



Parcel delivery industry outlook:
Reviving the business model towards profitable growth

Introduction

Solving the parcel paradox

- Parcel carriers are dealing with **big industry shifts**, such as new **customer demands** and **increasing costs of doing business**
- Industry incumbents face **declining post-COVID-19 volumes** while **investments in capacity** continue, leading to **overcapacity**
- The entry of **new players** is **disrupting the playing field**, resulting in parcel carriers witnessing **volume, market-share and profitability declines**
- Restoring profitability requires addressing the **different configurations of core logistics capabilities** and **innovation and digital capabilities** between incumbents and disruptors
- To do this, parcel carriers need to navigate the **dilemma** of playing to their **current strengths** while **adding innovation and digital capabilities**, within the **limited means** that are available
- **Clearer choices** on where and how to best use their **networks** and focus their **activities** will help incumbents define strategic options
- Deciding which strategic option is the **best fit** for your organisation requires an **answer to key questions** and making clear choices in answering these



Industry context

Impact on parcel carriers

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Industry shifts

Parcel carriers are dealing with big industry shifts, increasing the cost of doing business and new customer demands



Responding to omnichannel consumer expectation

The growth of e-commerce increases the demand for **faster and more reliable delivery services**, often with next-day or even same-day delivery options to increase convenience and provide a **smoother shopping experience**

16%

e-commerce as % of retail sales, in Western Europe 2021¹



Needing to build resilient supply chains

To deal with increasingly frequent **supply-chain disruptions**, companies need to build **more flexible and agile** supply chains that can **function within broader end-to-end supply networks**

59%

Surveyed believe shipping delay to be a high-impact disruption²



Dealing with rising customer experience expectations

Business customers and consumers alike are **expecting more** from parcel carriers, with increased demand for **personalisation, convenience, clear and timely communication and reliability**

65%

Online baskets abandoned if delivery timeframe is too slow or too expensive³



Meeting increasing demands for sustainability

Consumers demand that parcel carriers **minimise their negative environmental and social impact**, as one of the largest contributors to the issue, to **safeguard a habitable world** for future generations

54%

Consumers that expect stores to offer green delivery options in 2023⁴



Navigating growing labour shortages

Global labour shortages and the 'Great Resignation' also impact parcel carriers, resulting in **many unfilled driver and operational positions, limiting the growth** of parcel carriers

14%

Unfilled delivery-driver positions in Europe⁵



Coping with rising inflation

Increasing labour costs, fuel prices and equipment costs require parcel carriers to deal with increasing cost levels, which can only be **partially offset by price increases**

11%

Inflation, measured through EU harmonised consumer price index⁶

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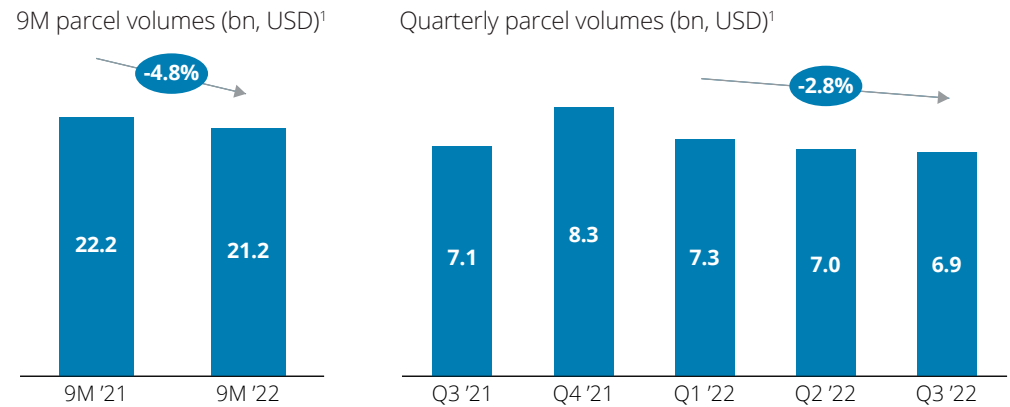
Source: 1) Morgan Stanley, 'Here's why e-commerce growth can stay stronger for longer'; 2) Deloitte Insights Meeting the challenge of supply chain disruption; 3) DHL insights on consumer expectations for e-commerce; 4) Sendcloud research on customer delivery expectations in 2023; 5) IRU Driver Shortage Global Report 2022; 6) European Central Bank, 'Measuring inflation - Harmonised Index of Consumer Prices'

Volumes and investments

Declining post-COVID-19 volumes, combined with continued investments in capacity, is leading to overcapacity




Major industry trends

Declining post-COVID-19 volumes



- After years of growth, **parcel volumes** are generally **decreasing** across Europe and the US, coming down from their pandemic highs
- **Macroeconomic uncertainty, inflationary pressures** and **market normalisation** after COVID-19 are all expected to impact the parcel volume growth going forward

Continued investments in capacity

 <p>€1B⁵ ('22-'24)</p> <p>Network and capacity investments include infrastructure, increased capacity, and APLs</p>	 <p>€4.1B⁶ ('21-'22)</p> <p>Network and capacity investments focus mostly on continued expansion, mainly regarding mail and parcel centres, conveyor and sorting systems, Packstations and real estate</p>	 <p>€500M⁷ ('21-'25)</p> <p>Distribution network is improved via modernisation in its network and broadening the geographic footprint with expansion of service points</p>
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- Incumbents continue to direct the **majority of investments towards their networks, focused on expansion and capacity**, despite facing strong competition on different frontiers
- Only a relatively **small portion of their capacity is diverted towards other initiatives** (e.g., digital), but with much lower investments, e.g., €80M investment by PostNL in digital transformation























Investments in network and capacity, in combination with declining volumes and market shares, **lead to overcapacity**

Note: 1) Based on companies with 2022 financial releases across Europe, US and Asia
 Source: 1) Company reports, S&P Capital IQ; 5) PostNL 2021 annual report; 6) Deutsche Post DHL Group 2021 and 2022 annual reports; 7) La Poste 2021 and 2022 annual reports

Disruptors

New players are entering the industry and are disrupting parcel carriers' traditional playing field

Value chain position of incumbents and new players

Archetypes	Archetypes	Example players	Order	Aggregate	Sort	Transport	Last-mile	Return
Parcel carriers ¹	Transport goods and packages efficiently and reliably, offering a range of delivery services to individuals, businesses and e-commerce platforms	    						
E-commerce marketplaces	Facilitate the exchange of goods and services through digital (retail) platforms , and offer order management, fulfillment, and delivery services	   						
Last-mile focus players	Ensure efficient and timely doorstep delivery , leveraging technology, optimised routes, and innovative methods to enhance customer convenience	   						
Integrator platforms	Aggregate volumes from various stakeholders, providing a centralised platform for managing logistics operations , coordinating and optimising supply chains	   						
Ecosystem conglomerates ²	Create ecosystems that integrate logistics, e-commerce, food delivery, etc , providing end-to-end solutions , fostering collaboration among ecosystem participants	 						
Payment data handlers	Manage, process and derive insights from large volumes of data , employing technologies and analytics to make informed decisions and optimise operations	  						

Current business
 Future business

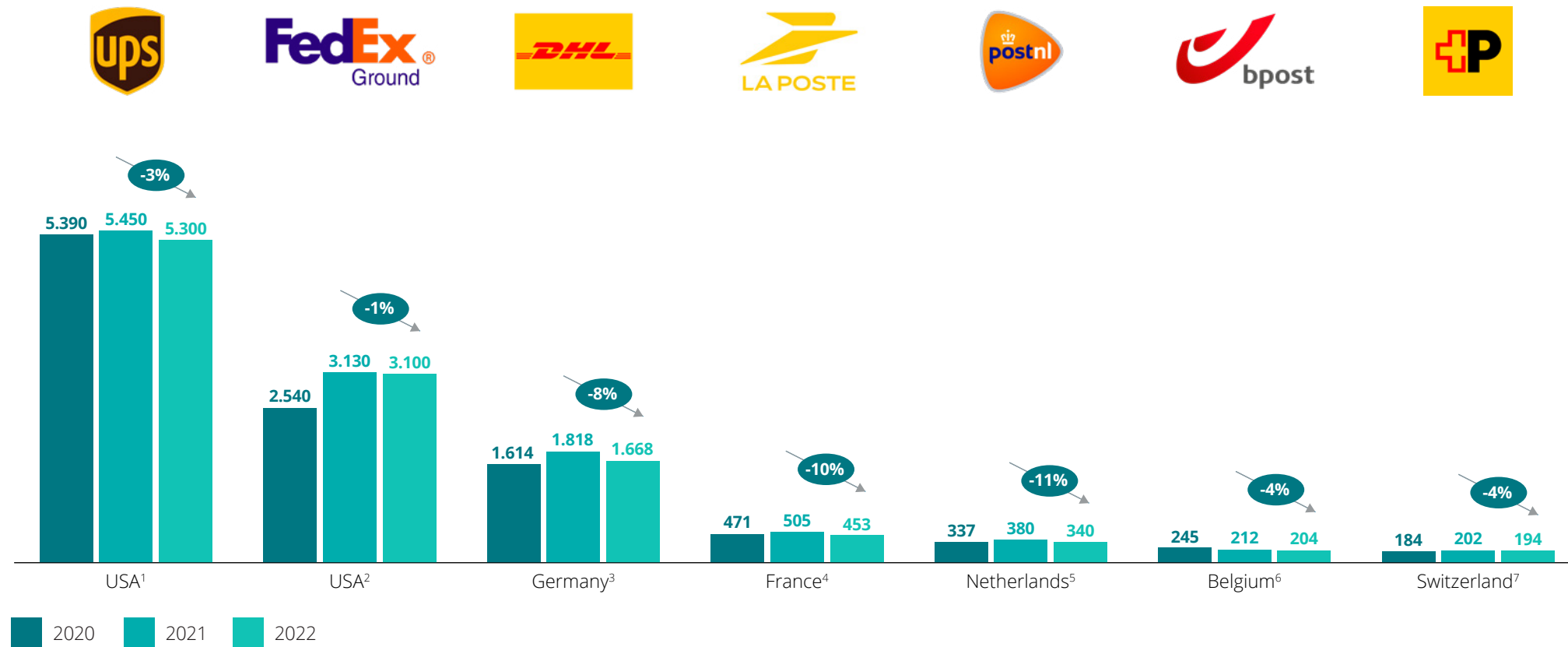
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Parcel-carrier volumes

Parcel carriers have experienced post-pandemic volume declines across the board, reversing the trend of volume increases up to 2021

Parcel volume (M, 2020-2022) and year-on-year change (% , 2021-2022)

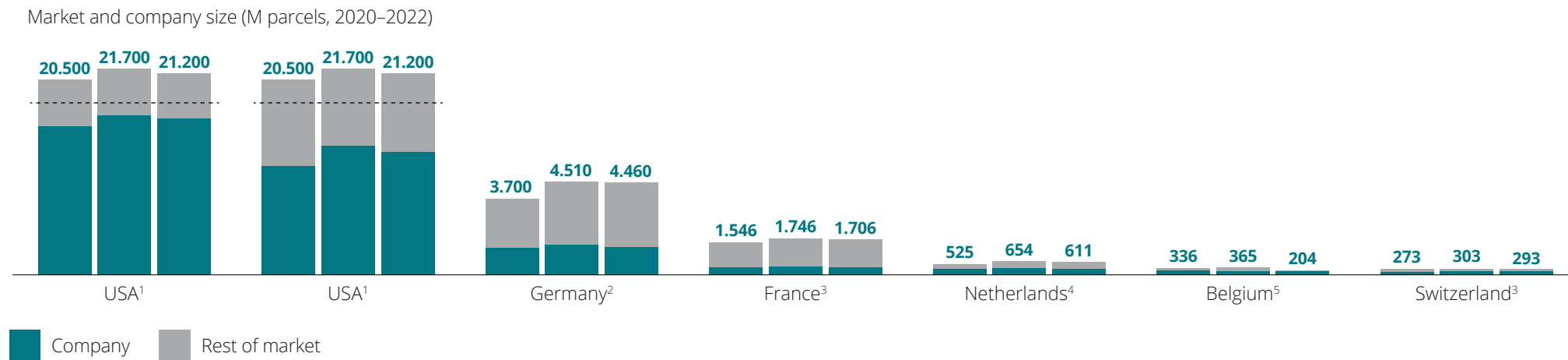
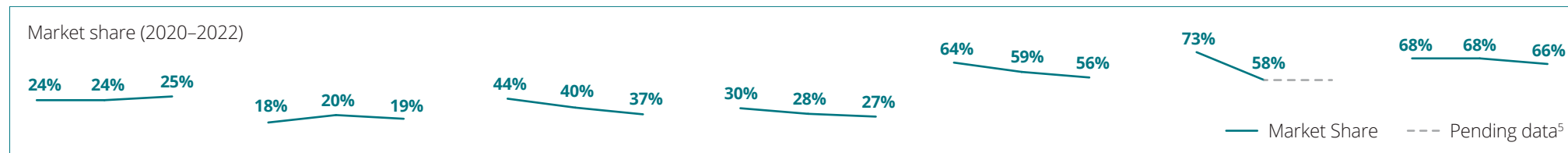


Source: Company annual reports; Note: 1) UPS US Domestic Package segment; 2) FedEx Ground, active in US and Canada; 3) Post & Parcel Germany division of Deutsche Post DHL Group; 4) Services-Mail-Parcels segment as part of La Poste Groupe; 5) PostNL Parcels; 6) Business unit Belgium, active in Belgium and the Netherlands; 7) Logistics Services segment within Swiss Post Group

Market share development

The market circumstances and advances by disruptors are putting pressure on parcel carrier market shares

Market share and size development

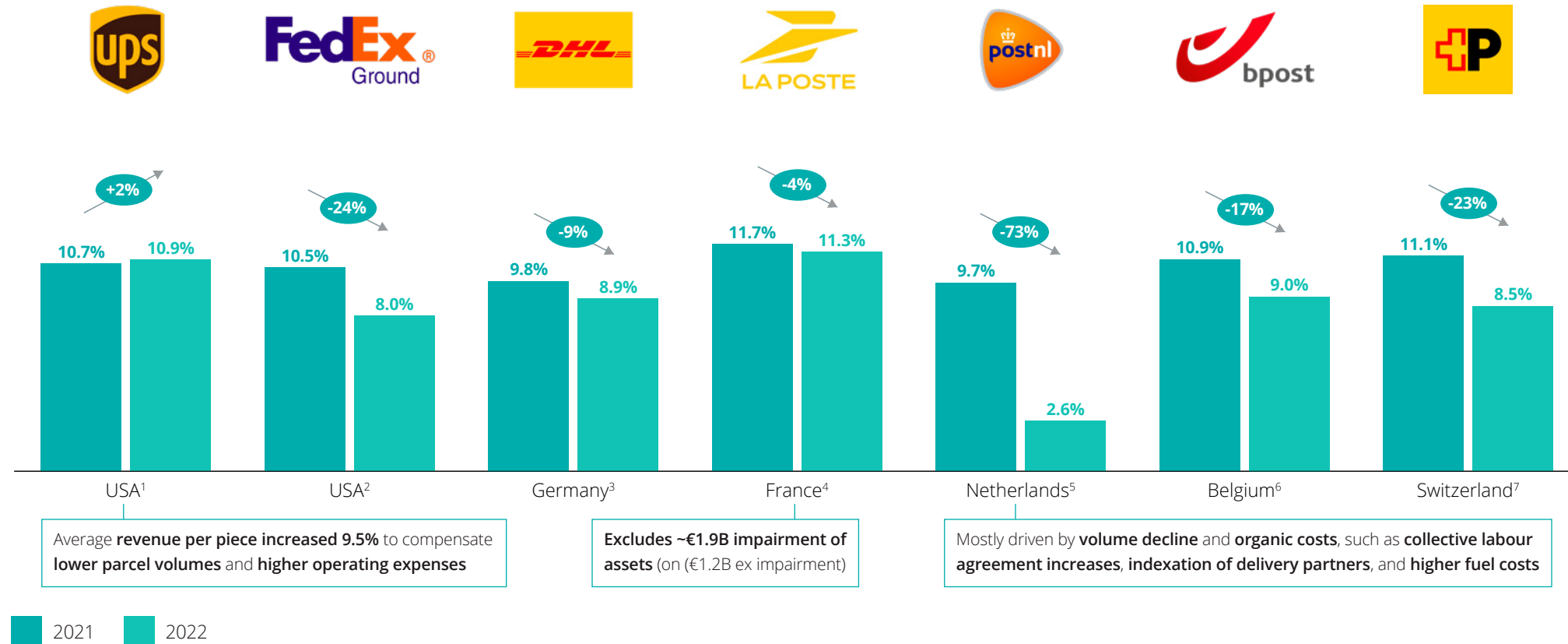


Source: 1) Pitney Bowes Parcel Shipping Index 2022 and 2023; this data set looks at UPS and FedEx in the US and does not mention specific company business units; numbers therefore vary with information presented on other slides; 2) Bundesnetzagentur with 2022 as a forecast; 3) Effigy Consulting country market parcel volumes; 4) ACM market report 2022; 5) bipt – 2022 numbers not yet available from regulator

Parcel-carrier operating margin

Profitability for parcel carriers is declining due to competitive pressures, market developments and the expansion of their networks in times of contracting volumes

Operating margins, incumbents (% YoY, 2021-2022)



Industry context

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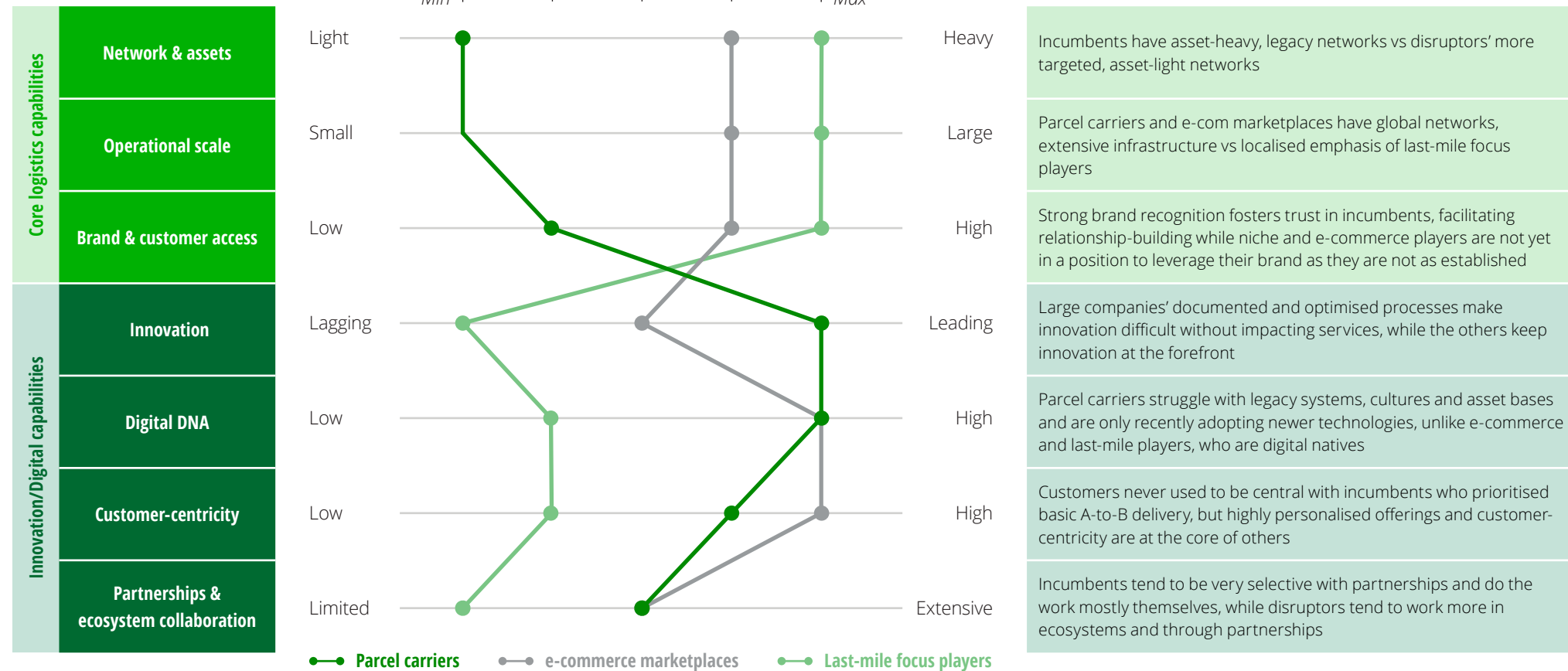
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Source: Company annual reports; Note: 1) UPS US Domestic Package segment; 2) FedEx Ground, active in US and Canada; 3) Group-wide EBIT margin of Deutsche Post DHL Group; 4) Services-Mail-Parcels segment as part of La Poste Groupe, excluding impairments, calculated as operating profit divided by operating revenue; 5) PostNL Parcels; 6) Business unit Belgium, active in Belgium and the Netherlands; 7) Logistics Services segment within Swiss Post Group

Key capabilities

The different configurations of core logistics capabilities with innovation and digital capabilities between incumbents and disruptors explains the challenges faced by incumbents

Relative positioning of key capabilities across players - INDICATIVE



Incumbents have asset-heavy, legacy networks vs disruptors' more targeted, asset-light networks

Parcel carriers and e-com marketplaces have global networks, extensive infrastructure vs localised emphasis of last-mile focus players

Strong brand recognition fosters trust in incumbents, facilitating relationship-building while niche and e-commerce players are not yet in a position to leverage their brand as they are not as established

Large companies' documented and optimised processes make innovation difficult without impacting services, while the others keep innovation at the forefront

Parcel carriers struggle with legacy systems, cultures and asset bases and are only recently adopting newer technologies, unlike e-commerce and last-mile players, who are digital natives

Customers never used to be central with incumbents who prioritised basic A-to-B delivery, but highly personalised offerings and customer-centricity are at the core of others

Incumbents tend to be very selective with partnerships and do the work mostly themselves, while disruptors tend to work more in ecosystems and through partnerships

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Parcel carriers' dilemma

Parcel carriers need to navigate the dilemma of playing to their current strengths while adding innovation and digital capabilities, within the limited means that are available

Parcel carriers' dilemma

Defending the core

Parcel players leverage strengths of their **existing network, customer base** and **brand** to remain competitive

- Incumbents can leverage their **core strengths** and **play the commodity game**, as this is currently their main advantage
- Their **existing networks** offer **unsurpassed coverage** and a **variety of service options**, but capitalising on **economies of scale** and **operational efficiencies** to maintain them is costly and time intensive
- However, merely **focusing on cost competitiveness** will result in **losing against competitors** who are focused on owning **customer relations**, as incumbents are **pushed out** by these disruptors and their innovation and digital capabilities

Strengthening innovation/digital capabilities

Parcel players need to **add new capabilities** to **bridge the gap** with disruptors, given the **constraints** imposed by legacy strengths

- Disruptors are winning on **innovation and digital capabilities**, thereby **winning in parts of the value chain** and taking ownership of customer relations
- Incumbents' organisations are not geared towards these capabilities and thus require **significant effort** and **targeted investments** to build these key capabilities
- Given the huge effort required and the existing lag, incumbents would **struggle to become leaders** in this field – they can be **fast followers**, at best
- Bolstering these capabilities necessitates **clear choices** on which ones to focus on, and **collaboration with partners/ecosystem** to make the changes quickly enough



How to make choices that **balance the tension?**

Strategic choices

Incumbents need to make clearer strategic choices on where and how to best use their network

Strategic choices to be made

1

Core logistics capabilities

Choices concerning fundamental competencies essential in the logistics industry, such as transportation, sorting, delivery and returns



Commodity play

- Excel in core services by maximising efficiency and minimising cost, aiming for efficient and widespread distribution
- Have a comprehensive presence throughout the entire value chain, from collection to final delivery



Focus play

- Specialise and excel in specific parts of the value chain, such as last-mile delivery, warehousing or rural area logistics, etc
- Dominate these specific aspects by leveraging partnerships or outsourcing for other segments

2

Innovation/Digital capabilities

Choices concerning auxiliary competencies that would help provide and defend a competitive advantage



Digital operations

- Invest in digital tools to improve operational efficiency, like route optimisation, GPS-enabled real-time tracking systems, automated sorting or inventory management



Customer connection

- Offer enhanced customer experience through investments in customer service, real-time automated notifications or AI-powered chatbots, or through flexible options, like same-day delivery, more extensive coverage of delivery points



New business model

- Simultaneously build new business models alongside the core business, like subscription-based delivery services, platform ecosystems, and value-added services leveraging data collected through core logistics activities

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Defining options

These strategic choices can be configured into several options, based on the capabilities incumbents want to focus on

Strategic options



Core Commodity

Low cost, standardised logistics services

- Aim for a true low-cost play, leveraging existing assets and scale while introducing digital tools to drive the highest possible network utilisation and drive efficiency
- Allows for sole focus on cost optimisation and operational efficiency through digital solutions



Value chain specialisation

Specialised solutions for one area in the value chain, focused on owning customer relations in that area

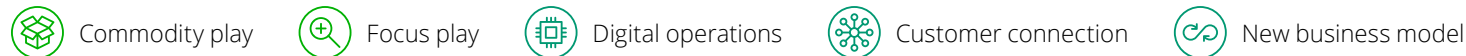
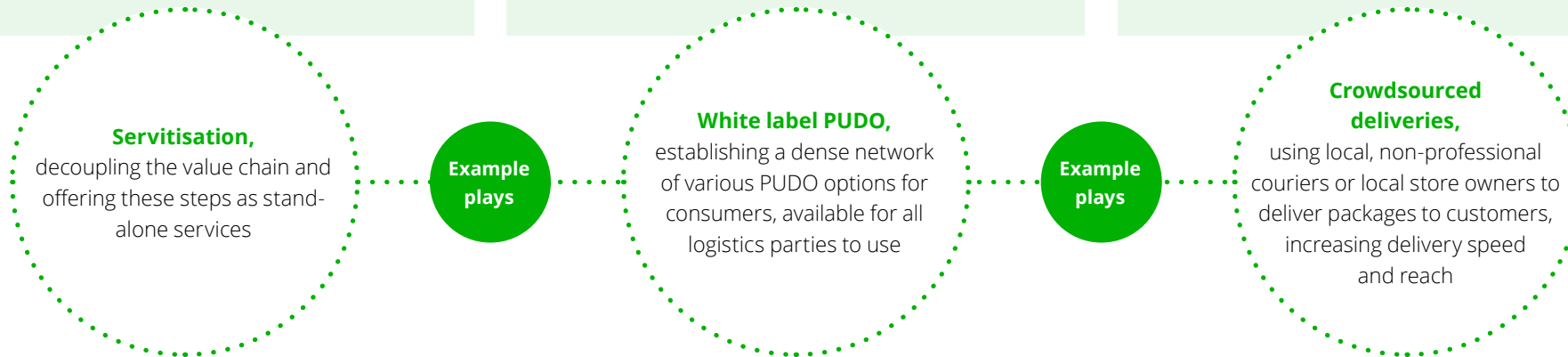
- Develop further expertise in either a specific step of the value chain, or pivot the value chain to a specific service
- Emphasis is on expertise and scale in a specific step and ensuring a dominant position within that step



New revenue models

Superior service with a customer-centric mindset

- Develop new revenue models expanding services beyond the traditional playing field of parcel players, moving towards being a trusted partner with niche value-added services
- Requires a customer-centric mindset and setup, prioritising customers over efficiency



Determining the correct route

Deciding which strategic option is the best fit for your organisation requires answering key questions and making clear choices in answering these

Key questions

Core logistics capabilities

Network and assets

Where do we currently have a **strong network and assets vis-à-vis our competitors?**
What advantage can we already start to leverage?

Expertise and technology

Do we possess **unique resources, expertise or technology** that can be leveraged effectively in a specialised value-chain segment?

Scalable specialisation

Is the specialised segment **scalable**, and can it **sustain growth** while maintaining operational efficiency?

Openness to change

How **open to change** is the organisation and where can we best start a transformation to **build momentum?**

Change management

How can we manage the **transition to a more focused use of the network**, while not disproportionately impacting our existing services?

Innovation/Digital capabilities

Innovation and partnerships

What are the areas where we have a proven track record and processes in place to **stimulate innovation** and **build the required partnerships?**

Collaboration

How can we **set ourselves up** to successfully **collaborate in an ecosystem**, to quickly react to new innovations and disruptions?

Customer needs

Which new options **align best** with our customer base and their needs, while also considering how we see/have seen our **customer base change?**

Customer-centricity

How can we best **leverage our unified service obligation** (USO) to generate advantages for our customers?

Financing a new model

How do **the revenue and cost models** change when moving to a new option, and **can we finance that change and the required investments** for sustained periods?

These questions **require clear and bold choices** – in the face of **continued industry disruption**, parcel players **cannot do it all**

Get in Touch

With our experience and expertise, we are committed to helping you navigate the future with confidence

To navigate the future with confidence, organisations need to make and act on the right choices: clear, timely and inspirational choices that deliver growth in a dynamic, disrupted world. This holds true for parcel carriers and adjacent organisations in the industry, which itself is continually evolving and adapting to new challenges to ensure the sustainable, seamless and affordable movement of goods across the world.

We at Monitor Deloitte combine deep industry insights with cutting-edge methods to help leaders articulate and understand these 'right choices', to resolve their most critical decisions, drive value and achieve transformational success.

This document presents our point of view on the industry and aims to start a conversation amongst stakeholders. We will work alongside you and collaborate to shape and navigate the future with confidence.



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