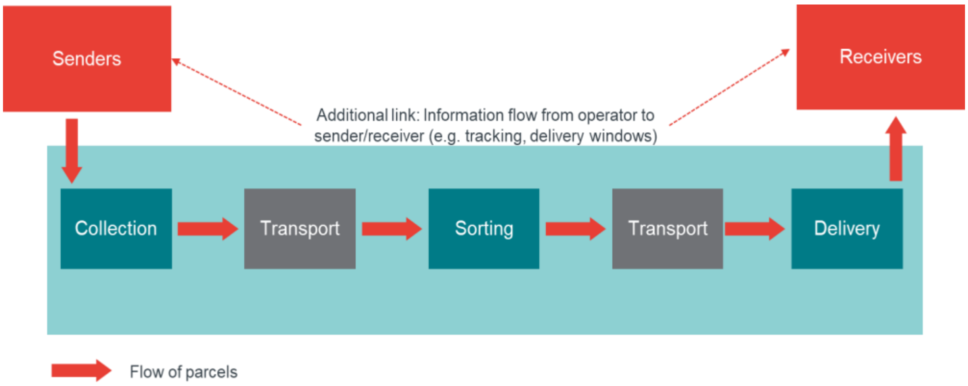
2.1 Sector context

The traditional parcel value chain is a helpful starting point to better understand the sector, and its evolution since 2015. Figure 3 outlines all of the individual elements of the parcel delivery chain. This separates the parcel delivery chain into two sides, which are:

- the service provided by parcel delivery operators (the **supply** side); and
- **demand** for parcel delivery from both senders and receivers of parcels.

It is essential to study both ends of the value chain separately, as well as considering the interaction between the two ends.

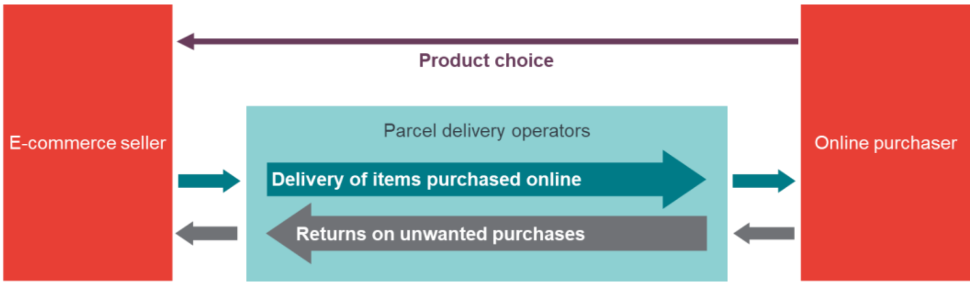
Figure 3. Parcel delivery value chain



Source: Frontier Economics

In addition, on the demand side, it is important to consider the interaction between senders and receivers of parcels. This is particularly true in the context of the growing e-commerce sector, where the senders are e-commerce sellers and the receivers are consumers. This relationship covers not only the delivery of goods sold, but also the return on unwanted purchases from consumers to sellers, as illustrated in Figure 4.

Figure 4 E-commerce parcel delivery value chain



Source: Frontier Economics

Ultimately, parcel delivery operators will primarily respond to demand for services (and the associated attributes) from e-commerce sellers. Final consumers usually do not directly choose the parcel delivery operator when purchasing items online. Normally, their requirements will only feed into demand for parcel delivery services (and the associated attributes) indirectly, to the extent that e-commerce sellers try to meet final consumers' requirements in the parcel delivery services that they purchase. Therefore, consumers' demand for parcel delivery services can only be met to the extent that they are reflected in sellers' demand for these services.

What is a parcel delivery service?

The 2015 study considered a range of packets and parcel services, including both inbound and outbound services. It highlighted that the division of the sector into standard and express delivery no longer reflected the current complexities of the sector at the time. That was because the sector had evolved alongside e-commerce, and the standard-express division was too simplistic to reflect the relative importance of a number of different service offerings.

As a result, the study took an expansive view of how the packet and parcel sector was defined at the product/service level and of the wider sector, not just the segment regulated by ComReg through the legislative requirements for universal postal services[4].

The complexity of the sector has increased further since 2015. This has largely been driven by the increase of e-commerce in Ireland. The variety of what can be purchased online has also expanded, as have the options available to consumers to have that item delivered to them. For example, consumers can now have food, drink and household items delivered via a number of intermediary platforms or retail partners, such as Deliveroo and Buymie.

As this study builds on the 2015 report into the Irish packet and parcel sector, we have restricted the scope of the study to parcels delivered by more traditional parcel delivery operators. However, in considering the changing competitive dynamics of the sector, the study also sought to understand the potential impact of alternative delivery options on the sector.

2.2 Parcel delivery operators

Parcel delivery services in Ireland are provided by a large range of operators. The majority of parcels are delivered by seven main operators, shown in Figure 5, which consists of a mixture of domestic operators and large global courier companies that offer nationwide delivery. Similar to Irish players, global courier companies such as DHL, UPS and TNT have established their own delivery networks within Ireland, which allow them to operate directly in the Irish parcel delivery sector. The main recent changes to the structure of the sector come from these companies.

- TNT Express Ireland was acquired by FedEx in 2016, in an effort to boost FedEx growth in Europe[5]. FedEx was not previously a large supplier in the Irish parcel sector. It will soon be rebranded as FedEx Express.
- Nightline was acquired by UPS in 2017, and will soon exist under the UPS name as the Nightline brand continues to be phased out. UPS acquired Nightline to boost its presence in the Irish sector, and expand its portfolio of service offerings[6].

The acquisition of Nightline by UPS suggests there has been some consolidation in the sector, although as discussed below there is also a large tail of smaller operators within the sector. In fact, some of Nightline’s previous management team has gone on to set up a new company Coll-8, which partners with BWG, a food retail and wholesale company. Coll-8 consolidates parcels from retailers at BWG’s hub, which are then shipped to (and deliveries collected from) stores using their internal delivery system.

---

[4] Only a very small percentage of the parcel delivery sector was regulated by ComReg in 2015. This reduced even further in 2019 when the weight limit for parcels falling within the universal service was reduced from 20kg to 10kg.

[5] Independent, 8 Apr 2015 - *FedEx chases UK and European growth with bid for TNT Express*

[6] The Journal, 3 May 2017 - *Delivery giant UPS has bought Irish logistics firm Nightline*

Figure 5 Ireland's main parcel delivery operators

Source: Frontier Economics

Each of the seven main operators is discussed briefly in the text box below.

OVERVIEW OF IRELAND'S MAIN PARCEL DELIVERY OPERATORS

An Post is the national operator and the operator of universal postal services in Ireland. It has a national network of 950 Post Offices and 1600 affiliated retailers via the PostPoint payment channel. An Post's turnover in 2019 was €892 million, of which €614 million was from its mails business. In recent years, it has really shifted its focus on B2C. In October 2019, An Post opened a dedicated automated parcel processing hub in Dublin, and in 2020 it opened its second e-commerce processing centre on the same site.

DHL Express is a large global integrator owned by Deutsche Post. DHL pulled out of its domestic Irish business in 2009 but still 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 €98.5 million in 2018[7], as compared with €76.5 million in 2013.

DPD is owned by La Poste. DPD was previously a specialist B2B operator, before expanding into high-end B2C customers. It has increasingly been expanding into supplying B2C customers more widely in recent years, benefitting from the growth of e-commerce parcel delivery. DPD has 34 depots in Ireland, where they offer parcel pick-up and drop off facilities. It also now has almost 600 pickup shops throughout Ireland. DPD's public reporting states its turnover in Ireland in 2018 was €91.5 million[8], compared to €48.5 million in 2013, having posted double digit growth over recent years.

Fastway is a franchised courier company operating on a national basis. It operates regional franchises, each with franchised courier pick-up and delivery operations. Fastway has over 300 franchised couriers across Ireland and

[7] Irish Examiner, 14 Aug, 2019 - *DHL Ireland delivers 13% rise in profit*

[8] DPD Group, 30 Apr 2019 - *DPD Ireland to invest €3.2 million electrifying Irish fleet*

Northern Ireland. It also offers a national network of Parcel Collect agents offering parcel pick-up and drop off facilities. Turnover was over €70 million in 2017[9].

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. It offers a national network of Parcel Shops offering parcel pick-up and drop off facilities. GLS also has an extensive European delivery network. Turnover information for GLS is not made public.

UPS is a US owned global integrator with an extensive worldwide delivery network. UPS's public reporting states its turnover in Ireland was €56 million in 2019[10], compared to €48 million in 2013. UPS primarily offer an express service, mostly targeted at business-to-business volumes. It acquired **Nightline**, a domestic parcel carrier, in 2017, along with Nightline's Parcel Motel business. Parcel Motel offers a 'virtual address' combined with self-contained parcel pick-up and drop off locations. Its nationwide network is made up of over 13,500 lockers in over 175 different locations around Ireland – accessible 24/7.

TNT Express Ireland is a subsidy of the global-integrator TNT, formerly a publicly-listed company based in the Netherlands. It was acquired by **FedEx** in 2016 in an effort to boost FedEx growth in Europe, and will soon be re-branded as FedEx Express. Its main offerings in Ireland are express delivery and freight transport services, focusing on B2B volumes. TNT's turnover in Ireland was €36 million in 2018[11], down from over €40 million in 2013.

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

- postal operators (such as DX Mail) that also provide parcel services, particularly in the B2B segment;
- freight and logistics operators that also provide some parcel services; and
- smaller local parcel or express delivery firms.

2.3 Parcel delivery products and services

The sector has continued to develop over recent years to provide an increasingly diverse range of products and value added services in order to meet the growing range of needs of senders. At the same time a number of product features have become increasingly standardised across operators. For example, the provision of next day delivery and tracking as standard.

Figure 6 below outlines the combination of features that typically define a parcel delivery service offer. We then go on to provide further detail on each feature.

9 MML Capital, Apr 2017 - *MML Backs Management Buy Out At Fastway Couriers - Ireland*

10 The Irish Times, 28 Sep 2020 - *UPS's Irish business delivered strong growth last year*

11 The Irish Times, 15 Mar 2019 - *Losses more than double at Irish arm of TNT*

Figure 6 Features defining parcel delivery services

Features	Options
1. Speed of delivery	Standard, Next day, Same Day, Guaranteed delivery timeslot
2. Delivery (and collection) options	Home/premises, Alternative collection and delivery points, Saturday/evening delivery, E-commerce returns
3. Delivery destination	Domestic, International (inbound and outbound)
4. Value-added services	Level of tracking, Multiple delivery attempts, Cash services, Carbon offset

Source: Frontier Economics' research of operator websites

Speed of delivery

The parcel delivery operators interviewed told us that next day (or in some cases two day) delivery has become the norm amongst all large operators. However, this has faced some disruption as a result of the COVID-19 pandemic due to the capacity restrictions of operators (as discussed further later in the report).

Same day domestic delivery services are offered by a small number of operators, but are limited. For example, An Post offers a same day service, but only within select Dublin postal areas and at participating Post Offices. DHL also offers a same day regional service, Sprintline. During our interviews with parcel delivery operators, we were told that same day services do not appear to be a priority for most e-commerce sellers as it is currently not an expectation from most e-commerce customers.

The availability of guaranteed timeslots is also limited, with the offer of guaranteed delivery before a pre-specified time being more commonplace.

Delivery (and collection) options

There are five delivery and collection service options.

1. **Delivery/collection to/from the home or business address of the parcel receiver.**
2. **Shops acting as parcel drop off and collection points** – For example:
    a. An Post's Post Offices and affiliated retailers via the PostPoint payment channel;
    b. DPD's pickup shops;
    c. Fastway's Parcel Collect agents; and
    d. GLS's Parcel shops.

    This has become an increasingly common offer amongst operators over the last five years, with expanding networks of drop off and collection points.
3. **Collection and delivery available at operators' depots as standard** – For example, DPD offers parcel collection for senders as well as delivery options for receivers at its 34 depots. In addition, other operators allow senders or receivers to have their items redirected to their depots.

4. **Parcel lockers** – For example, Nightline's Parcel Motel Locker network.
5. **Use of safe places selected by receivers** – This can often be selected in advance of delivery, but some operators also offer in-flight changes once a parcel is out for delivery.

In terms of days of the week served, our 2015 study noted that Saturday deliveries were on the increase in response to demand from senders. The parcel delivery operators interviewed as part of this study told us that a six day delivery week (Monday to Saturday) was put in place by the majority of operators to handle peak volume (especially in 2020 as a result of the pandemic). It was though likely that this would become a more permanent feature in the coming years (most likely as a premium service). One operator told us that 'the Saturday conversation is becoming the Sunday conversation', with the focus amongst operators shifting to questioning whether Sunday delivery should also be offered as Saturday has become more commonplace.

Early morning and late night delivery options are also becoming commonplace amongst operators. Nightline's Parcel Motel network allows 24/7 access, but DPD's depot delivery option also facilitates late collections and early deliveries.

Delivery destination

In addition to their domestic service, all large operators also offer an international service through a variety of partners. GLS, TNT/Fed Ex, UPS and DPD all have their own networks. This means that they can handle inbound international parcels, as well as outbound.

Value-added services

Our 2015 study highlighted that there were a growing number of value-added services provided by operators, expanding the product range available. That said, many of the services were already increasingly becoming part of the standard service offering. For example:

- track and trace;
- proof of delivery;
- returns services; and
- checking of returned items.

Currently, tracking is part of the standard offering of the large parcel delivery operators (rather than a value-added service). However, there are notable differences between the level of granularity offered. For example, DPD offers real-time tracking with 1-hour delivery windows and SMS notifications for receivers. Operators such as An Post and Fastway only currently record a parcels delivery journey at key points of the pipeline. The operators interviewed told us that there is a growing recognition of customer demand for tracking amongst operators. This is driven largely by demand from B2C e-commerce sellers to reduce uncertainty for their consumers and provides the seller with the opportunity to be pro-active. For example, contacting the customer to flag any delayed deliveries and offer discounts off future purchases. In line with this, add-ons like multiple delivery attempts are becoming more commonplace as operators try to give receivers ever greater flexibility in how their parcel arrives to them. Other, more niche add-ons include the ability to pay for the delivery in cash upon receipt of the parcel ('cash services').

In addition, a number of parcel delivery operators now also offer add-ons which allow the customer to pay for the operator to offset carbon emissions associated with the delivery. For example, DHL's 'GoGreen Climate Neutral' service and 'UPS Carbon Neutral'.

2.4 Estimated size and structure of the parcel delivery sector in Ireland

This section sets out our estimates for the size and shares of the sector.

The data we use for this is a combination of:

- confidential individual operator information collected under the EU Cross-Border Parcel Regulation; and
- company accounts.

In relation to the EU Cross-Border Parcel Regulation, parcel delivery service operators[12], with 50 or more employees, are required to provide certain confidential information to the national regulatory authority (NRA) of the EU country in which they are established. This includes:

- the annual turnover in parcel delivery services over the previous calendar year;
- the number of parcels handled over the previous calendar year;
- if the services provided are within or outside the scope of the USO; and
- the territorial scope of the service (regional, domestic, cross-border).

ComReg therefore has this information for 2018 and 2019 for the main parcel delivery service operators in Ireland. We have analysed this information, and combined it with other public sources of information, to estimate the total sector size, on a turnover and volume basis for 2019.

A similar exercise was carried out as part of the 2015 study, allowing us to also estimate the growth of individual operators and the sector as a whole between 2013 and 2019.

The European Regulation on cross-border parcel delivery services was only introduced in May 2018, so this data was not available at the time of the 2015 study. Our 2013 estimates in our 2015 study[13] were therefore based on a triangulation of the information given in interviews and questionnaires, together with information in the public domain (such as annual reports) and our own analysis[14]. Therefore, while comparisons to the 2019 operator data submitted to

[12] Recital (17) of the EU Cross-Border Parcel Regulation specifies that "[c]learance, sorting and distribution, including pick-up services, should be considered parcel delivery services, including when they are provided by express and courier service operators, as well as consolidators, in line with current practice."

[13] 2013 was the latest available year of data at the time of the 2015 parcels sector study.

[14] We also considered other sources of data in order to ensure the 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 for various European Commission reports.

ComReg provide a useful indication of sector growth, we caution over placing too much weight on direct comparisons between the two data sources.

2.4.1 Estimated size of the parcel delivery sector in Ireland

In 2019, the main seven operators in Ireland had an annual turnover in parcel delivery services of €585 million, and processed 105 million parcels.[15]

As outlined above, operators who have less than 50 employees are not required to submit turnover and volume data to ComReg under the EU Cross-Border Parcel Regulation. Coupled with the lack of publicly available information on the annual turnover and volumes of smaller parcel delivery operators in the Irish sector, it is therefore challenging to accurately estimate the size of the wider sector.

For a number of smaller parcel delivery operators – Securispeed, Wheels and Deadline - we were able to utilise data provided in company reports available from the Companies Registration Office (CRO)[16]. These operators had an estimated total annual turnover of €17 million, and processed an estimated 3 million parcels, as shown in Figure 7.

Figure 7 Estimating the size of the Irish parcel sector in 2019

	Value	Volume
Main parcel delivery operators	€584.6 million	105.4 million
Selection of smaller delivery operators	€16.8 million	2.8 million
	€601.4 million	**108.2 million**

Source: Frontier Economics estimates

It is difficult to estimate the turnover and volumes of the remaining tail of small operators in Ireland. Our 2015 study, estimated that these operators had 15% of the sector. Applying this to the estimate in Figure 7 would indicate that the total size of the Irish parcel sector in value terms was €708 million in 2019. However, it is unclear whether these smaller operators have increased their share since 2015 or not.

The comparable estimates from our 2015 study for the seven main parcel delivery operators are shown in Figure 8 and Figure 9. This indicates that, between 2013 and 2019, these operators grew by over 30% in value terms and just under 30% in volume terms.

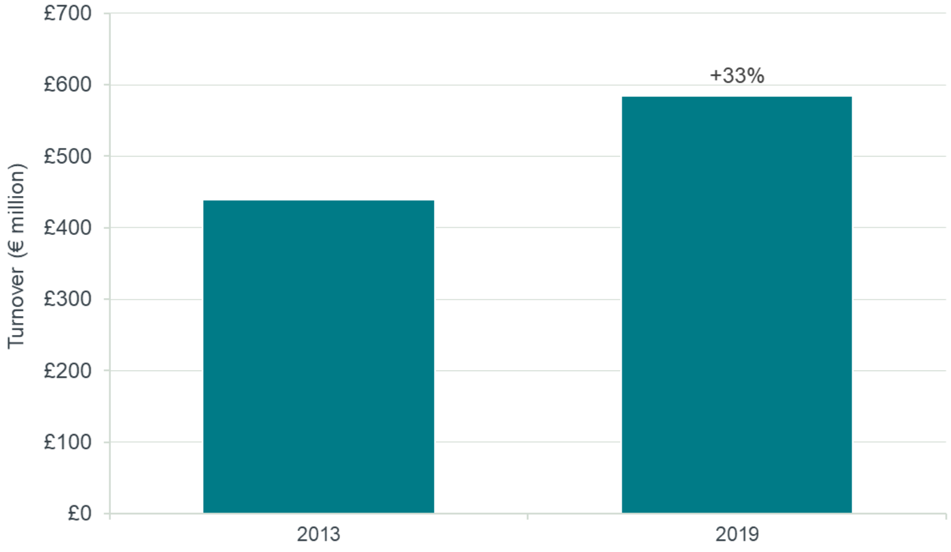
Frontier Economics, The packets and parcels sector in Ireland, May 2015 (https://www.comreg.ie/csv/downloads/ComReg1547.pdf)

15 Data collected under the EU Cross Border Parcel Regulation. Non-confidential aggregated data are published by ComReg at https://www.comreg.ie/industry/postal-regulation/postal-framework/cross-border-postal-data/

16 Turnover estimates using CRO data: Trade debtor figures were used. This involved making assumptions about the number of days trade debts were outstanding, as well as the proportion of turnover connected to package and parcel delivery.

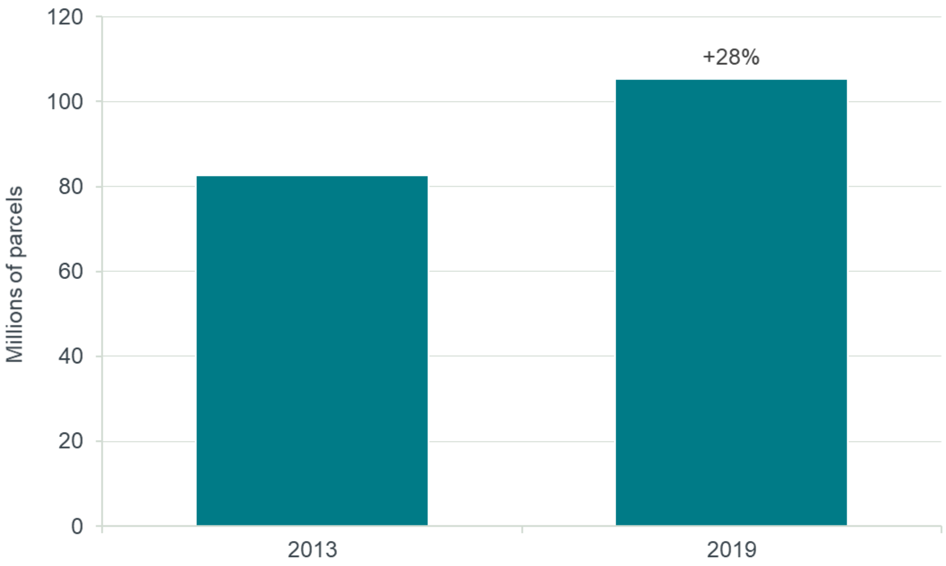
Volume estimates using CRO data: We assumed that they charged the industry average price per parcel for domestic delivery, and extrapolated volume from the turnover estimates.

Figure 8 Estimated total turnover growth of the main parcel delivery operators in Ireland, 2013-2019



Source: Frontier Economics analysis

Figure 9 Estimated total volume growth of the main parcel delivery operators in Ireland, 2013-2019



Source: Frontier Economics analysis

In addition, while 2019 is the most recent data that is currently available, this is likely to be an underestimate of the size of the Irish parcel sector in 2021. As discussed further below, the sector has experienced further unprecedented growth since COVID-19 in 2020. While detailed figures are not yet available for 2020, the qualitative evidence collected suggests that growth was significant.

We have also considered how the size of the Irish parcel delivery sector compares to the size of the parcel delivery sector in other European countries. A recently published report by WIK Consulting[17] shows that when adjusting for differences in population, Ireland ranked as the second largest market in the EU (third if including

[17] WIK Consulting, User Needs in the Postal Sector and Evaluation of the Regulatory Framework, March 2021

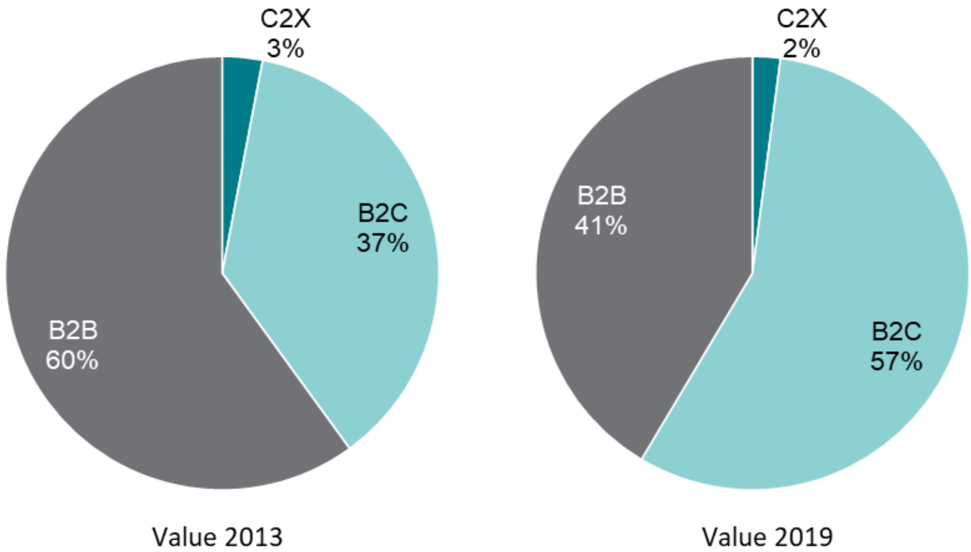
also the UK) with 22 parcels per capita delivered on average during 2016, well above the EU and UK average of 17.

2.4.2 Shares by sector segmentation

Figure 10 and Figure 11 detail our estimates of the volume and value share of the sector by mail sender/receiver categories - business to business (B2B), business to consumer (B2C), and consumer to business or consumer (C2X). This analysis is based on data collected as part of our 2015 study and estimates provided by the parcel delivery operators interviewed during this study.[18]

The B2C segment now appears to represent a larger share of the overall parcel delivery sector both in terms of value (57% of the sector) and volume (64% of the sector). The B2B segment now represents 41% of the sector in terms of value and 33% in term of volume. This is in line with findings from the in-depth interviews with parcel delivery operators, who estimated that the B2B segment accounts for 30-50% of their business.

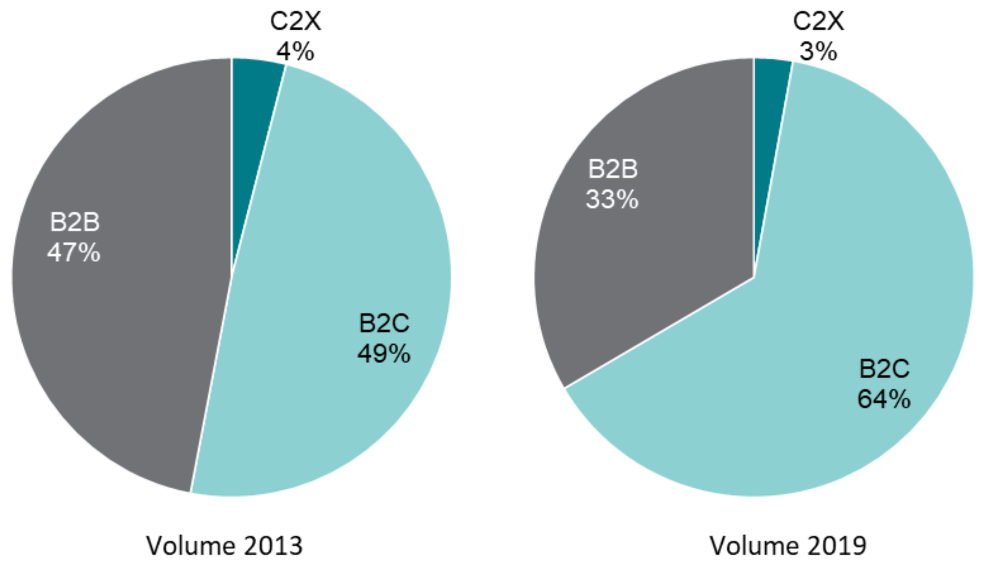
Figure 10 Segment share of sector value, 2013 vs 2019



Source: Frontier analysis on data collected and estimates provided by the parcel delivery operators interviewed

[18] The breakdown by sector segment was obtained starting from the estimated size of the B2B segment in our 2015 report. As the parcel delivery operators interviewed explained that the B2B segment of the sector has been stagnant or even declining in the last years, we have assumed that the size of this segment in 2019 was the same as the estimated size in 2015. Using a similar reasoning for the C2X segment, we have attributed all the estimated growth in the parcel delivery sector to the B2C segment.

Figure 11 Segment share of sector volume, 2013 vs 2019

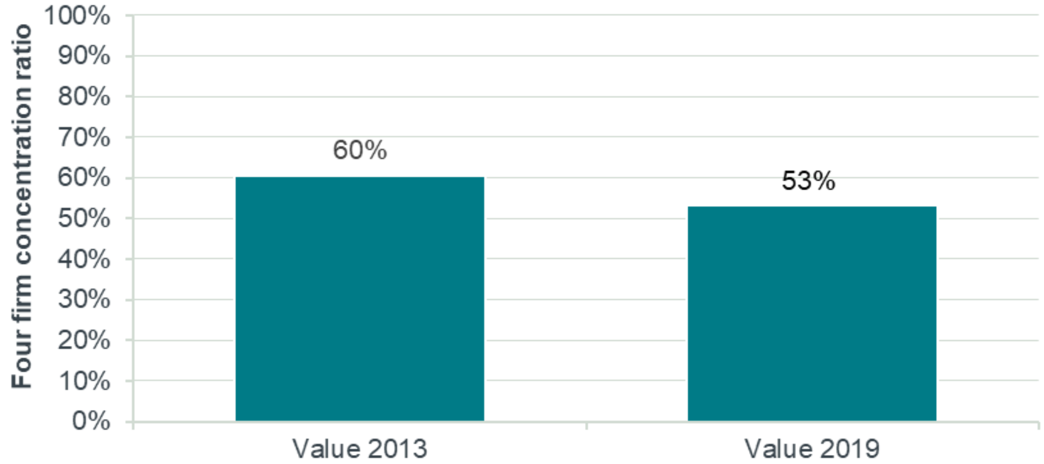


Source: Frontier analysis on data collected and estimates provided by the parcel delivery operators interviewed

2.4.3 Concentration of the parcel delivery sector in Ireland

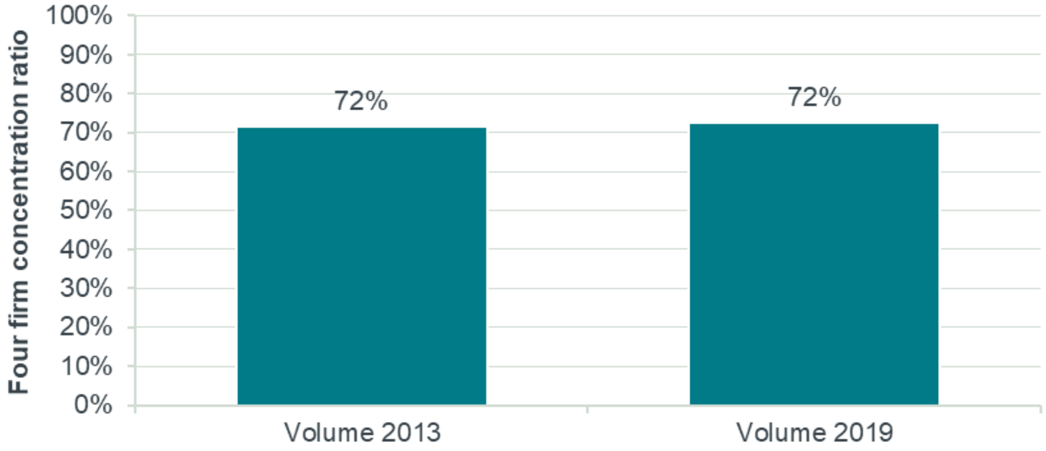
Figure 12 and Figure 13 uses the four firm concentration ratio to show the change in sector concentration from 2013 to 2019. This is shown for both value and volume. The four firm concentration ratio is the share accounted for by the four largest firms within the relevant timeframe. The share of the four largest operators by value decreased over the period by 7 percentage points, while it increased by less than 1 percentage point in terms of volume. This limited volume growth across time is particularly interesting given that the makeup of the top four operators by volume has changed during the period.

Figure 12 Share of the top 4 parcel operators by value, 2013 vs 2019



Source: Frontier Economics analysis

Figure 13 **Share of the top 4 parcel operators by volume, 2013 vs 2019**

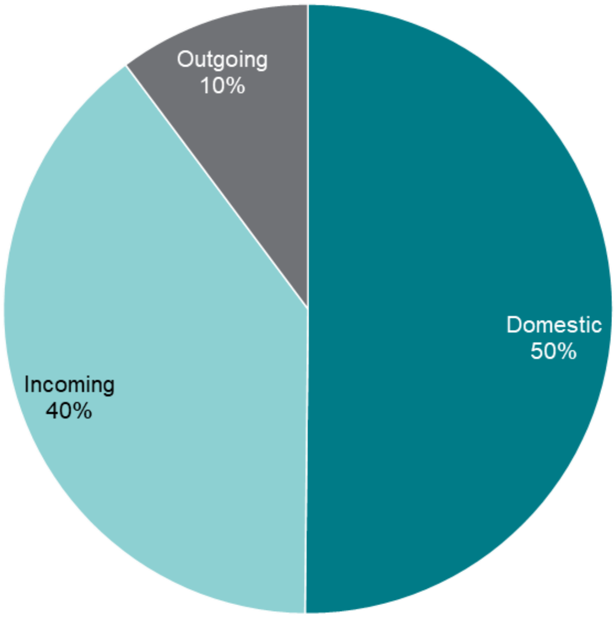


Source: Frontier Economics analysis

2.4.4 Share of volume by delivery destination

The main parcel delivery operators in Ireland provide data on the territorial scope of the parcel delivery services that they provide. Figure 14 shows the split of volumes across Domestic, International Outbound and International Inbound parcel delivery services for the main parcel delivery operators. The domestic sector is dominated by domestic and international inbound deliveries.

Figure 14 **Split of volumes across Domestic and International services for the main parcel delivery operators: 2019**



Source: 2019 EU Cross-Border Parcel Regulation data published by ComReg at https://www.comreg.ie/industry/postal-regulation/postal-framework/cross-border-postal-data/

Note: An Post, DPD, Fastway, Nightline, UPS, DHL, GLS, TNT and Fedex Express

The overall split of volumes across the different services in 2019 was not the same across all of the main operators. The largest operators focus heavily on domestic and international incoming services, whilst the smaller of the main players in the Irish sector tend to focus more on international incoming and outgoing.

2.5 Demand for parcel delivery services

E-commerce is an important driver of demand in the parcel delivery sector in Ireland (and more widely). The sections below provide a summary of the current characteristics of e-commerce sellers and consumers.

2.5.1 E-commerce sellers

Parcel delivery services are used by a wide array of e-commerce sellers as part of their operations. There are three types of e-commerce sellers that are present in the Irish sector:

- E-commerce platforms providing a full integrated service to e-commerce sellers and consumers, from sale through to delivery;
- Large e-commerce sellers – large online only sellers and “bricks and clicks” sellers who offer both an online store and a physical retail outlet; and
- SME e-commerce sellers.

E-commerce platforms (such as Amazon and Ebay) facilitate other e-commerce sellers. Their importance for sellers as a channel for online sales appears to vary. The general preference amongst e-commerce sellers interviewed is to sell directly from their own website rather than through e-commerce platforms. Aside from considering the margin impact, selling through their own website was indicated as the preferred option because:

- it gives more control over their branding;
- it gives more control over the digital customer experience; and
- presents more opportunity to up- and cross-sell.

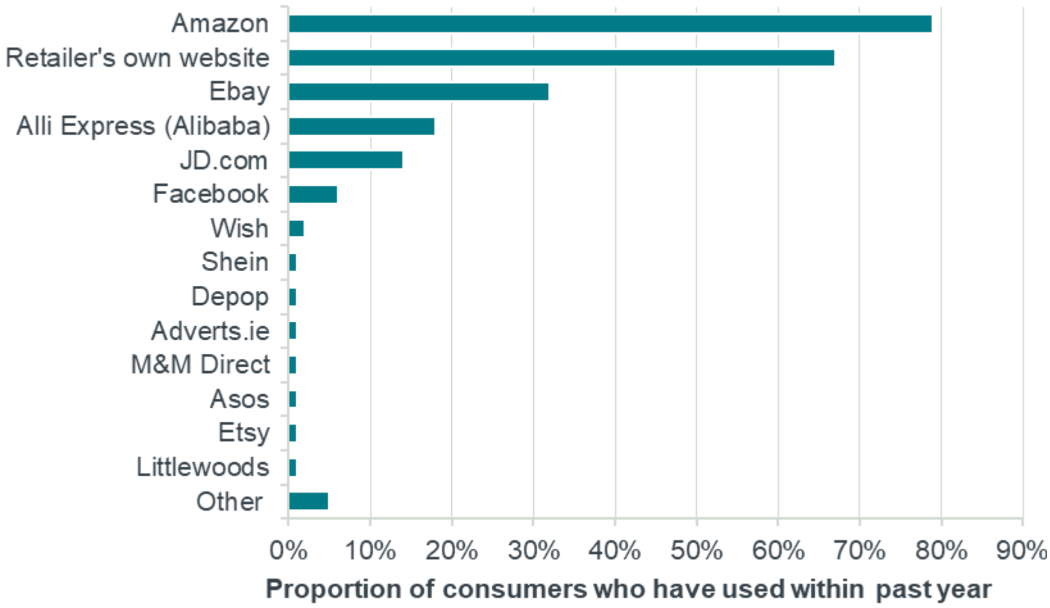
SMEs e-commerce sales vary by sector of activity, as would be expected. They are more likely to use e-commerce platforms than large e-commerce sellers, but most still sell directly from their own website.

Annex B provides further findings on the usage and awareness of parcel delivery operators amongst consumers.

2.5.2 Consumers

Our consumer survey found that online purchasing decisions are often driven by the delivery options offered. In terms of which sellers these online purchases are made from, Amazon and the retailer’s own websites dominate in terms of websites used to purchase items online, as shown in Figure 15.

Figure 15 Websites used to purchase items requiring delivery in the past year- Consumer survey



Source: B&A Consumer survey

Note: '*Over the past year, which of the following websites have you purchased items from that required delivery?*' All online purchasers n=1613

In addition to receiving delivery of online purchases, consumers also require parcel delivery services for returning online purchases. About 70% of online purchasers surveyed have returned at least one item purchased online. However, return frequency is low, with only one item being returned on average per month among consumers who have ever returned an item.

Annex B operator further findings on the usage and awareness of parcel delivery operators amongst consumers.

3 ANALYSIS OF KEY TRENDS IN SECTOR DYNAMICS

KEY INSIGHTS

Four key trends have impacted the Irish parcel delivery sector in recent years. These are:

- e-commerce as a driver of demand;
- changing customer requirements;
- competitive dynamics in the parcel sector; and
- the impact of COVID-19 on the sector.

E-commerce as a driver of demand

- Over recent years, there has been significant growth in e-commerce (and demand for e-commerce), with little to no growth in B2B.
- Almost two in three consumers claim to be purchasing more online over the past three years, than ever before.
- There has also been an increasing prioritisation of online as a channel by sellers (of all sizes).
- Cross-border e-commerce is a significant driver of this e-commerce growth. This is consistent with our 2015 study which highlighted the importance of UK e-commerce sellers. Whilst this trend remains, it is also clear that e-commerce sellers based in Asia are also a growing feature of the Irish sector, with large growth here, though absolute share of these sellers remains small.

Key customer requirements

- Price and reliability remain the most important sender requirements for parcel delivery services. However, other needs are emerging (tracking/technology). Overall there appears to be a good understanding of these needs by operators, as backed up by sender satisfaction levels.
- Delivery cost is also the primary consideration of consumers when they are selecting delivery options for online purchases. Again, high satisfaction levels (with both the delivery options available and the parcel delivery operators) indicate that consumer requirements are well reflected in sender requirements from parcel delivery operators.

Competitive dynamics

- Parcel delivery prices are largely based negotiated discounts on standard price lists. There appears to be a move by parcel delivery operators to a fixed pricing model with “add-ons”.
- Increased price competition between operators has driven prices down. However, this appears to have softened during COVID due to capacity-constraints.

Additional impact of the COVID-19 pandemic 2020-21

- The COVID-19 pandemic has led to a surge in online sales and e commerce activity.
- Many e-commerce companies found themselves unprepared, and considerable pressure has been put on parcel delivery networks, leading to increased issues faced by e-commerce sellers and consumers.
- However, feedback is that it has also opened up new opportunities – broadening on online demographics, new product solutions etc.

This section discusses four key trends in sector dynamics, which are:

- evolving drivers of parcel demand;
- changing customer requirements;
- competitive dynamics in the parcel sector; and
- the impact of COVID-19 on the sector.

3.1 Drivers of parcel demand

The previous section illustrated that there has been considerable growth in parcel demand since 2013. In this section we set out the key drivers behind this growth. Our analysis suggests that the following three factors appear to be driving this:

- changing consumer preferences;
- increased prioritisation of the online sales channel by sellers; and
- the growth of cross-border e-commerce.

We provide further detail below.

Consumers are now buying more online

Our consumer survey found that almost two in three consumers state they are purchasing more online over the past three years, than before. Further, our SME user research found that over the past three years, over 70% of online selling companies have experienced an increase in online sales.

The parcel delivery operators who were interviewed reported that strong growth in demand for B2C parcel delivery has been a major theme over the last few years. On the other hand, demand for B2B parcel delivery appears to have been stagnant (even declining). However, it remains a significant proportion of volume for most operators interviewed, with estimates of 30-50% being given.

Figure 16 details consumers' main reasons for increasing their online purchases over the last three years. These centre around:

- better prices being available online (61% of respondents);
- convenience of delivery (57% of respondents); and
- better range available online (55% of respondents).

In addition, 44% of respondents reported that they preferred to buy online compared to going into the shops[19]. For high online purchasers, this was 55% of respondents. This group of consumers were also more likely to report that increased availability of next day or same day delivery options had driven their increase in online purchases.

Figure 16 Main drivers for increased online purchases over the last three years– Consumer survey

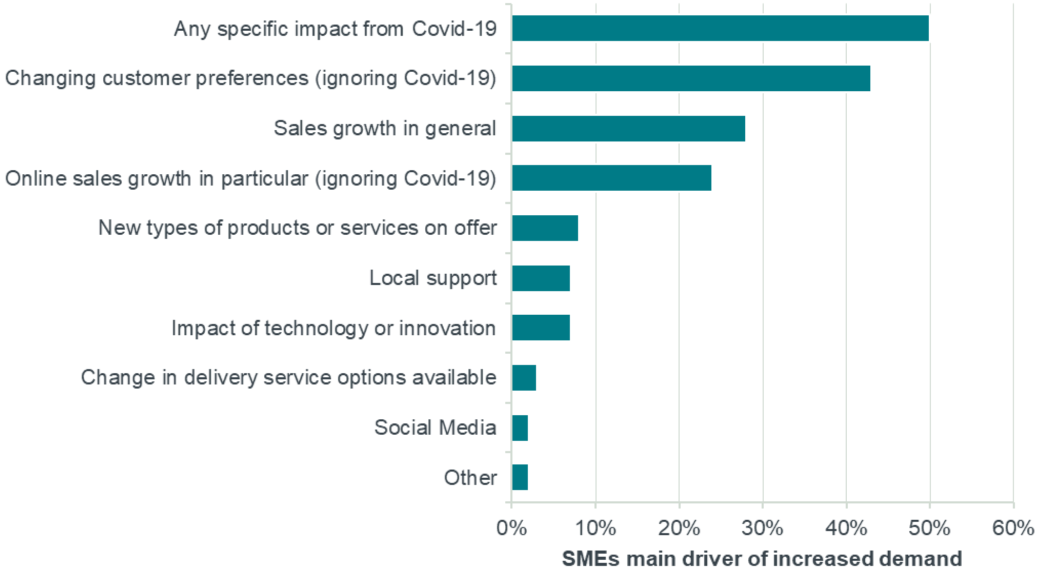
Source: B&A Consumer survey

Note: 'What have been the main drivers in your increased online purchase of items that require delivery over the last 3 years?' All whose online purchases have increased over the last three years: n=1006

Of those SMEs who have experienced an increase in online sales, changing customer preferences was reported as a main driver for 43% of SMEs surveyed. As shown in Figure 17, the other main drivers were flagged as sales growth in general (28% of SMEs) and online sales growth in particular (24%) of SMEs.

[19] While only 12% of respondents explicitly mentioned the Irish COVID-19 lockdown as one of the main drivers for their increased online purchases, it can be expected that COVID-19 restrictions also have a role in explaining the observed preference for buying online versus going into physical shops.

Figure 17 Main drivers of increased demand – SME user survey



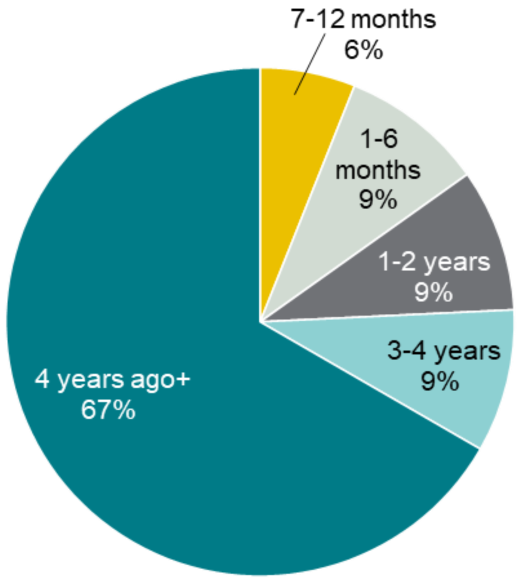
Source: B&A SME survey

Note: 'What have been the main drivers of your increased demand for parcel or packet delivery services?' All experienced an increase in parcel demand: n=101

Sellers are also increasingly prioritising their online sales channel

Our survey shows that most SMEs who offer online sales have been doing so for a number of years. SMEs were asked about how long their company had been operating an online sales facility. Of those offering online sales, the average length of tenure is 3.5 years. 34% of SMEs had started conducting online sales with the last four years, with only 15% commencing online sales within the last year, as shown in Figure 18.

Figure 18 Length of time conducting online sales – SME user survey



Source: B&A SME survey

Note: 'How long has your company been operating an online sales facility?' All who sell online: n=131

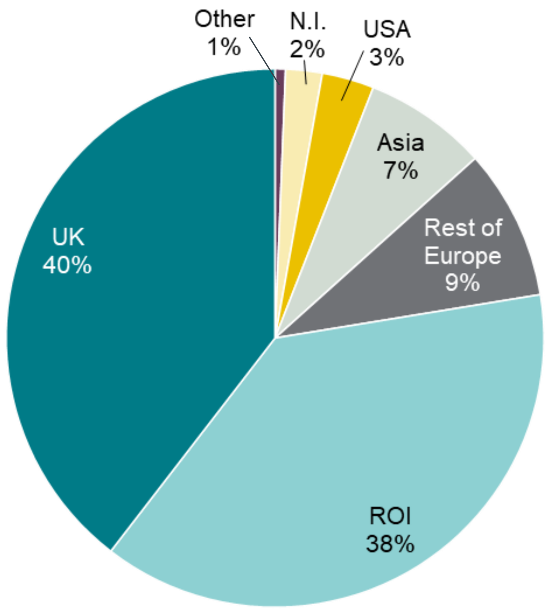
However, amongst users of parcel delivery services, the e-commerce sellers interviewed reported that there has been an ‘attitudinal shift’ towards e-commerce. It was previously seen as a separate ‘add-on’ to the business but is now an integrated (and highly prioritised) part of the business model. Multiple respondents reported that they now had very ambitious targets for online sales.

Cross-border e-commerce is a significant driver of growth

Parcel delivery operators who were interviewed as part of this research told us that inbound volume from the UK and the rest of Europe (clothes, etc.) has been a main driver of the growth in B2C parcel delivery. In comparison, while International outbound volumes have been growing, they have been far behind inbound volumes.

Our consumer survey found that purchases from international companies account for three in five online purchases, on average, as shown in Figure 19. The UK market accounts for the largest share at 40% of online sales with parcel fulfilment, compared to 38% from domestic companies. This is consistent with the findings of the 2015 study. Parcel delivery operators interviewed as part of that research stated that many of the large senders in the sector are large UK-based retail companies, running their e-commerce divisions out of the UK and delivering from there to Ireland. A further 7% of online purchases in Ireland were from companies based in Asia.

Figure 19 Proportion of online purchases by company location – Consumer survey



Source: B&A Consumer survey

Note: ‘What proportion were from companies based in each of the following regions’ All online purchasers: n=1613

For companies based in Ireland, domestic demand makes up the majority of sales. Our SME user research found that, of those that had experienced an increase in demand for parcel delivery over the last three years, 85% reported that this demand came from the Domestic market, while it came from a mixture of the Domestic and Non-domestic markets for 15% of SMEs. Non-domestic sales have brought unique issues for companies, with one in five SMEs who sell online to non-domestic markets reporting that they have experienced issues with VAT or customs charges. These were mainly administration issues and increased or unexpected costs.

3.2 Key customer requirements

As the e-commerce sector evolves over time, it is essential that senders continue to have a good awareness of receivers' needs. In turn, parcel delivery operators need to be aware of, and offer products to meet, the changing requirements of both senders and receivers. In this section, we outline:

- parcel delivery requirements of Irish consumers;
- parcel delivery requirements of e-commerce sellers; and
- parcel delivery operators' perceptions of the requirements of e-commerce sellers.

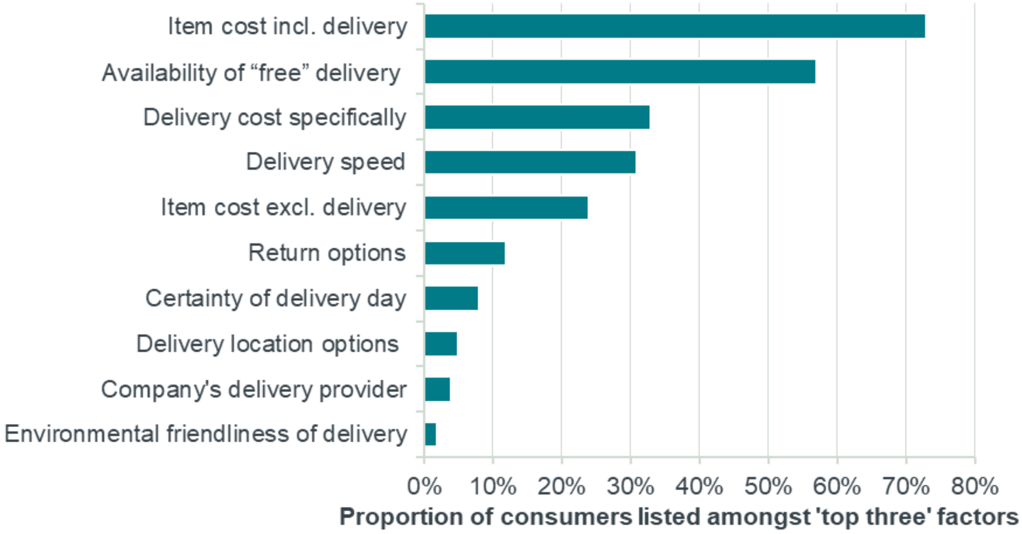
3.2.1 Parcel delivery requirements for consumers

The level of delivery charges is the most important consideration for consumers when purchasing online

Our consumer survey found that the overall cost of the item including delivery, and free delivery options, are the main aspects reviewed by consumers before purchasing items that require delivery, as shown in Figure 20.

- 48% of consumers surveyed ranked **the cost of the item including delivery costs** as the most important factor, with a further 21% of consumers ranking it as the second most important factor.
- 24% of consumers surveyed ranked **the availability of "free" delivery options** as the most important factor, with a further 25% ranking it as the second most important factor.
- 9% of consumers surveyed ranked **the cost of delivery specifically** as the most important factor, with a further 15% ranking it as the second most important factor.

Figure 20 Factors reviewed in considering an online purchase – Consumer survey



Source: B&A Consumer survey

Note: ‘Please rank how important each of these are to you when purchasing items online that require delivery’ All online purchases: n=1613

Delivery speed follows in terms of importance for consumers

As shown in Figure 20, 32% of consumers ranked delivery speed as one of the top three most important aspects to review before purchasing items that require delivery. However, only 21% of consumers surveyed reported that they would be extremely likely or fairly likely to pay an additional fee for same or next day delivery when purchasing items online that require delivery. This proportion was higher amongst the 18-34 age category, those working fulltime and high online purchasers. 59% of consumers survey reported that they would be extremely unlikely or fairly unlikely to pay such an additional fee[20].

The availability of return options, certainty of delivery day and delivery location options[21] appear to be much less important.

Overall satisfaction with parcel delivery options provided to consumers appears to be very high

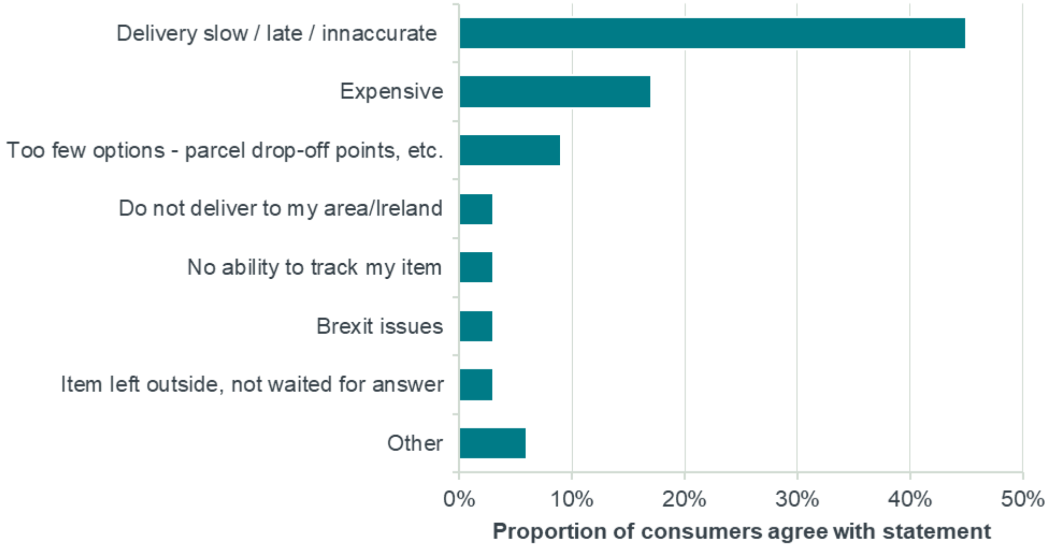
In terms of satisfaction with delivery options, 77% of consumers surveyed reported being ‘satisfied’ or ‘very satisfied’ with the delivery options available to them at the time of online purchase. 16% reported being neither satisfied or dissatisfied and 12% reported being ‘dissatisfied’ or ‘very dissatisfied’. Of these latter groups, 45% of consumers explained that the rationale was inaccurate, slow or late delivery (or no next day delivery), as shown in Figure 21. A further 17% stated that the rationale

[20] The remaining 20% of consumers surveyed reported that they were neither likely nor unlikely to pay an additional fee for same day or next day delivery when purchasing items online that require delivery.

[21] 97% of consumers surveyed state that they get items delivered to their house, and 99% rate it amongst their first three preferences for delivery location. This may indicate that the relative unimportance of delivery location options highlighted here applies to options beyond home delivery, which consumers expect as standard.

was that the delivery options were expensive, and 9% stated that there were too few options (such as click and collect, faster delivery, parcel motel, etc.).

Figure 21 Reasons for dissatisfaction with delivery options available at the time of an online purchase – Consumer survey



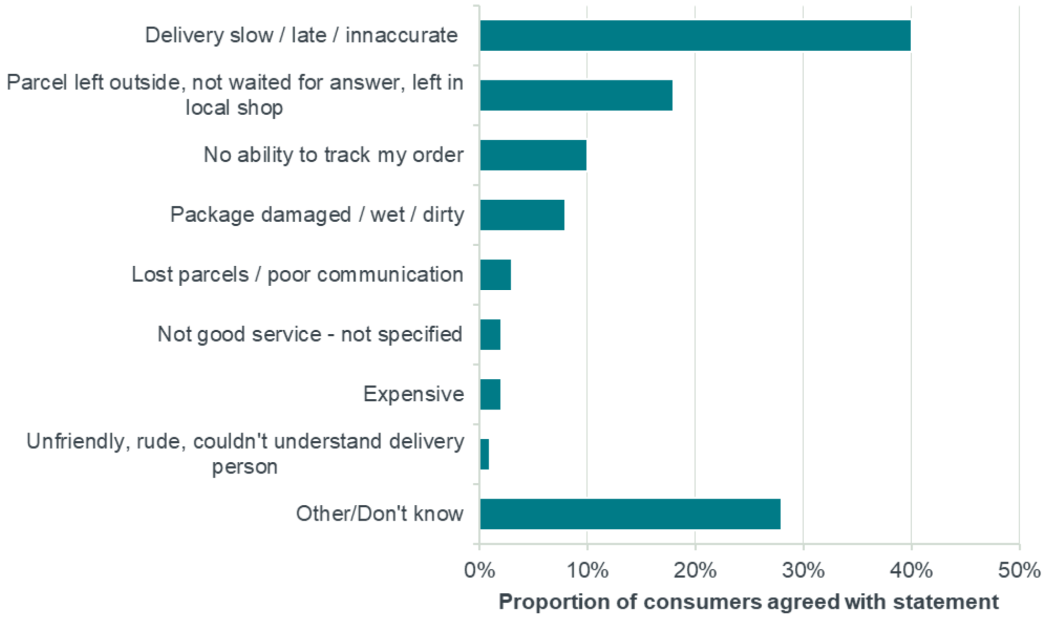
Source: B&A Consumer survey

Note: *'Why are you dissatisfied with the delivery options available?'* All 'very dissatisfied', 'dissatisfied' or 'neither satisfied nor dissatisfied' with delivery options available at the time of online purchase: n=377

Satisfaction with parcel delivery operators also appears to be very high

In terms of satisfaction with operators, 83% of consumers surveyed reported that they were 'very satisfied' or 'satisfied' with the operator who made the most recent delivery. Only 5% reported that they were 'dissatisfied' or 'very dissatisfied', and a further 11% reported that they were neither satisfied nor dissatisfied. Of these latter groups, 40% of consumers explained that the rationale was inaccurate, slow or late delivery (or no next day delivery), as shown in Figure 22. 18% explained that the reason was that the delivery was unsatisfactory. For example, the parcel was left outside, the delivery driver did not wait for an answer at the door or it was left at a local shop. The other most popular reasons were that there was no ability to track their order or no communication around delivery time, and that the package was damaged, wet or dirty.

Figure 22 Reasons for dissatisfaction with the parcel delivery operator who made the most recent delivery – Consumer survey



Source: B&A Consumer survey

Note: 'Why are you dissatisfied with the overall service provided by the packet and parcel delivery service supplier?' All 'very dissatisfied', 'dissatisfied' or 'neither satisfied nor dissatisfied' with delivery operator who made the most recent delivery: n=271

3.2.2 Parcel delivery requirements for sellers

Price and reliability of parcel delivery services are most important for senders

Based on the results of our primary market research, Figure 23 and Figure 24 provide an overview of e-commerce companies' main needs from parcel delivery operators. Reasonable pricing is by far the most important factor for large and SME users. While some medium to large e-commerce companies are willing to pay more for heightened levels of service (as long as it is seen as 'reasonable'), smaller e-commerce companies tend to choose lower cost operators. 44% of SMEs who sell online listed price as the top criteria that they use to choose their main parcel delivery operator, with 67% listing it within their top three.

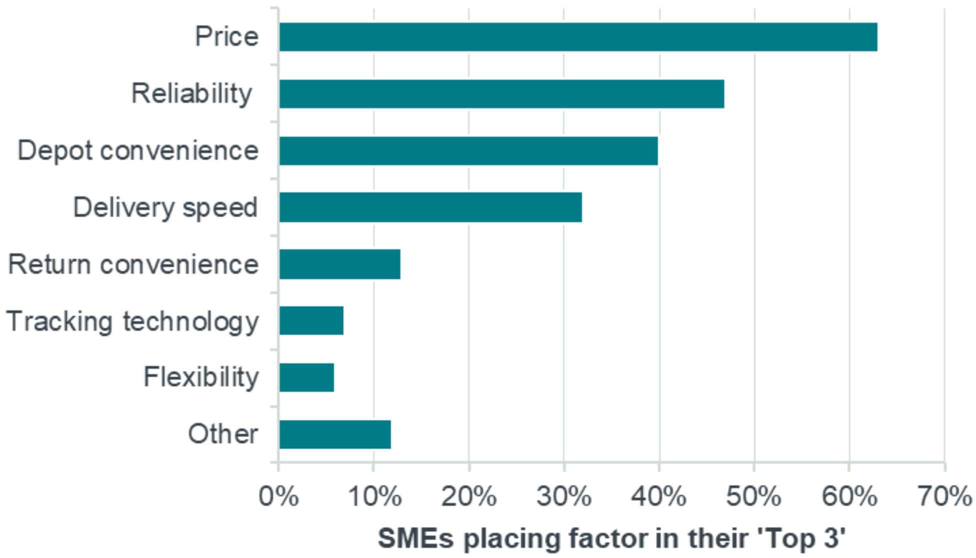
Similarly, 'Professional delivery' and 'Safety of product' (or reliability) are also currently seen as essential needs, along with the speed of delivery. 32% of SMEs who sell online listed this as one of their top three factors in choosing a delivery operator.

Figure 23 Essential and emerging needs of e-commerce companies from parcel delivery operators – User interviews

Essential needs	Emerging needs
▪ Reasonable pricing ▪ Professional delivery ▪ Safety of product ▪ Speed of service	▪ Visibility – customer package tracking ▪ Flexibility – choice in delivery and price ▪ Tech – digitisation of delivery and returns

Source: B&A user interviews

Figure 24 Top three criteria for choosing parcel delivery operators – SME survey



Source: B&A SME survey, Q26
Note: All who sell online: n=131 – 'Other' includes environmental sustainability, parcel lockers and same day delivery.

These findings are in line with our 2015 packets and parcels study. This showed that while the sector was becoming increasingly diversified in terms of the offerings available, the key for operators was ensuring their basic offering met senders' needs of a reliable and cost-effective delivery service.

Other factors are becoming increasingly important for senders

As set out in Figure 23, there are also a number of factors that are becoming increasingly important for large and SME e-commerce companies:

- visibility of where a parcel is in the delivery process (tracking); and
- technologically advanced options, such as apps, electronic labels, etc.

The importance of these factors is primarily driven by a desire to reduce customer care requirements, and to enable sellers to be proactive around any potential delays or other issues that arise.

In addition, large e-commerce companies highlighted the growing importance of flexibility in a parcel delivery operator. As discussed above, the ability of operators to handle current and future volumes is a key concern for larger e-commerce companies at the moment. Therefore, the ability of an operator to take extra or fewer volumes from one day to the next, and at the last minute, is an important consideration.

Separately, in survey responses, SMEs also flagged the convenience of a operators' depots as an important consideration. As shown Figure 24, 18% of SMEs who sell online listed it as one of their top three criteria for choosing a parcel delivery operator.

This evidence suggests that delivery operators might be able to increasingly differentiate their offerings alongside multiple dimensions and potentially extract a premium from consumers in exchange for the provision of specific additional services that competitors do not offer. At the same time, operators who are not able to intercept new customers' needs might find themselves into a challenging position.

3.2.3 Parcel delivery service operator perceptions of seller requirements

Overall, there appears to be a good alignment between senders' requirements and operators' interpretation of these requirements

The parcel delivery service operators interviewed as part of this study, made the distinction between:

- what **wins** business; and
- what **keeps** business.

In terms of what wins business, during our interviews with operators, they explained that price allows them to "sit at the table" with customers and is still considered the most important factor overall. However, sustainability credentials are thought to have become increasingly important as e-commerce sellers need alignment with their corporate goals.

In terms of what keeps business, operators set this out as 'points of differentiation' compared to other operators. Delivery certainty is reported to have become increasingly important (and this has been heightened due to COVID-19). Some e-commerce players are thought to place this above or on par with price in its importance. In addition, delivery flexibility (including quality tracking and 'in flight' options) is believed to have become increasingly important and a point of differentiation for some operators.

Parcel delivery operators also reported on key changes to characteristics of products and services over recent years.

- **Delivery speed –** Prior to the onset of the COVID-19 pandemic, next day/two day domestic delivery was considered to have become somewhat of a norm. It is thought that same day delivery is yet to take hold and does not appear to be a key priority for most operators or an expectation from most e-commerce companies at present.

- **Weight of packets** – There is a variation in average weight amongst the operators, with most averaging 5kg or lower, but some averaging up to 15-20kg. Operators reported that there has been no considerable change in this average weight for them, just more volume.
- **Delivery frequency** – Deliveries six days a week have been put in place by most operators to handle peak volumes (especially in 2020). Operators reported that this was likely to become a more permanent feature in the coming years, likely as a premium service, with some discussions of an increase to deliveries seven days a week.

Operators potentially underestimate how important senders believe the last mile is for their perception of an operator

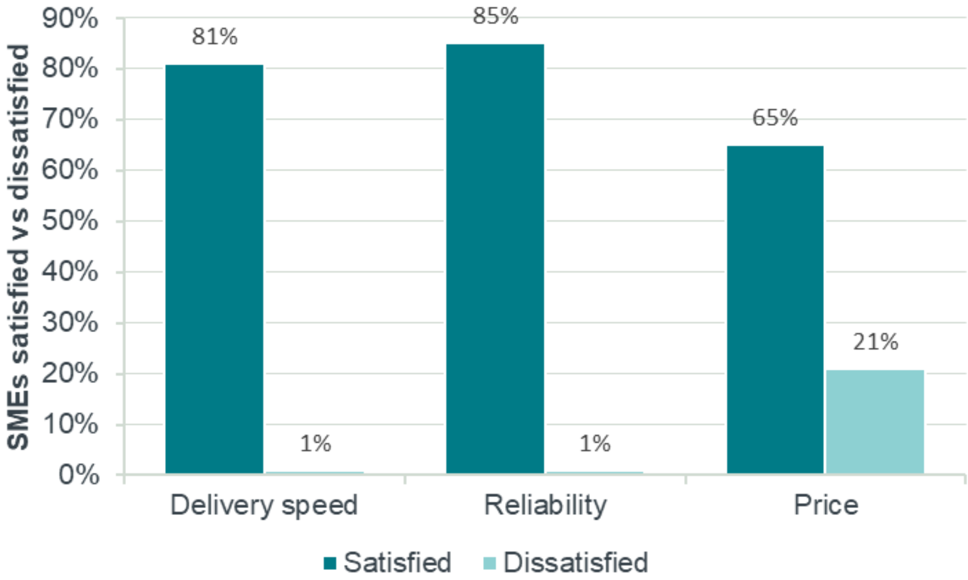
During our interviews with e-commerce companies, many highlighted that operator reputation plays an underlying role in operator choice (although it is rarely a primary driver for operator choice). We were told that rumours and myths of poor service and unprofessionalism can proliferate across sellers. In addition, sellers are highly cognisant of the role that the operator plays in their brand experience, and the potential negative impacts that a poor experience can have. Sellers explained that customers tend to conflate parcel delivery operator and e-commerce performance. As such, at a psychological level, e-commerce companies often consider 'brand fit'.

Current satisfaction with parcel delivery operators is high

Overall, satisfaction with parcel delivery operators amongst e-commerce companies is high, with the majority of sellers interviewed reporting that they have no intention to switch operator at present. 80% of online selling SMEs who were surveyed reported being 'satisfied' or 'very satisfied' with the overall level of service provided by parcel delivery operators for domestic parcels. Just two companies said they were dissatisfied. As shown in Figure 25, SMEs were also asked about satisfaction with delivery, reliability and price. Price achieved the lowest level of satisfaction but was still high with 65% of online selling SMEs being 'satisfied' or 'very satisfied' with price[22].

[22] Those who are dissatisfied with price are mainly from the high and medium volume online selling group (albeit not significantly so).

Figure 25 Satisfaction with parcel delivery operators used for sending mail within Ireland – SME survey

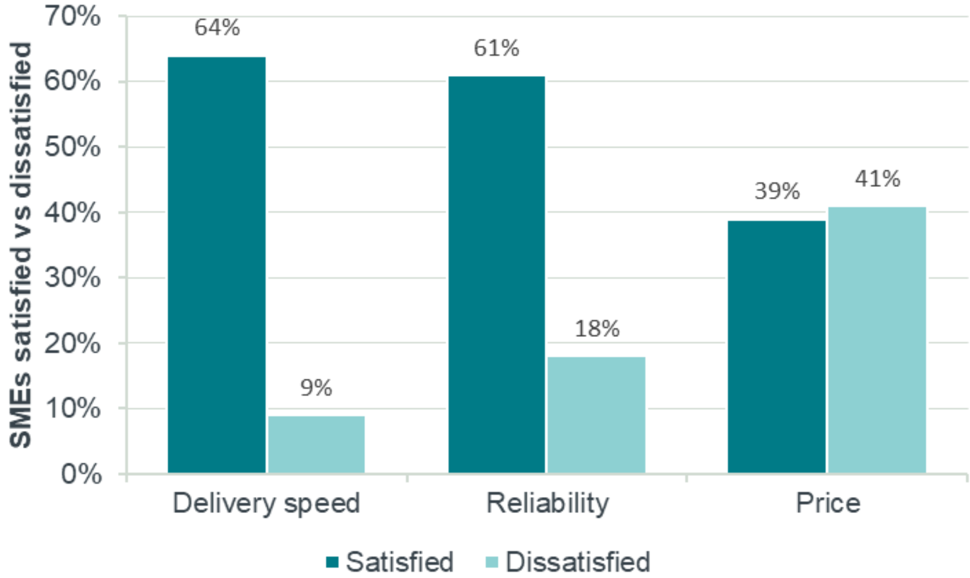


Source: B&A SME survey

Note: 'Thinking of your domestic packet and parcel delivery service supplier [rate satisfaction 1-5]' All who sell online domestically: n=131 *'Neutral' responses not graphed

Amongst the online selling SMEs surveyed, satisfaction with delivery operators used for sending parcels outside of Ireland is lower than with delivery operators used for sending parcels domestically, as shown in Figure 26, but is still high. 62% of these SMEs are either 'satisfied' or 'very satisfied' with the overall level of service provided. Again, price achieved the lowest level of satisfaction with only 38% of online selling SMEs being 'satisfied' or 'very satisfied' with price for sending mail outside of Ireland. This is significantly lower than satisfaction with the price for sending mail within Ireland, for which 66% of online SMEs report being 'satisfied' or 'very satisfied'.

Figure 26 Satisfaction with parcel delivery operators used for sending mail outside of Ireland – SME survey



Source: *B&A SME survey*

Note: *Thinking of your international packet and parcel delivery service supplier [rate satisfaction 1-5]'* All who sell online non-domestic: n=82 *'Neutral' responses not graphed

During our interviews with e-commerce companies, many noted that they have seen improvements in the service level from parcel delivery operators in the last few years, including:

- **better handling** – lost, damaged or 'unprofessional' deliveries are increasingly rare, and there is a strong adherence to service level agreements (especially before the onset of the COVID-19 pandemic);
- **technology improvements** – there have been improvements to operators' technology (although there is still more work needed, e.g. further improvements to tracking and notifications); and
- **a change to more of a "partnership" way of working rather than "supplier-customer"** – there is a strong appreciation for the effort and commitment that parcel delivery operators made in 2020. E-commerce sellers reported being acutely aware that parcel operators have been essential to the survival of businesses across the country over the past.

3.3 Competitive dynamics

In this section, we assess the competitive dynamics in the Irish parcel delivery sector. Here we focus on price competition in the sector, and how this has evolved over recent years.

Parcel delivery prices are largely based on negotiated discounts from the standard price list

Given the competitive nature of the sector, there is limited public transparency in relation to prices or how they are set, beyond published list prices.

Due to economies of scale, increased volumes tend to decrease the average costs of delivery. For this reason, parcel delivery operators are generally open to negotiating personalised prices with large senders, often offering volume discounts. 45% of the SMEs surveyed stated that they negotiated the price directly with operators. This was higher amongst those SMEs selling online for more than four years.

Our user interviews found that the average cost of domestic delivery for SMEs is €7, compared to around €3 for some of the larger e-commerce companies. As detailed below, this average price for SMEs is also consistent with the findings from our SME survey. However, we would advise caution against directly comparing these average costs without further context as the two customer groups may be using different products or product features. It is therefore not clear that we would be comparing like with like.

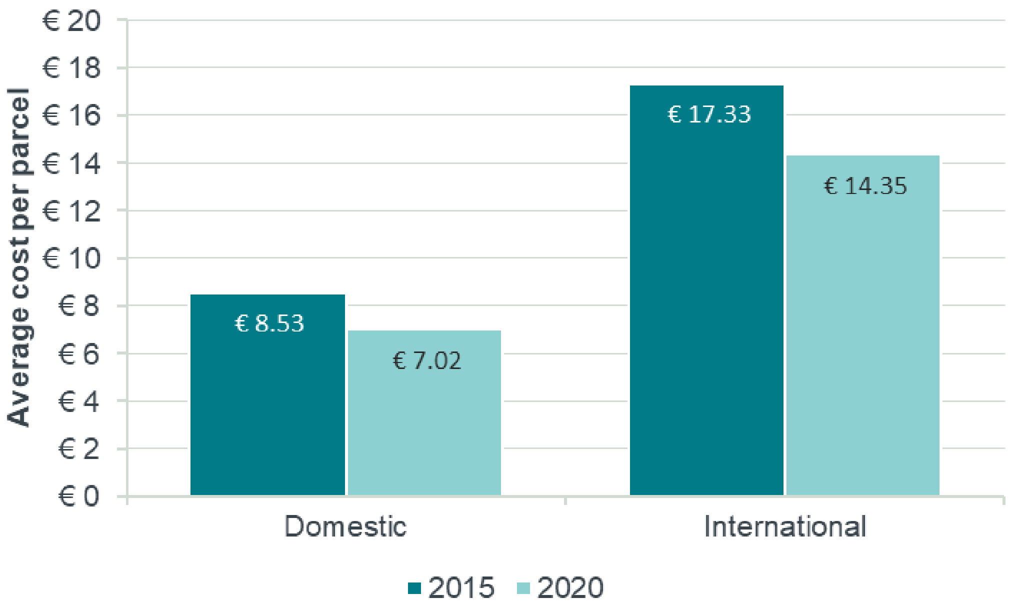
Operators are moving more towards a fixed pricing model with “add-ons"

Our operator interviews found that many operators are converging towards a ‘fixed pricing with add-ons’ model. That is, rather than having a long list of products with pre-determined features, operators offer a single basic delivery price with individually priced ‘add-ons’ (e.g. expedited delivery) available for sellers to select the product features that they require. This model has the advantage of being relatively simple to implement while leaving operators with the flexibility to adjust their pricing in order to reflect additional delivery costs for particular set of items.

Price competition between operators has intensified in the last five years

The current average spend per parcel, as reported by surveyed SMEs, decreased by 18% for a parcel delivery within Ireland, and 17% for a parcel delivery to an international address between 2015 and 2020, as shown in Figure 27.

Figure 27 Average cost per parcel, international vs domestic, 2015-2020



Source: B&A SME survey (2019), 2015 Frontier report for ComReg (2015)

The delivery operators interviewed also stated that the price per parcel has been static or even declining in the last years.

3.4 Impact of COVID-19

As outlined above, since March 2020, the worldwide COVID-19 pandemic, and the restrictions placed on the Irish public, has led to a surge in demand for online sales and a reduction in physical sales.

The demand impact of COVID-19 is evidenced by the experience across all elements of the parcel value chain

The 2020 ‘Future of Post’ survey reported that 43% of surveyed postal operators experienced an increase in parcel volumes following the COVID-19 outbreak[23]. Parcel delivery operators interviewed as part of our primary market research stated that they had already reached their annual peak by Easter 2020.

The majority of e-commerce companies who were interviewed as part of our study experienced unprecedented online sales growth in the past year. For many, 2020 demand was three or four times the level experienced in 2019. The text box below provides a case study example of an Irish e-commerce seller that was interviewed as part of our study.

CASE STUDY: LARGE USERS OF PARCEL DELIVERY SERVICES: AN IRISH BRICKS AND CLICKS RETAILER

This Irish-based retailer earned over €20 million in revenues during 2019. It predominantly sends parcels domestically and direct to the customer. Prior to the Covid-19 pandemic, online sales represented about 8-10% of total revenue with this part of the business experiencing steady double-digit growth each year over the past 3-5 years. A large proportion of these sales were from revisiting customers (who tended to be predominately from the younger age cohorts). During the 2020 Covid-19 pandemic, there was a surge in online volumes with the retailer growing this part of their business fourfold during this time.

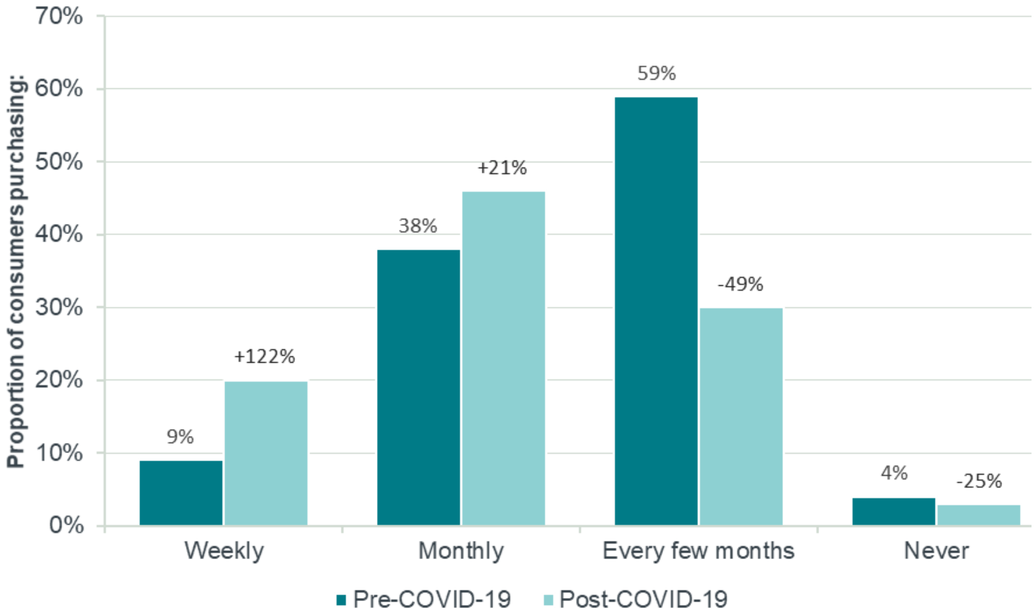
There is a strong sense that even when the pandemic ends, e-commerce will remain a larger proportion of the overall business revenue. There is indeed a belief that new habits around shopping behaviour have been formed and new cohorts (particularly older customers) have been introduced to the concept of browsing and ordering products online. As such, building a seamless omni channel experience for customers is a key priority for the coming years for this retailer.

Our consumer survey found that the incidence of consumers purchasing goods online weekly (or more frequently) has doubled since the onset of the COVID-19 pandemic, as shown in Figure 28. Two in three consumers now claim to be receiving parcels on a monthly (or more frequent) basis, versus half of consumers prior to the onset of the pandemic. These findings are also supported by data from

[23] Escher, 2020 “The Future of Post – Growth Strategies for 2020 and Beyond”

the CSO, which shows that the number of people purchasing online in the second quarter of 2020 rose across all demographics, and the number of people who never bought online fell substantially[24].

Figure 28 Change in online purchase frequency, pre- and post-COVID-19



Source: *B&A Consumer survey*

Note: *Currently [And before the Covid-19 pandemic,] how frequently do [did] you purchase items online that required delivery e.g. clothing, electronics etc?* All interviews, n=1648

This has brought a number of challenges for both parcel delivery operators and e-commerce sellers

Parcel delivery operators interviewed stated that the unprecedented surge in demand has put considerable pressure on their existing networks. Many found it challenging to obtain the vans and staff[25] needed to meet these increased requirements, leading to a general slowdown in delivery capabilities. Operators reported that it has been challenging to honour existing service level agreements (especially during the December peak). This has resulted in the majority of operators not actively taking on new customers at the moment, and unable to guarantee next day delivery.

The e-commerce companies interviewed stated that they had also found themselves unprepared to face such online volumes at the onset of the pandemic.

First, amongst **medium to large e-commerce companies**, online was an important channel prior to the pandemic, but not the primary channel for most. Some companies reported having a "basic" e-commerce website that was often deprioritised. Upgrades to websites and the associated IT systems were therefore necessary in 2020.

---

[24] CSO, Information Society Statistics - Households 2020 - *Seven out of every ten internet users purchased online in the previous quarter*

[25] In our interviews with operators, many talked about the 'casualisation of delivery' as a result of the pandemic, with operators sometimes using taxi drivers to deliver, for example.

In addition, the surge in sales volumes posed challenges for warehouse management and distribution. For example, changes were required to operations in order to simultaneously process the volume increase and adhere by COVID-19 related regulations.

Of the **small e-commerce companies** interviewed, many were ‘online first’. This meant that they were ready to pounce on online opportunities. The average proportion of online sales for SMEs (who already sold online prior to the onset of the pandemic) increased by 14 percentage points, from 40% to 54%. 67% of e-commerce companies have experienced an increase in sales to some extent. The key challenges they faced as a result were related to internal stock holding and packaging (particularly during peak times).

E-commerce companies also reported challenges around maintaining consumers’ brand experience. This was particularly acute when retailers were forced to use unbranded packaging due to shortages. Companies felt that, despite the awareness of the additional challenges that they faced as a result of the COVID-19 pandemic, consumers’ expectations remained high. On top of this, many retailers reported facing new competition since the onset of the pandemic.

E-commerce companies were also well aware of the challenges faced by parcel delivery operators. As such, higher levels of loyalty were reported as sellers were reluctant to move from their current delivery operator unless certain that they could guarantee a secure supply from another operator. At the same time, an e-commerce operator reported trying to see whether they could find a second ‘back-up’ operator in an effort to ensure online orders could be fulfilled as expected, particularly during the December 2020 peak.

Consumers were also asked whether they have experienced any issues with delivery of items, which they felt was due to the pandemic. 45% of online purchasers reported having experienced issues, 86% of whom stated that this issue was late delivery. Other issues stated were:

- lost items (27%);
- they were informed that a product was not in stock after payment had been accepted (18%); and
- items delivered to the wrong address (12%).

More than 70% of consumers surveyed who experienced an issue reported this issue to the seller. This is indicative of a healthy competitive dynamic from consumer to seller.

However, many parcel delivery operators and e-commerce sellers have also seen opportunities

Despite these challenges, the COVID-19 pandemic has also brought several opportunities for e-commerce companies. This has included new product solutions, such as corporate gifting particularly around Christmas, as well as an uplift from ‘buy Irish’ campaigns over the past year. In addition, as well as growth from existing online customers, many retailers have gained new online customers, with a broadening of online demographics.

4 FUTURE PROSPECTS FOR THE SECTOR

KEY INSIGHTS

- While we know that since March 2020, the worldwide COVID-19 pandemic, and the restrictions placed on the Irish public, led to a surge in demand for online sales, and the associated demand for parcel delivery services, the latest data that we have for the volumes and turnover with the Irish parcel delivery sector is for 2019. Therefore, while the operators interviewed as part of this study estimate growth of at least 40% in 2020, the actual overall volume impact of the pandemic is currently unclear. Given this, it is too difficult to forecast how the sector will develop over the medium term. However, all players in the Irish parcel delivery sector expect the level of the demand to remain high, with COVID-19 accelerating a longer-term shift in the way that consumers shop.
- E-commerce companies are increasingly focussed on delivery cost. This appears to be driven by the concern that consumers have reached their threshold in terms of what they are willing to pay for delivery.
- Parcel delivery operators have struggled with the COVID-related surge in demand to date (and the marked shift towards B2C). With expectations that this level of demand will remain, they are considering network expansions (and optimisation) to facilitate this going forward. However, this is not without its challenges.
- Vertically integrated e-commerce platforms are seen as an increasing competitive threat by parcel delivery operators – Amazon, in particular, is seen as a key trend setter in terms of delivery offer.
- Parcel delivery operators and e-commerce sellers are also currently dealing with two key external influences on the sector – 1) Brexit and 2) Climate change policy
  - Brexit has had a mostly negative impact on parcel delivery operators, despite preparation – logistics/IT issues and a fall in volumes. There seems to be a divided impact on sellers – with larger businesses reporting potential opportunities linked to a competitive edge for Irish retailers vs. international competitors, and smaller businesses feeling the impact of increased costs.
  - Sustainability investments by operators have largely been driven by corporate goals as well as user demand. Although only 3% of SMEs surveyed listed sustainability as one of the top three criteria in choosing a parcel operator, it is a growing concern for the majority of e-commerce companies interviewed particularly amongst sellers who have a more ‘premium’ offer.

4.1 Demand projections

As noted in Section 3.4, since the outbreak of the COVID-19 pandemic there has been a significant increase in e-commerce, and the associated demand for parcel delivery services. A key consideration for delivery operators (as well as for online sellers) is whether this accelerates a longer-term change in the way people shop, or whether this is largely a short-term impact of the pandemic, with limited long-term persistence. In addition, if it were the former, whether further growth is expected.

However, the latest data that we have for the volumes and turnover with the Irish parcel delivery sector is for 2019. Therefore, while the operators interviewed as part of this study estimate growth of at least 40% in 2020, the actual overall volume impact of the pandemic is currently unclear. Given this, it is too difficult to forecast how the sector will develop over the medium term. This section therefore focusses on the demand expectations of the different players in the sector.

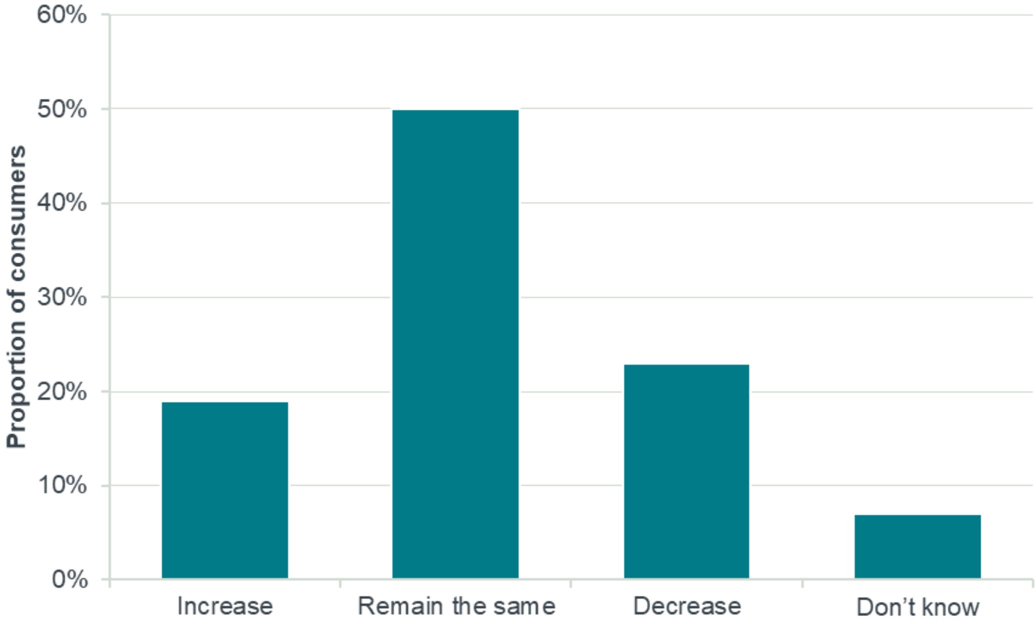
Our research suggests that demand is likely to grow further over the next few years

All of the key players in the sector are expecting current demand levels to continue to grow over the next few years.

Consumers

Our consumer survey suggests that the shift toward online purchasing is unlikely to fade out in the near future. Half of the consumers interviewed stated that they expect their online purchases to stay at the same levels as in 2020, as shown in Figure 29 below. While 19% are expecting their online purchases to increase further in the next 12 months.

Figure 29 Expectation for online purchasing in the next 12 months



Source: B&A Consumers survey

Note: Do you expect this to continue or return to pre Covid-19 levels in the next 12 months? All consumers purchasing more online since pandemic, n=878

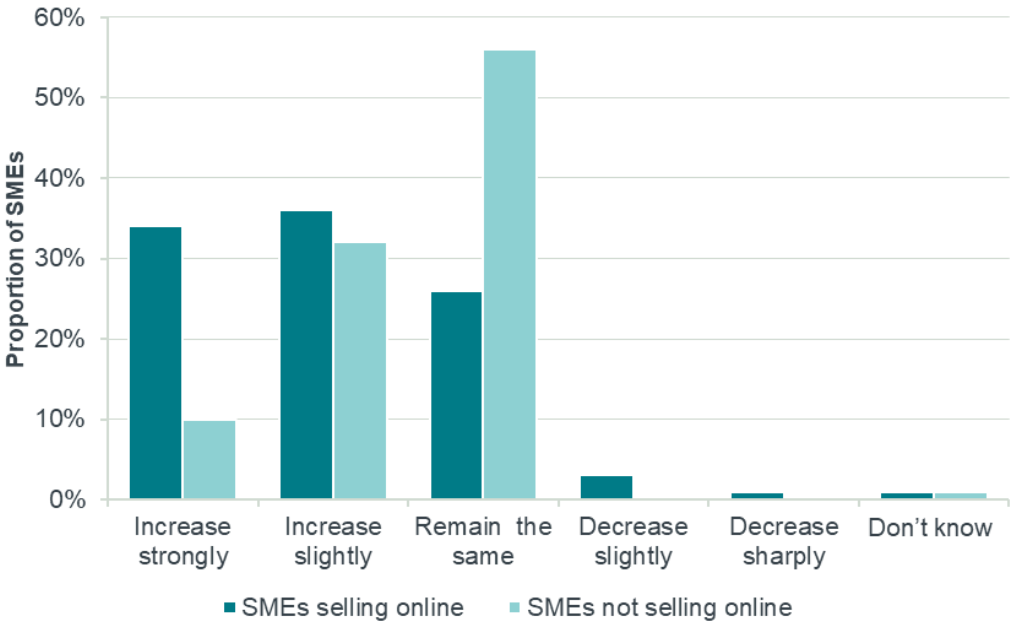
E-commerce sellers

E-commerce sellers similarly expect sales to remain high over the next 12 months, and predict further growth in the medium term.

Amongst large e-commerce sellers interviewed, there is a widely shared view that online sales will become an increasingly important element of their business. For example, a large retailer mentioned that online sales reached 30% of its total sales in September 2020. The same retailer stated that its e-commerce sales are on track to be averaging around 50% of its total sales in the next couple of years.

The SMEs surveyed shared the view that demand for online sales will increase in the next years. As Figure 30 shows, this is particularly the case for SMEs currently selling online. 70% of these expect an increase in demand for online purchasing in the next three years, with 34% expecting a strong increase.

Figure 30 Expected demand for online sales over the next three years



Source: *B&A SMEs survey*

Note: *Looking ahead, how do you expend demand for your parcel or delivery services to change over the next 3 years.* All business, n=325

A further 42% of SMEs currently not selling online also expect demand for e-commerce purchases to increase in the next three years. However, only 5% of the SMEs that do not sell online are planning to introduce an online sales option.

Parcel delivery operators

On the operators' side, we also found expectations of significant demand growth. Most operators surveyed agree that B2C will be driving the evolution and future growth of the delivery sector. On the opposite side, B2B volumes are seen as stagnating.

4.2 Customers' future expectations and requirements

As outlined in the previous chapter, there appears to currently be a good alignment between senders' requirements and operators' interpretation of these requirements. There are also a number of factors that are becoming increasingly important for large and SME e-commerce companies, namely:

- visibility of where a parcel is in the delivery process (tracking); and
- technologically advanced options, such as apps, electronic labels etc.

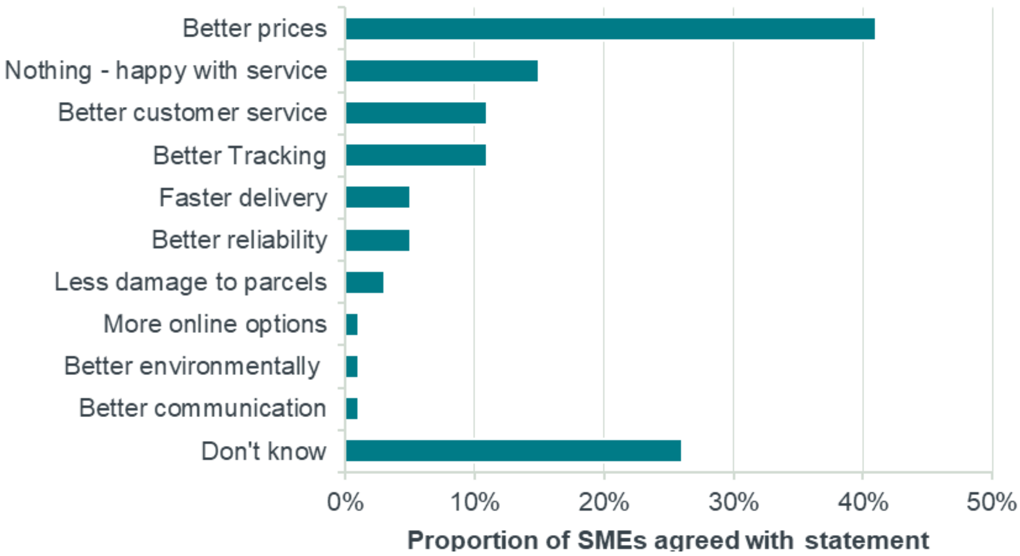
During our interviews with e-commerce companies, many noted that they have seen improvements from operators in the relation to these factors in the last few years.

As part of our market research, we specifically explored whether there was anything further that e-commerce companies expected from operators in the future.

Delivery cost is the key focus for e-commerce companies

With regards to e-commerce companies, Figure 31 shows that lower delivery costs top the list of desired future changes amongst SMEs surveyed. 41% of online selling SMEs said that operators could offer better/more competitive rates.

Figure 31 Requests for future service improvements from parcel delivery operators – SME survey



Source: B&A SME survey

Note: 'What would you like to see parcel and packet delivery operators do differently for businesses like yours in future?' All who sell online: n=131

This appears to be driven by a concern that there might be a "customer threshold" for delivery costs

Our market research found that companies who sell online mainly adopt four different strategies when it comes to charging their customers for delivery costs associated to their online purchases.

- A number of companies pass on entirely the delivery costs to their customers. This can sometimes be incorporated into the product price.
- Other companies choose to offer free delivery to their customers instead, thus absorbing delivery costs in their margins.
- A third group adopts a hybrid model, where free delivery is offered only over a certain spend amount.
- The last option consists of the subscription model, which offer free delivery in exchange for a fixed (usually monthly) payment.

The choice is highly dependent on the firm's size and type.

- SMEs tend to avoid free delivery as they often pay a higher price per parcel and generally have thin margins which cannot absorb delivery costs.
- Most large e-commerce players grant some form of free delivery, either on all goods or conditional on a spending threshold.
- The subscription model has been increasingly adopted by large e-commerce players, with the aim of reducing consumers' switching and creating a loyal customers base which generates consistent revenues over time[26].

Our interviews revealed a shared concern amongst e-commerce companies that there might be a "customer threshold" for delivery costs, with online purchasers unwilling to pay for delivery above a certain amount. For example, one e-commerce retailer told us that they tried to increase the spending threshold required for free delivery from €10 to €15, but this immediately resulted in a significantly lower conversion rate for online sales. Many e-commerce sellers share the view that a tiered pricing model, where only basic delivery services are offered free of charge is the only way to rationalise the introduction of charges.

Our survey explored the impact of delivery charges in more detail. It found that 66% of consumers surveyed have abandoned an online order in the last 12 months due to high delivery costs, rising to 70% amongst medium and high online purchasers. The group of consumers who had abandoned an online order in the last 12 months has included more females, tended to be in the 18-49 age category, in the ABC1F social demographic and working fulltime or a student.

This pressure from consumers for free or low cost delivery might explain why lower delivery prices are a key concern for SMEs.

4.3 Opportunities and challenges faced by parcel delivery operators

Based on our market research, we have identified two main areas where parcel delivery operators face opportunities and challenges, namely:

- investments required to facilitate the sustained growth in e-commerce; and
- Potential competition from vertically integrated e-commerce platforms.

[26] Subscription services are often accompanied by more convenient delivery conditions, such as next day or even same day deliveries. Some e-commerce platforms also offer additional services unrelated to parcel delivery (for example access to a streaming platform) as part of their subscription services.

We discuss these further below.

4.3.1 Sustained growth in e-commerce

During our interviews with parcel delivery operators, many reported that they were just not prepared to deal with the unprecedented surge in demand as a result of the COVID-19 pandemic. The general expectation across all aspects of the parcel value chain is that this level of demand is expected to continue beyond the pandemic. Parcel delivery operators are therefore considering how they will need to expand their current operations to manage this level of demand.

Operators reported two specific challenges:

- overall capacity issues; and
- the need to optimise delivery networks to account for the significant increase in B2C, compared to B2B.

Overall capacity issues

Our market research has found that all the major operators are considering investments to increase capacity, including:

- expanding existing hubs;
- opening new sites;
- hiring more drivers; and
- investing in last mile infrastructure such as depots.

However, operators also reported a number of challenges associated with these investments that they have experienced, namely:

- issues with acquiring property for delivery hubs;
- a very competitive labour market; and
- limited possibilities in using joint depots – this solution has proven difficult to implement in practice.

Optimising delivery networks to facilitate B2C volumes

At the same time, investments are also needed to improve the efficiency of the B2C delivery. Operators currently consider the B2C segment to be less profitable than the B2B segment. This is mainly due to higher costs associated to individual deliveries compared to deliveries to a single central location as is typically the case with B2B deliveries.

Most operators surveyed mentioned that they are currently planning investments towards this goal. These include, among others:

- investments in intelligent logistics and route optimisation software – including reducing cold spots (i.e. drivers travelling long distance before/after delivery) and the use of Eircodes (which were reported to have picked up pace in the last year, aiding route optimisation); and

- increasing internal automation – one operator reported that they have an automated warehouse, but most focussed on last mile automation (e.g. tracking etc) and the operational automation required for this (e.g. tracking scanners).

The widespread adoption of more advanced automated solution for last mile deliveries such as drones and self-driving vehicles is still seen as a long way off according to most operators in the parcel delivery sector.

At the same time, operators are considering ways to expand their delivery network and last mile solutions. With this regard, most operators are considering an expansion of their parcel shop network.

4.3.2 Competitive threats from vertically integrated e-commerce platforms

Vertically integrated platforms provide a fully integrated service to e-commerce sellers and consumers, from sale through to delivery. Increasing use of such platforms therefore poses a potential competitive threat to pure parcel delivery operators. This is especially the case when they are combined with delivery subscription services.

Our consumers' survey found that Amazon is the preferred platform by Irish consumers for online purchases, with 79% of consumers surveyed that have used it at least once to buy items online. Given that this demand is primarily fulfilled from Amazon warehouses outside of Ireland, it currently makes up a significant proportion of inbound parcel volumes. Amazon is currently building a fulfilment centre in the Dublin area. It also operates a delivery warehouse in Dublin for certain Amazon products[27]. This delivery service makes use of small-scale 'Amazon delivery partners'.

Our interviews suggest that a number of operators expect to see an increase in the competitor pressure in the parcel delivery sector as a consequence of Amazon's entry. Amazon is also seen as a key trend setter.

4.4 Brexit

For deliveries from e-commerce sellers located in Britain, a further consideration is the impact of Brexit particularly with regard to customs inspections and charges (including VAT) and customs documentation.

Our research has found that both operators and senders have experienced increased costs and administrative burdens in the first months of 2021 as a result of Brexit.

In the rest of the section, we examine in more details what the impacts of Brexit could be for both operators and e-commerce sellers.

[27] Amazon's delivery warehouse in Dublin opened in 2020. (https://www.irishtimes.com/business/retail-and-services/irish-amazon-customers-to-bypass-brexit-barriers-as-it-plans-dublin-distribution-centre-1.4470470)

Brexit resulted in immediate challenges for parcel delivery operators, but the long term impact is less clear

Brexit has been a key issue on the operators' radar for the last two years. All the operators interviewed had a Brexit plan in place prior to January 2021 and stated that they have made significant investments to be prepared on this front. Nevertheless, the uncertainty that surrounded the Brexit agreement up to the deadline has made planning a significant challenge for all operators.

The immediate impact of Brexit has been mostly negative for the operators surveyed. The majority of the delivery operators have experienced logistics and IT issues linked to Brexit in January 2021, as well as an overall increase in administrative costs.

In terms of demand, most operators have experienced a significant decrease in volumes from Britain in January 2021. However, the longer-term impact of Brexit on parcels volume is less clear, given that most large e-commerce players are adjusting their supply chain to adapt to Brexit challenges. At the same time, some operators believe that Brexit might be an opportunity for Irish retailers to increase their sales.

There are differential effects across e-commerce sellers

The overall increase in delivery costs alongside the parcel delivery value chain has directly affected e-commerce sellers who are exporting to the UK. Most of the e-commerce companies interviewed stated that parcel delivery operators have added a Brexit surcharge to their standard set of tariffs, usually in the range of €3-€5, which in turn they have passed on to their UK customers.

According to one e-commerce company surveyed, the increased costs of exporting to the UK has made a lot of retailers re-evaluate the economic viability of selling in the British market. While a number of e-commerce sellers are taking a "wait and see" approach and prefer to hold on taking strategic decisions in such an uncertain environment, others are already considering options beyond the UK, i.e. selling directly to continental Europe.

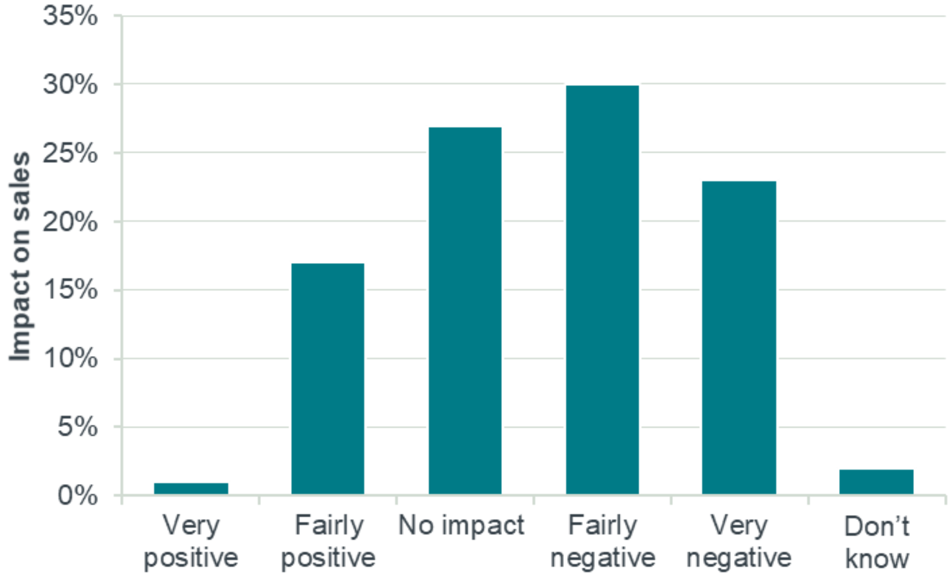
Firms exporting to the UK also noted a lack of clarity around the rules related to parcel delivery, despite operators stating that communicating new requirements to customers has been a key priority, particularly for the last six months.

Despite these challenges, some of the larger business see also opportunities potentially arising from Brexit. According to a number of firms surveyed, as compliance with the new administrative requirements inevitably leads to increased delivery times due to Brexit, speed of delivery will be increasingly valued by customers and new opportunities might open up for retailers who are able to smooth and speed up the delivery process.

Brexit might also give Irish retailers an advantage over their international competitors, who now face higher costs and administrative barriers to importing goods into Ireland. However, the larger e-commerce players seem to be rapidly moving to adjust their supply chain. As an example, Amazon is opening a fulfilment centre in Dublin, while JD Sports are setting up a new Irish warehouse.[28]

When it comes to SMEs, there is more pessimism regarding the impact of Brexit on their international sales. As can be seen from Figure 32, only 18% of SMEs who currently sell abroad think that Brexit will have a positive impact on their sales, compared to 53% who believe Brexit will negatively affect their business. In particular, more than one in four think that Brexit will have a very negative impact on sales, compared to only 1% who instead expect a very positive impact.

Figure 32 Expected impact from Brexit on international sales



Source: *B&A SMEs survey*

Note: *What type of impact do you expect Brexit to have on your non-domestic sales?* Businesses selling abroad online, n=82

4.5 Climate change

An increasingly important issue for the world as a whole is climate change. Policy-makers continue to drive forward vital plans to address this issue and reduce our impact on the environment. At a European level, this includes the European Green Deal, and at a national level, this includes the Climate Action Plan. Both sets of plans tackle a number of sectors of the economy, including Transport and Logistics. The actions resulting from these plans therefore impact on parcel delivery operators, with increasing pressure to mitigate the rising carbon footprint of e-commerce.

Interestingly, parcel delivery operators who were interviewed stated that most consumers do not intuitively link delivery and sustainability. Similarly, one e-commerce seller indicated that sustainability is currently not a primary concern for online shoppers, but it is rather seen as a bonus that is nice to have but not essential. As such, parcel delivery operators' sustainability actions at present are primarily driven more by their own corporate goals than consumer demand. Only

[28] Irish Examiner, JD Sports to open new Irish warehouse to avoid Brexit-related tariffs , 13th April 2021.

3% of SMEs surveyed listed sustainability as one of the top three criteria in choosing a parcel operator. However, during our interviews, one operator did report to us that is had lost out on a tender with a large e-commerce company as it wasn’t considered to have strong enough environmental credentials.

Parcel delivery operators reported that sustainability is of growing importance for them. Several of the main operators have made large investments so far (particularly in urban areas), but the majority of operators reported that they have ‘plans in train’. Operators are therefore facing the added challenge of balancing the need to expand capacity, with corporate sustainability requirements.

5 CONCLUSIONS

Our study has taken a comprehensive look at all aspects of the Irish parcel delivery sector. In particular, it has analysed both sides of the sector, and the interaction between these sides, namely:

- the service provided by delivery operators (the **supply** side); and
- **demand** for parcel delivery from both senders and receivers of parcels.

In addition, on the demand side, it has considered the interaction between senders and receivers of parcels. In particular, in the context of the growing e-commerce sector, it has focussed on e-commerce sellers as senders and e-commerce consumers as receivers. It also recognises that this relationship covers not only the sale of goods, but also the return on unwanted purchases from consumers to sellers.

Overall, our study has found the following in relation to the current dynamics of the Irish parcel delivery sector.

- **Sector concentration appears to be declining:** The share of the four largest operators by value decreased by 7% between 2013 and 2019, while it increased by less than 1% in terms of volume. This limited volume growth across time is particularly interesting given that the makeup of the top four operators by volume has changed during the period. A long tail of smaller specialised operators remains a key feature of the sector.
- **New operators have entered in recent years:** For example, some of Nightline's previous management team has gone on to set up a new parcel delivery company, Coll-8. Since 2020, Amazon now operates a delivery warehouse in Dublin for certain Amazon products. This delivery service makes use of small-scale 'Amazon delivery partners'.
- **Price competition between operators appears to have intensified:** The main operators interviewed stated that the price per parcel has been static or even declining in the last five years.
- **Operators appear to have a good understanding of the needs of e-commerce sellers, and sellers demonstrate a good understanding of consumers' needs:** This is shown also by the high level of satisfaction with parcel delivery operators amongst e-commerce companies and SMEs that emerged from our interviews and surveys. However, we note satisfaction is lower in relation to international deliveries, with 41% of SMEs surveyed stating to be 'dissatisfied' with prices for sending parcels outside of Ireland.
- **Operators and e-commerce sellers have adapted well to the challenges posed by the COVID-19 pandemic:** While parcel delivery operators and e-commerce sellers were initially unprepared to deal with the significant increase in volumes resulting from the COVID-19 pandemic, they have been quick to adapt current and future plans to these challenges.

We recommend that ComReg continues its focus on information gathering and dissemination in the sector[29]. This is because:

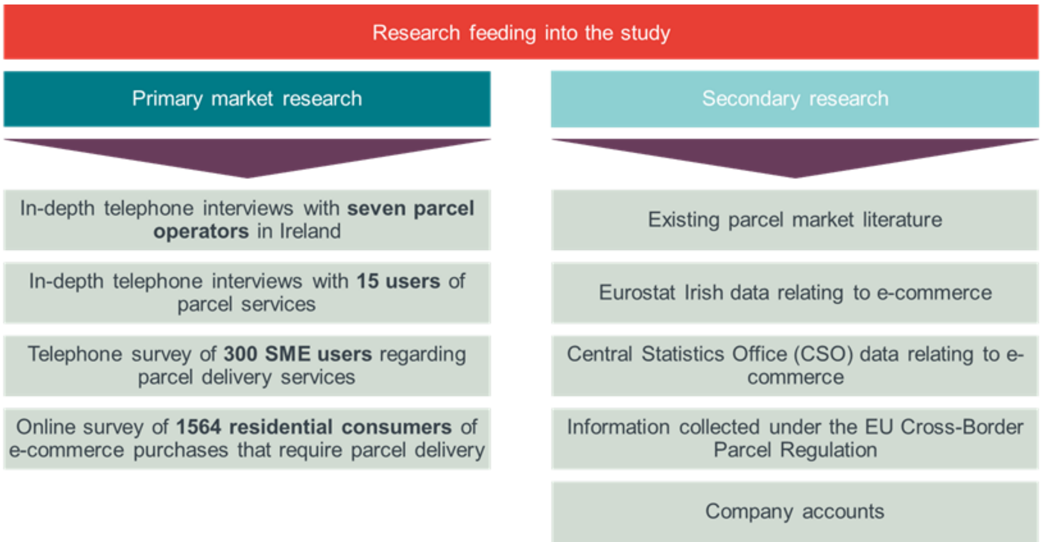
- there has been significant growth and change over the last year, which may result in future changes to the structure and dynamics of the sector;
- the sector is important for the Irish economy and Irish consumers; and
- information dissemination by ComReg can play an important role in stakeholders understanding the sector.

[29] This approach is consistent with that of other European National Regulatory Authorities. As part of this study, a questionnaire was sent to other European NRAs that are members of the European Regulators Group for Postal Services (ERGP). This sought to gather insight into how the parcel delivery sector is regulated in other European jurisdictions. This questionnaire received 23 responses.

ANNEX A OVERVIEW OF THE RESEARCH METHODOLOGY

This study into e-commerce parcel delivery in Ireland is underpinned by information gathered through primary and secondary research. This annex sets out our research methodology. Figure 33 provides an overview of the research conducted as part of this study.

Figure 33 Overview of the research conducted as part of this study



A.1 Primary market research

As illustrated in Figure 33 above, five pieces of primary research have been carried out as part of this study.

1. In-depth interviews with parcel delivery operators in Ireland

B&A conducted a series of one-to-one qualitative in-depth interviews with the main parcel delivery operators operating in Ireland.

These interviews were conducted between November 2020 and February 2021 using remote interview techniques (Skype, Teams, Zoom or telephone). Each interview lasted up to 60 minutes and was undertaken by a senior employee within each organisation (CFO etc.).

2. In-depth interviews with large users of parcel services

B&A conducted a series of one-to-one qualitative in-depth interviews with key e-commerce sellers who are sending significant amounts of parcels in Ireland. These included both large e-commerce companies as well as smaller companies with a strong online presence. Despite its significant role, e-commerce is not the sole driver of senders' demand for parcel delivery services. These services are typically also required by large organisations that need to deliver high volumes of parcels as part of their daily operations, for example to deliver office inventory or important documentation. For this reason, B&A also conducted a number of interviews with banks and public administration bodies. In total, 15 interviews were conducted with organisations sending significant amounts of parcels in Ireland.

These interviews were conducted between November 2020 and February 2021 using remote interview techniques (Skype, Teams, Zoom or telephone). Each interview lasted up to 60 minutes and was undertaken by a senior employee within each organisation (Head of Postal Operations etc.).

3. Survey of SME users of parcel delivery services

The next element of primary research undertaken by B&A was a telephone survey of SME users of parcel delivery services in Ireland. In total, a nationally representative sample of 300 SMEs were interviewed. This sample was quota controlled in terms of business size, region and NACE sector. Corrective weighting was also applied to ensure representativity of all Irish businesses.

All interviews were conducted using a Computer Aided Telephone Interviewing approach (CATI) and consisted of a 15-minute questionnaire.

The main fieldwork period was 4 January to 13 January 2021, with a pilot survey undertaken between the 9 December and 14 December 2020. This allowed us to provide a final validation of the survey before the full fieldwork was launched.

4. Online survey of residential consumers of e-commerce purchases that require parcel delivery

To complement the primary research on e-commerce users of parcel delivery services, B&A also conducted a nationally representative online[30] survey of 1,564 residential consumers (aged 16+) of e-commerce purchases that require parcel delivery. In addition, there was a booster sample of 84 consumers aged 13-17, reflecting the significant role that this population has in determining e-commerce usage. Demographic population quotas were used for both samples, ensuring that there is no source of bias from controllable factors. While the first three pieces of primary research were also conducted as part of the 2015 study, this survey is new addition for the purposes of providing insight into this element of the sector, particularly with the significant growth in e-commerce over recent years.

The survey was designed to take respondents 15 minutes to complete.

The main fieldwork period was 6 January to 20 January 2021, with a pilot survey undertaken between the 9 December and 14 December 2020. Like the SME survey pilot, this allowed us to provide a final validation of the survey before the full fieldwork was launched.

[30] We recognise that online research panels tend to be more digitally attuned than if a face-to-face survey was conducted. However, B&A consider it to be the most suitable methodology given the topic under investigation, and the research therefore benefits from being able to connect with respondents who are more likely to be able to comment effectively on e-Commerce.

5. Survey of European NRAs

The final piece of primary research conducted, was a questionnaire sent to other European NRAs that are members of the European Regulators Group for Postal Services (ERPG). This questionnaire was drafted with the aim of gathering insight into how the parcel delivery sector is regulated in other European jurisdictions and whether this goes beyond that required by the European Postal Services Directive and the Cross Border Parcel Regulation.

This questionnaire took the form of a Word document, which was circulated to members of the ERGP by ComReg on 3 March 2021. All responses were received by 17 March 2021.

This piece of primary research is unique to this study.

A.2 Review of literature and other desk-based research

To complement the data collected via the primary market research, we also undertook a review of the existing literature and data related to the parcel delivery sector in Ireland.

The key piece of existing literature is the 2015 packets and parcels study. This is therefore central to our analysis of sector dynamics, providing an essential indicator of how the sector has evolved over recent years.

In addition, there are a number of wider parcel sector studies that we have reviewed and drawn upon as part of this study. These are listed in the text box below.

EXISTING PARCEL SECTOR LITERATURE

ANACOM (2017), *Study on the needs of consumers of postal services.*
AGCM (2020), *Analisi del mercato dei servizi di consegna dei pacchi (interim report).*
CNMC (2020), *Informe annual del sector postal (2019).*
Copenhagen Economics (2020), *Accessing online selling in the EU's peripheral areas.*
Copenhagen Economics (2020), *Principles of EU regulation and implications for the future.*
E-commerce Europe (2020), *Impact of coronavirus on e-commerce.*
Escher (2020), *The future of post – Growth strategies for 2020 and beyond.*
EU Commission (Report prepared by WIK Consulting) (2019), *Development of cross-border e-commerce through parcel delivery.*

IE Domain Registry (2020), *How e-commerce can reignite Ireland's post Covid economy.*
International Post Corporation (2019), *Cross border e-commerce shopper survey.*
IPOL – European Parliament (2020), *How to fully reap the benefit of the internal market for e-commerce?*
McKinsey (2019), *The endgame for postal networks.*

As well as existing parcel sector literature, there are a number of data sources that we have also used as part of our sector analysis, including:

- information collected by ComReg in line with the requirements of Regulation (EU) 2018/644 on cross-border parcel delivery services (while data on individual parcel delivery operators are confidential, aggregated data are publicly available on ComReg's website[31]); and
- Eurostat data relating to e-commerce.

[31] https://www.comreg.ie/industry/postal-regulation/postal-framework/cross-border-postal-data/

ANNEX B USAGE AND AWARENESS OF PARCEL DELIVERY OPERATORS

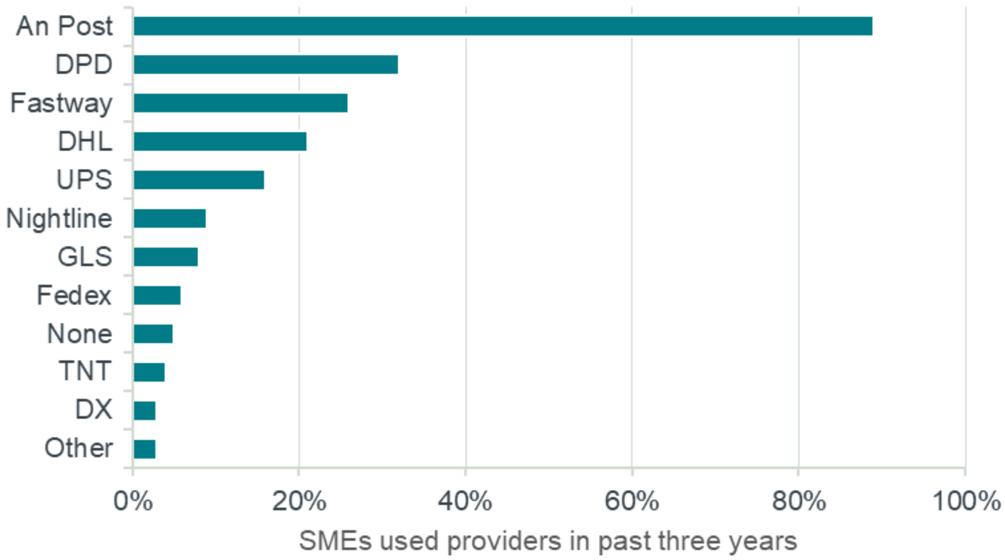
We have also explored stated usage and awareness of operators of SMEs and consumers through our primary research. This annex sets out our findings on these topics.

B.1 SMEs

Usage of operators

When it comes to the choice of delivery operator, 83% of the SMEs surveyed stated that they have used An Post in last three years, compared to only 32% who stated they have used the second most used operator -DPD-, as can be seen from Figure 34.

Figure 34 Parcel delivery operators used in the past three years – SME survey

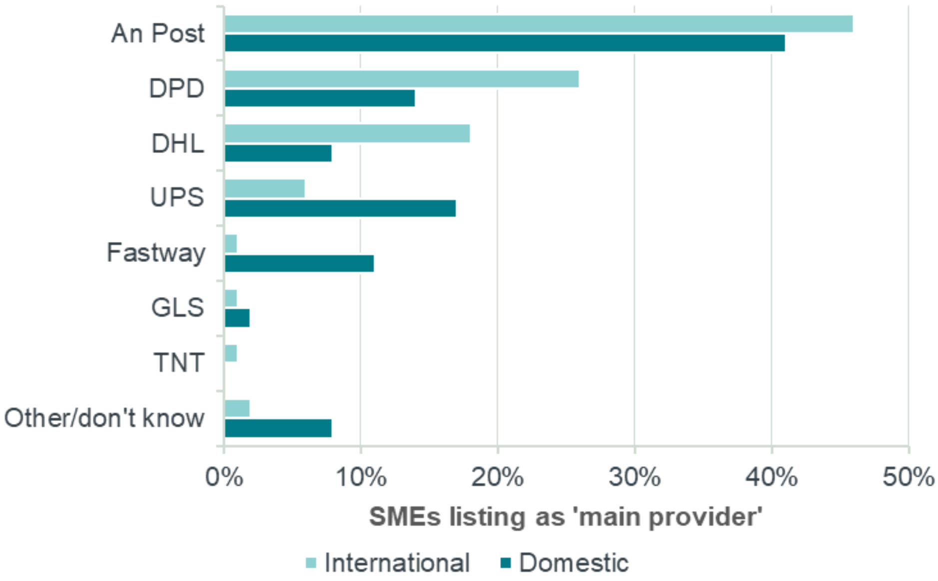


Source: B&A SME survey

Note: 'Which packet and parcel delivery service operators have you used over the past 3 years?' All businesses n=325

As Figure 35 shows, An Post was also indicated as the main delivery operator for both domestic and international deliveries. For the other operators, DPD and DHL are more popular for international deliveries, while UPS and Fastway are mostly used for domestic deliveries.

Figure 35 Main operators for domestic and international deliveries – SME survey



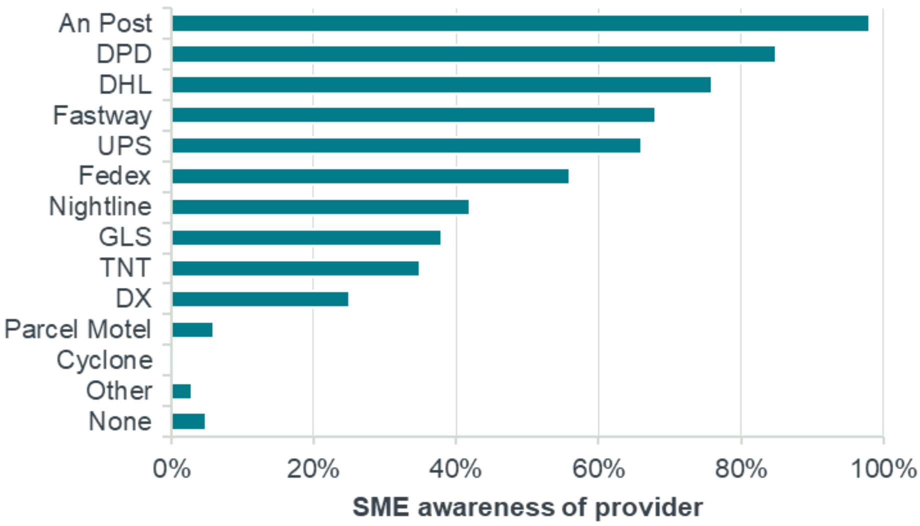
Source: *B&A SME survey*

Note: *'Which packet and parcel delivery service operators is your main operator for parcels delivered in Ireland?'* All businesses selling online domestically n=131, *'And which packet and parcel delivery service operators is your main operator for parcels for delivery abroad at the moment?'* All businesses selling online internationally n=82

Awareness of operators

SMEs display a good level of familiarity with the parcel delivery sector, as shown by the high levels of awareness of the full range of delivery operators. As can be seen from Figure 36, six operators (An Post, DPD, DHL, Fastway, UPS and Fedex) are known to more than half of the SMEs surveyed. As can be naturally expected, firms more actively engaged in online sales display higher level of awareness across the full range of operators.

Figure 36 Awareness of parcel delivery operators – SME survey



Source: *B&A SME survey*

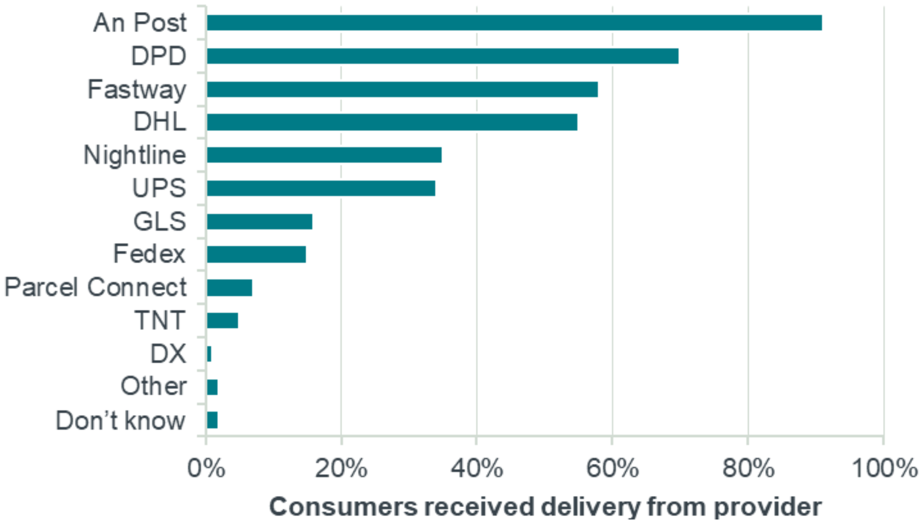
Note: ‘*What packet and parcel delivery service operators are you aware of?* And *which packet and parcel delivery service operators have you used over the past 3 years?*’ All businesses n=325

B.1 Consumers

Usage of operators - Receiving parcels

The findings from the SME survey were echoed in the consumer survey, with 91% of consumers surveyed that have received a parcel from An Post in the last three years, as shown in Figure 37. Three further operators (DPD, Fastway and DHL) were also used by more than 50% of consumers surveyed.

Figure 37 Parcel delivery operators who have delivered an online purchase in the last three years – Consumer survey



Source: *B&A Consumer survey*

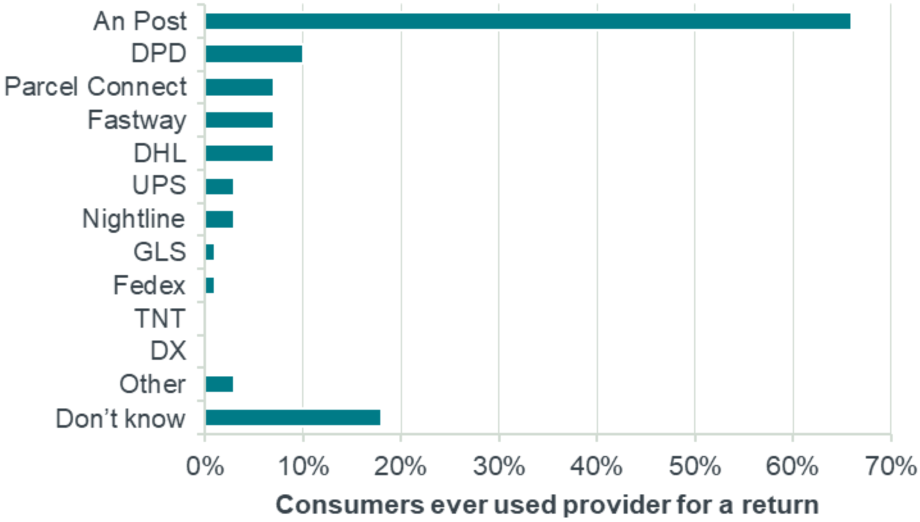
Note: ‘*Which of the following packet and parcel delivery service operators have delivered an online purchase to you in the last three years?*’ All consumers n=164

Usage of operators - Returning parcels

70% of online purchasers surveyed have returned at least one item purchased online. However, return frequency is low, with only one item being returned on average per month among consumers who have ever returned an item. The proportion falls to only 0.4 items per month when considering all online purchasers.

As Figure 38 shows, An Post is also the preferred operator when it comes to returning items purchased online. According to our consumers survey, 66% of e-commerce purchasers who have ever returned an item have done so using An Post. By contrast, only 10% of consumers stated that they have returned an item with the second most used operator DPD.

Figure 38 Usage of parcel delivery operators to return items purchased online – Consumer survey



Source: B&A Consumer survey

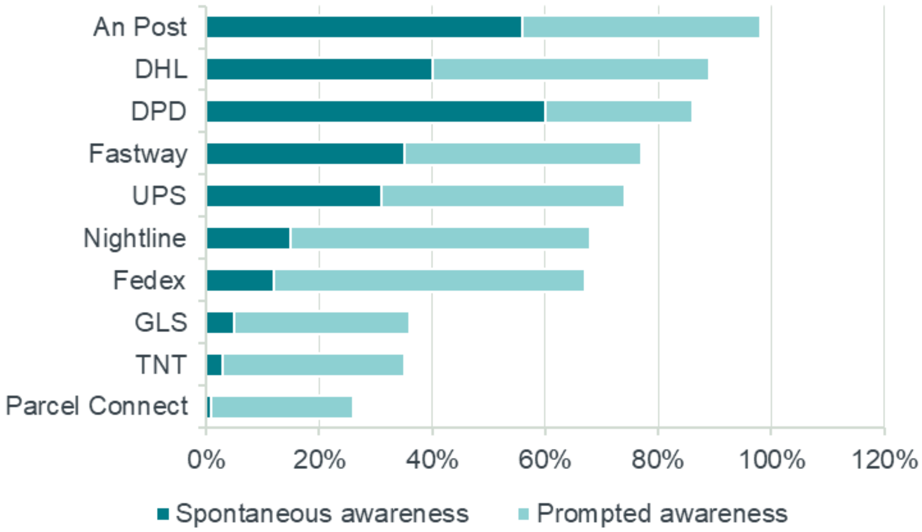
Note: '*Which of the following packet and parcel delivery service providers have you ever used to return an item purchased online?*' All consumers who have returned an item n=1141

Awareness of operators

Similar to SMEs, consumers display a good level of familiarity with the main delivery operators in the Irish sector, with seven operators that are known by more than 60% of consumers surveyed. Figure 39 shows that, based on our consumer survey, parcel delivery operators can be separated into four tiers related to consumers' brand awareness.

- The first tier comprises of An Post, DHL and DPH, each with awareness amongst consumers surveyed of over 80%. Within this group, An Post has the highest overall awareness (98%), while DPD shows the strongest spontaneous awareness (60%).
- A second tier includes Fastway and UPS, with overall awareness of 77% and 74% and spontaneous awareness of 35% and 31% respectively.
- Nightline and Fedex constitute the third tier. While prompted awareness for these operators is still high (68% and 67% respectively), spontaneous awareness drops to less than 15%.
- The fourth tier contains TNT, GLS and Parcel Connect. Between 26% and 36% of consumers recognise these brands but less than 5% are able to name them spontaneously.

Figure 39 Spontaneous and prompted awareness of parcel delivery operators – Consumer survey



Source: B&A Consumer survey

Note: ‘*What packet and parcel delivery service operators that deliver online purchases are you aware of? TOTAL*’ All consumers n=1648

Awareness of the parcel delivery operators is high also at the time of purchases, with 75% of consumers surveyed claiming to always or sometimes know which operator will be delivering the item.

ANNEX C B&A COMBINED QUALITATIVE AND QUANTITATIVE RESEARCH REPORT – OPERATORS AND USERS

B&A research report - 'Study into e-commerce parcel delivery in Ireland – Users and parcel delivery operators research report'

Published by ComReg as Document No. 21/59c

ANNEX D B&A QUANTITATIVE RESEARCH REPORT – CONSUMERS

B&A research report - 'Study into e-commerce parcel delivery in Ireland – Consumers research report'

Published by ComReg as Document No. 21/59d www.frontier-economics.com