



# The Dutch parcel market

*English summary*

**Pagina  
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Muzenstraat 41 | 2511 WB Den Haag  
Postbus 16326 | 2500 BH Den Haag  
T 070 722 20 00 | F 070 722 23 55  
info@acm.nl | www.acm.nl | www.consuwijzer.nl



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## 2 Main conclusions

### *Market for parcel deliveries has grown tremendously*

The market for parcel deliveries has grown tremendously over the past few years. The reason behind this growth is that Dutch consumers shop online in droves. In 2015, parcel services providers delivered 208 million parcels within the Netherlands, which is an increase of 11.3 percent compared with 2014. The volume of cross-border parcel deliveries (to and from the Netherlands) in 2015 increased by 12.7 percent compared with 2014 to 92 million parcels.

Parcel services providers are expanding their range of services: for example, they deliver on weekends and in the evening, they deliver on the day that consumers ordered something (same-day delivery) or they deliver parcels via pickup lockers. They also experiment with innovative delivery solutions, and with specialized forms of delivery services.

### *While introducing new services, parcel services providers primarily compete on price*

Parcel services providers are increasingly competing on price. However, several senders say that, when choosing a provider, they also look at service aspects such as transit times and delivery times. By focusing on price, parcel services providers give a lot of attention to their costs.

### *Market for domestic parcel deliveries is concentrated - monitoring is needed*

The market for domestic parcel deliveries is concentrated: parcel companies PostNL and DHL Parcel together control the largest share of this market. Increased concentration levels may be an indication of reduced competition. That is why ACM will keep monitoring the competitive positions of all market participants over the next few years. ACM will therefore, from 2017, include this market segment in its annual monitor of the postal services market. That is how we will be able to keep track of the trends in volumes, turnovers, and market shares.

The economies of scale as a result of the growth in volumes are hardly reflected in, on average, lower rates for buyers. ACM did not examine to what extent this could be explained by other factors.

In the market for cross-border parcel deliveries, more competitors are active. As a result, this market is less concentrated than the one for domestic parcel deliveries.

### *PostNL enjoys a competitive advantage (because of VAT exemption) in a small segment of the market for parcel deliveries*

In a small segment of the parcel delivery market, PostNL enjoys a certain competitive advantage. PostNL is not required to pay VAT on the delivery of parcels that it can ship as part of the universal service obligation (USO). This VAT exemption follows from the European VAT directive, and has been enshrined in the Dutch Turnover Tax Act.



This concerns, for example, parcels that consumers offer to PostNL, and that have been franked at a single-item rate.<sup>1</sup> PostNL controls the majority of this market segment. This segment represents approximately 2 percent of the total parcel market. It is therefore debatable whether this VAT exemption significantly impacts the competitive positions in the total market.

*A lot of attention is given to the deployment of independent parcel couriers by PostNL*

Labor costs are one of the key cost items of parcel services providers. In the parcel services industry, many complaints about unfair competition revolve around labor costs. For example, a lot of attention was given to the deployment of independent parcel couriers by PostNL. With these independent contractors, PostNL allegedly had an unfair cost advantage vis-à-vis its competitors. The key question in this debate is to what extent these couriers can indeed be considered independent contractors. In 14 out of 17 cases, different courts have ruled that, in those cases, there was no employment contract. In two of these cases, the higher courts in appeals also ruled that there was no employment contract. Furthermore, PostNL recently announced that all new couriers will be offered a permanent contracts, and that independent contractors will no longer be contracted. In addition, by introducing the Assessment of Employment Relationships Deregulation Act (DBA), the legislature aims to deal with the problems surrounding misclassification of independent contractors. It is still early days to see whether these recent developments have any effect on the competitive positions in the parcel delivery market.

*Major online retailers have strong purchasing positions*

With their enormous volumes of parcels, several major online retailers have a strong purchasing position: they pay the parcel services providers lower rates, and they get access to new services sooner than smaller online retailers do. These large online retailers are able to demand lower rates because they make the entire chain of collection, transport, sorting, and delivery more efficient for the parcel services providers.

Small and medium-sized senders have limited bargaining power. They pay higher rates than the large online retailers do, and are not always able to take advantage of options such as late drop-offs of parcels. The large differences in rates and terms and conditions on the parcel delivery market could negatively affect the competitive options of small and medium-sized online retailers vis-à-vis the large online retailers. In this market scan, ACM did not study the magnitude of this negative effect.

*Mail delivery or express delivery?*

ACM will carry out a further investigation into which parcel delivery services fall under the definition of mail delivery or under the definition of express delivery. With regard to several specific parcel delivery services, it is currently not clear whether they should be considered mail delivery or express delivery. This is a critical question, according to ACM, because the obligations that have been laid

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<sup>1</sup> These parcels also need to meet the dimension requirements laid down in Article 2 of the Postal Regulation 2009.

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down in the Dutch Postal Act 2009 apply to mail delivery, and could thus also apply to a share of the mail delivery services.



### 3 Introduction

Because of the increase in online shopping, the parcel delivery market is growing fast, and parcel services providers are launching many new, innovative initiatives to deliver parcels even faster and more conveniently to addressees. Examples include evening deliveries<sup>2</sup>, Sunday deliveries<sup>3</sup>, scheduled deliveries<sup>4</sup>, parcel pickup lockers<sup>5</sup>, same-day delivery<sup>6</sup> and boxes in which parcels can be delivered<sup>7</sup>. In addition, businesses abroad are experimenting with parcel deliveries using drones<sup>8</sup> and car-trunk deliveries<sup>9</sup>. The strong growth and dynamism in the market create new challenges and obstacles for parcel services providers.

The objective of this market scan is to get an overview of the current state of play in the parcel delivery market. This study focuses on the market structure and competitive positions of parcel services providers. Under the Dutch Postal Act 2009 and the Dutch Competition Act, ACM oversees the parcel delivery market. That is why it is important for ACM to gain a better idea of potential distortions of competition, and potential anticompetitive problems on the parcel delivery market.

It is not the objective of this market scan to carry out a competition-law analysis in which markets are defined, and where the presence of an undertaking with a dominant position is established. In this market scan, any mention of the term 'market' is thus not within the meaning of 'market' in the competition-law sense.

Express services fall outside the scope of this study since these services are exempted from the concept of mail delivery as defined in the Dutch Postal Act 2009. In this study, we used the definitions that market participants use for express services.

<sup>2</sup> <https://www.dhlparcel.nl/nl/nieuws/dhl-parcel-breidt-avondbezorging-uit>, <http://www.postnl.nl/zakelijke-oplossingen/webwinkels/bezorgopties-voor-mijn-klanten/avondbezorging>

<sup>3</sup> <http://www.postnl.nl/zakelijke-oplossingen/webwinkels/bezorgopties-voor-mijn-klanten/zondagbezorging>

<sup>4</sup> <http://www.postnl.nl/over-postnl/pers-nieuws/nieuws/2015/september/postnl-test-bezorging-op-afspraak.html>

<sup>5</sup> <http://www.postnl.nl/ontvangen/pakket-ontvangen/pakket-afhalen/pakket-ontvangen-in-een-pakketautomaat>, <http://www.pakketautomaat.nl>

<sup>6</sup> <http://www.validexpress.nl/diensten#today>, <http://www.dynalogic.eu/nl/anytime/sameday-middag-avond>, <https://www.fadello.nl/logistieke-oplossingen>

<sup>7</sup> [https://www.youtube.com/watch?v=kGfarxzMkCw&feature=player\\_embedded](https://www.youtube.com/watch?v=kGfarxzMkCw&feature=player_embedded), <http://www.hippo-box.co.uk> and <http://www.bloomberg.com/news/articles/2014-11-17/volvo-said-to-near-deal-to-deliver-parcels-to-parked-cars>

<sup>8</sup> Such as Google with Project Wing, DHL delivering on the German island of Juist or Amazon with its experiment called Prime Air.

<sup>9</sup> <https://www.bright.nl/amazon-en-dhl-testen-pakketbezorging-de-kofferbak>



## 4 Market structure

The parcel delivery market is a fast growing market where different competitors are active in different segments. The four largest parcel services providers on the domestic market are PostNL, DHL Parcel, DPD and GLS. These providers compete with one another, each having their own infrastructure. Parcel services providers do not consider express services providers to be competitors on the domestic parcel market, but they are seen as such with regard to cross-border parcel deliveries. In addition, various niche companies are active, too, which offer specialized services. Figure 1 is an overview of the various market participants, and of the category to which they belong.

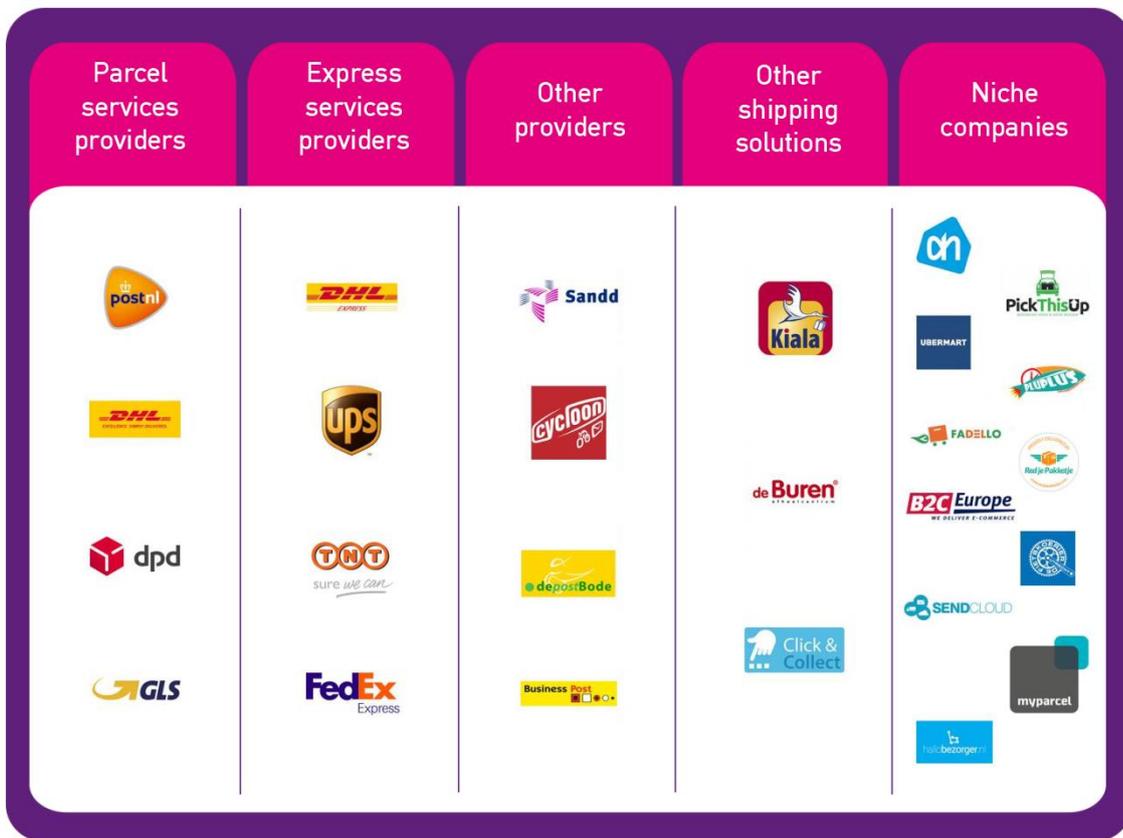


Figure 1: Overview of market participants

### 4.1 Competitive positions in the sector

PostNL is the largest competitor in the domestic market, followed by DHL Parcel. DPD and GLS have smaller market shares. It is a highly concentrated market. The level of concentration has not changed significantly since 2012. On the cross-border parcel market, it is a different competitive landscape. DPD and PostNL are the largest competitors, with UPS the third competitor. PostNL's market share increased considerably between 2012 through 2015. The cross-border market is less concentrated than the domestic market. However, the level of concentration has increased.



Parcel deliveries are growing tremendously. This growth is primarily driven by the growth in e-commerce. For example, according to Statistics Netherlands (CBS), turnover from online sales in the fourth quarter of 2015 increased by almost 23 percent compared with the previous year.<sup>10</sup>

As a result of the growth in online purchases, the volumes of parcel services providers have risen, too. In 2012, approximately 225 million parcels were delivered. In 2015, this number was almost 300 million. Domestic parcel deliveries in 2012 were approximately 160 million parcels, and in 2015, 208 million.<sup>11</sup> The growth in parcel deliveries is also reflected in recent press releases of PostNL. During the holiday season<sup>12</sup> of late-2015, PostNL broke its own records by delivering 1.3 million parcels on December 1, and 1.4 million parcels on December 22. These were increases of 25% and 30% compared with the same days in 2014.<sup>13</sup>

In conversations with ACM, two parcel services providers indicated that parcel delivery in the B2C segment has posted the highest growth, while it has slightly declined in the B2B segment. As a result, the ratio between B2B and B2C is shifting towards more parcels in the B2C segment. This segment is becoming more and more important for parcel services providers.

The volume of domestic parcel deliveries in 2015 rose by 11.3% compared with 2014. The volume of cross-border parcel deliveries rose even more over the same period, which was by 12.7%. With regard to the latter percentage, ACM did not distinguish between incoming and outgoing cross-border parcels, because not every parcel services provider makes that distinction. Figures 2 and 3 show the volume and turnover trends.

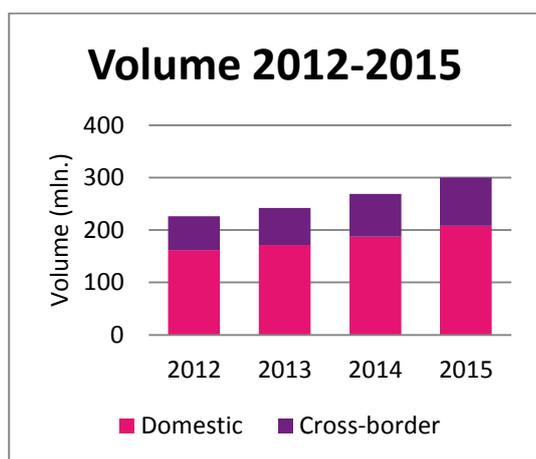


Figure 2: Volumes parcel services providers

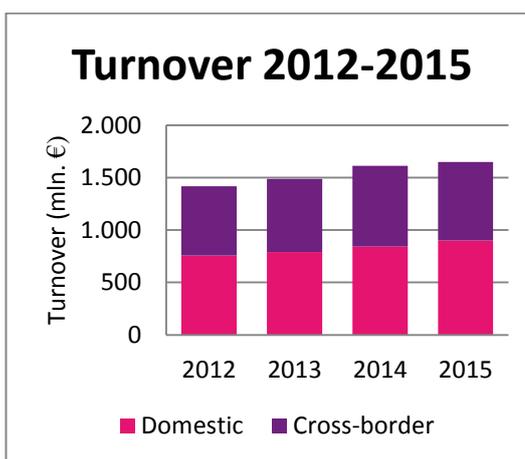


Figure 3: Turnovers parcel services providers

<sup>10</sup> Statistics Netherlands (CBS), Quarter monitor of retail market, fourth quarter 2015.

<sup>11</sup> Data collected from parcel services providers by ACM.

<sup>12</sup> Translator's note: On December 5, the Netherlands celebrates *Sinterklaas* or Saint Nicholas, where, similarly to Christmas, many gifts are exchanged.

<sup>13</sup> <http://www.postnl.nl/over-postnl/pers-nieuws/persberichten/2015/december/vandaag-record-aantal-van-1.3-miljoen-pakketten.html> and <http://www.postnl.nl/over-postnl/pers-nieuws/persberichten/2015/december/postnl-kerstrecord-van-ruim-1-4-miljoen-pakketten-op-een-dag.html>



Part of the market is regulated. These are the services that are part of the Universal Service Obligation (USO), and are carried out by PostNL as the designated USO provider. Several other companies carry out the same or similar services to consumers. These companies say they are at a competitive disadvantage, because PostNL's USO services are exempted from VAT under the European VAT directive. More specifically, this concerns the C2X segment. This segment covers approximately 2% of the total market. The question therefore is to what extent this affects the competitive positions on the entire parcel delivery market.

*Mail delivery or express delivery?*

ACM will carry out a further investigation into which parcel delivery services fall under the definition of mail delivery or under the definition of express delivery. With regard to several specific parcel delivery services, it is currently not clear whether they should be considered mail delivery or express delivery. This is a critical question, according to ACM, because the obligations that have been laid down in the Dutch Postal Act 2009 apply to mail delivery, and could thus also apply to a share of the mail delivery services.

**4.2 Market shares**

ACM has asked the most important parcel services providers to hand over data on volumes and turnovers, using the definitions in this market scan. Based on that data, ACM determined the market shares that are listed below.

*Market shares for domestic parcel deliveries*

The data that ACM collected from the largest parcel services providers<sup>14</sup> reveal that PostNL in 2015 had a market share of 55-60% on the domestic market, based on volume, and a market share of 55-60% based on turnover. DHL Parcel comes second with market shares of 25-30% and 25-30%, respectively. These market shares can also be found in the figures below.

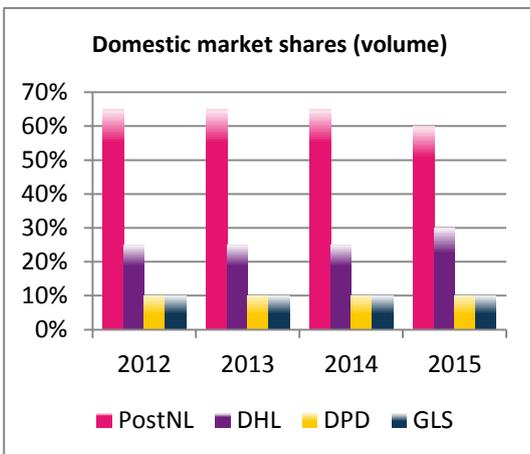


Figure 4: Domestic market shares (volume)

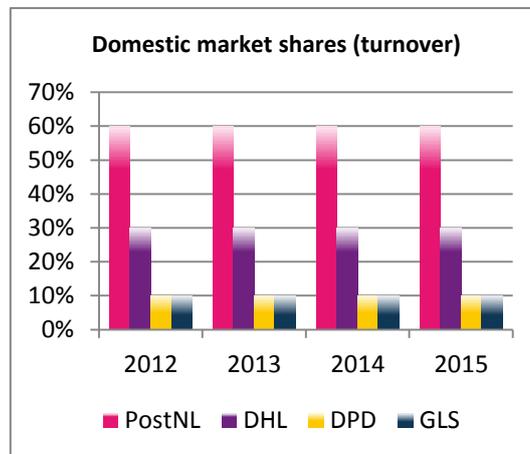


Figure 5: Domestic market shares (turnover)

<sup>14</sup> For the domestic market, these are PostNL, DHL Parcel, DPD and GLS. These four combined control, by far, the largest share of the market.



Over the period of 2012 through 2015, the market shares of the different parcel services providers were relatively stable. None of these providers saw their market shares increase or decrease by more than 5% during that period. In the consultation, one provider said that PostNL's market share had risen in the past few years. However, this assertion is not supported by the data that ACM has collected from the parcel services providers as part of this market scan.

The Herfindahl-Hirschman Index (HHI) is used as a measure for the level of concentration.<sup>15</sup> This is a widely-used measure for gauging the level of concentration. If a market has an HHI of over 2,000, it is generally considered to be a concentrated market.<sup>16</sup> Based on the market shares on the domestic parcel delivery market in 2015, the HHI is 4,153, which is an indication of a concentrated market.

#### *Market shares within market segments*

Within the B2C and B2B segments, the market shares have not been calculated because several parcel services providers were unable to provide data with that level of detail. Conversations with the parcel services providers reveal that the competitive positions between competitors vary considerably across segments. In the B2B segment, the market is more or less equally shared among the four providers. In the B2C segment however, PostNL has the strongest position, followed by DHL Parcel. The market shares of GLS and DPD are smaller in this segment. In the consultation of this report, multiple providers indicated that it is critical to make that distinction between B2C and B2B, because the B2C segment is growing the fastest, and not all market participants are said to be able to benefit in equal measure from the strong growth in this segment.

The C2X segment of the market is almost completely controlled by PostNL and DHL Parcel. The size of this segment in 2015 was approximately 6.4 million based on volume and €46.4 million based on turnover. In this segment, PostNL has a market share of 85-90% based on volume. This is also reflected in the figures below.

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<sup>15</sup> The HHI is calculated by adding the squared market shares (in percentages) of all market participants, and lies between 0 (perfect competition) and 10,000 (monopoly). If a relevant market has an HHI of more than 2,000, it is generally considered to be a concentrated market.

<sup>16</sup> European Commission, OJ C31 of 05/02/2004 page 0005 - 0018, Guidelines on the assessment of horizontal mergers under the Council Regulation on the control of concentrations between undertakings, points 19 and 20.

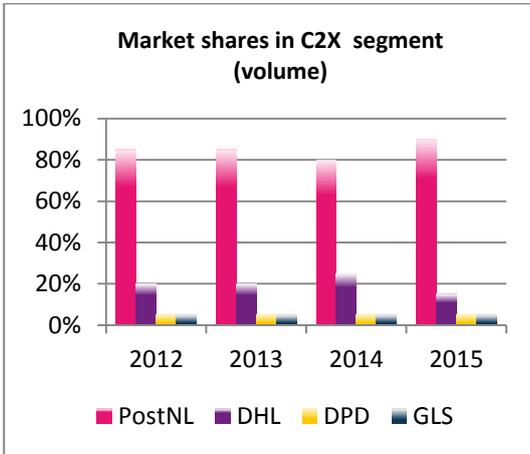


Figure 6: Market shares C2X segment (volume)

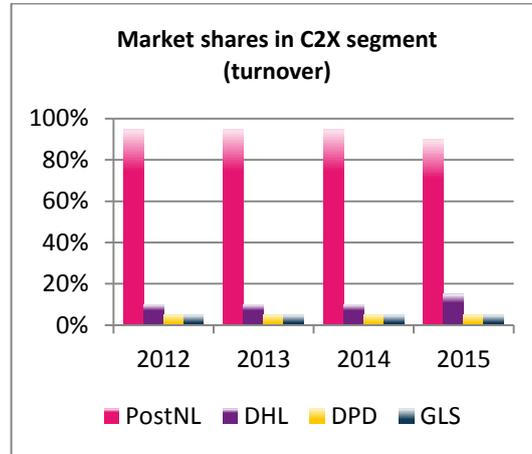


Figure 7: Market shares C2X segment (turnover)

*Market shares of cross-border parcel deliveries*

On the market for cross-border parcel deliveries, the competitive positions are different from those on the domestic market. For the calculation of market shares on this market, the volumes and turnover data of the express service providers UPS and TNT Express have been included insofar they concern parcel services.

Based on the volumes of 2015, DPD and PostNL are the two largest competitors on the market for cross-border parcel deliveries. UPS is the third largest competitor. Based on turnover, PostNL and UPS in 2015 are the two largest competitors in this market.<sup>17</sup> In contrast with the market for domestic parcel deliveries, the market for cross-border parcel deliveries *has* seen shifts in the market shares between 2012 and 2015. For example, PostNL's market share has increased considerably, whereas those of UPS and TNT Express have dropped. This is also reflected in the figures below.

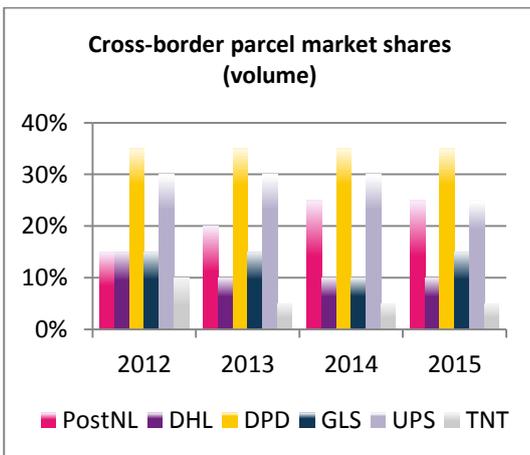


Figure 8: Cross-border market shares (volume)

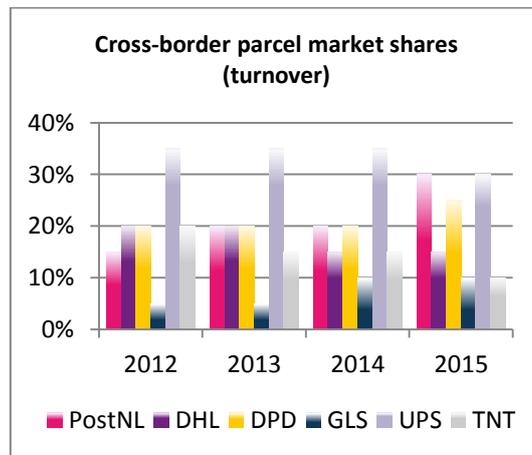


Figure 9: Cross-border market shares (turnover)

<sup>17</sup> For cross-border parcel deliveries, the data of PostNL, DHL Parcel, DPD, GLS, UPS and TNT have been used. These competitors combined control, by far, the largest share of the market.



With regard to the level of concentration, the HHI of the market for cross-border parcel deliveries is 2,116 based on the 2015 market shares. This figure is slightly above 2,000, which indicates a concentrated market, but this is far less concentrated than the domestic market.

The high level of concentration in itself is not a problem. However, it cannot have any negative effects on the competition between market participants. Higher concentration levels could be an indication of reduced competition in the market. That is why ACM finds it important to monitor the competitive positions between market participants over the next few years. ACM will continue to monitor the parcel delivery market. This means that, from 2017, ACM will include this market segment in its annual monitor of the postal services market.

### 4.3 VAT exemption on USO services

Parcel deliveries within the scope of the USO are exempted from VAT under Section 11(1), sub m of the Dutch Turnover Tax Act 1968. This VAT exemption follows from Article 132 of the European VAT directive<sup>18</sup> in which public postal services are explicitly mentioned as an activity that Member States must grant a VAT exemption. Similar parcel deliveries carried out by other providers than PostNL are not exempted from VAT. The VAT exemption does not apply to services that are carried out under conditions that have been negotiated individually<sup>19</sup>, which is often the case with providers of cross-border parcel deliveries for business senders. In 2013, the State Secretary for Finance, also on behalf of the Minister for Economic Affairs, indicated that, in the discussion at a European level, the Netherlands aims to create a level playing field, and to abolish this VAT exemption.<sup>20</sup>

Thanks to the VAT exemption on USO services, PostNL has a competitive advantage of 21% over its competitors on these services. Various parcel services providers say that this advantage makes it difficult for them to compete with PostNL in the C2X segment because consumers usually send their parcels via service locations, and are not able to reclaim VAT. One competitor confirms this in the consultation. The C2X segment covers approximately 2% of the total market, and PostNL has a market share of 85-90% on it. The USO applies, for example, to deliveries of second-hand purchases on online classifieds site Marktplaats or online retailer bol.com that are sent by consumers. Furthermore, consumers have to pay for return shipments themselves with some online retailers.<sup>21</sup> In that case, the return shipments are shipments in the C2X segment, and the delivery thereof falls under the USO if PostNL delivers them. Return shipments though can also be arranged using business reply services or other return solutions where the online retailer pays the costs of the return shipments. Since the VAT exemption applies to a relatively small segment of the market only, it remains to be seen to what extent it has any influence on the competitive positions in the entire market. According to one competitor that responded during the consultation, this is substantial

<sup>18</sup> Council directive 2006/112/EC of 28 November 2006 on the common system of value added tax.

<sup>19</sup> Case of 23 April 2009 C-357/07, TNT Post UK / Royal mail Group, ECLI:EU:C:2009:248.

<sup>20</sup> Letter to the Dutch House of Representatives, Ministry of Finance, 26 August 2013, reference DV/2013/340 U.

<sup>21</sup> Under Section 6:230o paragraph 1 j. 6:230s paragraph 2 of the Dutch Civil Code, consumers are entitled to a cooling-off period of 14 days within which 'a distance agreement' can be rescinded. The costs for return shipments must be paid by the consumer if the seller has indicated this prior to the sale.



because the margins in this segment are said to be relatively high, and this competitor believes the size of this segment is larger. Several other competitors indicate that the VAT exemption applies to a small part of the market only.

In addition to the VAT exemption, PostNL also needs to comply with several obligations as part of the designation as the USO provider. PostNL is required to collect and deliver parcels in the entire country at least five days a week.<sup>22</sup> In addition, PostNL must also maintain a network of service locations that complies with the statutory distribution requirements.<sup>23</sup> ACM has established that, in practice, PostNL has more delivery days for parcel deliveries, and that it also has more parcel locations than the statutory minimum. ACM therefore concludes that these statutory requirements do not create any drawbacks for PostNL on the parcel delivery market.

#### 4.4 Competing on labor costs

Labor costs are one of the most important cost items of parcel services providers. A lively debate is taking place surrounding the deployment of independent parcel couriers by PostNL, because that allegedly offers PostNL huge cost advantages. PostNL is not the only one being confronted with questions surrounding parcel couriers, but these questions are also applicable for the rest of the market.

The key question in the discussion about the situation at PostNL is whether or not these parcel couriers are genuine independent contractors. In fourteen out of seventeen cases, the courts came to the conclusion that there was no employment contract.<sup>24</sup> In two of these cases, higher courts also ruled on appeal that there was no employment contract.<sup>25</sup> PostNL has announced that all new parcel couriers will be offered permanent contracts.

With the introduction of the Assessment of Employment Relationships Deregulation Act (DBA), the Dutch cabinet aims to be able to deal with the problems surrounding misclassification of independent contractors in a structural manner. The DBA came into force on May 1, 2016, with a transitional period until May 1, 2017. As a result thereof, the responsibility over the employment relationship will partially fall on the client, instead of falling solely on the independent contractor. In a recent letter to the Dutch House of Representatives, the State Secretary of Finance indicated that, after the introduction of the DBA, every client that has parcels delivered by independent parcel couriers under

<sup>22</sup> Section 16, (5), of the Dutch Postal Act 2009.

<sup>23</sup> Section 4b, Postal decision 2009.

<sup>24</sup> See rulings ECLI:NL:RBMNE:2016:85, ECLI:NL:RBAMS:2016:153, ECLI:NL:RBOBR:2016:83, ECLI:NL:RBOBR:2016:81, ECLI:NL:RBMNE:2016:103 and ECLI:NL:RBNHO:2015:11230, local judge in Middelburg, 2 February 2016, case number 4793820 AZ 16-21 (ECLI-number not yet known), local judge in Eindhoven, 30 December 2015, case number 4637358 (ECLI-number not yet known), local judge in Eindhoven, 30 December 2015, case number 4582056 (ECLI-number not yet known), local judge in Middelburg, 19 February 2016, case number 4598414/AZ 15-90, 4744299 VV, 4744365 /AZ 16-13 (ECLI-number not yet known), local judge in Eindhoven, 10 February 2016, case number 4637358 \ EJ VERZ 15-735 (ECLI-number not yet known), local judge in Eindhoven, 10 February 2016, case number 4582122 \ EJ VERZ 15-686 (ECLI-number not yet known), ECLI:NL:RBAMS:2015:1480 and ECLI:NL:RBAMS:2016:4521.

<sup>25</sup> See ruling ECLI:NL:GHARL:2016:6621 and ECLI:NL:GHAMS:2016:2686.



the same conditions will receive a similar verdict in the assessment of the agreement by the Dutch Tax Administration.

At this stage, it is still too early to see the effects of these recent developments. ACM believes it is important, from an antitrust point of view, to continue to monitor all developments, and to stay in touch with all parties involved.

#### 4.5 Buyer power and bargaining position of senders

This study has revealed that a limited group of very large senders has strong bargaining power vis-à-vis the parcel services providers. As a result, large senders are able to negotiate lower rates, and to make higher demands on the service. Based on the information obtained by ACM, it turns out that the largest senders often pay, on average, less than half of the single item rate per parcel. The number of large online retailers in the Netherlands with the volumes to negotiate such competitive rates is limited. Most of the senders are small and medium-sized senders. One small online retailer says it has no access to certain lower rates or additional services because its volumes are small. In the consultation, two competitors confirmed this. One company says that small retailers do have alternatives for sending parcels cheaper, for example by joining group purchasing organizations.

The strong bargaining positions of the larger online retailers mean that, next to lower rates, they are also able to get better conditions and sometimes more additional services than the smaller online retailers can. These include services such as late drop-offs and other delivery options.<sup>26</sup> In the consultation, one parcel services provider indicated it does not share this view because the same products and services of the same quality are offered to all customers. In previous conversations, various buyers have said they *did* observe a difference between the availability of services for larger and smaller senders. For example, senders have said that only the larger online retailers are able to drop off parcels at sorting centers of a parcel services provider until after midnight, whereas smaller online retailers are dependent on the opening hours of the service locations. Another competitor said during the consultation that the strong bargaining positions of the larger senders put pressure on the terms of employment of the parcel couriers.

Because of the economies of scale and of density, parcel services providers have a significant interest in contracting the volumes of these large senders. What is striking is that almost all of the largest senders within the Netherlands use PostNL.<sup>27</sup> This observation matches the picture that has emerged from the discussions with senders. They indicate that PostNL has the most intricate delivery network and the best delivery quality, and that is it able to offer these at a competitive price. The largest senders thus have a more limited choice than what they appear to have based on the number of parcel services providers that are active in this market. Customers say that, when choosing a provider, they primarily look at service reliability, coverage of the delivery network, delivery quality,

<sup>26</sup> Newspaper de Limburger, "PostNL beweegt continu mee op dynamische markt", 10 October 2015.

<sup>27</sup> SOMO, "Webwinkels en het sociaal beleid van hun pakketdiensten", 2014, page 6.



the number of delivery attempts, and competitive rates. They are also fairly positive about the ease of switching providers, and they say they do not see any major obstacles.

The lack of bargaining power weakens the competitive positions of smaller online retailers. When purchasing products from online retailers, consumers also look at shipping costs, and the moment of delivery.<sup>28</sup> Large online retailers are able to offer 'free' shipments and fast delivery of late orders. The smaller online retailers are able to do so to a limited extent or even not at all. One competitor said in the consultation that, for small senders, alternatives do exist in order for them to remain competitive. For example, small senders are able to join group purchasing organizations or call in fulfilment companies.

Small online retailers have weaker bargaining positions or none at all to negotiate better rates and conditions. This difference in bargaining power between online retailers may thus have consequences for competition in the e-commerce market. This was not studied in this market scan.

#### 4.6 Rates

All parcel services providers have published their rates for single-item shipments via service locations. Based on the websites of the largest parcel services providers, an overview of the rates for a parcel of up to 10 kilos has been compiled in table 1. Following the opinion of a provider submitted in the consultation, the distinction between online franking and franking at a service location has been added.

Despite it being exempted from VAT, the rate of PostNL is higher than that of other parcel services providers. Furthermore, the rate of home delivery is higher than that for picking up at a service location. The cost advantages that PostNL should have because of the VAT exemption on the USO service, and the economies of scale because of larger volumes, are not reflected in lower rates. In the consultation, one competitor says that PostNL achieves high margins in this segment. This is an indication that, in this segment, competition is not strong. As indicated in section 4.2, PostNL has a market share of 85-90% in this segment based on volume.

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<sup>28</sup> Landmark Global, "Verzending en retour als marketinginstrumenten voor B2C e-commerce", 2014.



	PostNL <sup>29</sup>	DHL Parcel	DPD	GLS <sup>30</sup>
<b>Rates for home delivery (franking at service location)</b>	€6.95	€6.75	-	€6.25
<b>Rates for home delivery (online franking)</b>	€6.50	€5.75	€6.25	-
<b>Rates for picking up at service location (online franking)</b>	€5.95	€5	€4.00	-

Table 1: Rates for shipping a single parcel with parcel services providers<sup>31</sup>

Next to the parcel services providers, UPS, through its subsidiary Kiala, also offers a service that primarily focuses on inexpensive shipment of parcels from one service location to another. This service is different in terms of delivery times. With an average of four working days, Kiala's delivery times are a lot longer than those of parcel services providers. That is also reflected in the lower rate of €3.95. It is also possible to have parcels be delivered at home through UPS' network. A surcharge of €3.55 is added so that the total shipping costs are €7.50. Compared with the parcel services providers, the price difference between home delivery and picking it up at a service location is large with this service.

#### *Business segment*

In the business segment of the market, the rates are less uniform. The larger senders have individual contracts that contain discounts with the parcel services providers. These rates and discounts depend on multiple factors such as annual volumes, batch size, weight, dimensions, and the logistic requirements that the sender has.

Based on the turnover and volume data obtained from the parcel services providers, the average revenues have been calculated for domestic parcels. In 2015, the average was €4.23. Among providers, their averages vary widely. This may be caused by the differences in their customer portfolios and the types of parcels. The obtained data also reveals that the largest customers pay considerably lower rates with all parcel services providers than the market average. As indicated in section 4.5, this is because of the strong bargaining positions of large customers as a result of the importance of big volumes to parcel services providers.

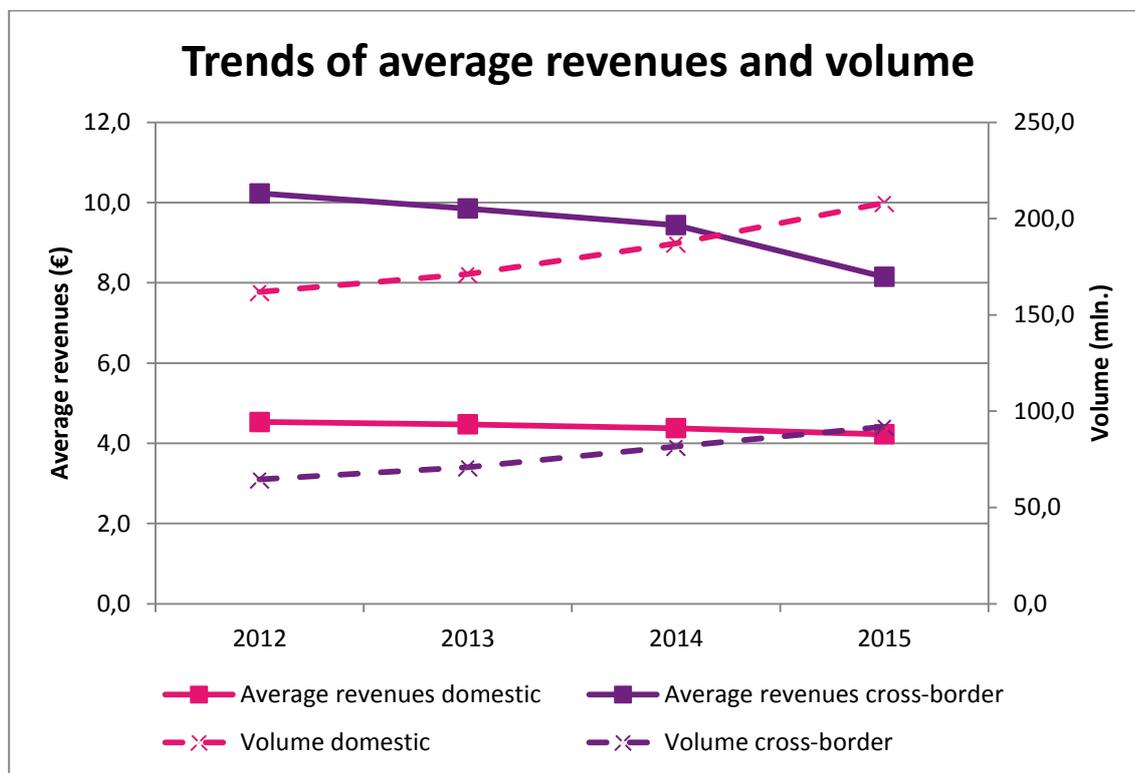
#### *Trend of average revenues*

Over the period of 2012 through 2015, the average revenues for domestic parcel deliveries dropped by €0.30. This is a relative decrease of 6.7%. Over the same period, the volume in the market increased by 28.8%. The relationship between the rate trend and the parcel volumes is indicated in figure 10.

<sup>29</sup> These rates of PostNL are regulated under the universal service obligation and are exempted from VAT.

<sup>30</sup> This is for parcels of which the length and width, when added together, do not exceed 50 centimeters. For larger parcels, other rates apply.

<sup>31</sup> Rates including VAT from websites concerning parcel services providers.



**Figure 10: Trends of average revenues and volume**

Parcel services providers say that considerable economies of scale and density can be realized in parcel deliveries. This means that the cost price per parcel decreases with an increase of the volume. The decrease of rates is limited. The economies of scale resulting from the strong market growth do not seem to lead directly to lower rates on average. It is possible that other factors such as increased quality, changes in the average parcel shipment weight, higher levels of concentration in the market, or stricter service performance levels have put upward pressure on the cost price. That has not been examined in further detail in this market scan. In their comments to the consultation report, several market participants also cite these factors as possible explanations.

The cost advantages that PostNL allegedly has according to multiple market participants because of the use of independent contractors, and the economies of scale because of larger volumes are not reflected in lower rates on the part of PostNL. This may be explained by the difference in service quality, a different composition of the range of parcel services or by the higher margins that PostNL achieves. According to several market participants, the limited decrease of the average revenues is caused by the allegedly large margins in the C2X segment, and PostNL benefits from this because of its high market share in the C2X segment. However, no quantitative data exists to support these claims. Although almost all market participants contend they are able to offer the same quality as PostNL does, buyers of parcel services say that they do see a difference in quality between competitors.



#### 4.7 Provision of service

With regard to the provision of service, a mixed picture emerges. On the one hand, several parcel services providers increasingly see the standard parcel services as commodity products with little quality differences between competitors. On the other hand, buyers *do* see quality differences between the different providers. At the same time, various innovations are emerging on the market. These primarily focus on faster and more convenient deliveries of parcels for recipients. There are also initiatives for more specialized forms of services, and for a more sustainable delivery process in connection with overburdened networks and with deliveries in crowded downtown areas.

When looking at the choices for consumers in the C2X segment, it must be noted that PostNL has an advantage here compared with the other providers because it has the most service locations, and the best reputation. By and large, consumers opt for PostNL, which controls 85-90% of the market in this segment in terms of volume.

Because of the tremendous growth in the B2C segment, consumers are becoming more and more important for parcel services providers, which in turn make the service locations, which are also part of the network, more and more important. At such service locations, consumers are able to pick up parcels or drop them off for shipment. The number of service locations varies widely per provider, as can be seen in table 2. PostNL has, by far, the highest number of service locations. These service locations are becoming more and more important for the service that these companies provide.

Parcel services provider	Number of service locations
PostNL <sup>32</sup>	2,900
DHL Parcel <sup>33</sup>	1,300
DPD <sup>34</sup>	750
GLS <sup>35</sup>	600
UPS/Kiala <sup>36</sup>	825
<b>Total</b>	<b>6,375</b>

Table 2: Number of service locations according to the websites of the parcel services providers

<sup>32</sup> <http://www.postnl.nl/over-postnl/over-ons/onze-organisatie/pakketten/>

<sup>33</sup> <https://www.dhlparcel.nl/nl/particulier/parcelshop>

<sup>34</sup> [https://www.dpd.com/nl\\_privateklanten#!pickup](https://www.dpd.com/nl_privateklanten#!pickup)

<sup>35</sup> <https://gls-group.eu/NL/nl/pakket-versturen/gls-pakketshops>

<sup>36</sup> <https://www.upstoday.com/nl/couriers/ups-access-point>



## 5 Digital Single Market initiative

In terms of regulations, the most important development is the European Commission's Digital Single Market initiative. This initiative mainly focuses on the level of transparency and rates of cross-border parcel delivery services.

### 5.1 Proposal on cross-border parcel delivery services

In May 2015, the EC launched the Digital Single Market strategy.<sup>37</sup> One of the goals of this strategy is the creation of a digital single market in Europe. Its objective is to stimulate e-commerce within Europe by tearing down regulatory walls for both consumers and businesses.<sup>38</sup> The EC sees a well-functioning market for cross-border parcel delivery services as an essential condition for stimulating e-commerce. To that end, the proposal on Cross-border parcel delivery services was published in May 2016.<sup>39</sup> The objective of this proposal is to make cross-border parcel deliveries cheaper and more efficient. The EC has established that several measures need to be taken in order to increase the level of transparency in the market for cross-border parcel delivery services.

#### 5.1.1 Key element of the proposal

Section 4.2 explained that cross-border parcel deliveries are growing faster than domestic parcel deliveries. In 2015, approximately 31% of the volume and 45% of the turnover concerned cross-border parcels. The market for cross-border parcel delivery services is less concentrated than that for domestic parcel delivery services. In addition, the competitive positions between market participants based on market shares are different on this market.

The EC's proposal was preceded by a public consultation. In the consultation report, the EC notes that various stakeholders complain about a lack of transparency and the level of the delivery rates.<sup>40</sup> Moreover, the EC concludes that the interests of consumers who make online cross-border purchases are not taken into account in the current regulatory regime for the postal market. According to the EC, both consumers and online retailers believe that the current prices for cross-border parcel delivery services are too high, and that the choice between parcel services providers is not always easy to make because of a lack of transparency. In addition, consumers are negatively affected by a lack of information about their orders, and experience delivery problems about which they often do not know whom to contact. The EC has also established that the rates for cross-border parcel delivery services significantly vary, even if there is no difference between two deliveries in terms of destination or the number of items. According to the EC, it is therefore important that more clarity is given about how rates are set, about the available options for parcel delivery, and the

<sup>37</sup> Press release: [http://europa.eu/rapid/press-release\\_IP-15-4919\\_en.htm](http://europa.eu/rapid/press-release_IP-15-4919_en.htm).

<sup>38</sup> Green Paper: An integrated parcel delivery market for the growth of e-commerce in the EU; COM(2012) 698 final.

<sup>39</sup> Proposal for a regulation of the European Parliament and of the Council on cross-border parcel delivery services, 2016/0149(COD); see <https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/1-2016-285-EN-F1-1.PDF><https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/1-2016-285-EN-F1-1.PDF>

<sup>40</sup> Green Paper: An integrated parcel delivery market for the growth of e-commerce in the EU; COM(2012) 698 final.



service quality.<sup>41</sup>

Increasing the level of transparency in this market (both in terms of the level of the rates and information about delivery and quality), the EC says, will result in parcel services providers being stimulated to improve their performances. Consumers will thus also be able to make well-informed choices.<sup>42</sup>

Based on this analysis, the EC proposes introducing several requirements:

- Providers of parcel delivery services must submit information to regulators, including information about turnover and number of parcels/shipments;
- Every year, the provider of the universal service obligation (USO), which is PostNL in the Netherlands, must submit the public rates of a number of services to the national regulator, which is ACM in the Netherlands. These rates are published on a special website of the EC. In addition, ACM assesses the affordability of these rates.
- By way of a reference offer, the provider of the USO must offer parcel services providers access to cross-border parcel deliveries in a transparent and non-discriminatory manner. ACM must approve this reference offer.

### 5.1.2 Opinions of parcel services providers

Various parcel services providers have indicated in discussions that they believe there is sufficient competition in the market for cross-border parcel deliveries. Providers additionally believe that it should be taken into account that the major international online retailers have a strong position in the rate negotiations, as well as its effect on the margins of the parcel services providers. Furthermore, they believe it is obvious that the rates for cross-border parcel deliveries, as indicated in section 4.6, are higher than those for domestic parcel deliveries because of the longer distances, and the thereto-related shipment costs. Moreover, the providers say there is more and more transparency in the market as a result of shipment comparison websites to which the smaller online retailers also have access. Consumers also have more and more information when it comes to delivery of their products such as track & trace services. Further regulation of this market is therefore not necessary, according to the parcel services providers.

This picture is confirmed by the European Express Association. It expressed its doubts about the question of whether it is in the interests of consumers and of competition in the market to make the shipment rates that providers have agreed on with the online retailers transparent for everyone. After all, such rates are the result of specific contract negotiations between market participants, and can thus not be used as rates that should apply to the entire market. According to the European Express Association, it is sufficient to publish the rates that specifically apply to consumers, which already

<sup>41</sup> Communication from the Commission, A roadmap for completing the single market for parcel delivery. Build trust in delivery services and encourage online sales; COM(2013) 886 final.

<sup>42</sup> Green Paper: An integrated parcel delivery market for the growth of e-commerce in the EU; COM(2012) 698 final.



happens. Consumers are able to understand these easily, which makes the rate-setting process sufficiently transparent for consumers.<sup>43</sup>

On the other hand, several buyers of parcel services have indicated in discussions that there *is* a lack of price transparency in the market. They say that both consumers and businesses have difficulties with getting an overview of the rates in advance, and with an explanation of how they have been set.

### 5.1.3 Analysis of cross-border parcel deliveries

In a joint opinion, BEREC, ERGP<sup>44</sup> and the Ministry of Economic Affairs<sup>45</sup> have expressed their criticism against the EC's proposal. This opinion had been drawn up before the EC's final proposal was announced. Market participants have not yet responded to the latter proposal.

In this market scan, ACM has established that the level of concentration in the market for cross-border parcel deliveries, as revealed by the figures in section 4.2, is lower than that in the market for domestic parcel deliveries. At the same time, section 4.6 reveals that the average revenues of parcel services providers on cross-border parcels are higher than on domestic parcels. According to several parcel services providers, this is because of the fact that cross-border parcel deliveries generally require more physical transportation. The average revenues, however, are decreasing, which may indicate a certain level of competition.

Some buyers have indicated in discussions that they are observing problems regarding price transparency with the rates that parcel services providers charge the online retailers for shipping the parcels. The providers themselves say they do not see this problem because there is supposedly sufficient competition in the market, which more or less forces providers to be transparent about their offerings. The Ministry of Economic Affairs adds that it is not yet convinced of a lack of transparency in the market compared with other markets that are unregulated. In order to be able to claim that the current rates are not competitive, the Ministry argues that a study should be conducted into how the rates are established in the market.<sup>46</sup>

The cross-border parcel delivery segment is a market with heterogeneous buyers (online retailers). Just like on the market for domestic parcel deliveries, the major online retailers have sufficient buyer power to negotiate an as low as possible rate. Increased price transparency could offer the smaller online retailers more insight into their shipping costs per provider. However, that will not close the power gap with the larger online retailers. Practical issues such as payment options and the

<sup>43</sup> European Express Association, EEA Response to European Commission Green Paper on an integrated parcel delivery market for the growth of e-commerce in the EU, 19-02-2013.

<sup>44</sup> Price transparency and regulatory oversight of cross-border parcels delivery, taking into account possible regulatory insights from the electronic communications sector / Body of European Regulators for Electronic Communications (BEREC) – European Regulators Group for Postal Services (ERGP), 2015.

<sup>45</sup> Ministry of Economic Affairs, *Reactie op openbare raadpleging over grensoverschrijdende pakketbezorging*, 2016.

<sup>46</sup> Ministry of Economic Affairs, *Reactie op openbare raadpleging over grensoverschrijdende pakketbezorging*, 2015.

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organization of return shipments are possible other obstacles to the development of the market for cross-border parcel deliveries. Furthermore, the market for cross-border parcels, too, has barriers to entry for new providers. These factors cannot be solved by doing something about transparency or the rates alone.

ACM's analysis shows that, at this point, it is not yet clear that problems are caused by a lack of transparency in the market and/or by unaffordable rates.



## 6 Findings

ACM has studied the Dutch parcel market. The most important findings are:

- The market for parcel deliveries has grown tremendously;
- While introducing new services, parcel services providers primarily compete on price;
- The market for domestic parcel deliveries is concentrated - monitoring is needed;
- The market for cross-border parcel deliveries is less concentrated;
- PostNL enjoys competitive advantage (because of VAT exemption) in a small segment of the market for parcel deliveries;
- There is a lot of attention to the deployment of independent parcel couriers by PostNL;
- Major online retailers have strong purchasing positions.