Understanding Growth Opportunities in the B2C Cross Border Market

Capitalising on the Growth of Online Retailing

IEA Workshop - 23 March 2010

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IPC Facts & Figures

- Founded in 1989
- Cooperative association of 24 member postal operators
- 80% world’s mail volume delivered by IPC members
- €214 billion revenue by IPC members
- 2.36 million people employed by IPC members

IPC Member CEOs

IPC Annual Conference 2009

The Boston Consulting Group

Agenda

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- Global CEP Market
- European CEP Market
- Research and Analysis
  - Receiver needs
    - Growth by market sector
    - Silver market opportunity
    - Future trends
  - Sender needs
    - Multiple channels
    - Distance retail consolidation
    - Retailer requirements
- Conclusions

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Global CEP Market

The Global CEP market today
Asia ~ €30B, Americas ~ €55B and Europe ~ €37B

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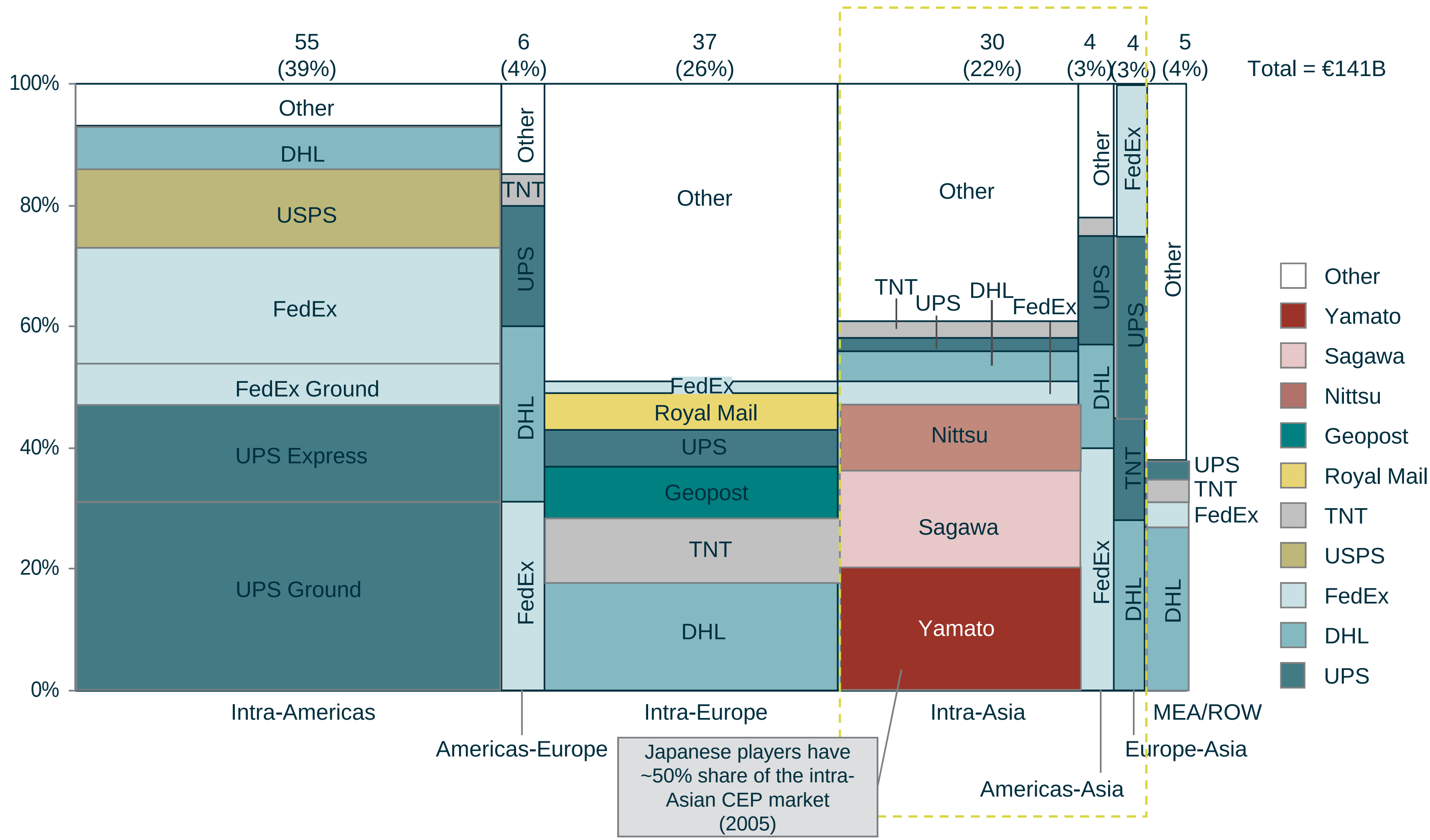

Note: Market shares in 2005 at 2005 exchange rates; Total market sizes include from and to region ie double counting occurs; Intra Europe 2007 €39.1B
Source: FedEx; UPS; DHL; ACMG; The Colography; ING; Data monitor Express House View; FK-Mards, JMAR/Marketing Data Bank, BCG analysis

Comparison of expected growth in Asia to Europe over the next five years

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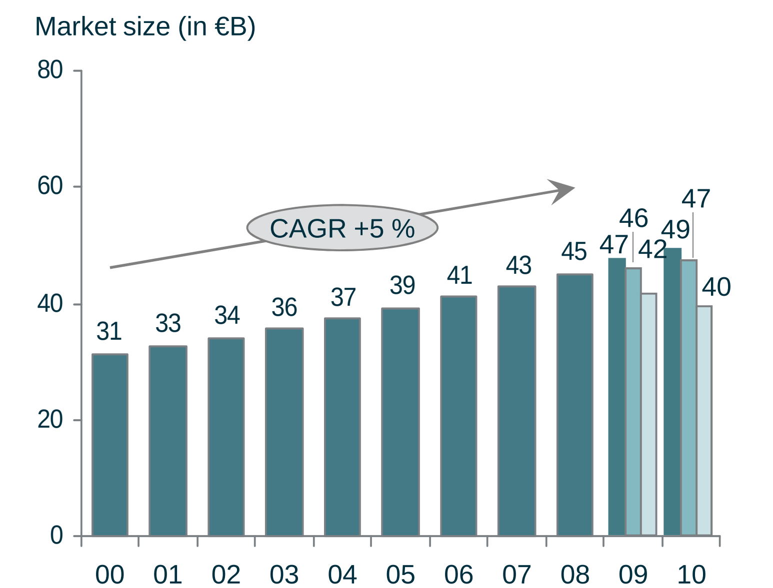
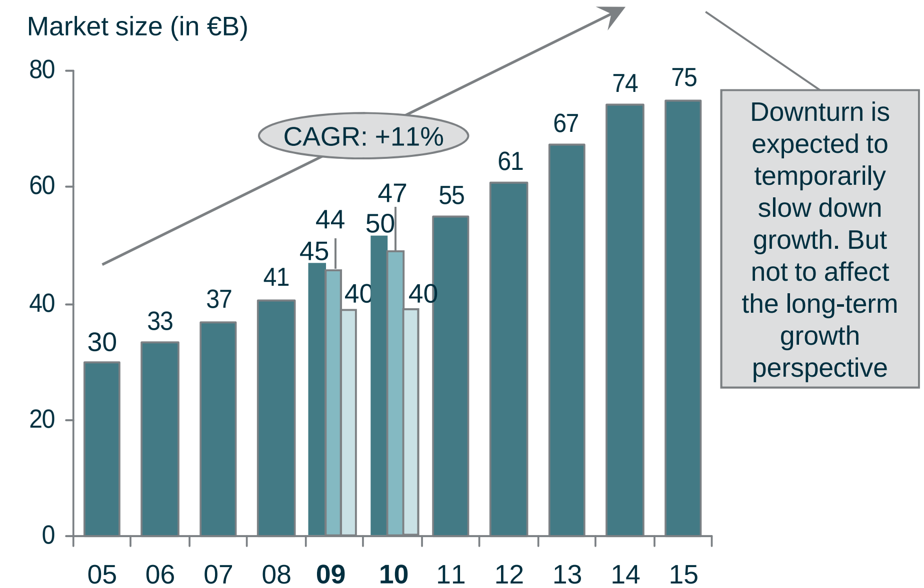
European CEP market[1] view in 2005



Growth drivers

- Increasing international trade
- Higher velocity supply chains and Just-In-Time production
- Growth in e-commerce (B2C/C2C)
- Technological advances on express services

Asian CEP market



Growth drivers

- Increasing parcel penetration
- Growing GDP/population
- Increasing international trade

CEP
Downturn 1% GDP[2]
Downturn 4% GDP[2]

1. European CEP market including Belgium, France, Germany, Italy, Netherlands, Spain, Sweden, United Kingdom; figures for 2005 through 2009 are forecast data
2. Indication of how a downturn (with a 1% or 4% drop in GDP growth) may affect total market values based on the assumptions that market values are affected similar to the effect of volumes during the
00-01 downturn in the USA

Source: Datamonitor Express House View 2005; Datamonitor Express Logistics; Express Leaders; BCG research

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European CEP Market

A growing and promising B2C segment on the logistics market, driven by e-commerce success. . .

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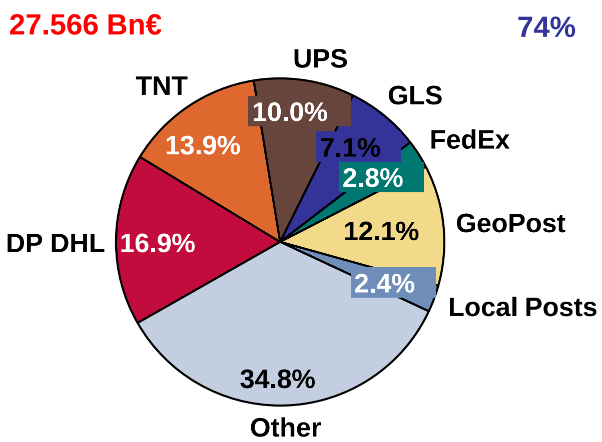
2008 EUROPEAN CEP MARKET €37.38bn

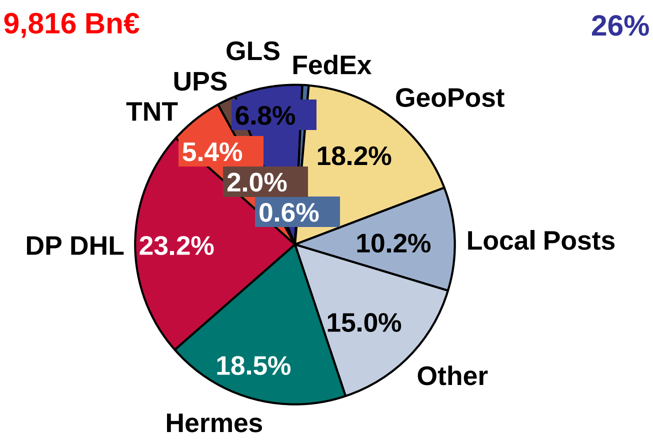
B2B and B2C splits not available for Portugal and Greece (total markets: 379 and 338m€)

VALUE	Postal Deferred Express Urgent
VALUE	Domestic Intra EU Extra EU
VALUE	B2B B2C

TOTAL B2B MARKET CONSIDERED



TOTAL B2C MARKET CONSIDERED



- The B2B segment is progressively slowing down in the global CEP market: 75% of the total European CEP market in 2007 and 74% in 2008.
- The Crisis is seeing the shift of from B-2-B to B-2-C accelerate.
- The non express B2C parcel is enjoying a renaissance, the share of online shopping in the total retail market is expected to grow from 3,5% in 2008 to 11% in 2011.
- The wider availability of broadband internet and growing confidence in online payment security are key factors in this growth.

Source : GeoPost Analysis based on European Parliament – Report on "Barriers on ecommerce I the EU" March 2009

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GeoPost

.. But a B2C market that remains mainly domestic

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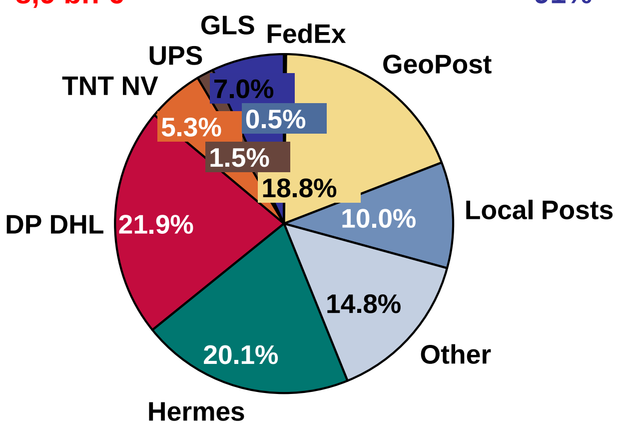
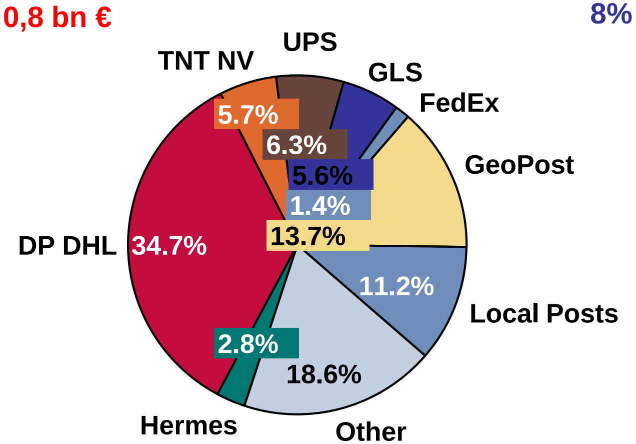
2008 TOTAL B2C MARKET: 9,816 billion €

VALUE	
VALUE	Postal Deferred Express Urgent
VALUE	Domestic Intra EU Extra EU
VALUE	B2B B2C

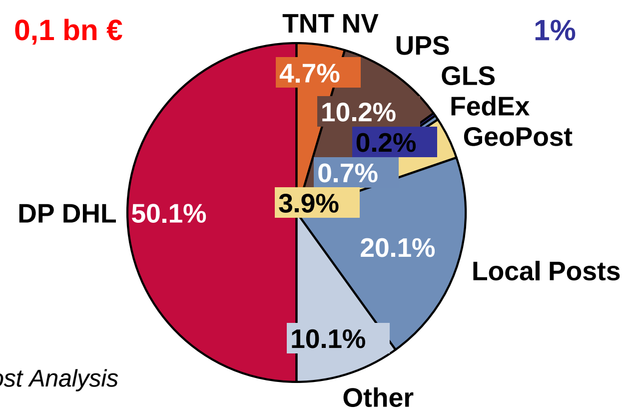
TOTAL DOMESTIC MARKET



TOTAL INTRA EUROPEAN MARKET



TOTAL EXTRA EUROPEAN MARKET



Source : GeoPost Analysis

- Distance Selling in 2008 grew by 25%, high street less than 4%
- E-Commerce is still largely National, barriers to x-border E-Commerce inc- inefficient Posts, Return service, delivery windows too long and problematic of home delivery
- However, increasingly e-shoppers are looking for a price advantage from x-border online stores

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❶ Mobile IP enlarges window for online shopping

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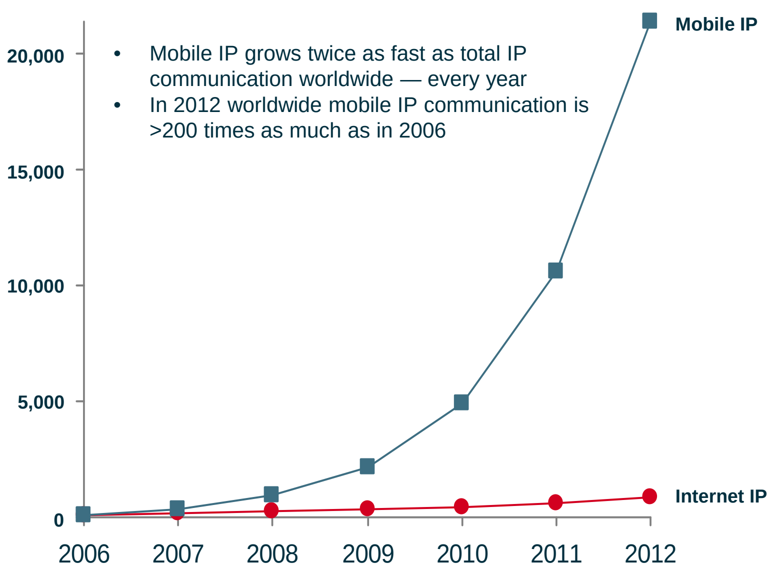
Mobile IP should be multiplied by 200 by 2012…



Index 2006 = 100

… and thus create a significant new channel for retailers

A high-potential advertising tool
- An opportunity to reach a precise target anywhere, any time

An opportunity to develop high-value personal services
- Information about products availability
- Alert on delivery
- Personal alerts for customized / new products

A growing payment mean
- Worldwide prospect for 2009: $17B

An additional growth opportunity for home delivery

Source: Medietrenger 08; Synovate and Norwegian eComMarket report (2007); Cisco visual networking index and BCG mega trends, M6 boutique survey

Development of E-commerce

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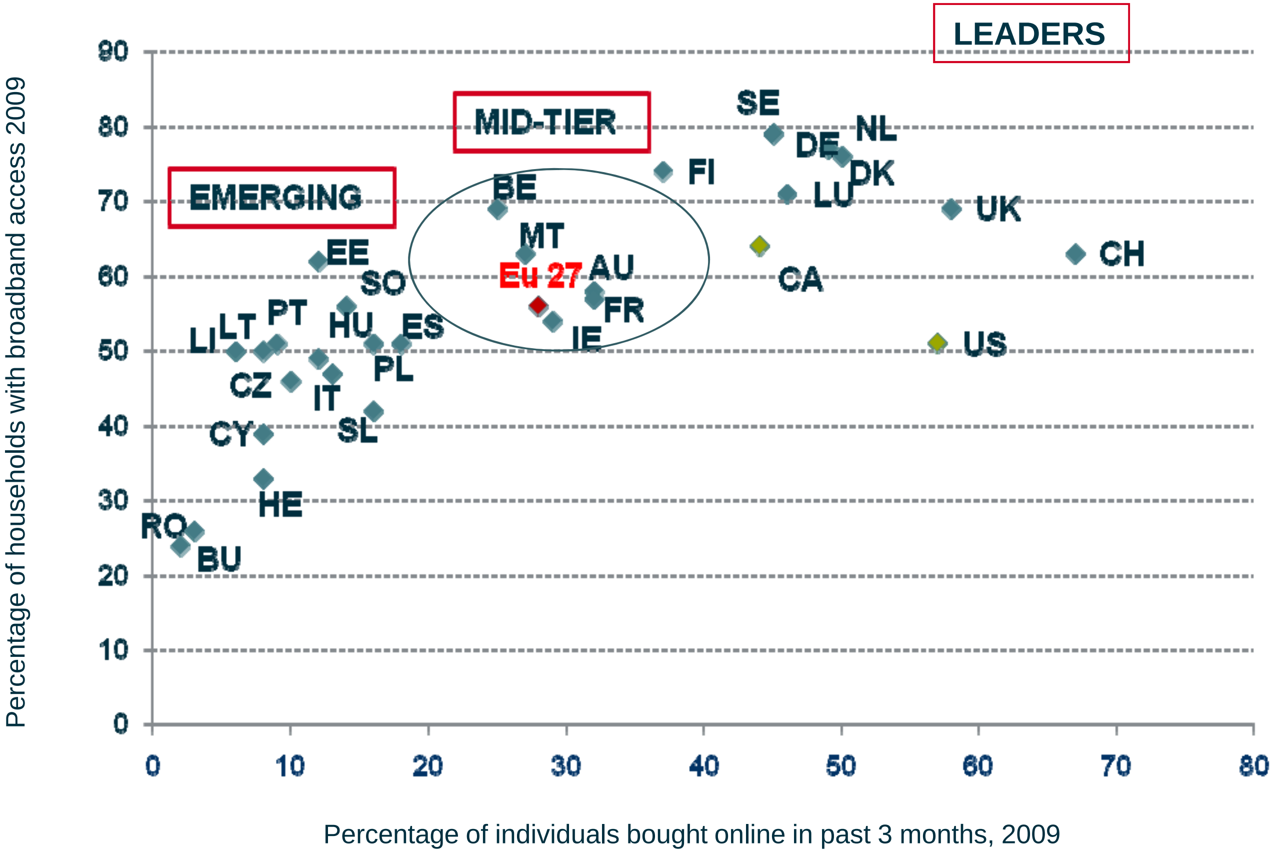

Source: Eurostat 2009/ OECD 2009OECD Broadband statistics [oecd.org/sti/ict/broadband]
US Data: Bought in the last month, The Nielsen Global Online Survey (2007)
Canada Data: Made an order in the last monthCanada Statistic (2007)

Research and Analysis

- Receiver needs
  - Growth by market sector
  - Silver market opportunity
  - Future trends

- Sender needs
  - Multiple channels
  - Distance retail consolidation
  - Retailer requirements

Sources of analysis

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Receiver survey in France

- Web survey covering 1000 participants in France
- All participants did at least one online purchase (of a good leading to physical delivery) in the past year

Sender survey in France

- Face-to-face interviews of 7 large senders in France
- Phone interview of 20 smaller senders in France
- Companies interviewed cover pure players, multi-channel retailers and catalogue retailers and account for ~30% of distance selling in France

Secondary research

- Broker notes and third-party reports
- Reports of distance-selling associations
- Press search

BCG expertise

- Expertise of BCG postal practice
- Interview of BCG experts on e-commerce, web 2.0, multi-channel, mega-trends, new retailing

2 Growth in relative share of online sales in all major product categories in France

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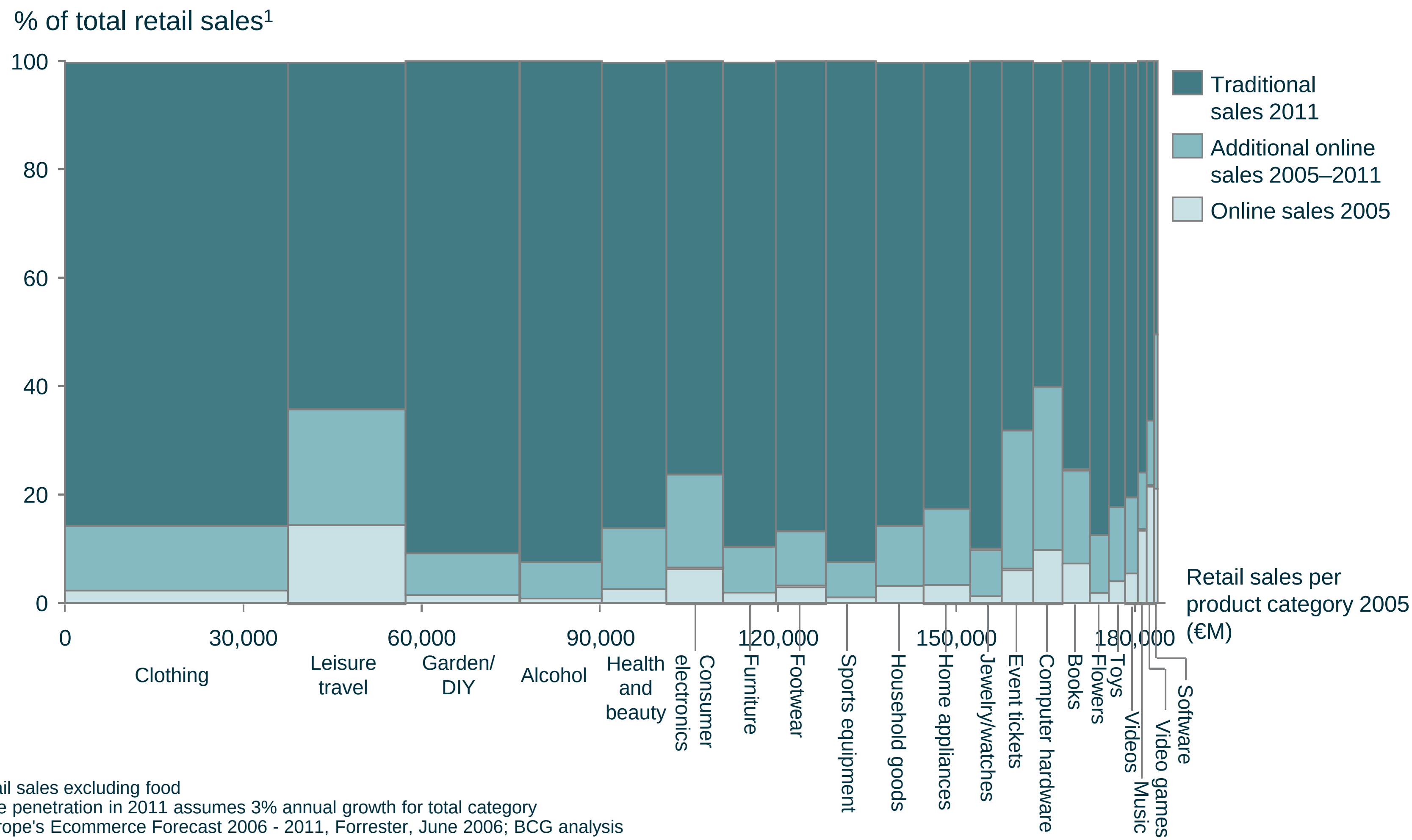

1. Total retail sales excluding food
Note: Online penetration in 2011 assumes 3% annual growth for total category
Source: Europe's Ecommerce Forecast 2006 - 2011, Forrester, June 2006; BCG analysis

4 Silver market is an opportunity for home delivery

Elderly people have increasing consumer market share and spend more time home

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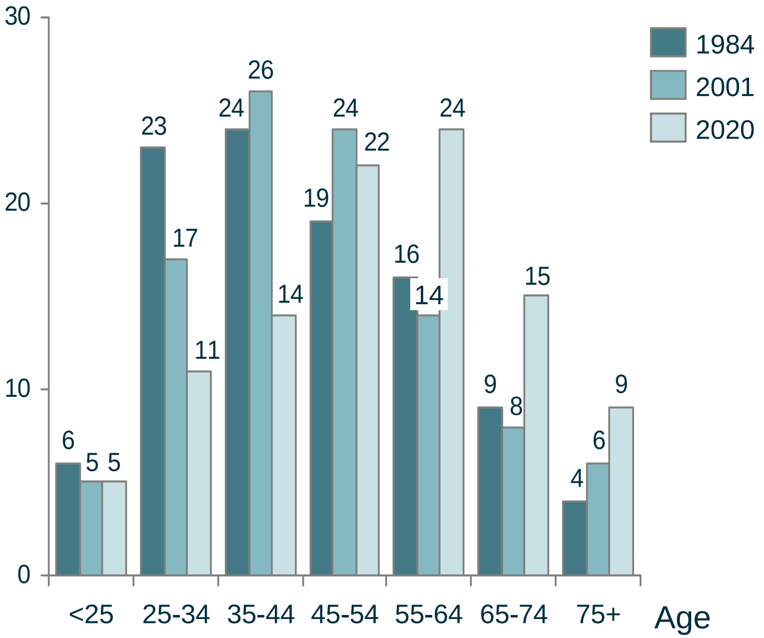
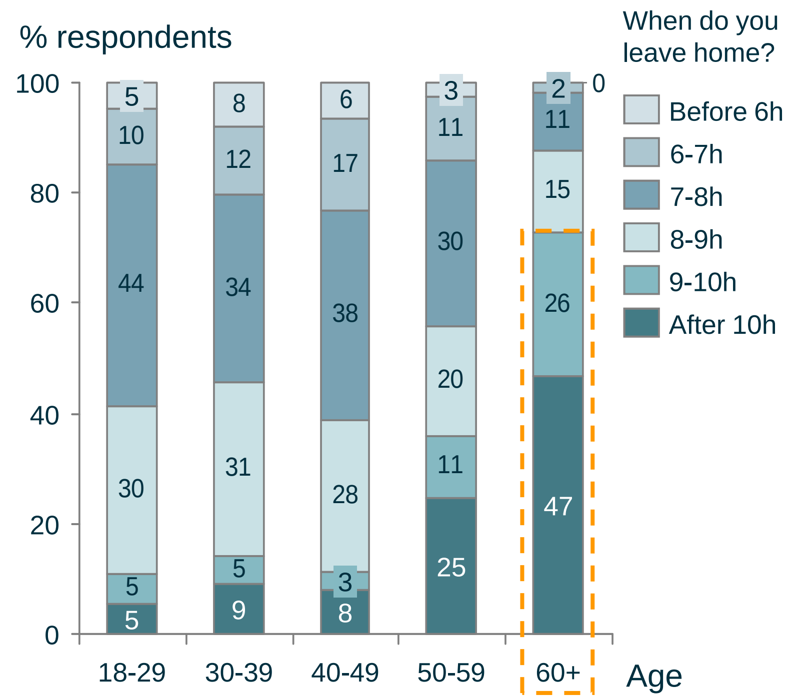
Elderly people are an increasing share of total consumers...

Consumer market share held by consumers by age (%)[1]



...and they can accept parcels more easily

% respondents



What kind of delivery service is needed to best leverage the silver market opportunity?

1. US market
Source: "A report to the Nation on Consumers in the Marketplace", AARP; Websurvey France 2008 (1000 respondents)

Trading up/down: Pull of consumers to pay more for some categories and less for others

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People trade down on delivery services and up on products with little or no potential for home delivery

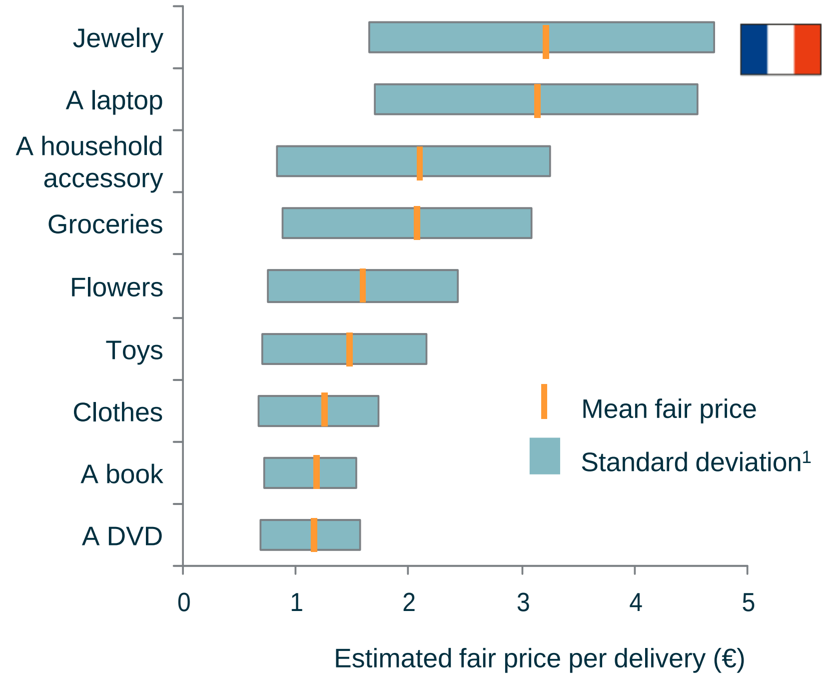
	Top 5 product categories[1]
Trading down	Mobile phone contract and services
	Postal/shipping services
	Car insurance
	Mobile phone
	Accessories[2]
Trading up	Perishable food[3]
	Vacations
	Home/apartment itself[4]
	Travel
	Home decor and modeling projects

Limited potential for home delivery

Not relevant for home delivery

Survey confirms that receivers have a de-averaged perception of fair price to pay for a delivery

Receivers: What would be a fair price for the delivery of...

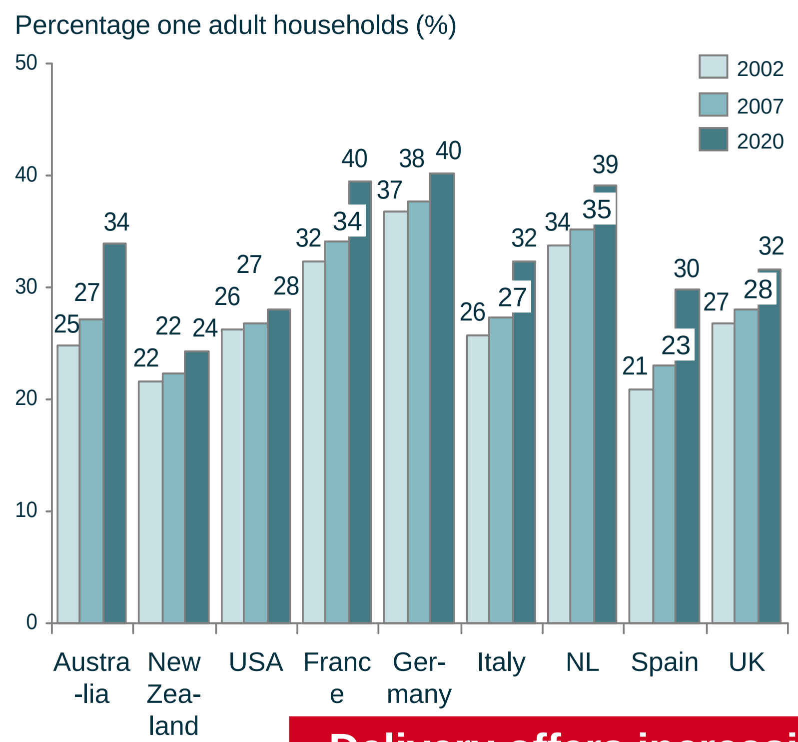


Perceived fair price correlated to value of delivered good

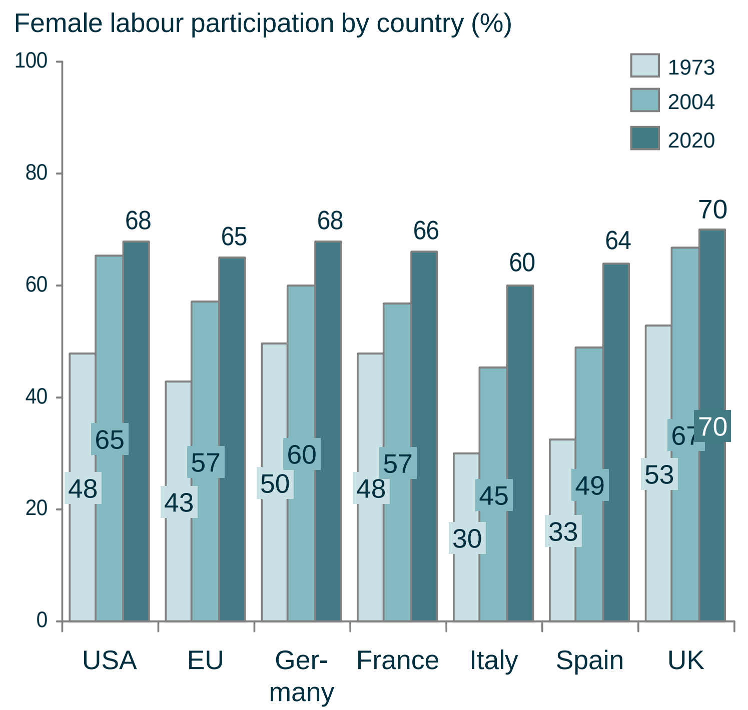
1. European survey, 2007 (10,149 respondents) 2. Handbags, sunglasses, etc. 3. Includes fresh fruits and vegetables, meat, fish and seafood, cheese 4. Style, size, location, etc.
Source: Websurvey France 2008 (1000 respondents)

Changing family and social structure reduce ability to accept parcels at home

Number of one adult households is increasing...



...as well as female labour participation[1] (%)



Delivery offers increasingly have to adapt to reduced ability to accept parcels at home

1. Women aged 16–64 years (US, UK, Spain)/15–64 years (Germany, France, Italy)
Note: EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom; EU-25: Estimate
Source: OECD, Employment Outlook; Euromonitor; Eurostat, LFS

Increasing human mobility demands higher information transparency of distribution party

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Source: "What Consumers Want in Their Shopping Experience", Sterling 2007; n = 5003 (USA)

Sender Needs

Retailers increasingly start to use multiple channels

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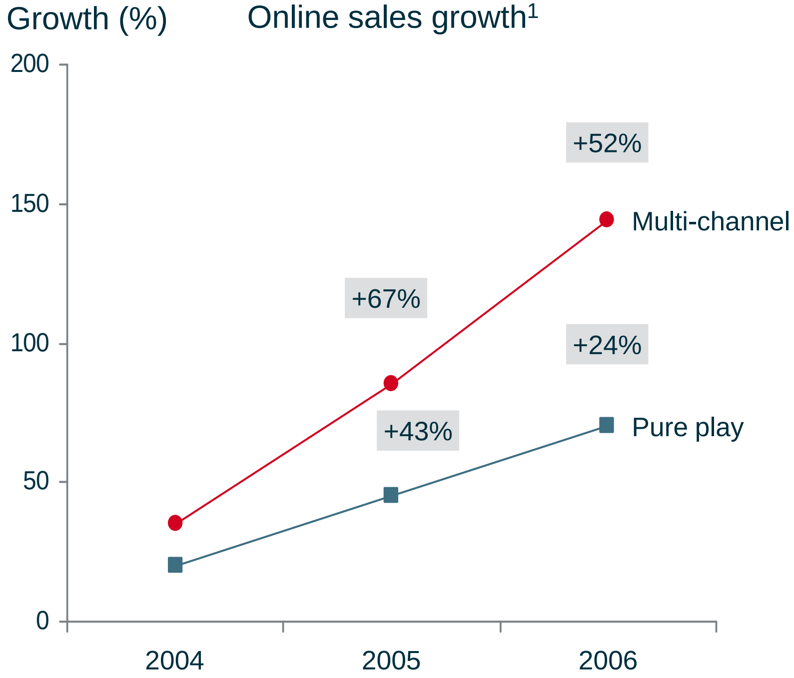
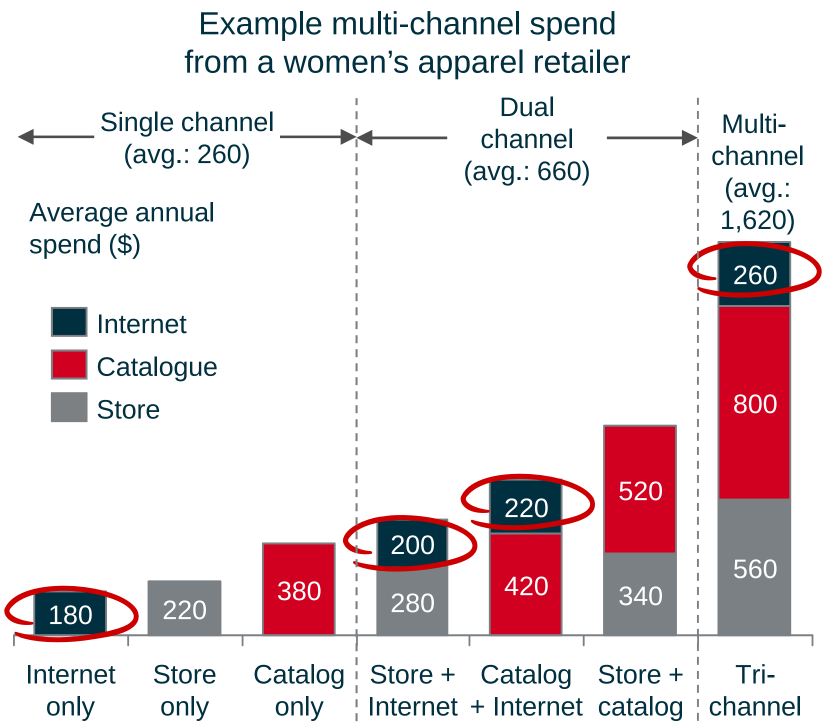
Multi-channel strategy drives above average online growth



Multi-channel customers prove to generate more revenues for each single channel



Multi-channel retailing will drive significant growth in home delivery market

1. Top 12 multi-channel players (Office Depot, Steples, JC Penney, Victoria Secret, Wal-Mart, Castro, Apple, Best Buy, Sears, Circuit City, Target, Barnes & Nobles) vs. top pure players (top seven excluding Dell) Source: Forrester Research; BCG analysis

Despite constant emergence of new online shops

Consolidation of small e-retailers at platform level

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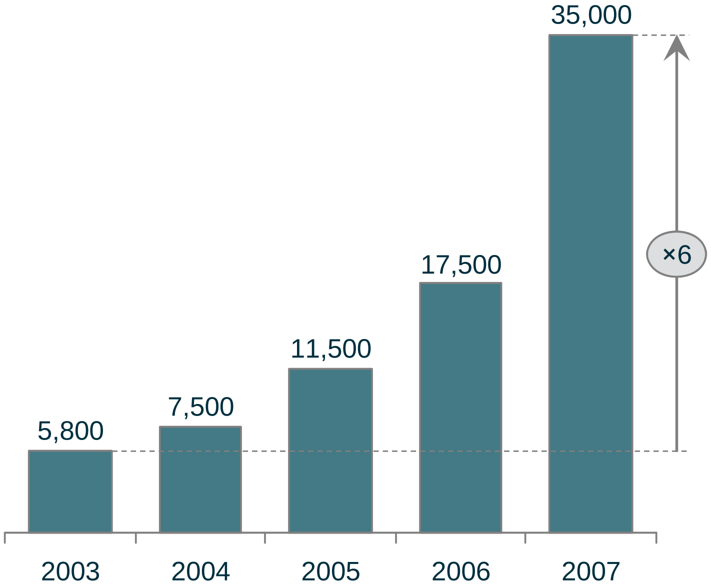
Number of online stores shows steady growth…

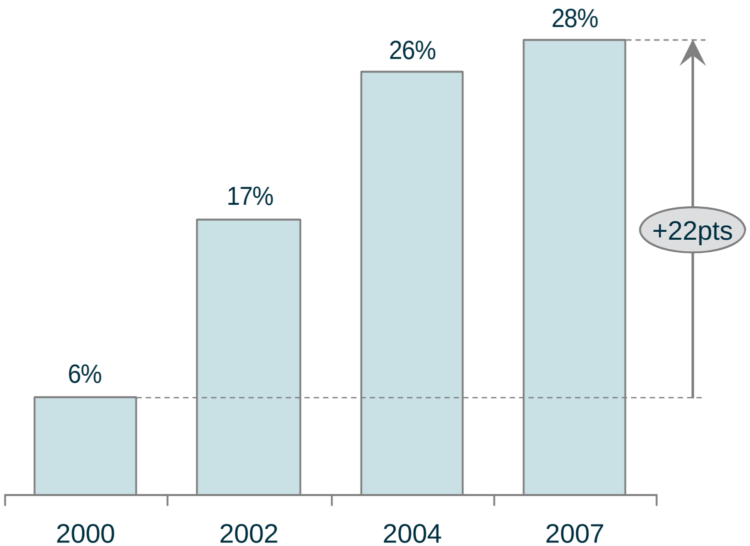
Example: number of e-retailers multiplied by 6 in 4 years in France



Number of online stores

… but tend to consolidate on big e-commerce platforms

Example: % of Amazon sales made by third party e-retailers gained 22 pts in 7 years



Third party sales as % of total unit sales[1]

1. Includes businesses and individuals using Amazon Marketplace   Source: Fevad, broker reports

Ability to handle flexible returns at low cost will be a key competitive advantage

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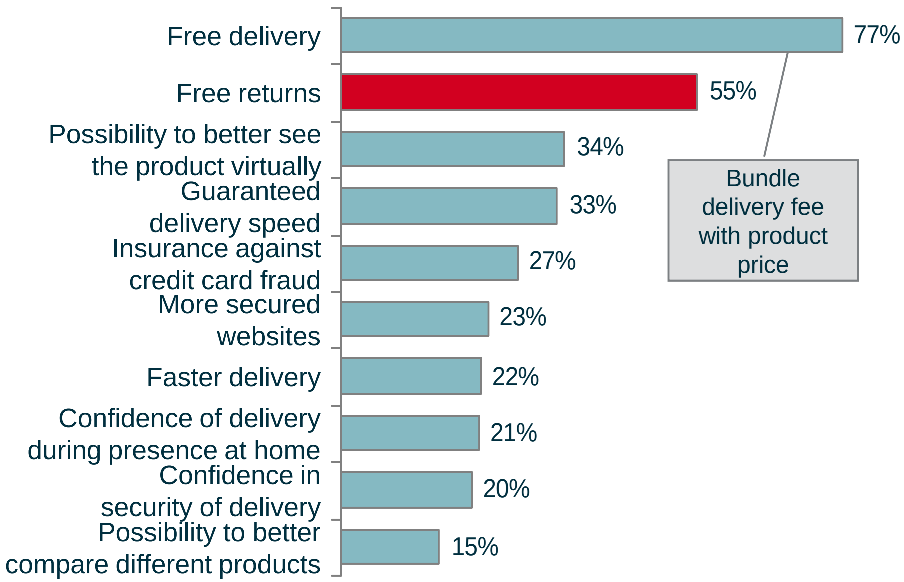
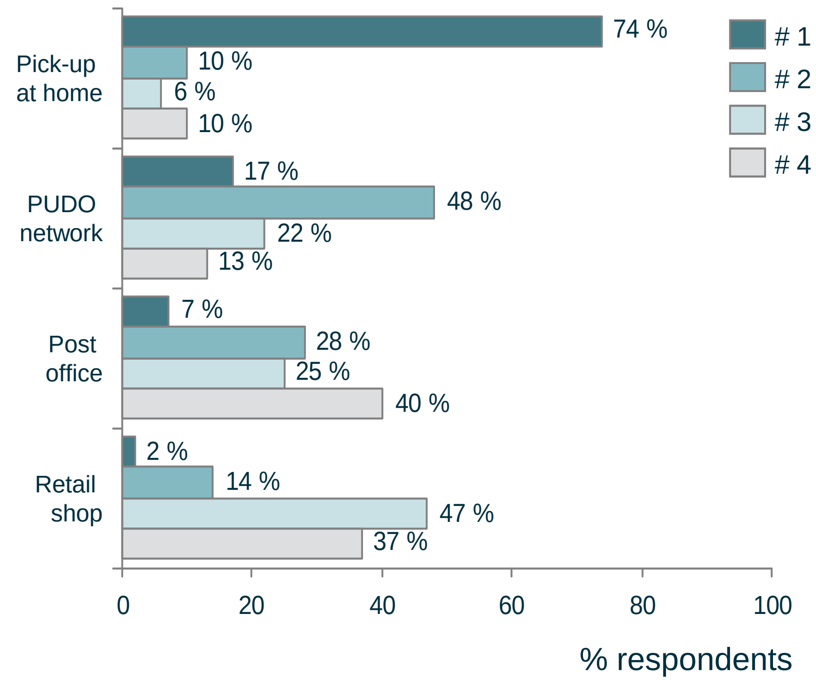
Online shoppers would buy more online if returns were free…

Receivers: What would you make buy more online ?



…and home pick up is by far the preferred option

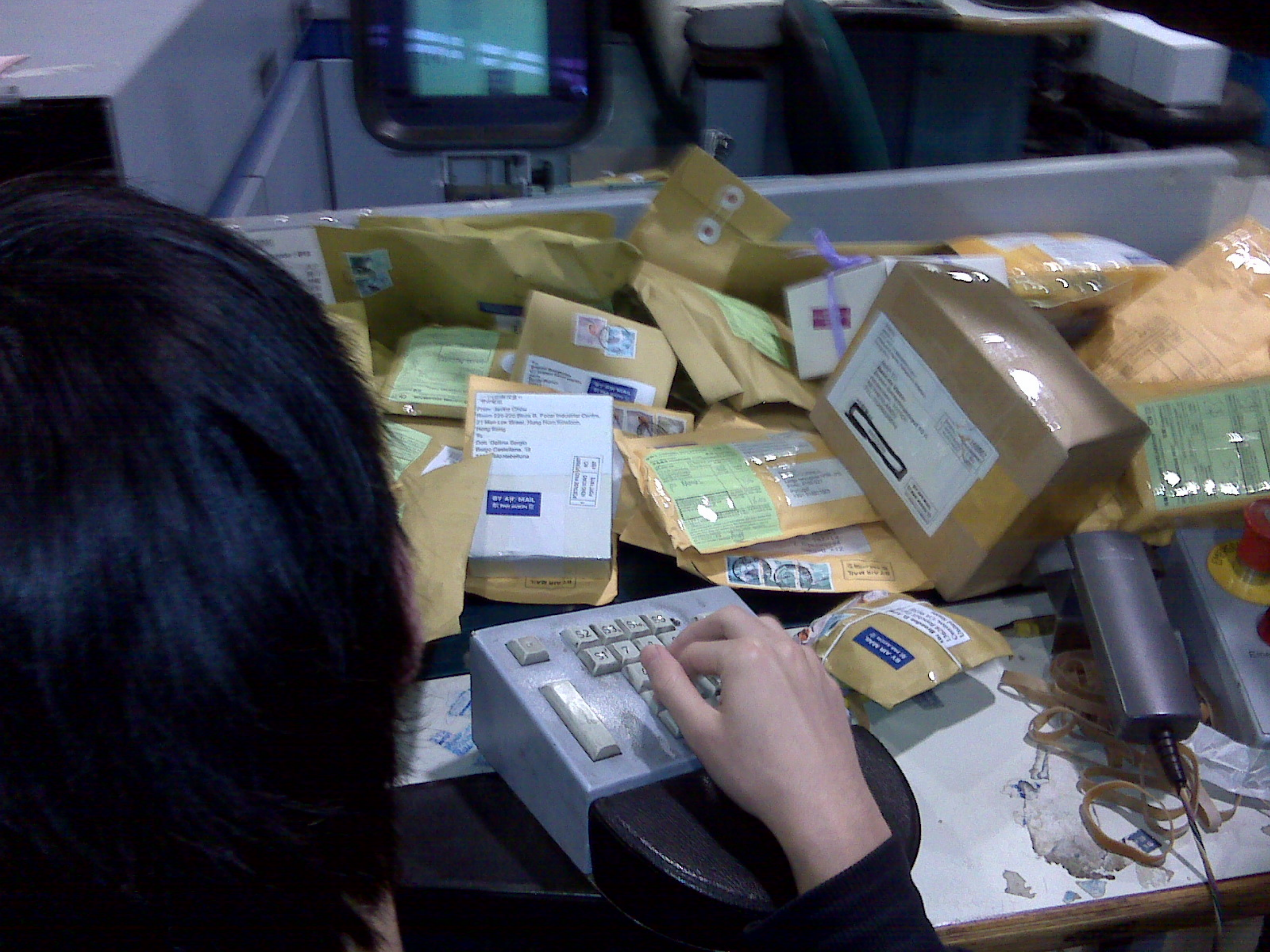
Receivers: Could you rank following channels by order of preference for returns ?



Click & mortar companies have no specific advantage since retail shops drop off is not valued by receivers

Note: France receiver survey 2008

Conclusions


BY AIR MAIL

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Conclusions

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- Growing the electronic commerce market is in the interest of postal operators
- Huge potential to increase online sales
- Focus on the consumer: satisfy the customer's customer
- Simplicity and choice balanced with keeping costs low
- Day-certain reliable delivery: minimum standard
- Flexibility in delivery supported by integrated IT infrastructure and mobile technology
- Explore strategic partnerships to provide win-win solutions for the consumer, the e-retailer and the post

Thank you