Parcel distribution to consumers
Competition and Consumer Analysis 02

2013
1.1 Summary and main conclusions

The market for the distribution of goods bought online is a growing market. From 2007 to 2012, e-commerce revenue grew by approx. 17 per cent each year in Denmark. In 2012, there were approx. 51 million Danish online transactions in physical goods. More than three million Danes traded online for a total of DKK 55 billion in 2012. At the same time, more e-tailers have entered the market, and more physical stores use the Internet as a sales channel. This helps boost competition and innovation on all sales channels and provides new opportunities for consumers.

Growing e-commerce has contributed to increased competition for the distribution of goods bought online. Today, several providers offer competing services in the market. However, there are indications that the Danish market for the distribution of goods bought online does not yet perform so well as in other countries.

Higher Danish list prices for distribution and relatively few distributors

The goods most frequently bought online include CDs, DVDs, clothing, shoes, books and electronics. These goods typically weigh approx. 1-2 kg. A large number of consignments from e-tailers are small consignments that can be sent as letters, such as ‘maxi letters’. Because ‘maxi letters’ can be distributed as ordinary mail, the price is lower than for parcels.

In 2011, the Danish list prices for the domestic and cross-border distribution of parcels and letters of 1-2 kg were between 10 and 36 per cent higher than the average prices in nine comparable EU countries (Belgium, Denmark, Finland, France, Italy, the Netherlands, the United Kingdom, Sweden and Germany) when adjusted for VAT differences. The prices were collected from the websites of the national postal enterprises and apply to the type of product with the shortest time of delivery.

Another study showed that the list price for a domestic letter product of 1 kg and a domestic parcel product of 2 kg was 17 and 14 per cent, respectively, higher in Denmark than the average prices in the EU9 countries and Norway in 2011. The prices were collected from Eurostat and apply to a so-called priority consignment. The study did not make any adjustment for VAT differences. Adjustment for VAT differences would lead to a greater price difference.

According to a third study, the list prices for consignments are about 14 per cent higher for a small Danish e-tailer selling some of the most frequently bought goods than the average prices for corresponding e-tailers in the United Kingdom, Sweden and Germany when adjusted for VAT differences. The price difference is based on the 2013 list prices offered by the national postal enterprises in 2013 for an economy product. Both letters and parcels are included in the comparison as an e-tailer typically uses both types of consignments.

Thus, several studies indicate that the Danish list prices for small consignments are higher in Denmark than in the countries around us.

Many e-tailers do not pay list prices for distribution, but receive a discount. Hence, volume discounts are widespread in the market for the distribution of letters and parcels. Discounts
may appear either from the general price list or from an individually negotiated contract. This analysis has identified unequal terms of competition for VAT-exempt consignments based on the general price lists. The Authority has therefore used list prices for the price comparisons. Moreover, the actual prices inclusive of discounts are corporate business secrets, both in Denmark and abroad. Accordingly, this analysis does not allow a conclusion to be drawn as to whether the actual prices paid by e-tailers are also higher in Denmark than in the countries used for comparison. However, none of the e-tailers contacted by the Authority thought that prices were lower in Denmark.

Denmark has few businesses offering parcel distribution compared with France, Germany and Sweden, to mention a few. The national supervisory authorities for postal enterprises have stated that France has eight to ten large providers, Germany has five large and several small providers, while Sweden has four large and several small providers. Denmark has two large and several small providers.

A survey of 145 Danish e-tailers shows that 54 per cent of e-tailers use only one distributor for their deliveries. A good eight of ten Danish e-tailers use Post Danmark A/S (Post Danmark) for the distribution of parcels and letters. By comparison, 29 per cent of e-tailers use the other large provider, GLS Denmark (GLS), and 7 per cent use various small providers: Bring, UPS or DHL.

In addition to a difference in competitive intensity, geographical differences may also serve to explain the difference in the number of parcel delivery providers.

**VAT exemption for universal services may result in unequal terms of competition**

Post Danmark is subject to a universal service obligation implying certain minimum requirements as to the scope of the postal service. The minimum requirements are based on a political decision. Accordingly, the service level of the postal distribution is politically determined.

Today the universal service obligation ensures, i.a., doorstep delivery of parcels of up to 20 kg on all working days in all regions of the country, also in thinly populated areas, where such distribution may be unprofitable.

The universal service obligation also implies pricing requirements. Accordingly, it is politically determined that individual consignments, that is, consignments sent occasionally, are subject to nationwide unit prices and terms that are uniform for everyone, whereas prices for other addressed consignments must be cost-based, non-discriminatory and transparent.

In principle, a politically determined service level higher than the service level that would arise in a non-regulated market will give rise to additional costs. The size of such additional costs depends partly on how much higher the politically determined service level is than the service that would be offered by a free market. When the universal service obligation is allocated to one operator, this operator may also obtain economies of scale that reduce the additional costs.

It follows from an EU directive that universal services are exempt from VAT.

The VAT exemption gives Post Danmark immediate advantages in the fields in which Post Danmark is exposed to competition. Due to the VAT exemption, Post Danmark is able, all things being equal, to sell letter and parcel services to consumers and VAT-exempted businesses at lower prices compared with an equally efficient, competing parcel distributor rated for VAT. On the other hand, the universal service obligation means that Post Danmark may have additional costs compared with an equally efficient, competing parcel distributor. The total effect depends on the size of the two opposed effects.
In the European Union, the universal service obligation in the postal field has resulted in various solutions. This appears from a study of the postal regulation in a number of EU member states. In Denmark, the universal service obligation is relatively comprehensive compared with countries like Sweden, the Netherlands and France. In Sweden, the universal service obligation is limited to a parcel service without doorstep delivery. In France and the Netherlands, the universal service obligation is limited to individual consignments only, which means that a large proportion of e-commerce is not covered as e-tailers typically send more than a single parcel at a time. In France and the Netherlands, the market has provided a nationwide parcel delivery service regardless of the less comprehensive universal service obligation. Consumers can have goods bought online delivered to their doorstep even though no provider is obliged to deliver to a consumer’s address.

Due to the more comprehensive universal service obligation, relatively more services are exempt from VAT in Denmark than in the other countries. This means that those countries have chosen a market solution in more fields than Denmark and have avoided granting a VAT exemption.

The universal service provider does not have to substantiate the size of the additional financial burdens caused by the universal service obligation to any authority on a continuous basis. It is therefore unknown whether the financial advantage granted to the universal service provider through the VAT exemption exactly compensates for the additional costs related to the universal service obligation.

The Danish Competition and Consumer Authority has been unable to examine the costs of the total universal service obligation, which comprises both letters and parcels, and to calculate the total savings implied by the VAT exemption. The reason is that Post Danmark has not stated any cost and price details in this field in its consultation reply.

Developments in the parcel delivery market
Because the number of parcels bought online has risen, several providers have entered the market to deliver parcels to consumers. In addition to Post Danmark, the parcel delivery market today includes distributors offering delivery of parcels to consumers nationwide. Thus, national parcel distributors exist, but are not subject to any obligation to distribute parcels to the entire country. These distributors may therefore freely choose the place, frequency and form of delivery. This applies to GLS and Dagbladenes Distributionssnet (DAO), a magazine distribution provider. These providers do not supply products identical to those of Post Danmark, but have adjusted their services to the market.

The most common service is delivery to a parcel shop where consumers can collect parcels. Supermarkets, kiosks and other retail outlets also increasingly supplement post offices as collection sites where consumers can collect goods bought online. Delivery to parcel shops or post offices is less expensive than doorstep delivery and provides better opportunities for new parcel operators to compete in the market.

New distributors also deliver to consumer addresses. As an example, this applies to DAO, which has delivered parcels of up to 3 kg to consumer addresses nationwide for the past year.

Less than 30 per cent of the e-tailers who responded to the survey of the Competition and Consumer Authority stated that doorstep delivery is one of the three most important factors in parcel and mail delivery providers. For most e-tailers, price, reliability of delivery and speed of delivery are the three most important factors.

There is also a growing trend among consumers to use alternative forms of delivery rather than doorstep delivery in e-commerce. In 2012, approx. 48 per cent of consumers had goods delivered to their address, compared to 62 per cent in 2011. These figures do not distinguish between parcel deliveries and letter deliveries. Most of the goods bought online and delivered
as letters are doorstep deliveries. The proportion of parcels delivered to the doorstep is therefore probably lower than the 48 and 62 per cent, respectively.

These factors indicate that the distribution to parcel shops or post offices has become of relatively greater importance that the distribution of parcels to the doorstep.

The universal service obligation is necessary if postal services meeting the politically agreed minimum requirements are not adequately provided on market terms. Conversely, a universal service obligation will not be necessary in the event that one or more providers offer services on terms that meet the service level decided. As an example, there is no universal service obligation for parcels weighing more than 20 kg or for B2B parcels.

In Denmark, several operators deliver parcels bought online to consumers, both to the doorstep and to parcel shops. This gives rise to considerations as to whether the universal service obligation for parcels could become better adjusted to market developments, thereby improving market performance, see box 1.2. In the end, however, it is a political decision whether the service level for parcels should be determined by the market.

The considerations of an adjustment of the scope of the universal service obligation also include the extent of the VAT exemption. On an overall basis, more equal terms of competition for doorstep parcel delivery and delivery to parcel shops and workplaces could increase consumer welfare and increase the pressure on market operators to develop and offer attractive delivery products. However, the increased consumer welfare may not necessarily benefit all consumers. If there is no requirement of uniform terms of delivery for all regions of Denmark, one solution may be offered in one region while another solution is offered in another region. Some consumers will probably find that the universal service obligation resulted in higher welfare.

**Consumers have limited options**

Today, approx. 60 per cent of the Danish e-tailers who participated in the survey of the Authority do not offer consumers any options for the delivery of goods bought online. When e-tailers do not offer consumers various parcel delivery options, consumers have less opportunity to choose a delivery product themselves and thereby boost competition.

One factor that may contribute to guiding the consumers’ choice of delivery product is the e-tailer’s advance ticking-off of a specific delivery option. Of the approx. 40 per cent of e-tailers who offer several delivery options, more than 40 per cent have ticked off one delivery product in advance on their websites. If consumers are unconsciously guided towards the delivery product ticked off in advance by the e-tailer, the consumers’ incentive to help boost competition through active choices is weakened.

Another factor of importance to the active choice of consumers is whether the e-tailers state the price of delivery before the customer enters his address details on the website. Yet another key factor is whether the e-tailers have chosen a website solution that supports an automatic change of the price of delivery when goods are added to or removed from the shopping basket. E-tailers may advantageously take inspiration from the website solutions that, first of all, display the price of delivery already on the front page and, secondly, change the stated price of delivery when goods are added to or removed from the shopping basket.

The e-tailer survey carried out by the Competition and Consumer Authority points out that e-tailers are competing by offering low prices for the physical goods. However, the analyses of the Competition and Consumer Authority also show that there is a potential for boosting competition in the parcel delivery market in order to ensure better market performance to the benefit of consumers. As the price for delivery of the goods is part of the total purchase, there is a potential for e-tailers to make more use of delivery products as a competition parameter. If both e-tailers and consumers become more aware of delivery products, including choice and
price, the incentive for parcel delivery operators and e-tailers to offer a larger variety of choice of delivery products will be greater.

Several e-tailers offer free delivery. Such e-tailers will, in particular, demand inexpensive and effective delivery products. At the same time, the competitive pressure from foreign e-tailers will cause Danish e-tailers to be active in making demands of the delivery product, particularly a low price.

Chapter 2 deals with the problems existing in the parcel delivery market. Higher Danish prices, few parcel distributors and high entry barriers constitute the most important problems. The operators in the market and the distribution of cross-border parcels are also described. Chapter 3 describes market regulations and the challenges to effective market competition posed by the current regulatory setting. Chapter 4 concerns the options open to consumers with regard to delivery products and the factors restricting their range of options. The chapter also deals with the use of discounts in the market.
Main conclusions

**Box 1.1**  
**Higher Danish list prices for distribution**

- The Danish list prices for the distribution of parcels of 1-2 kg are higher than abroad, when adjusted for VAT differences. The price for sending a parcel or a letter weighing 1-2 kg was between 10 and 36 per cent higher in 2011 than the average of prices in Belgium, Denmark, Finland, France, Italy, the Netherlands, the United Kingdom, Sweden and Germany. No discount agreements have been included in the price comparisons. A large part of the e-commerce consists of CDs, DVDs, clothing, shoes, books and electronics. These goods typically weigh approx. 1-2 kg and are sent as letters or small parcels. The prices were collected from the websites of the national postal enterprises and apply to a consignment with the shortest time of delivery.

- The list price in 2011 for a priority domestic letter product of 1 kg and a domestic parcel product of 2 kg was 17 and 14 per cent, respectively, higher in Denmark than the average prices in the EU9 countries and Norway. The prices were collected from Eurostat and apply to a so-called priority consignment. The study did not make any adjustment for VAT differences. An adjustment would lead to a greater price difference.

- The list prices for distribution are about 14 per cent higher for a small Danish e-tailer selling some of the most frequently bought goods than the average list prices for corresponding e-tailers in the United Kingdom, Sweden and Germany when adjusted for VAT differences. The price difference is based on the 2013 list prices offered by the national postal enterprises for an economy product. Both letters and parcels are included in the comparison as e-tailers typically use both types of consignments.

**VAT exemption for universal services may result in unequal terms of competition**

- Post Danmark has been appointed the universal service provider in Denmark. Consequently, Post Danmark is exempt from VAT on the delivery of B2B parcels, except in case of individually negotiated terms, and on the delivery of C2C parcels.

- The VAT exemption gives Post Danmark immediate advantages in the fields in which Post Danmark is exposed to competition. Due to the VAT exemption, Post Danmark is able, all things being equal, to sell letter and parcel services to consumers and VAT-exempted businesses at lower prices compared with an equally efficient, competing parcel distributor rated for VAT. On the other hand, the universal service obligation means that Post Danmark may have additional costs compared with an equally efficient, competing parcel distributor. The total effect depends on the size of the two opposed effects.

- In the EU, the universal service obligation in postal fields has resulted in various solutions. This appears from a study of postal regulation in a number of EU member states. In Denmark, the universal service obligation is more comprehensive than in countries like Sweden, the Netherlands and France. In France and the Netherlands, the market has provided a nationwide parcel delivery service regardless of the less comprehensive universal service obligation. In Sweden the universal service obligation only applies to consignments delivered to a parcel shop.

- Due to the more comprehensive universal service obligation, relatively more services are exempt from VAT in Denmark than in the other countries. This means that those countries have chosen a market solution in more fields than Denmark has and have avoided granting a VAT exemption.

**Consumers have limited options**

- Even though the competition for parcel distribution has increased in recent years, Denmark has relatively few businesses offering parcel distribution compared with France, Germany and Sweden, to mention a few. The national supervisory authorities for postal enterprises have stated that France has eight to ten large providers, Germany has five large and several small providers, while Sweden has four large and several small providers. Denmark has two large and several small providers.

- Fifty-four percent of e-tailers use only one distributor for the delivery of parcels and letters. Just over eight of ten Danish e-tailers use Post Danmark for the delivery of parcels and letters. By comparison, 29 per cent of e-tailers use the other large provider, GLS, and 7 per cent use various small providers: Bring, UPS or DHL.

- A substantial part of the e-tailers, approx. 60 per cent, do not offer consumers any delivery options for goods bought online. Approx. 40 per cent of e-tailers offer several delivery options. Among them, more than 40 per cent have ticked off a delivery product in advance on their website. If consumers are unconsciously guided towards the delivery product ticked off in advance by the e-tailer, this will weaken their incentive to help boost competition through active choices.
The results of the analysis give reason to consider possibilities that may improve the performance of the parcel delivery market for consumers by improving competition and consumer conditions, see box 1.2.

Box 1.2
Considerations on improved competition and consumer conditions in the parcel delivery market

A well-performing market for the distribution of goods bought online is important to support the growing e-commerce. Based on the results from the analysis, the Competition and Consumer Authority have identified several factors that give reason to consider whether the performance of this market can be improved. The considerations also include the necessity of ensuring that the market regulation supports development and good terms of competition, that e-tailers encourage consumers more to make active choices and that consumers become more aware of choosing the best delivery products on the market.

Considerations of the Competition and Consumer Authority on improved competition and consumer conditions:

1. Can the VAT exemption for parcel distribution be restricted by limiting the universal service obligation?

It is a political decision to determine the scope of the universal service obligation. In light of the development in the parcel delivery market, a demand for adjusting the regulation may arise. The following two examples may inspire to considerations on how the universal service obligation might be adjusted.

» Can the universal service obligation for B2C parcels be limited to apply only to parcels sent individually on terms that are uniform for everyone?

In the example, only parcels handed in for distribution as individual parcels on terms that are uniform for everyone will fall within the scope of the universal service obligation. In this way, the VAT exemption for parcels will only apply to individual parcels. An individual parcel means a parcel which is handed in occasionally and/or in small numbers and is to be delivered at unit rates pursuant to the postal regulation. Excluded from the universal service obligation will thus be the distribution of parcels for businesses and private individuals (1) offered to businesses; (2) according to a contract; and (3) comprising the delivery of several parcels. In this example, the distribution of several parcels, as opposed to individual parcels, from businesses to consumers will be VAT taxable. This applies whether the parcels must be delivered to a parcel shop or to the doorstep. Conversely, Post Danmark will not be under a universal service obligation, and thereby subject to the service guarantee implied by the obligation, for this type of parcels.

» Can the universal service obligation for parcels be limited to doorstep delivery only?

Another example might imply that only parcels handed in for doorstep delivery will fall within the universal service obligation. In that way, all consumers would be guaranteed doorstep delivery. By contrast, parcel distribution to parcel shops, post offices, etc., will not be covered by a universal service obligation. The VAT exemption will thus only apply to parcels delivered to the doorstep, whereas parcel deliveries to parcel shops or post offices will be VAT taxable. In this example, it would have to be considered how to implement in practice an arrangement where the choice of place of delivery will determine whether a parcel becomes VAT taxable or not. Such system might become complicated by the fact that the parcel recipient may choose the place of delivery.

In an overall view, the considerations described above are assessed as capable of increasing consumer welfare. However, the increased consumer welfare may not necessarily benefit all consumers. If there is no requirement of uniform terms of delivery for all regions of Denmark, one solution may be offered in one region while another solution is offered in another region.

A further consideration might be to separate the close linkage between VAT exemption and universal service obligation. However, this will require amendment of an EU directive.
2. Can e-tailers and price comparison sites encourage consumers more to make active choices of delivery products based on transparent prices and other details?

For consumers to be able to make active choices, a good framework is a prerequisite. To improve the framework, the following considerations might contribute to better conditions in the market:

*Improvements may be made, for example:*

» if e-tailers refrain from ticking off boxes about delivery products in advance on their website unless there is only one choice.

Pre-ticked boxes on websites influence the consumers’ choice as consumers tend to use the product chosen for them.

» if e-tailers make it easier for consumers to find information on the price of delivery and the options offered for the delivery of goods.

They can do so by clearly displaying on the website where the consumer can read about the delivery products, and by clearly displaying the delivery options and prices as soon as the consumer has added an item to the electronic shopping basket. The offer and price of delivery products may then change as more goods are added to the basket or removed again.

» if e-tailers demand and develop various alternative delivery products to the benefit of consumers.

They may make such demands of either the existing distributor or of new ones. One product might be more flexible delivery to enable the consumer to have the parcel delivered within a defined period of the day.

3. Can consumers become more aware that delivery is a product in itself in e-commerce?

When choosing an e-tailer, consumers can advantageously consider whether the e-tailer offers the delivery product that best suits their needs. This may be low-price products or special terms of delivery.