

# Geographic variations in B2C parcel delivery services: Summary of findings

April 2021

# Introduction and approach

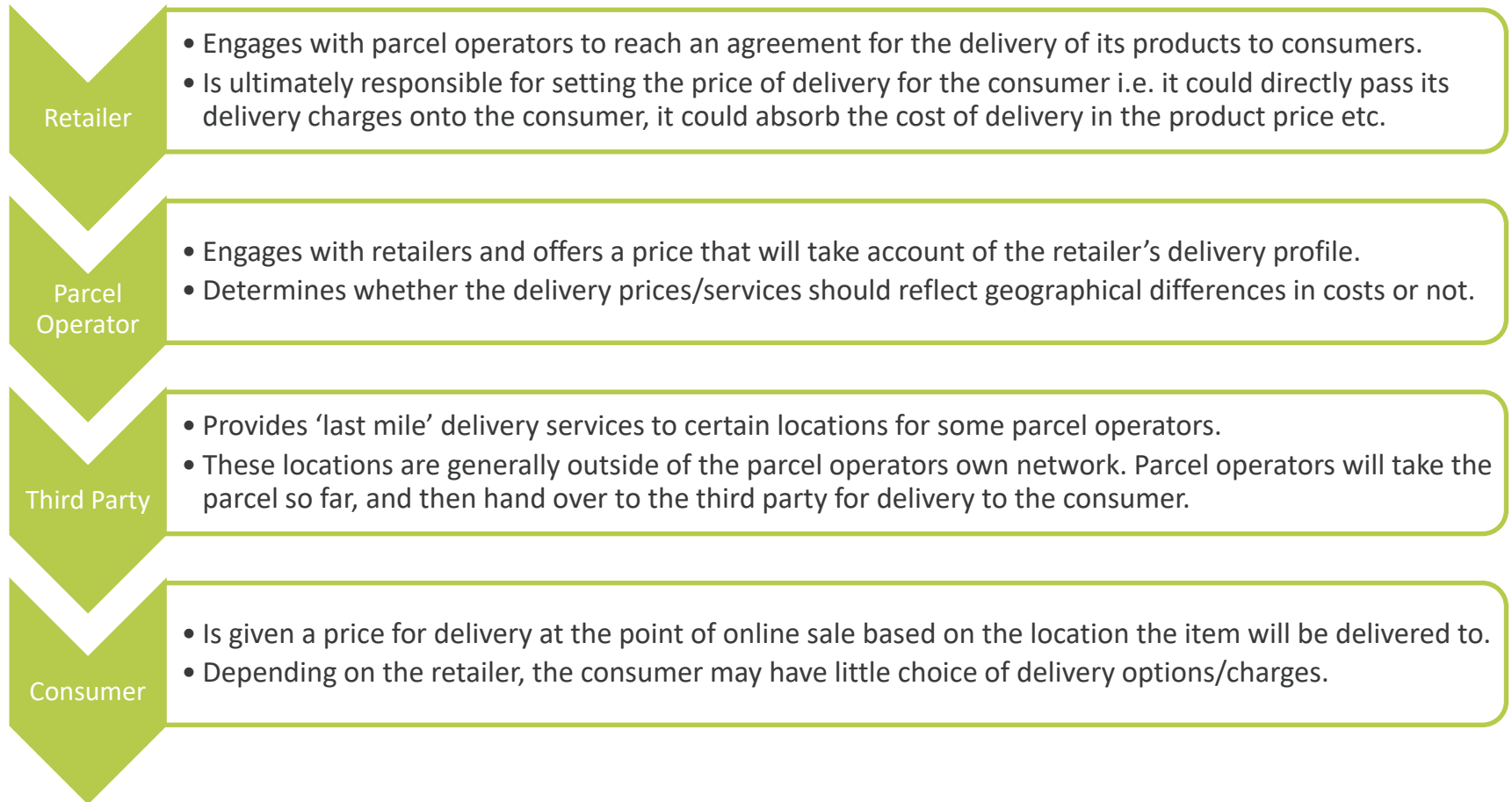
## Ofcom's research and analysis

- Stakeholders have identified geographical variations in pricing (sometimes referred to as 'surcharging') for delivery of retail goods bought online, and highlighted this as a concern.
- Ofcom looked at the Business to Consumer (B2C) – or bulk – parcel delivery services provided to retail businesses, to understand whether issues on the parcel supply side may help explain why some retailers charge more for delivery.
- We also considered other variations in delivery services based on geography i.e. slower delivery and the use of 'third party' services for delivery in the 'last mile' in some areas.
- Ofcom conducted the research at the end of 2019 (before Covid-19 further increased demand for online shopping deliveries).
- A summary of our findings can be found in our 2019-20 [Annual Monitoring Update](#) for post. This slide pack sets out those findings in more detail.
- Meanwhile, we discuss geographic variations in Consumer to Consumer/Business (C2X) services in our recent review of user needs [report](#). Royal Mail is subject to a universal service obligation in relation to some C2X parcel services – these USO services are used by some smaller retailers/marketplace sellers.

## Ofcom's role in relation to geographic variations in parcel delivery

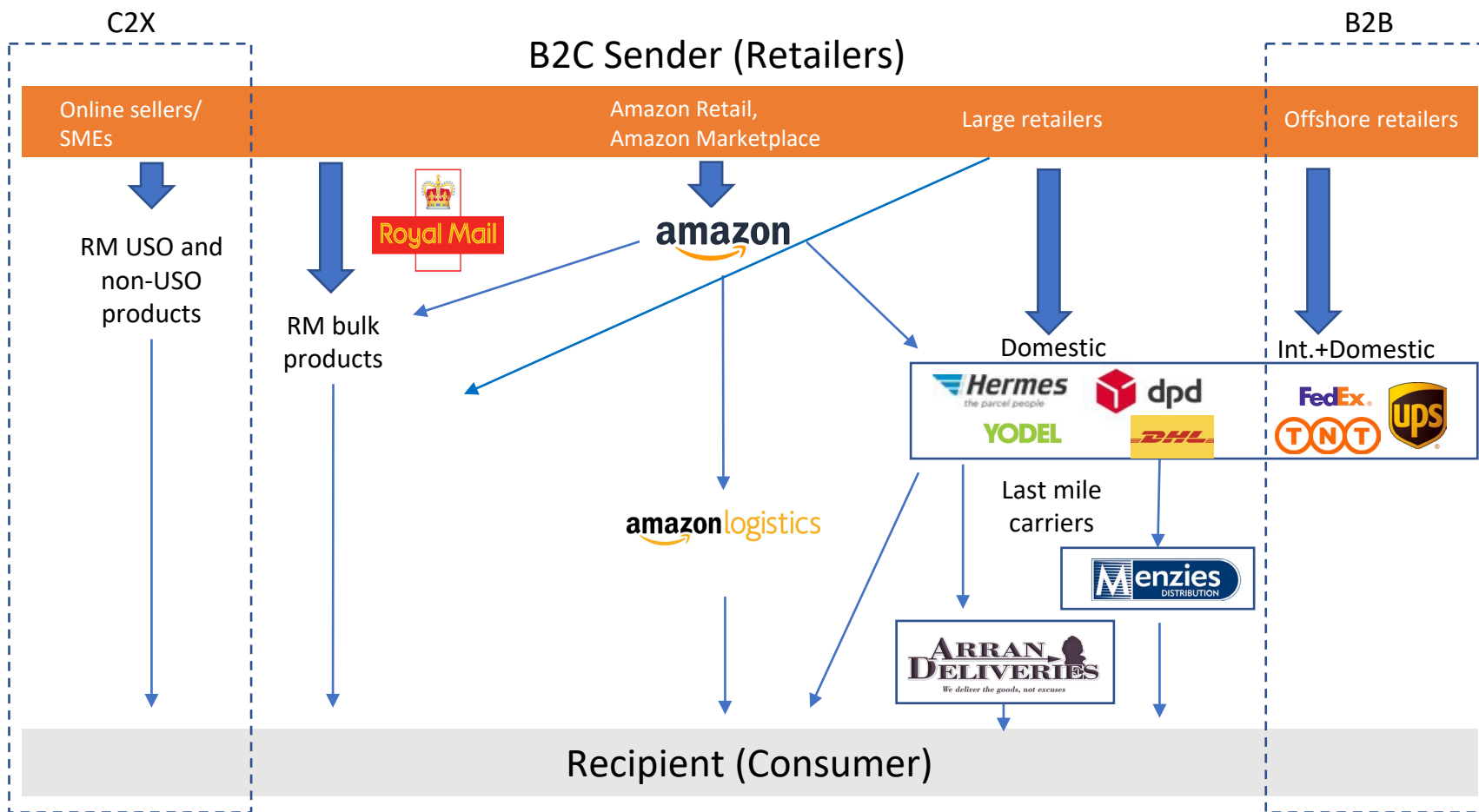
- The scope of Ofcom's powers under the regulatory framework limits the extent to which we can intervene in relation to specific aspects of parcel delivery, outside regulating the universal service provider (Royal Mail).
- We cannot regulate the prices charged by online retailers to consumers for delivery of a parcel, and as such, we have not gathered information on retailers' approach to delivery pricing.
- Parcel operators are not required to offer B2C delivery services to everywhere in the UK, nor are they required to price these services at a uniform level. Retailers have flexibility as to whether/how they pass on geographical differences in delivery charges to end consumers.
- Ofcom's role is therefore primarily restricted to information gathering and the provision of this collected information to relevant stakeholders to inform further policy discussions.
- In terms of next steps, Ofcom anticipates engagement with stakeholders on the findings set out in these slides, and how they contribute to the broader debate on variations in delivery services and pricing.
- Meanwhile, we have recently published a [Call for Inputs](#) as the first step in our review of the regulatory framework for postal services.

# Overview of structure of the B2C parcels market



*Our role/focus primarily relates to the 'parcel operator' aspect of delivery and we have therefore not collected data on the prices that retailers charge end consumers for delivery.*

# Summary of roles and relationships between online retailers and parcel operators



# Methodology

- We engaged with 12 operators in total in the parcels market relating to key aspects of B2C parcel delivery (see list on right).
- We collected information from 10 delivery operators on differential pricing, delivery restrictions, costs of delivery and the use of last mile third party networks.
- We also got information from Amazon Logistics. However, while Amazon plays an important role in the dynamics of the parcels market (as a retailer, marketplace and delivery operator) we didn't include Amazon Logistics in the data set out below because:
  - The Amazon Logistics business model is different from other parcel operators in terms of the scope of B2C services offered to online retailers (i.e. its core business is the delivery of Amazon's own products or products purchased through its marketplace website);
  - Amazon Logistics does not directly provide delivery services to some rural/remote parts of the UK, including areas where geographical variations in services are most prevalent.
- Royal Mail provided us with information on its approach to geographic variations in B2C parcel services and we have included them in our analysis below.
- Much of the information we received from operators was deemed commercially sensitive, so we have anonymised and aggregated the information collected, and set out our findings in the remainder of this presentation.

Operators
Amazon Logistics
DHL
DPD
DX
FedEx
Hermes
Parcelforce
Royal Mail
TNT
Tuffnells
UPS
Yodel

# Findings

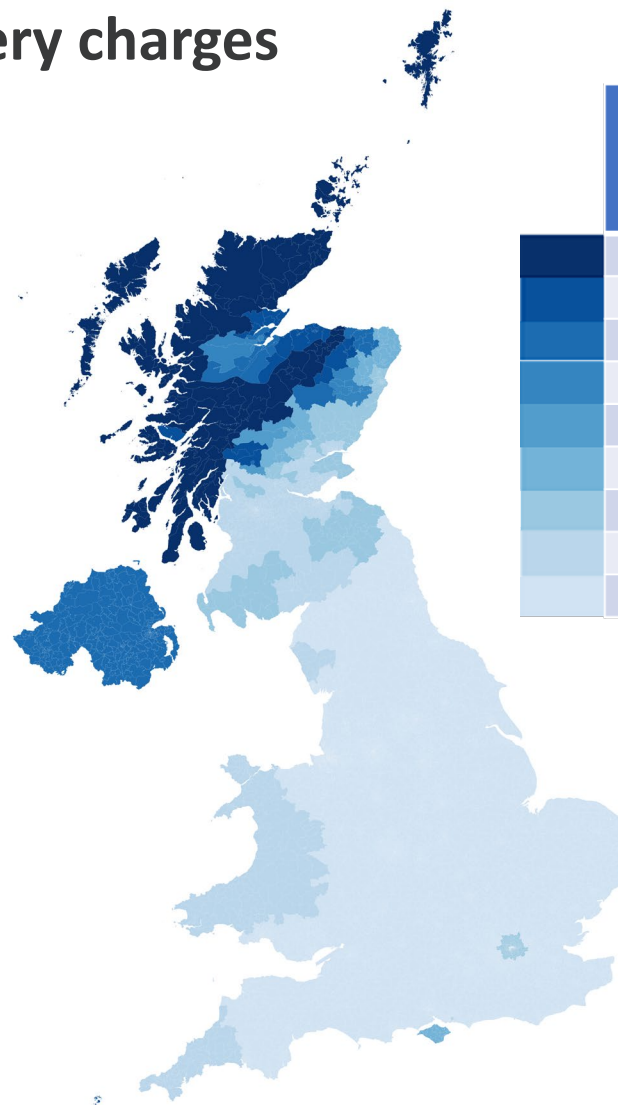


# Approaches to setting B2C delivery prices

- **Prices for B2C parcel delivery services are typically bespoke.** While operators start with a standard rate card, they often negotiate these charges on a bespoke basis with individual retailers.
- Operators adopt **different approaches** to setting standard B2C delivery prices:
  - Two of the largest B2C operators, Royal Mail and Hermes, apply **uniform pricing**, whereby they do not set different standard prices based on location. However, the geographic profile of deliveries can sometimes play a role in determining the level of the uniform price negotiated (e.g. if volumes are skewed towards a particular part of UK);
  - One operator applies a **universal additional charge** for any location deemed ‘out of area’;
  - The remaining eight operators **vary the additional charge for delivery based on location** e.g. the additional delivery price may be different for Northern Ireland, than it is for Scottish islands.
- For those operators which vary the additional charge by location, we found that:
  - **Additional charges may vary by broad or small geographic areas.** Some operators apply charges at quite a granular level, e.g. different prices are set at postcode district or even sector level. Others have broader pricing structures such as zonal pricing e.g. a zone covering “easy-to-reach” areas (the majority of the UK); a zone covering more “difficult to reach”, often rural, locations; and a zone covering the most difficult to reach areas.
  - **Bespoke pricing** means that negotiations may sometimes still lead to these parcel operators offering a geographically uniform delivery price for some retailers.
- We did not collect bespoke operator/retailer contracts, so we do not know how significant the variations in pricing arising from negotiations are.

# Northern Ireland and parts of Scotland are most likely to be subject to higher delivery charges

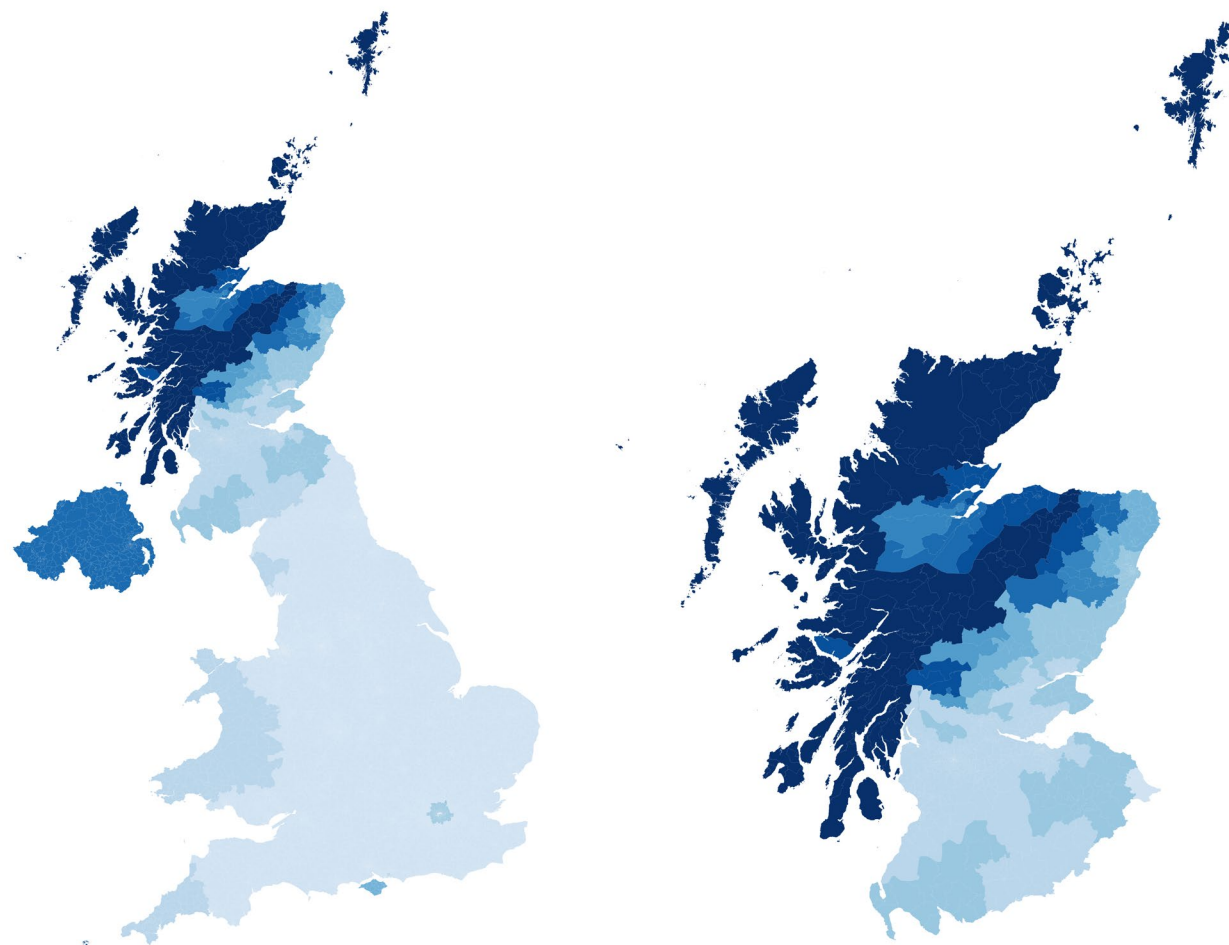
- We looked at the number of operators that apply a higher location-based delivery charge at a postcode level (this can be at area, district or sector level).
- At least **two large B2C operators do not apply a higher charge** (accounting for a large share of B2C volumes), and in most areas the retailer has a choice of more than two operators that don't surcharge.
- The areas most likely to be impacted by higher delivery charges are in the **Scottish Highlands and Islands** and **Northern Ireland**.
- Some other areas – such as the **Isle of Wight**, **south-west England** and **western Wales** – are also subject to some additional location charges.
- We observed some instances of higher prices for delivery in central London, which are attributed to the congestion charge and high levels of traffic.
- Operators with a smaller presence in the B2C market are more likely to apply location-based charges.



	No. of operators that do not set higher delivery charges	No. of operators that do set higher delivery charges
Dark Blue	2	8
Dark Blue	3	7
Dark Blue	4	6
Dark Blue	5	5
Dark Blue	6	4
Dark Blue	7	3
Dark Blue	8	2
Dark Blue	9	1
Dark Blue	10	0

Note: We asked 11 operators for data but only received mappable data from 10, so the map relates to 10 operators. The map relies on the accuracy and completeness of postcode district data provided by operators, so there may be some minor omissions.

# The number of operators that set higher delivery charges in the UK and Scotland



	No. of operators that do not set higher delivery charges	No. of operators that do set higher delivery charges
2	8	
3	7	
4	6	
5	5	
6	4	
7	3	
8	2	
9	1	
10	0	

# Geo variations in delivery charges – specific examples

We asked operators to provide their ‘typical’ B2C delivery price for a 2kg parcel and the additional charge on top of this that they charge for different parts of the UK. There are significant variations in the levels of both standard and additional charges.

## Additional charge for delivery of a 2kg parcel in selected postcode areas

Additional charge  
AB (Aberdeenshire)  
Postcode

Min	Max	Median
£0	£19.33	£9

Additional charge  
BT (Northern Ireland)  
Postcode

Min	Max	Median
£0	£29.00	£9.17

Additional charge  
PO (Isle of Wight) Postcode

Min	Max	Median
£0	£18.77	£3.50

**Note:** The prices charged by different operators reflects the approach of that operator to B2C delivery. Certain operators’ business models are based on B2C and as such their base/additional charges can be relatively low. Other operators do not focus on the B2C market and may charge higher additional prices to deliver B2C, especially to more remote locations. This can, to an extent, explain the wide variety of prices.

## Delivery restrictions are also more prevalent in Northern Ireland and parts of Scotland

- In addition – or as an alternative – to varying prices, operators may apply **delivery restrictions** for deliveries in certain areas.
- We found that delivery restrictions are more likely to occur in the **Scottish Highlands & Islands and Northern Ireland**. However, even in these locations, there are **at least four operators that do not apply restrictions** and offer their normal delivery service.
- Restrictions can vary between a single additional day for delivery, to four additional days for delivery. These additional days are attributed to difficulties in reaching the locations in question e.g. the need to use a ferry to deliver a parcel to a resident living on an island.
- We note that our approach to regulating aspects of Royal Mail's quality of service excludes three postcode areas in Scotland (HS Hebrides, KW Kirkwall, ZE Lerwick). This is principally because logistically it is not practical to achieve a next day service for 91.5% of First Class mail sent from across the UK to these remote destinations. In addition, offshore areas are more frequently subject to weather-related disruption of ferry and air services.

## Geographic variations in delivery costs

- We collected some cost data from operators to get some understanding of the extent to which geographic pricing differentials may reflect higher delivery costs.
- Operators explained they incur additional costs in delivering parcels to some locations due to:
  - Lower volumes and drop density, resulting in higher unit costs;
  - Longer transport legs, as parcels move over long distances to reach recipient;
  - Use of more expensive ferry/air transport to reach more remote areas; and
  - Use of third party networks, creating higher costs due to sub-contracting the last mile delivery and depot management to third parties (though this is also an approach used to mitigate the higher costs from lower volumes and drop density).
- We requested further cost information on the costs associated with the use of third party networks and some of the additional costs incurred by operators when using their own network for delivery to more rural/remote locations.
- We found that **delivery costs can vary significantly by geography**. We note that when costs vary by location, geographic price differentials may arise in competitive markets.
- Nonetheless, we observe that some operators do not differentiate their prices by location. For those that do vary prices, we observe that third party costs provided are often less than the additional charge (though third party costs may not reflect all the additional location costs).

# Most operators rely on third parties for deliveries in parts of Scotland, but operators have a choice

- We found that most parcel operators make some use of third party networks for ‘last mile’ delivery, particularly in the Scottish Highlands and Islands.
  - Operators tend to use third party networks **where it is cheaper than using their own network.**
  - By consolidating volumes from parcel operators, third party networks are able to achieve efficiencies in delivering parcels to harder to reach areas.
- However, this means that fewer delivery networks are likely to compete in places where third party networks operate. We therefore considered the number of third party delivery networks competing in the Scottish Highlands and Islands.
- We found that there are **at least two third party networks competing** in these remote/rural parts of Scotland. In addition, Royal Mail delivers to all addresses across the UK. This suggest that parcel operators – and retailers – have a choice of competing operators in all areas.

## Number of distinct third party networks in selected areas in Scotland

	Number of different third parties used for delivery
Highlands	2
Orkney	3
Argyll	2
Arran	3
Aberdeenshire	4

**Note:** We received the names of the third parties used by five operators. The table shows the number of different third parties used by operators in selected areas in Scotland. This table does not include Royal Mail.

## Conclusions

- Operators take different approaches to the pricing of parcel delivery based on geographic location. The approach taken can depend on the extent to which B2C is a core part of their business model. Negotiations with retailers will impact upon actual prices agreed.
- The Scottish Highlands and Islands, as well as Northern Ireland, are the areas most likely to be subject to higher prices for B2C delivery. Some operators also set higher charges for delivery to other parts of the UK.
- Even for the locations most likely to be subject to higher delivery prices, there are still at least two operators who do not vary their prices by geography. So retailers should usually have a choice of operators offering no/low geographic variations in pricing.
- Certain parts of the UK are subject to extended delivery times by some operators. These extended delivery times can vary from one additional day to four additional days.
- The cost data that we received suggests that delivery costs can vary significantly by geography and will sometimes correlate with higher delivery charges.
- Operators have a choice of at least two ‘last mile’ operators that they can use in all locations. In addition, Royal Mail has an end-to-end postal network across the whole of the UK.
- Retail businesses are ultimately responsible for choosing the parcel operators they use and for setting charges for delivery to consumers.