Last-mile parcel delivery - Characteristics and trends

FTC 2050 FREIGHT TRAFFIC CONTROL

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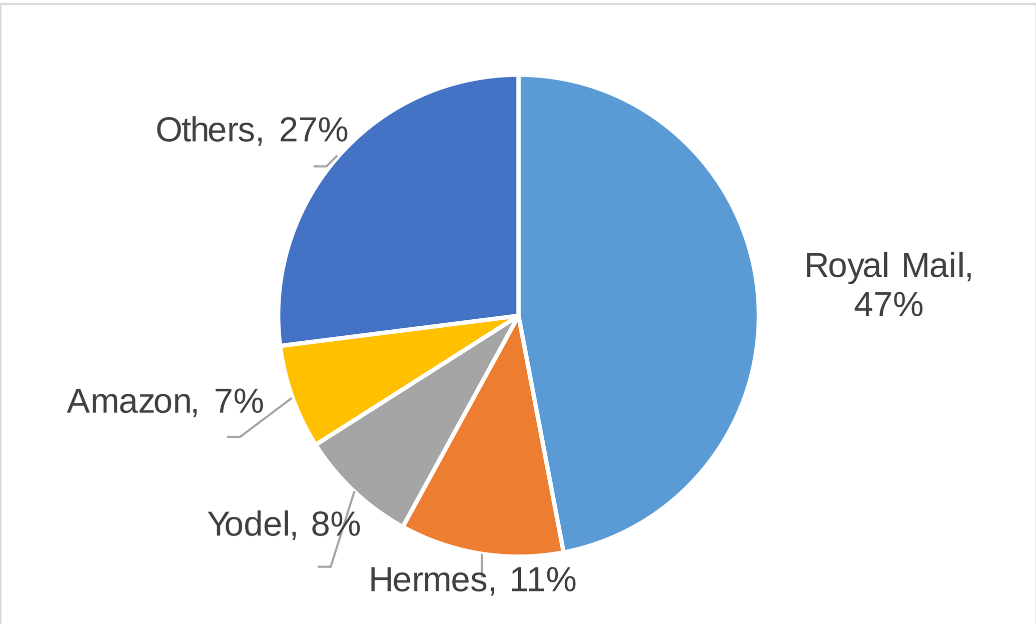
Business Challenges in UK Parcel Market

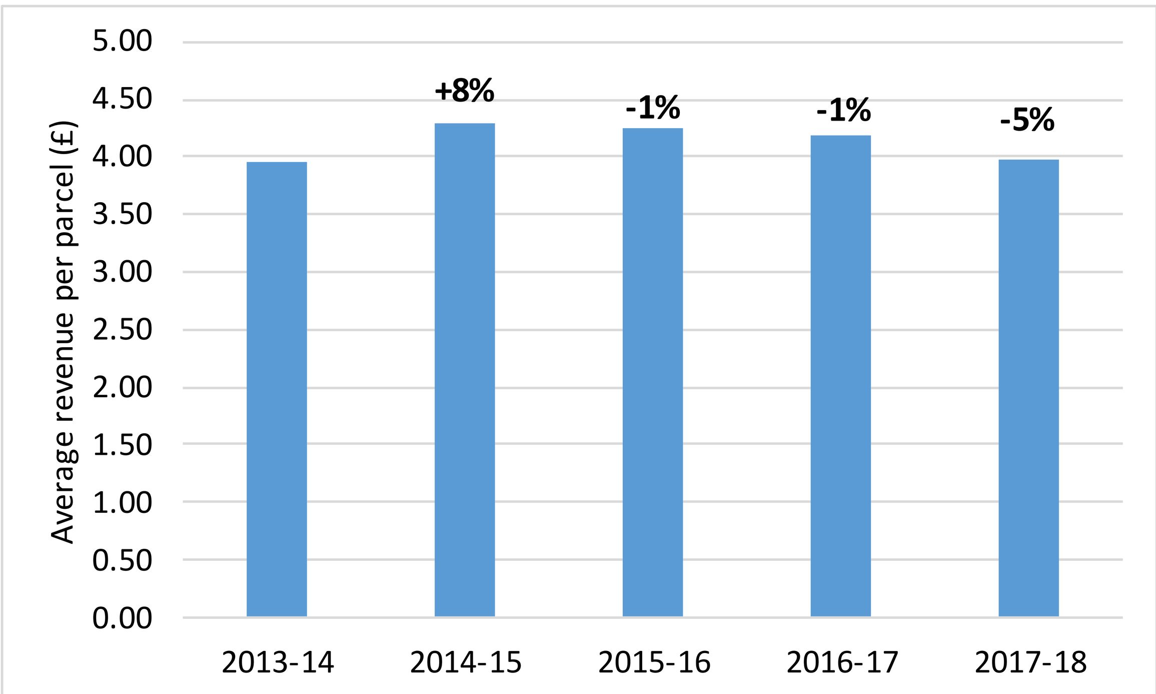
- Increasing demand for last-mile parcel delivery in the UK: 65% growth in last four years to 2.8 billion parcels
- Due to growing online shopping and population growth
- Revenues are not growing at the same rate
- Leading to falling revenue per parcel handled
- Made worse by retail customers offering *'free delivery'*
- Forecast to 2021 (by Mintel, 2017):
  - 33% increase in the volume of parcels handled
  - 22% increase in revenues

Leading carriers in UK parcel market by volume in 2017



- Others include APC, DPD, DHL, FedEx/TNT, UPS
- Source: Tamebay.com quoting data from Pitney Bowes Parcel Shipping Index 2017

Average revenue per parcel in the UK, 2013-14 to 2017-18



Source: Ofcom, 2014-2018

Analysis of scale and revenue per parcel for various next-day and economy carriers in the UK, 2015

Carrier	Company revenue (£m)	Annual parcel volumes (m^3)	Estimated average revenue per parcel (£)
DPD	671.6	83.2	8.07
APC	88.5	12	7.38
Parcelforce	509	70	7.27
UK Mail	219.9	50.4	4.36
FedEx	219.2	53.2	4.12
Yodel	350	135	2.59
Royal Mail	2,089	826	2.53
Hermes	382.3	190	2.02

Growing demand for same-day parcel delivery in the UK

- Same-day B2B and B2C market in UK estimated to be £1 billion
- Amazon leading the way among retailers, together with Argos
- Growing market for same-day delivery of non-food retailing expected

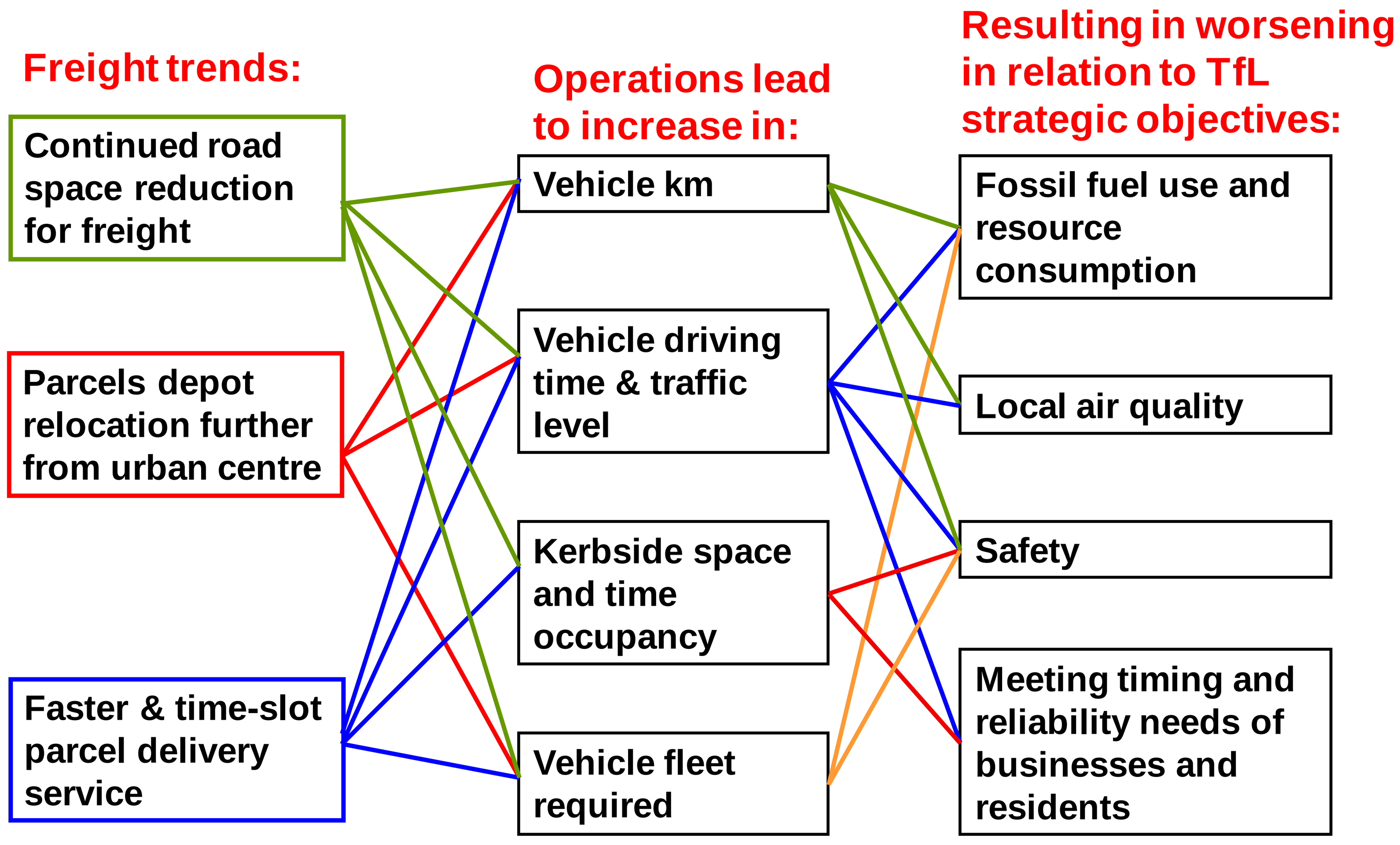
Transport difficulties faced

- Road capacity and traffic speeds
  - 30% decrease in road capacity 1993-2009
  - average traffic speeds in London 2-9% lower than 2008/9
- More bus and cycle lanes to be installed
- Reduction in availability of kerbside stopping space
- More stringent vehicle air quality requirements in London (e.g. Ultra Low Emissions Zone)

Logistics operations difficulties faced

- Failed first-time deliveries: customers not present to receive delivery leading to need to redeliver (and extra cost)
  - fewer than 10% of packaged items ordered online (by value) fit through a standard letterbox
  - 15% of online deliveries arrive when customer not at home, costing retailers and carriers £771 million in 2014
- Last-mile delivery service level requirements increasing:
  - Time guarantees (e.g. before 9am, 10am or 12pm)
  - Increased demand for next-day & same-day deliveries
- Customers and retailers requesting:
  - greater choice of delivery locations (lockers, collection points, etc.)
  - parcel tracking and tracing facilities
- Freight depots moving ever-further out from central London over time (due to unaffordability and unavailability):
  - Leading to increase in distance travelled from depot to central London
- Managing product returns: 20% to 30% (by value) of all clothing and footwear purchased online returned

Impacts of existing parcel deliveries in central London on Transport for London strategic road transport and environmental objectives



Mayor of London selected transport objectives:

- 80% of trips to be made on foot, by cycle or public transport by 2041
- Road deaths and serious injuries to be eliminated by 2041
- Reduce freight traffic in central London morning peak by 10% by 2026 and reduce total London traffic by 10-15% by 2041
- All new cars and vans to be zero emission from 2030 and London's entire transport system to be zero emission by 2050

Conclusion: actions are needed from parcel carriers, Transport for London & London boroughs to meet these objectives

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