

Ecommerce Europe

e-Logistics: A need for integrated European solutions

April 2015



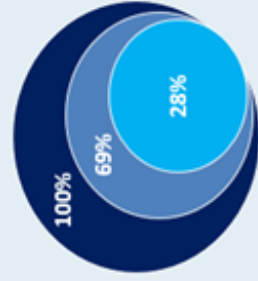
www.ecommerce-europe.eu



*Not all final figures included, to be published in June 2015



West € 204 bn +12%
 Central € 102 bn + 9%
 South € 46 bn +12%
 North € 36 bn + 9%
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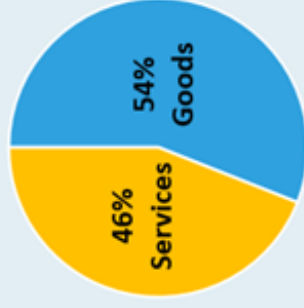


818 million people live in Europe
565 million people use the Internet
231 million people are e-shoppers



229 million e-households

Forecast 2015
€ 470 bn Turnover E-commerce Goods & Services



Europe € 410 bn 11%
 EU28 € 330 bn 13%



1 2 3

2,475,000+ jobs directly or indirectly via e-commerce
715,000+ estimated online businesses
3.94 billion+ number of parcels annually (f)

UK, Germany, France account for 60% of total e-commerce sales in Europe

6.1%

Estimated share of online goods in total retail of goods



"443 million social media users"

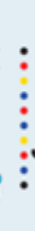
Top 5 mature e-commerce countries in turnover (million)

UK	€ 122,000
Germany	€ 70,000
France	€ 56,800
Netherlands	€ 13,900
Austria	€ 11,000

Top emerging countries	
Russia	€ 17,000
Spain	€ 15,000
Italy	€ 13,278
Poland	€ 6,000

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E-LOGISTICS - A NEED FOR INTEGRATED EUROPEAN SOLUTIONS

Ecommerce Europe represents 16 national e-commerce associations and 25,000+ companies selling products and/or services online to consumers in Europe. By providing in-depth research on the European e-commerce market, Ecommerce Europe specifically advises policymakers on how to break down barriers to cross-border e-commerce and how to work towards an integrated Digital Single Market.

The European Commission under the new leadership of President Juncker and vice-president Ansip for the Digital Single Market wants to facilitate cross-border e-commerce, especially for SMEs, with harmonized consumer and contract rules and with more efficient and affordable parcel delivery. Today only 15% of consumers shop online from another EU country¹.

Within the parcel delivery roadmap published by the European Commission at the end of 2013, three main objectives need to be accomplished. The Commission will take stock this year (mid 2015) in order to assess whether additional measures are needed today on:

1. Increased transparency and information;
2. Improved availability, quality and affordability of delivery solutions;
3. Enhanced complaint handling and redress mechanisms for consumers.

Reflecting the views of its members, Ecommerce Europe believes that still a lot of

work needs to be done to improve the current situation.

Two main initiatives have emerged from the market to give an answer to a part of the issues outlined in the roadmap from the European Commission: one initiative from the postal sector and one from the e-commerce sector represented by Ecommerce Europe: the European e-Logistics platform.

The postal sector, under the InterConnect program driven jointly by PostEurop and IPC, currently works on initiatives which aim mostly to improve interconnecting postal networks by:

- Integrating all delivery options into each other's service offerings;
- Integrating all returns options into each other's service offerings;
- Creating a European light-weight tracked product (under 2 kg);
- Integrating customer services/ complaint handling within their network;
- Creating a harmonized and standardized labeling and barcode format.

Although Ecommerce Europe welcomes this initiative, we have the following remarks:

- Ecommerce Europe urges the postal sector to **consult the e-commerce sector much more frequently** in order to receive input on their initiatives which have clear consequences on merchants;
- We ask for **clearer communication** on how and when these improvements

¹ TNS, Flash Eurobarometer 359, 2013

will be made available to online merchants;

- Ecommerce Europe believes that these **new initiatives should be extended** to all delivery service providers used by merchants, and should not remain within the postal sector only;
- Ecommerce Europe regrets that **prices, which are the highest concern** for merchants, have not been considered as a priority within this Program.

REMAINING BARRIERS

Almost one out of five EU citizens mentions that cheaper delivery prices are the main improvement that would encourage more online shopping from sellers located in other EU Member States². Similarly, more than one third of online merchants consider higher costs of cross-border delivery compared to domestic delivery as an obstacle in online cross-border trade³. In surveys done by Ecommerce Europe, inefficient cross-border delivery is consistently in the top three of biggest barriers for online merchants to sell in another EU Member State. Almost half of companies selling abroad (44%) view logistics and distribution as a difficult barrier to tackle when doing business abroad⁴. The Ecommerce Europe survey “Barriers to Growth” also shows that 15% of companies not selling at the

international level refrain from doing so because of excessive transportation costs⁵.

Concretely, merchants identify the following **barriers which still remain**:

1. **Lack of transparency and competition in pricing**, express services are too expensive for many merchants and even big companies do not always manage to negotiate good prices;
2. **Lack of information on differences in service and standards** in different countries and no choice in last-mile providers;
3. **Too long delivery times throughout Europe** for non-express services;
4. **No track and trace in postal services** leading to consumers inquiring information with merchants or consumers unjustifiably claiming a package has not arrived;
5. **Customs and VAT administration** is complicated as rules vary greatly;
6. **Reverse logistics** are especially problematic for small volumes;
7. **Lack of standardized labelling generates high costs and long time-to-market for merchants wanting to implement new carriers.**

THE NEED FOR A RELIABLE AND AFFORDABLE EUROPEAN WIDE DELIVERY SYSTEM

Ecommerce Europe is convinced that high European delivery performance is a key driver for success for web merchants and their

² Eurobarometer 398

³ WIK Consult, Initiatives to support the growth of e-commerce via better functioning parcel delivery systems, 31

⁴ Ecommerce Europe, Survey “Barriers to Growth”, 2015

⁵ Ecommerce Europe, Survey “Barriers to Growth”, 2015

business models. Merchants and consumers need a European-wide delivery system in order to create more innovation and greater transparency in the logistic chain. Additionally, more options are needed, including different offers, alternative affordable delivery options, more flexibility, more information and transparency from delivery service providers.

Ecommerce Europe takes up its role in stimulating growth by developing initiatives such as **the creation of an e-Logistics Platform (1)**. This will have an enormous impact on transparency, cost decrease and quality improvement by being the catalyst power at the centre of the whole e-Logistics ecosystem and connecting merchants, service providers and databases. Besides the platform, Ecommerce Europe has also made recommendations to **decrease costs (2)** and **increase reliability and quality of services (3)**.

1. THE E-LOGISTICS PLATFORM

Shipping internationally proves to be a real challenge for retailers, especially for smaller ones which do not have the financial and technical resources to source relevant suppliers, which are very numerous and localized.

The challenge is even bigger if the web shop operates in many countries, has a wide range of products necessitating different delivery networks (from light mail to two-man-delivery) and wants to offer consumers choice in the delivery options (standard, express, pick up points among others).

1.1 The platform for more transparency

To answer this sourcing issue, the e-Logistics platform intends to be the most comprehensive source for delivery intelligence in Europe and lists all delivery suppliers active in e-commerce on the same website for the first time, with all necessary details allowing merchants to quickly identify for free which operators are most suited to their needs.

This web platform will also offer SMEs, which often are not logistics specialists, **information country by country on regulations which impact their logistics set up** (consumer returns right, recycling duties, transport compensation rules, customs, and more) and **marketing information on delivery habits** (such as preferred delivery methods, average returns ratio, Cash On Delivery ratio).

Beyond displaying neutral information on the vast offer in Europe, **the platform aims to help retailers in their supplier selection by integrating a matchmaking and marketplace feature**. Based on simple key information from retailers on their profile and needs, the platform will display the most relevant suppliers, with an easy way to contact them to discuss further.

1.2 The platform for improved service

The overall perception of quality of service for cross border deliveries (beyond 'integrators' which are well integrated, but typically not affordable for all merchants) is poor, both from a shipper and consignee perspective: delivery times are slow and track and trace information is often incomplete. As no independent information exists on that matter, the only resource left to retailers is the service provider

itself and his reputation, which is highly contextual and subjective.

Based on an experimentation rolled out by the French e-commerce Federation (“Fevad eLogistics observatory”) in the first half of 2015, the platform will be the ground of the extension of this experiment on the European field. It consists of the connection of various databases in a big data black box of actors analysing couriers’ track and trace in a standardized way.

This independent and scientific dashboard is a unique opportunity **for retailers and service providers to share a common quality tool and hence build shared action plans leading to higher customer satisfaction** and hence a higher e-commerce penetration.

1.3 The platform for better affordability

High transaction costs are also due to long discussions leading to a long sales cycle on a supplier side and a loss of opportunity on a retailer side. Negotiations are often focused on prices which are key for both parties, as both e-commerce and delivery are overall low margin industries. Logistics is a volume business, and costs can be decreased by increasing cross-border volumes and flows.

Ecommerce Europe intends to help retailers by incorporating in its e-Logistics platform a **feature allowing merchants to combine volume, both for first mile freight forwarding and for last mile volume discounts**. This feature will be especially useful for SMEs that don’t have the necessary scale to inject their volume in foreign networks and will hence be offered a much wider choice

in service offering and much cheaper options in cross-border delivery. Ecommerce Europe favors this freight pooling capacity between retailers as it will improve the trucks fill ratio and will reduce the environmental impact of delivery as well.

On top of that, the platform intends to help merchants in their decision-making process by **indicating benchmarks both for Service Level Agreements (SLA) and tariffs, by providing a guidance in the contract drafting and by providing merchants with an overview upon the total cost of serve**, which goes beyond the delivery cost itself, since it includes costs for non-quality as well (contacts, claims, returns and reputation).

2. DECREASE COSTS OF CROSS-BORDER FLOWS

Online merchants who trade cross-border are in competition with local players which leverage their local anchorage with lower delivery fees or even free shipping. The development of cross-border e-commerce is hence slowed down by the considerable financial burden that shipping costs represent in merchants’ accounting; it is often one of their highest operating costs. In a sector where delivery fees are seen by consumers as a strong buying repellent, decreasing international delivery costs would be a powerful way of fostering cross-border e-commerce and enhancing competition to the benefit of the consumers.

Ecommerce Europe asks for **several cost optimization initiatives with a better operational coordination between**

stakeholders without requesting financial investment from shippers or delivery operators. These initiatives would be **new invoicing models, better interoperability and the creation of new delivery products.**

2.1 Change the structure of invoicing in a multi-operator scheme with terminal fees and distance-based invoicing

Cross-border e-commerce is mostly done in neighbouring countries within clusters (for instance Nordics area, Great Britain and Ireland, Benelux countries) and **the online consumer is often only a few hundreds of kilometres from the logistics facility of the website where the order has been placed.** It is questionable that, under similar circumstances of freight profile and volume, a merchant based in Cologne would only pay a fraction for its transport costs to Berlin (600 km away) compared to what it would pay for the same operation to Brussels (200 km away). Borders, which have become only virtual in the European Union, still remain a strong impediment to the transport of goods. By conceding to each other fair terminal prices for the use of the fraction of their network, delivery operators would significantly reduce cross-border delivery costs: **The cost of a delivery should consist of a fraction of the outbound country (first mile) and a fraction of the inbound country (last mile), both calculated on a marginal basis.** This scheme is also valid for integrators which also have country-based P&L even though they are part of the same company, and this scheme, which should be initiated by the operators themselves, would make it closer to a distance-based invoicing system.

2.2 Encourage open standards in IT developments

Increasingly, due to consumers' demands in terms of real time track and trace and due to the logistics growing industrialization, Information Technology (IT) has gained considerable importance in e-Logistics. Consequently, each physical delivery of a parcel is accompanied today with complex IT flows between the merchant, the delivery company and the consignee. On the one hand, each e-logistics provider has its own IT architecture and legacy. On the other hand, most online merchants focus their IT proficiency and bandwidth on front-end IT, which is their core business, and not on logistics back-end IT. As a matter of fact, the IT developments required by a carrier switch can take several months and be very costly in many cases. In order to have a more fluid market between providers and shippers and to allow supplier competition to play a greater role, it is necessary **to promote open standards** in the development of the labelling and of EDI files (Electronic Data Interchange). This would decrease the implementation cost of a new courier and would allow the merchant to seize opportunities to change more rapidly to another carrier.

2.3 Promote a marketing dialogue between merchants and delivery operators in order for them to develop new delivery products more suited to merchants' and end consumers' needs

E-commerce product and service offerings have developed much faster over the last two decades than the services offered by all

delivery operators, even if e-logistics suppliers have increasingly incorporated e-commerce at the heart of their strategy and have been a support in the development of internet as a sales channel. The vast array of products sold on line, whether it is a laptop cable, a very bulky sofa, fresh groceries or luxury goods, do not all have to date the suitable delivery service for both price and quality reasons.

International delivery is currently dominated by a fairly slow delivery service under 30kg to the home of the consignee with a signature required, which can be an unnecessary premium in many cases. This mismatch between supply and demand can be progressively addressed in **a constructive dialogue between all parties which all have common interests of developing volumes.**

3. INCREASE RELIABILITY AND QUALITY OF SERVICE OF EUROPEAN DELIVERY OPERATIONS

Today, cross-border e-commerce still suffers from insufficient integration of all delivery operators as, except for integrators, a parcel will go through as many logistics systems as borders crossed. Each breaking bulk at a gateway from one operator to the other brings risks in load times, damage, loss, and track and trace visibility. Besides, due to the lack of integration of independent operators, the handover is very sensitive and incurs costs of manual handling (relabelling, sortation, reloading and controls). To enhance quality and reliability of delivery services across Europe, Ecommerce Europe encourages **initiatives of delivery operators to create partnerships leading to increased**

operational and IT coordination.

3.1 Improve claims handling and trust marks related to delivery

Consumers' first reasons to complain in distance selling are often linked to delivery, from the traditional WISMO call (Where Is My Order) to the treatment of an inquiry of a loss or damage. In such cases, the inquiry handling method required by the delivery operator is much longer and more restrictive than what the consumer is eager to accept. Besides, if there are many trustmarks on the market evaluating the general performance of a website, none really integrates specific criteria on delivery quality itself, leaving the consumer in front of a "black hole" between the click and the possession of its order. It would be in the consumers' interest that **delivery operators guarantee a swift reply when reassurance is needed and that they reverse the burden of proof of a claim** from the consignee to the carrier in case of a claim. As e-commerce is profoundly based on trust, the extension of the scope of trustmarks to the quality of the delivery - i.e. to the most stressful phase in the act of purchase - would permit consumers to choose knowingly between several delivery methods or even between several websites depending on the carriers used.

3.2 Encourage integrated networks between local operators

Existing integrated networks in Europe may be too costly or lacking the services needed in a certain area. Besides, postal operators have had international agreements for a long time between them within the UPU (Universal Postal Union) or the IPC (International Post

Corporation) but the heterogeneity in these groups and the competition and protectionism reflexes between postal operators can sometimes cause sub-efficiencies in their price and quality offerings. Because of this lack of supply, many international merchants pragmatically create their own delivery network by using the service of a mix of posts, integrators, local providers, consolidators and freight forwarders. To avoid the complexity of contracting with many operators, **delivery suppliers should pursue their coordination efforts based on their specialization in a given service and area.** This “consortium” between operators, by taking in charge the complexity of a thorough integration on their side, would create a sort of “one-stop-shop” in international delivery for e-commerce decision makers.

3.3 Encourage intensive use of additional IT intelligence around delivery issues to improve performance

Each parcel delivery is sensitive and represents a challenge, repeated several million times every day in Europe. To be successful the best-in-class web players use more and more logistics big data to gain more control over their operations as delivery has become intensively IT-oriented over the last years. The more a parcel delivery is under IT-surveillance, the lower its probability of failure. Consequently, merchants are encouraged to internally develop or to buy the services of companies that put all deliveries under scrutiny and inform consumers on a real time basis when a consignment has experienced a delay or any other issue.

In order to avoid unnecessary returns, web **merchants should take care of country specific requirements** in zip codes when sending parcels and use an up-to-date address verification tool as early as possible in the ordering process. And in order to have this feature becoming a commodity in e-commerce instead of it being a very costly option today, **postal operators should make the up-to-date comprehensive list of accurate addresses freely accessible**, as this would be in their own interest as well as part of their universal service.

Ecommerce Europe association data at a glance 2014



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Our Mission
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2,475,000+ jobs directly or indirectly via e-commerce
715,000+ estimated online businesses
3.94 billion+ number of parcels annually (f)

GOMSEC

Global Online Measurement Standard B2C E-Commerce



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16 leading e-commerce associations

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