Amazon: A challenge for the competition in the German parcel market?

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Agenda

B2C e-commerce and the role of online marketplaces in Germany

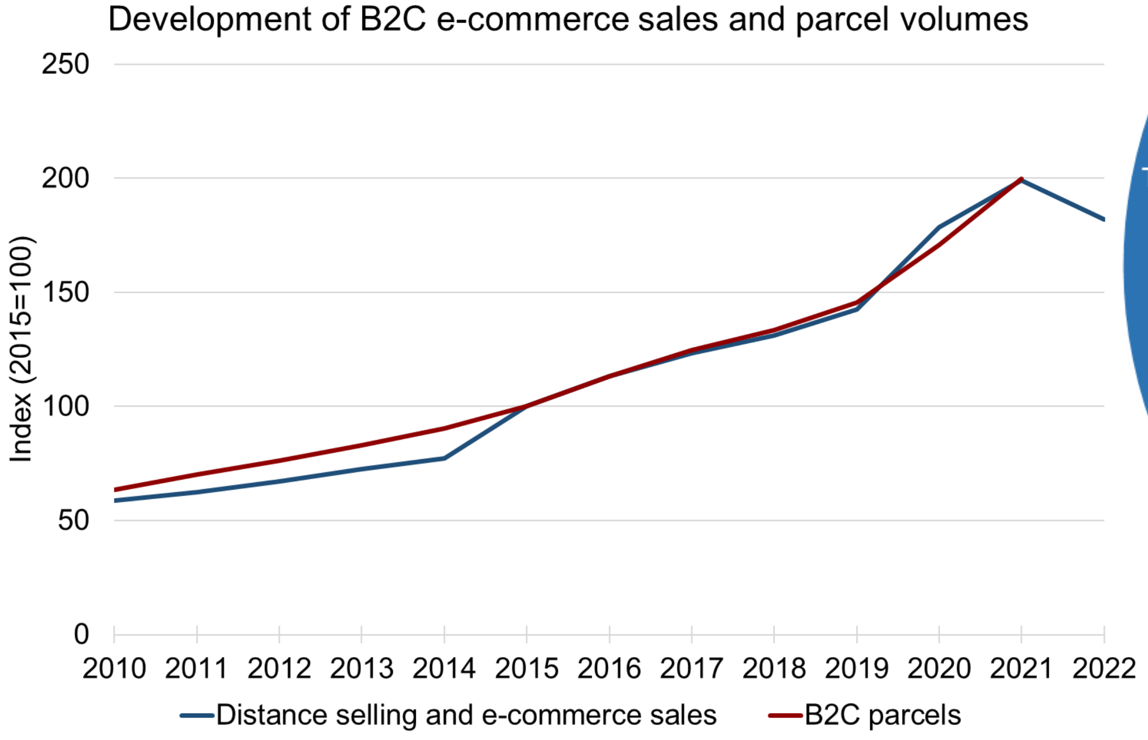
Amazon and the German parcel market

Amazon: A challenge for the competition in the German parcel market?

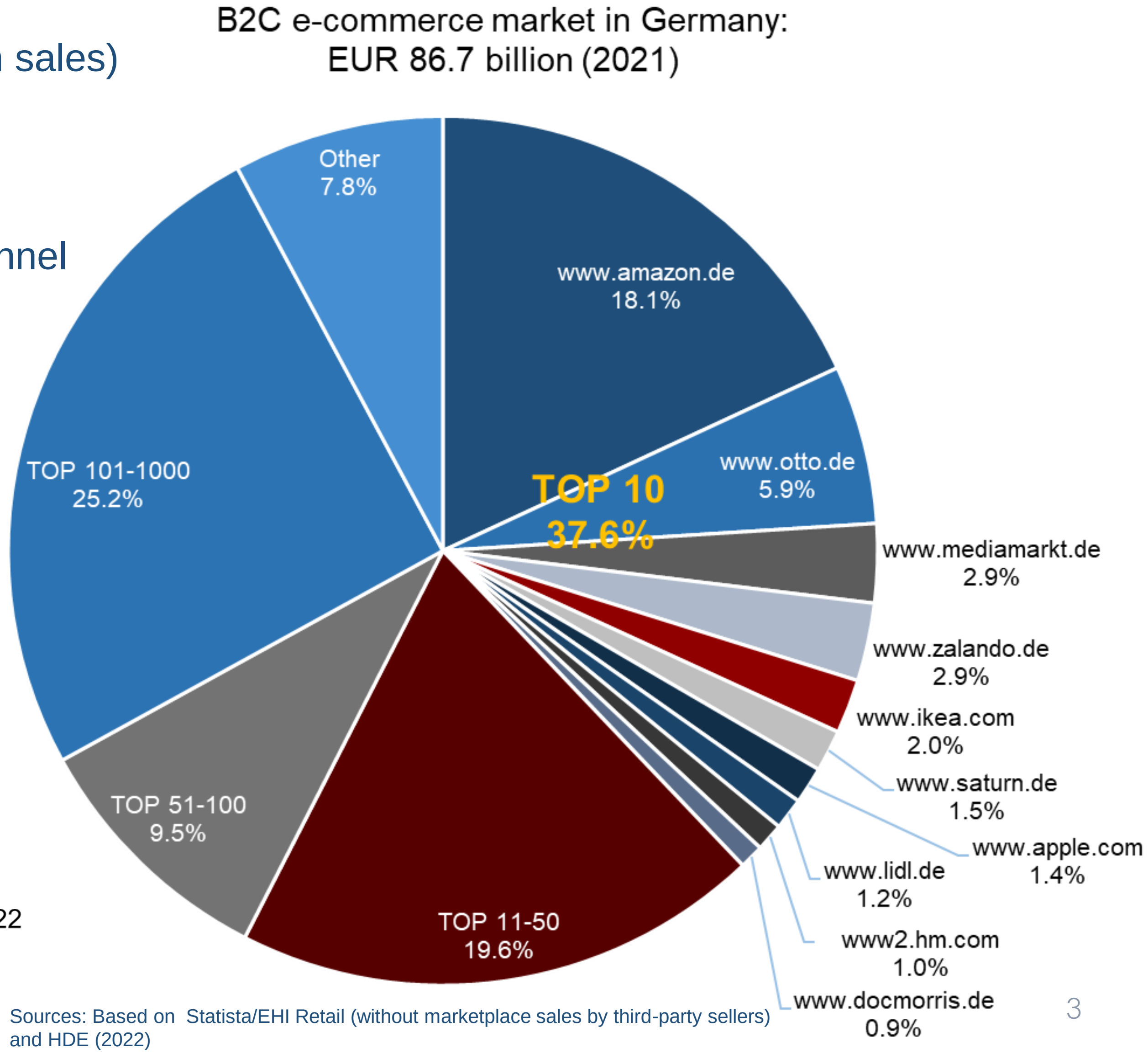
B2C e-commerce in Germany

Steadily growing and fairly concentrated

- B2C e-commerce for physical and digital goods (own sales)
- Quadrupling since 2010
- B2C e-commerce driving parcel deliveries
- E-retailers often use more than one online sales channel



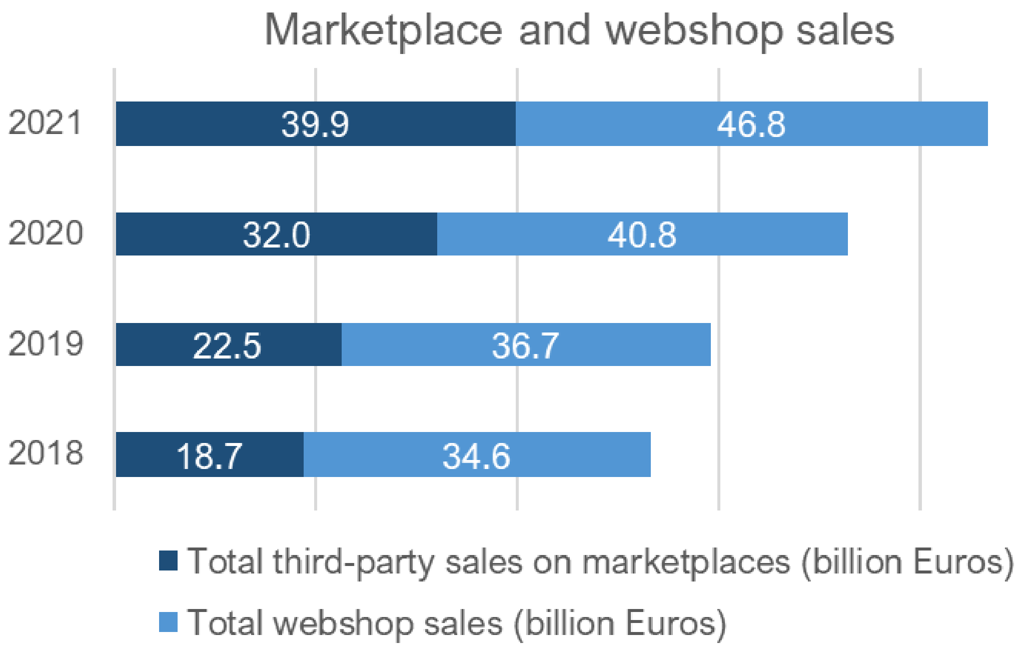
Quellen: Based on Destatis and BIEK

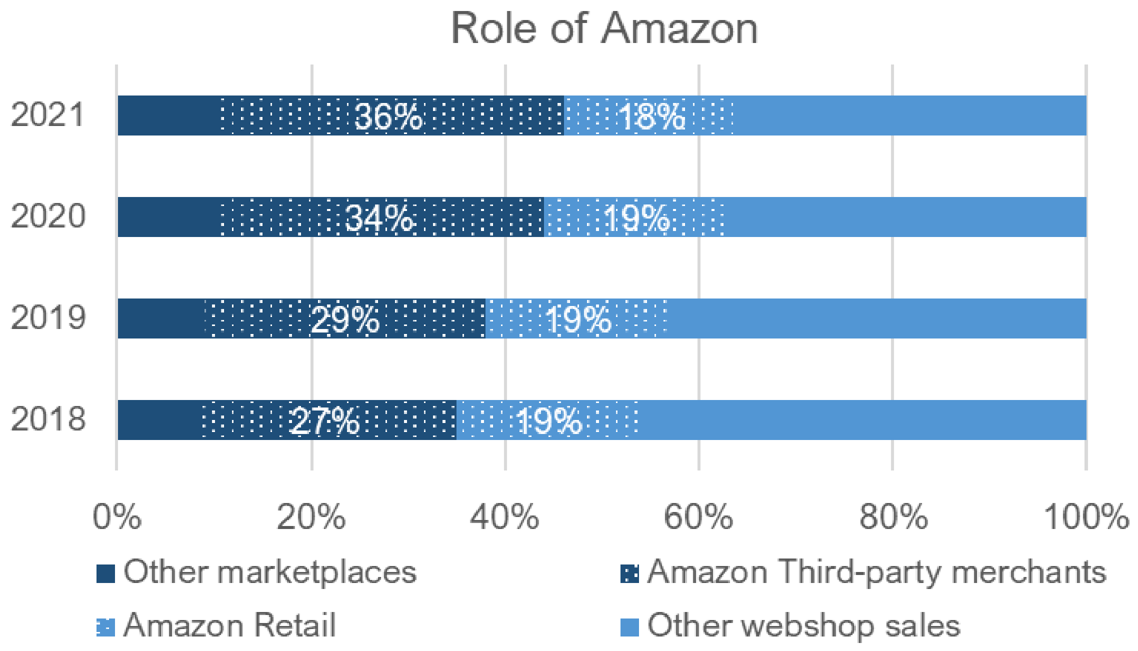


Sources: Based on Statista/EHI Retail (without marketplace sales by third-party sellers) and HDE (2022)

B2C e-commerce in Germany

Growing importance of online marketplaces with outstanding position of Amazon





Source: Based on HDE-Monitor

Estimates of the most important retail association (HDE)

- Increasing share of sales on online marketplaces in total: From 35% (2018) to 46% (2021) of total online sales (physical and digital goods)
- Amazon (Retail and Marketplace) share of total online sales estimated at 54%.
- Amazon Marketplace share of total third-party marketplace sales estimated at more than 75%

B2C e-commerce in Germany

Why is the Amazon marketplace so successful?

- Technology-driven hybrid marketplace: Amazon Retail and sales of third-party merchants
- First mover advantage (marketplace launched in 2002) and strict focus on customer experience
- Customer loyalty programme Prime (free and quick delivery) as key driver for the success
- Fulfilment by Amazon: Highly standardised e-fulfilment services (for sortable products)
  - Due to the reach of the Amazon marketplace (in combination with the Prime label) third-party merchants accept the strict warehousing standards of Amazon
- Financíal capacity for significant investments (and – in the past – investors accepted losses in exchange to growth)

Amazon is under scrutiny by the German competition authority

- The authority determined Amazon’s paramount significance for competition across markets in July 2022

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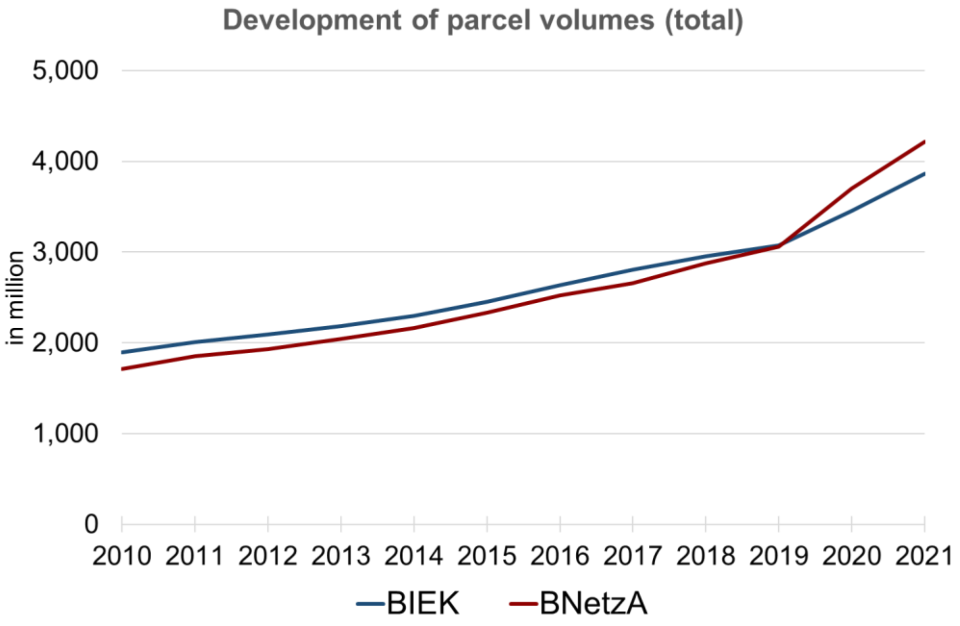
The parcel market in Germany

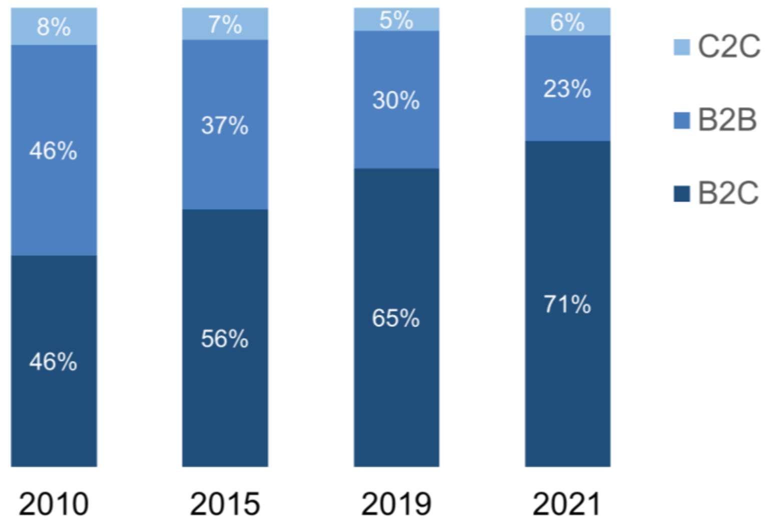
Developments and structure

- Steady growth of total parcels (national & international) with a jump in 2020
  → ~ 4 billion parcels in 2021



Quellen: BNetzA & BIEK, Paketmarktstudien, versch. Jahrgänge

- Parcel & express association estimates more than 70% B2C parcels for 2021 (only domestic) (~2.5 billion parcels or >30 parcels per capita)



Source: BIEK (German association of parcel and express companies)

- Growth in (low-margin) B2C e-commerce deliveries challenges all parcel operators especially those with origins in the B2B business

The parcel market in Germany

Highly concentrated with Amazon Logistics as new player in 2016

Parcel market structure by volume
(total parcels, 2021)

Source: Copy from BNetzA (2023), Postmarktstudie, p.13.

- German regulatory authority classifies Amazon delivey activities as parcel services and responsible Amazon subsidiaries as parcel delivery service providers
  - Amazon volume include self-deliveries and deliveries for FBA merchants
- No significant market entry of B2C e-commerce delivery specialists in Germany apart from grocery and food deliveries

- Launch of Amazon‘s delivery services in late 2015

Source: Own figure based on surveys of MWPVL International

- ~30 fulfilment centres, 20 operated by Amazon (for sortable products)
- Leader in contract logistics/e-fulfilment services for small and medium-sized merchants with highly standardised processes
- Expansion of delivery stations during Covid-19 pandemic suggests significant growth in delivered parcels

The parcel market in Germany

Key players in B2C parcel delivery

Estimated volume shares in B2C parcel delivery (own estimates)

45-55%	15-25%	15-25%	10-20%
Letter and parcel operator **Deutsche Post DHL**	**X2C parcel operator** **Hermes Germany**	**B2C e-fulfilment & delivery service provider** **Amazon Logistics**	**B2B parcel operators** **DPD, GLS and UPS**
Traditionally strong in X2C deliveries	Used to be the main competitor of DPDHL in X2C	Quickly growing in more densely populated areas	Costly transformation from B2B to B2C delivery
Economies of scope due to joint delivery of letters & parcels	Partly sold by Otto to an investor (Advent)	Significant parcel volume (Retail & FBA)	DPD with a dedicated B2C strategy (OOH deliveries)
Massive investments in PUDOs, esp. parcel lockers	Very dense network of parcel shops	Future services: Ship with Amazon? Buy with Prime?	UPS and GLS also pushing OOH deliveries) but much slower

- Amazon increased the competitive pressure in B2C deliveries and pushed innovations in delivery services (as buyer and provider of parcel delivery services)
- E-commerce in general and Amazon in particular pushed parcel operators to deveiop more recipient-oriented services
- Deutsche Post DHL is price and quality leader in the German parcel market and is at eye level with Amazon (financial capacity)
- Risk for Hermes and B2B parcel operators to be squeezed between Deutsche Post DHL and Amazon?

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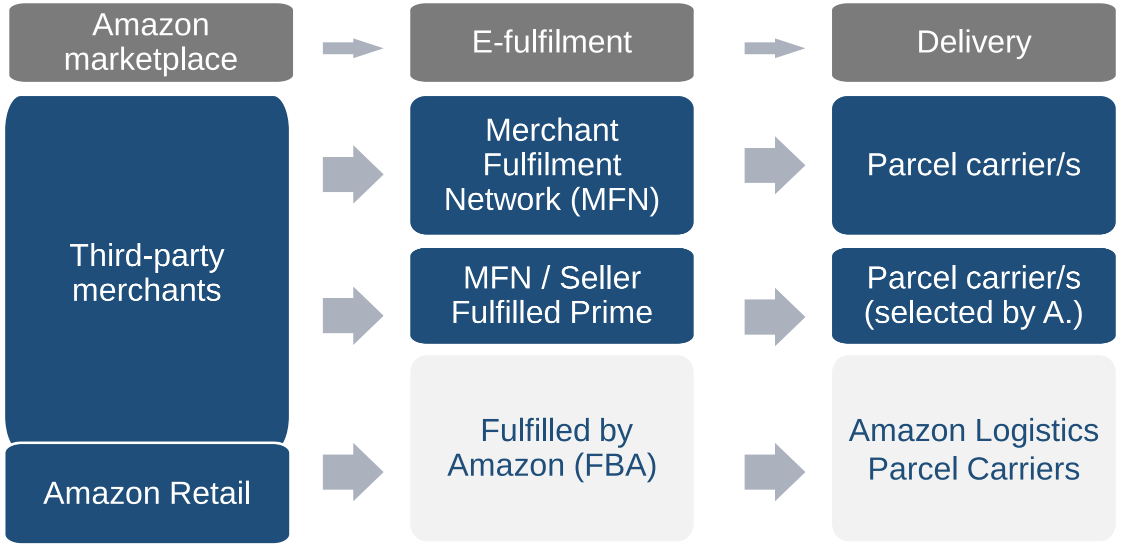
The Italian Amazon case:
Aspects relevant for the parcel market



Amazon's abuse of market power with implications for adjacent markets

- Self-preferencing: Amazon Retail and FBA merchants were more likely to obtain the Prime label for their products than independent merchants
- Prime eligible products: Third-party MFN merchants were tied to Amazon-selected parcel delivery services (contract terms and prices set by Amazon)
- AGCM identified barriers to competition in adjacent markets such as contract logistics/e-fulfilment and parcels (no free choice of parcel carrier)
- AGCM fined Amazon for abusive market conduct in the market for marketplace services and adjacent markets (Dec 2021)

AGCOM's analysis of the parcel market

- Definition of a B2C parcel market ("e-commerce parcels")
- According to AGCOM's analysis Amazon has the biggest market share (36%, by revenue)
- AGCOM classified Amazon as market-dominant in e-commerce parcels market
- Decision (April 2022):
  - Disclosure obligations for bigger parcel delivery service providers
  - Amazon has to additionally disclose average fees for delivery services used by FBA merchants and for parcels delivered by DSPs by independent parcel operators

AGCOM decision is under appeal

The Italian market is not comparable to the German market

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	Italy (Sources: AGCM and AGCOM)	Germany (Sources: BKartA, BNetzA, BIEK and own estimates)
Size of the e-commerce market (gross sales, B2C, goods only)	2021: 40 billion euros (Statista) Per capita: ~680 € % Online shoppers: ~50% (12 months)	2021: 107.7 billion euros (Statista/bevh) Per capita: ~1,300 € % Online shoppers: ~80% (12 months)
Amazon's market share based on GMV of third-party merchants	70-75% with rising trend (2019)	60-70% with rising trend (2020)
Amazon's market share based on fees collected from marketplace merchants	70-80% (2019)	60-70% (2020)
B2C parcel volume	~300-400 m (2019) ~5-7 parcels per capita ~70% of parcel volume	~2.5 bn (2021) > 30 parcels per capita ~70% of domestic parcel volume
Share of Amazon parcel volume delivered by other parcel delivery service providers	30-40% (2019)	Not available
Amazon’s share in the parcel market	By revenue Total: 18% (2021) / 19.6% (2022) B2C segment: 36% (2020, by revenue)	By volume: Total: 5-15% (2021) B2C segment: 15-25% (2021, own estimate)
USP’s share in the parcel market	Poste Italiane (by revenue) Total: 17.3% (2021) / 16.1% (2022) B2C: 28% (2020)	DP DHL (by volume) Total: >40% (2021) B2C: 45-55% (2021, own estimate)
Dependency of parcel operators on Amazon’s parcels in the B2C segment	Significant (in the narrowly defined market)	Not available Likely less significant than in Italy due to the more mature B2C e-commerce market

Amazon‘s binding commitment (by DG COMP decision) Relevant aspects for parcel delivery services

Amazon’s commitment broadly reflected the remedies imposed by the Italian competition authority

The main elements related to Prime and Seller Fulfilled Prime (SFP) are:

- Allowing marketplace merchants to choose which delivery service provider(s) to use for delivery of Prime products and to agree prices, terms and conditions directly with them (i.e., Amazon must not impose binding requirements on either the choice or the terms and conditions);
- Limiting the exchange of data between delivery companies and Amazon to the extent necessary (ensuring the confidentiality of the contractual terms between the merchant and the delivery service provider) to verify compliance with Prime standards;

Significant changes to Amazon’s proposed commitment concern the relationship between Amazon and independent parcel delivery service providers:

- Strengthening transparency and early information to sellers and carriers about the obligations and new rights of sellers and carriers
- Creating conditions to allow independent carriers to contact Amazon customers directly and to offer services comparable to Amazon's delivery services
- Implementing measures to better protect carrier data, in particular freight profile data, from access by Amazon's competing logistics services

Monitoring trustee and fines in place to ensure compliance with the committed rules of conduct

Amazon: A challenge for the competition in the German parcel market?

- Amazon is challenging the “traditional” parcel operators but there is no clear indication that Amazon’s delivery activity limit competition in the German parcel market (apart from the MFN/Prime topic)
  - The German parcel market is concentrated (oligopoly) with Deutsche Post DHL as price and quality leader with little room for market entry (apart from delivery services for food and grocery)
  - Amazon has mostly challenged the position of the incumbent Deutsche Post DHL in Germany due to its technological capabilities, demand power and financial strength (relationship at eye level).
  - Hermes, as well as parcel operators with origins in B2B, are being challenged by both Deutsche Post DHL and Amazon and are promoting OOH delivery options to keep B2C deliveries economically viable.
- The binding commitment addresses the crucial elements potentially harming the competition between Amazon delivery services and parcel carriers in the Prime context.
- That said, we do not see a need for additional regulatory intervention in the German parcel market at this point of time like that AGCOM has decided to apply in the Italian parcel market for B2C e-commerce deliveries
- But: Market monitoring by regulatory authorities matters to closely follow the developments of the parcel market and to increase transparency

Thank you for your attention!

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