

E-Commerce in Europe: Lessons for parcel delivery from electronic communications

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Cross-border parcel delivery prices

Intuitions drawn from telecommunications

- Setting the stage
 - The opportunity, the threat
 - Roaming prior to regulation in 2007
- Are retail prices for cross-border parcel delivery problematic?
- The relationship of wholesale price to retail price
- Going forward

Cross-border e-commerce: an opportunity for Europe

- Online purchases are growing rapidly within the European Union, generating benefits for the broader European society.
- “e-Commerce [sale of goods] is growing rapidly in the EU at an average annual growth rate of 22 percent, surpassing €200 billion in 2014 and reaching a share of 7 percent of total retail sales.”
- “15 percent of SMEs sell online compared with 35 percent of large enterprises; 7 percent of SMEs sell across borders compared with 21 percent of large enterprises.”
- Parcel delivery plays a key role in this e-commerce – of the €477 billion in e-commerce purchases in Europe in 2015, 47 percent was purchase of services.

Sources: various, consult the paper

Long-standing concerns over the high price of cross-border parcel delivery

- Large shippers are aware of and able to exploit multiple parcel delivery channels, including self-provision.
- Small shippers lack know-how, scale and bargaining power.
- Express services function in a different market from basic delivery services, and are probably competitive (large, vertically integrated providers).
- Concerns therefore focus on:
 - Cross-border basic services (not express);
 - Especially in their impact on consumers and small shippers;
 - Especially their impact in lower density (e.g. rural) areas.
- The DSM strategy seeks to lower these prices.
- Concerns were already visible in the 1987 Green Paper.

What impacts if prices are too high?

- For B2C shipments, if the price of cross-border shipment is inflated, this price will ultimately paid by the consumer one way or another and is likely to depress demand. Purchases that might have been made but were not because of over-pricing represent a welfare loss to European society.
 - Consumers may look only on domestic websites instead of checking websites in other member states because they (rightly or wrongly) fear high delivery charges.
 - Analogously, small shippers might decline to offer services in other member states because they lack the knowledge or scale needed to offer services there.
 - In both cases, potential *gains in trade* are foregone if a better or less expensive product that could have been purchased is not in fact purchased.
- European competitiveness is lost relative to the EU's global competitors.
- With Europe in a “catch up” game for B2C e-commerce, European SMEs seeking to achieve market entry in the face of competition from global giants should not be needlessly hobbled by Europe's own postal pricing arrangements.
- Shippers are obliged to warehouse goods at more locations than would have been necessary if prices were more reflective of underlying costs.

Roaming prior to 2007

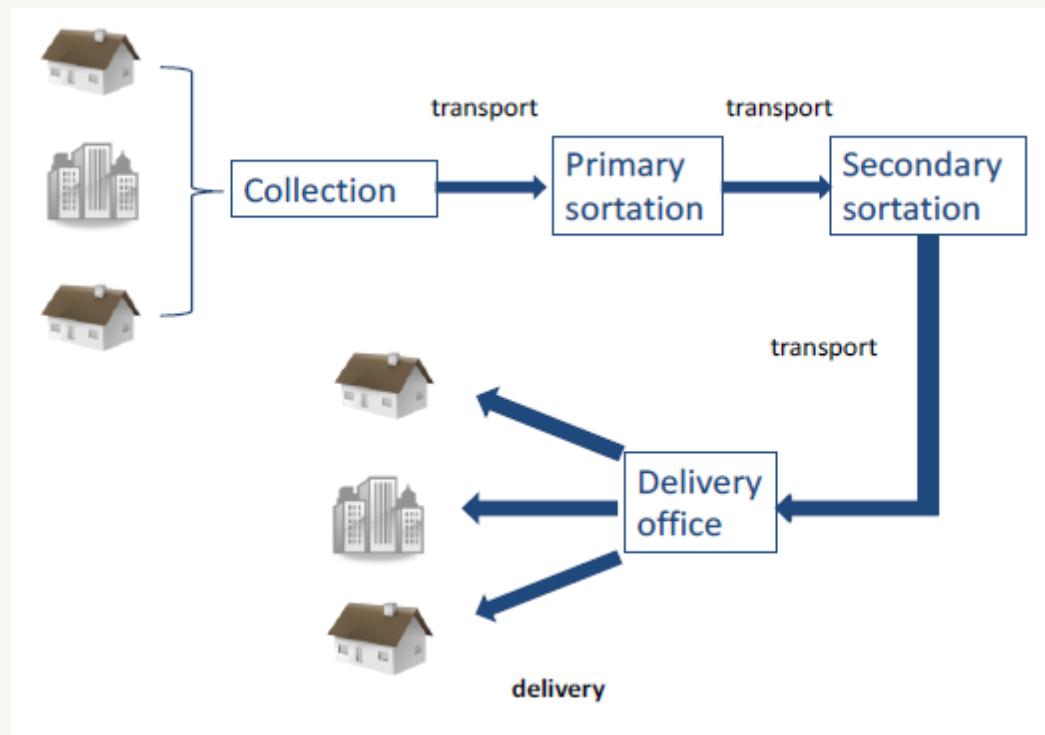
- Because of the cross-border nature of the service, and the fact that it is offered in two different countries, prices lacked transparency and tended to be high.
- Prices for roaming were inflated despite the fact that domestic mobile markets enjoyed effective competition.
- The linkage between wholesale and retail prices was crucial in understanding any price distortions, and also in understanding the likely impact of any regulatory intervention.
- Prior to regulation, hardly anything was publicly known about wholesale prices.
- National regulatory authorities were limited both in their ability and in their level of interest in addressing the problem.



ARE RETAIL PRICES FOR CROSS-BORDER PARCEL DELIVERY PROBLEMATIC?

Steps in domestic delivery

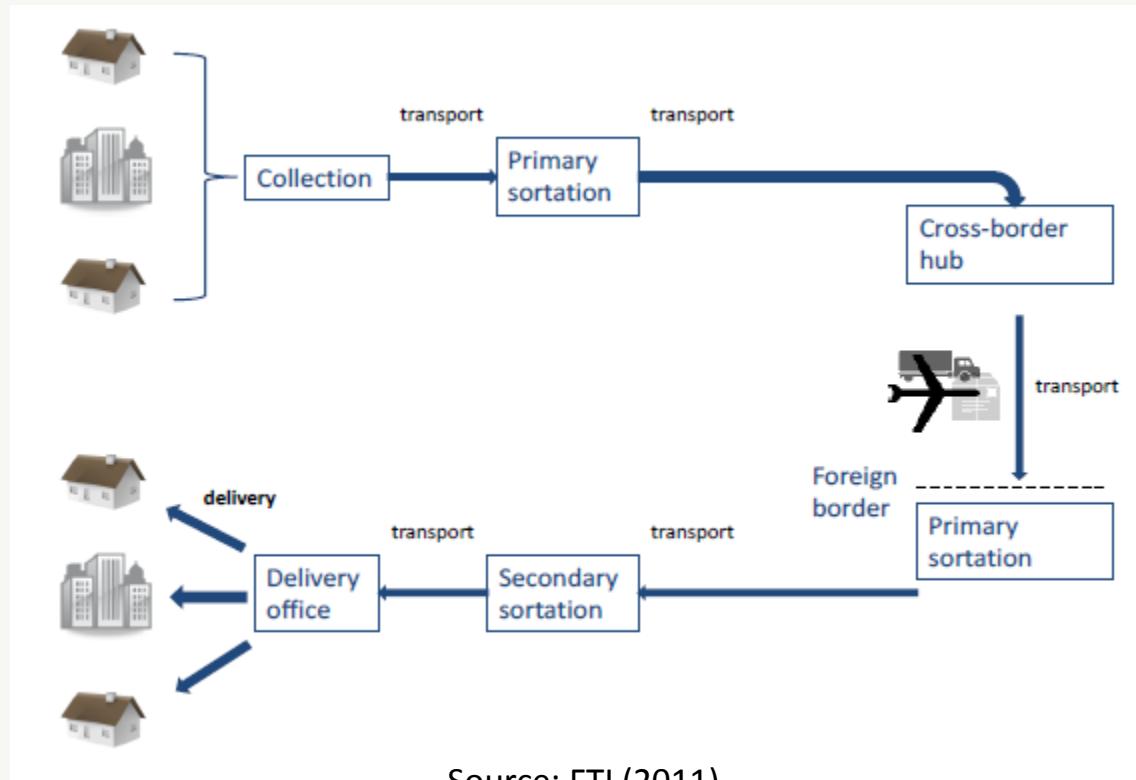
- Domestic delivery is straightforward.
- Competition for collection is easier than for delivery.



Source: FTI (2011)

Steps in cross-border delivery

- Cross-border delivery entails more transport and sortation steps than domestic delivery.
- Adaptation to the receiving postal system is needed.



Are high prices for cross-border delivery perceived as a problem?

- Firms conducting e-commerce on a cross-border basis (or that did so in the past):
 - Costs are too high: 51%
 - This is a major problem: 27%
 - Firms that did not sell online to other EU countries but were trying to at the time of the survey:
 - Costs are too high: 62%
 - This is a major problem: 41%
 - Firms that did not sell online to other EU countries:
 - Costs are too high: 57%
- For all three groups, *high delivery costs were perceived as the most serious single barrier to cross-border e-commerce.*

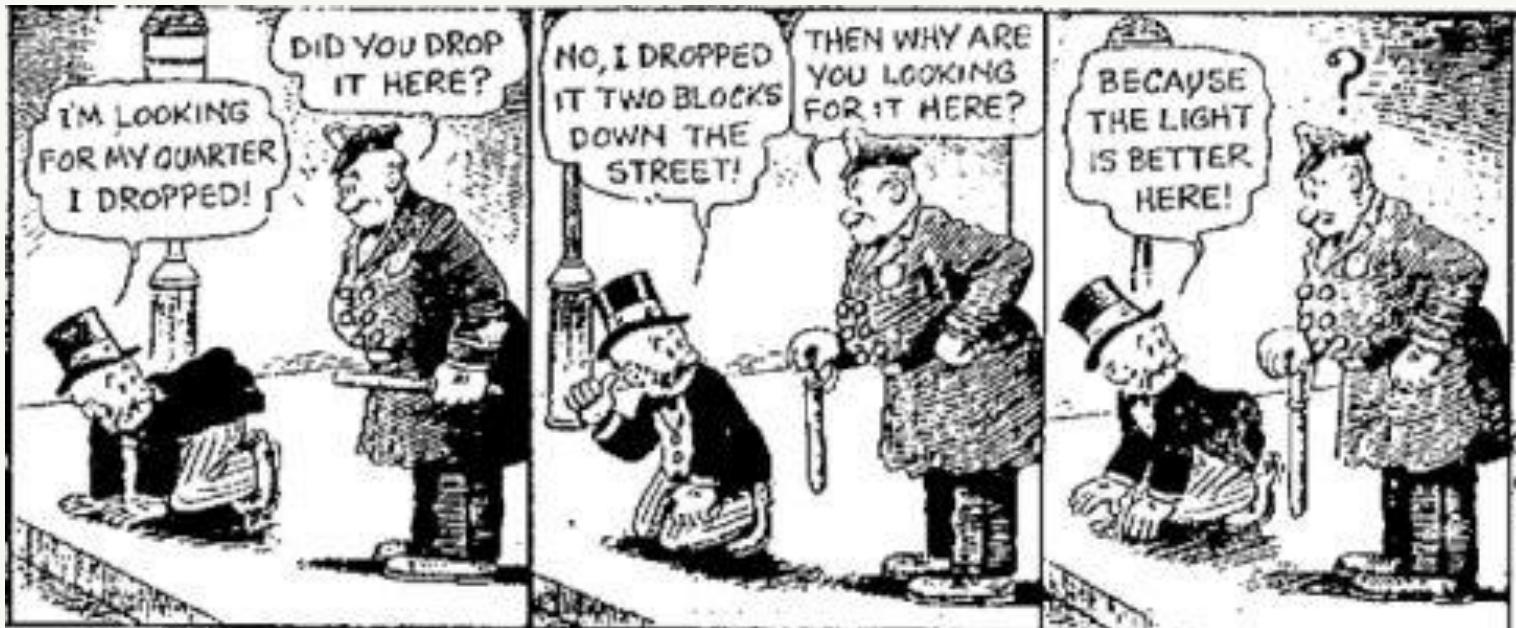
Are high prices for cross-border delivery perceived as a problem?

- “More than half of those [retailers] responding to the question stated that they did not receive any price discounts from delivery operators for the packets or parcels they sent to other European countries.
- Responses differed according to company size with micro businesses less likely to receive discounts (over two thirds responding stated they did not receive discounts) whereas almost all larger companies did receive discounts ...”
- “Problems that were ‘often’ encountered [by consumers] included ‘no free delivery option’ (over half of respondents), ‘high delivery prices’ (just under half); cost of delivery (over one third); and ...”

Source: European Commission (2015), “Summary of Responses to the European Commission’s 2015 Public Consultation on Cross-border Parcel Delivery”

Little is known about cash flows

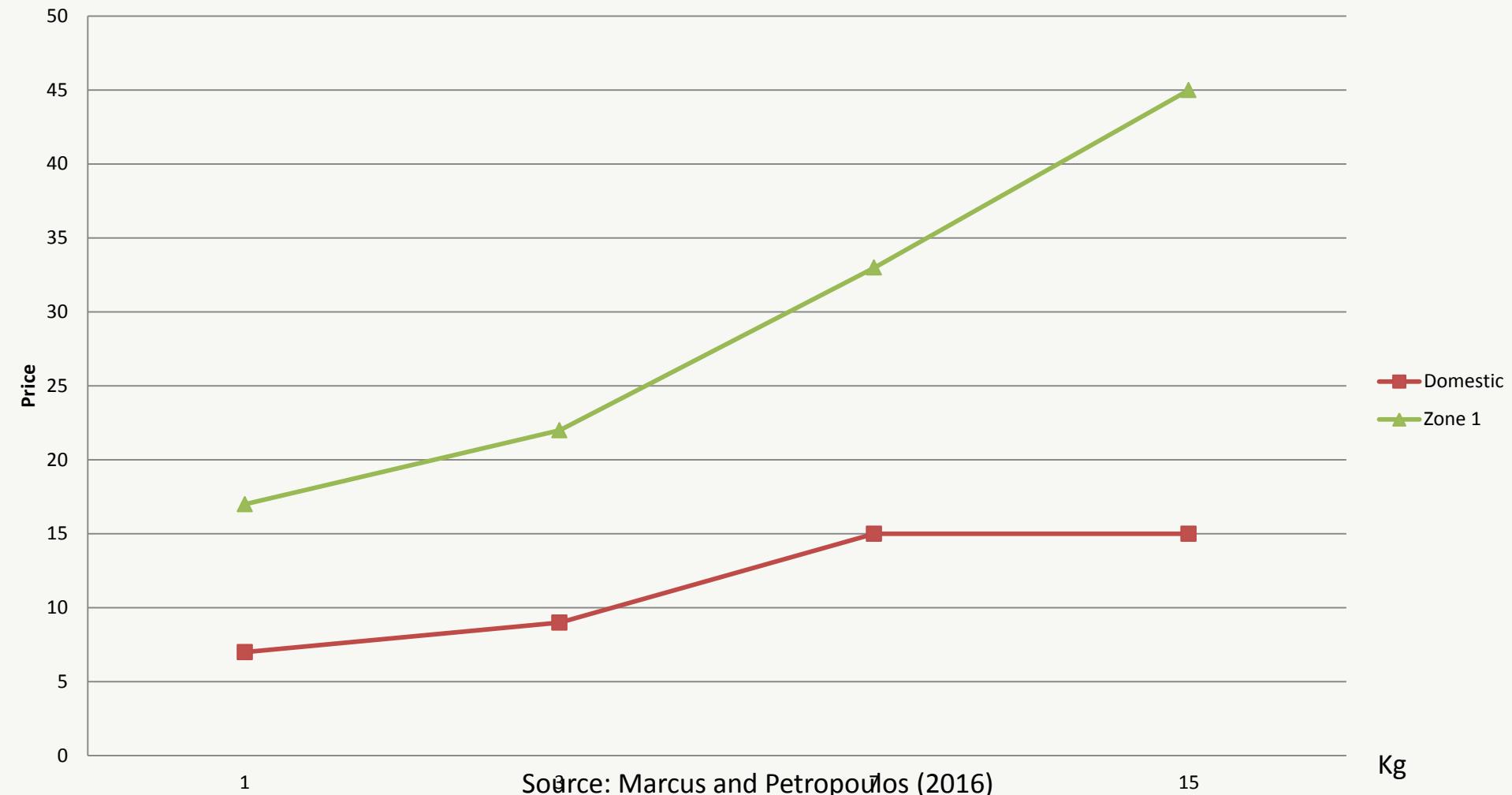
- NPOs' published prices for parcels shipped for individual consumers are the only real data available.
- Hardly anything else is known about the magnitude of any of these payments.



From "Mutt and Jeff" (1942)

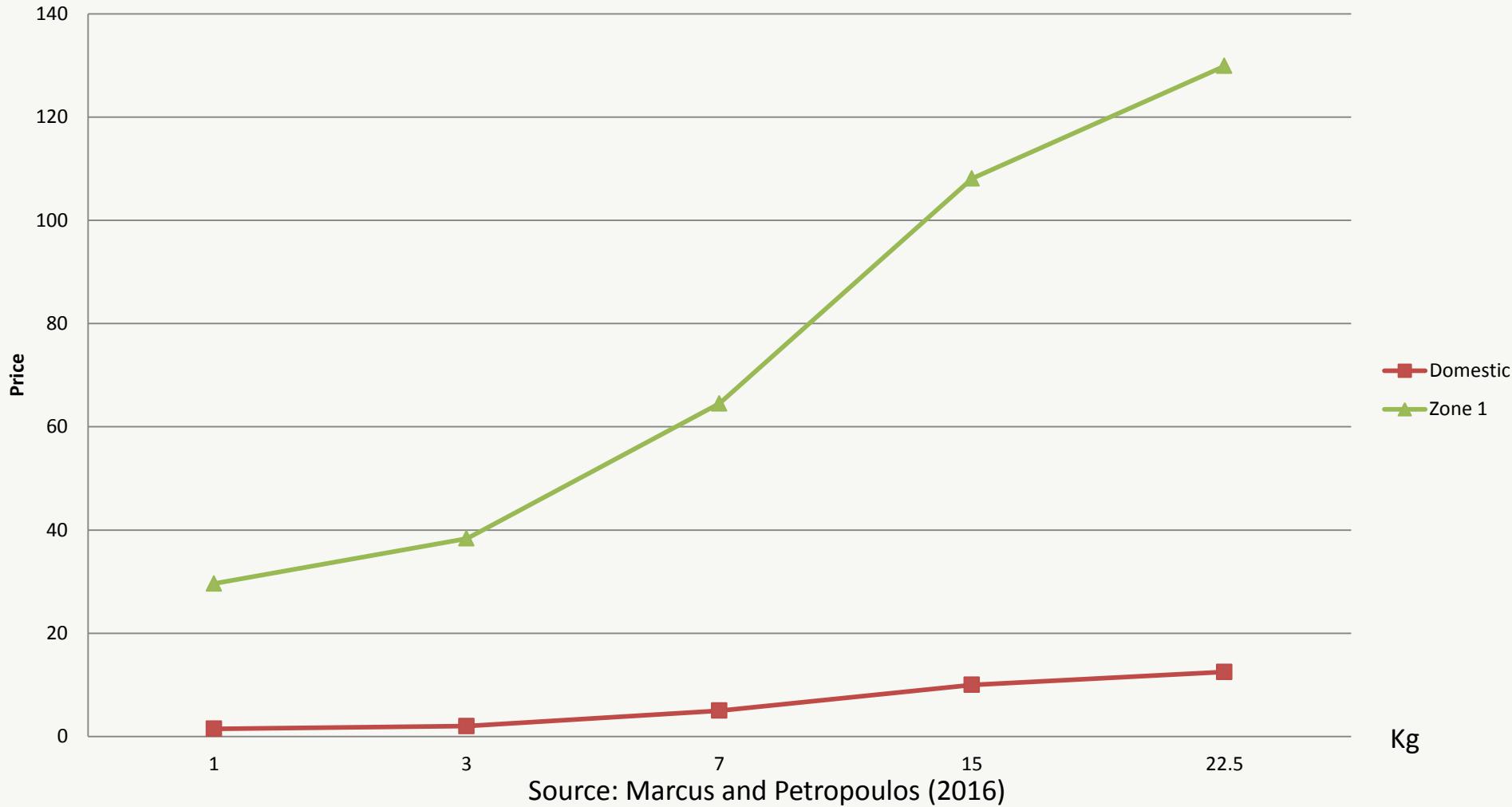
Are prices for cross-border parcel delivery distorted?

Germany: Price per kg



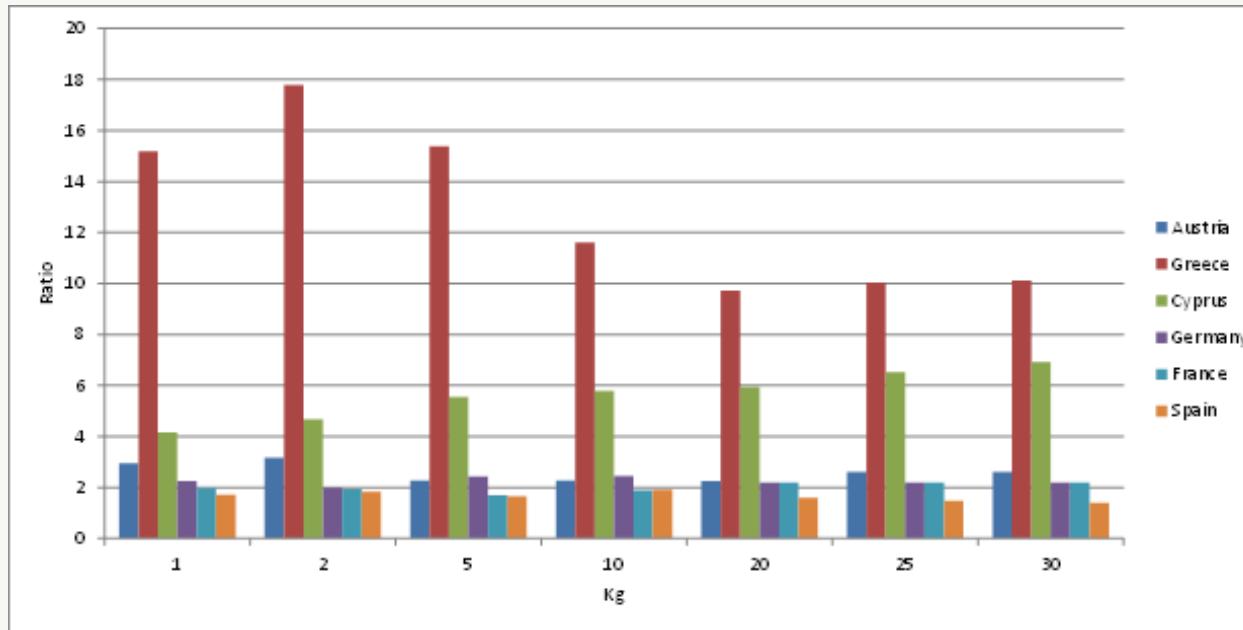
Are prices for cross-border parcel delivery distorted?

Greece: Price per kg



Are prices for cross-border parcel delivery distorted?

Ratio of NPO European cross-border parcel delivery prices to equivalent domestic prices in selected Member States (by Kg)



Source: Marcus and Petropoulos (2016)

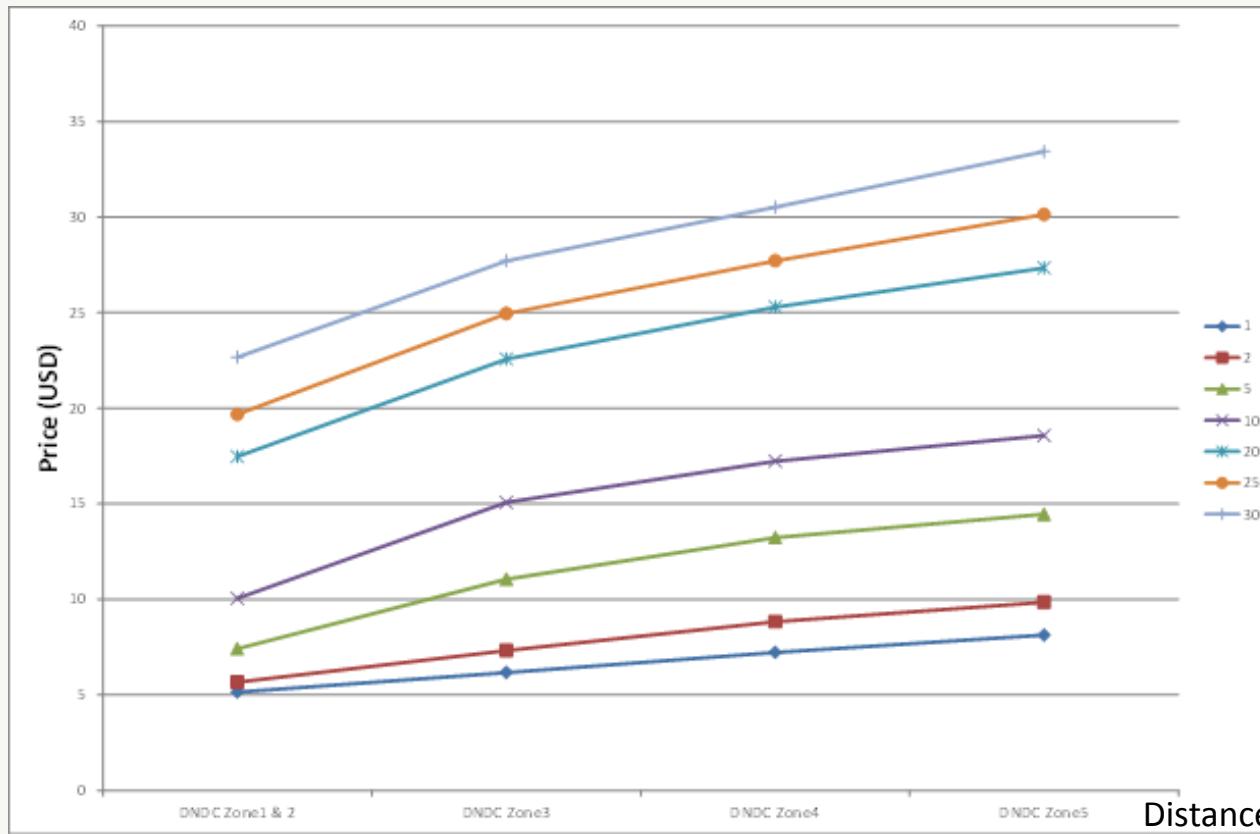
“On average, cross-border prices are 324 percent higher than their domestic counterpart for letters and 471 percent higher for parcels.”

Source: Claes and Vergote (2016), “Econometric study on parcel list prices”

Are prices for cross-border parcel delivery distorted?

- Retail prices in the US show only a gradual increase with distance, suggesting that transportation costs cannot be very great.

US Postal Service price (in USD) for domestic parcel delivery to zones 1 (closest) to 5 (furthest), by weight (Kg)



Source: Marcus and Petropoulos (2016)

RELATIONSHIP OF WHOLESALE PRICE TO RETAIL PRICE

Roaming price relationships

- Prior to the Roaming Regulation of 2007:
 - wholesale charges were greatly in excess of real wholesale costs;
 - these wholesale charges effectively set a floor for the retail price; and
 - mark-ups over the wholesale charge have tended to be in the range of 30%, both before and after regulation.

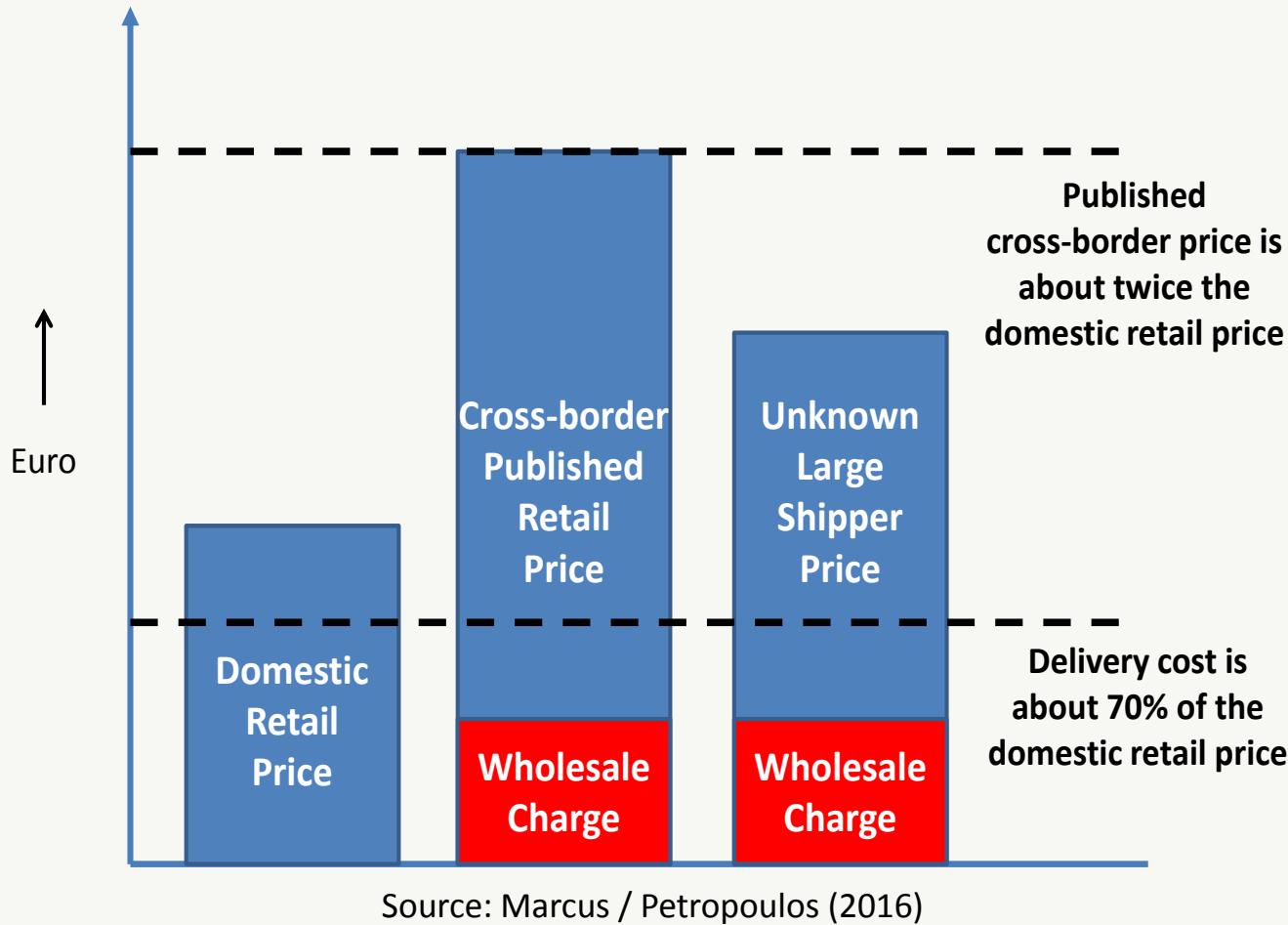


Source: Marcus and Petropoulos (2016)

Postal price relationships

- The limited literature on postal Terminal Dues (TDs) and Inward Land Rates (ILRs) suggests that *these rates are not too high in comparison with costs, but if anything are substantially too low.*
- One might expect the economic drivers to be the same for postal services as for telecommunications – why should the economic outcomes be opposite?
- The answer is probably linked to structural differences between the telecommunications marketplace and the postal marketplace.
- In the telecommunications environment, the wholesale charges are offered not only to commercial allies, but also to direct competitors.

Implications for wholesal/retail spread





GOING FORWARD

A key difference versus roaming

- For roaming, where high pricing was largely the result of high wholesale prices between the Mobile Network Operators (MNOs), regulatory price caps on both wholesale and retail prices proved to be effective.
- For cross-border parcel delivery, the problem lies not with the absolute level of wholesale charges, but rather with the very large “spread” between the retail price charged to individuals and micro-enterprises versus the low level of Terminal Dues wholesale payments
- If the diagnosis is different than with roaming, the cure is also likely to be different.

Possible ways to reduce the “spread”

- If a direct regulatory intervention were to be deemed necessary at some point in time, three basic policy approaches suggest themselves:
 - Increase the transparency of pricing.
 - Make the Terminal Dues wholesale price arrangements available for the first time to delivery services other than National Postal Operators.
 - Implement wholesale and retail price controls as with roaming.
- *If Terminal Dues arrangements were opened to competitors without a simultaneous corresponding adjustment to the (currently below nominal cost) Terminal Dues rates, however, it would likely lead to quite massive arbitrage.* Competitors might be able to offer service on the National Postal Operator's net at prices below those of the National Postal Operator.
- The apparent systematic under-pricing of wholesale Terminal Dues would need to be addressed at the same time.

What should not be done

- Merely inviting national regulatory authorities to individually regulate would be ineffective for the same reasons for which telecoms NRAs could not individually regulate international mobile roaming.
 - Lack of necessary data for both the sending and the receiving country.
 - Lack of empowerment in the receiving country.
 - Inconsistent incentives and insufficient independence for the postal regulators themselves.
- These cross-border parcel delivery problems are European problems that call for European solutions.

An appropriate next step

- The Member States should be not only *empowered*, but also *required*, to collect data, not only on retail arrangements, but also on wholesale arrangements.
- An authority other than the national postal regulatory authorities, presumably the Commission, should
 - Oversee the development of consistent standards in order to ensure that the data reported is likely to actually convey useful information about wholesale and retail arrangements between the National Postal Operators.
 - Centrally gather the data, analyse it, and provide detailed reports for regulators and appropriately summarised reports for the public.