

Session 3: E-commerce activity slowing down How will this impact air logistics?

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Agenda

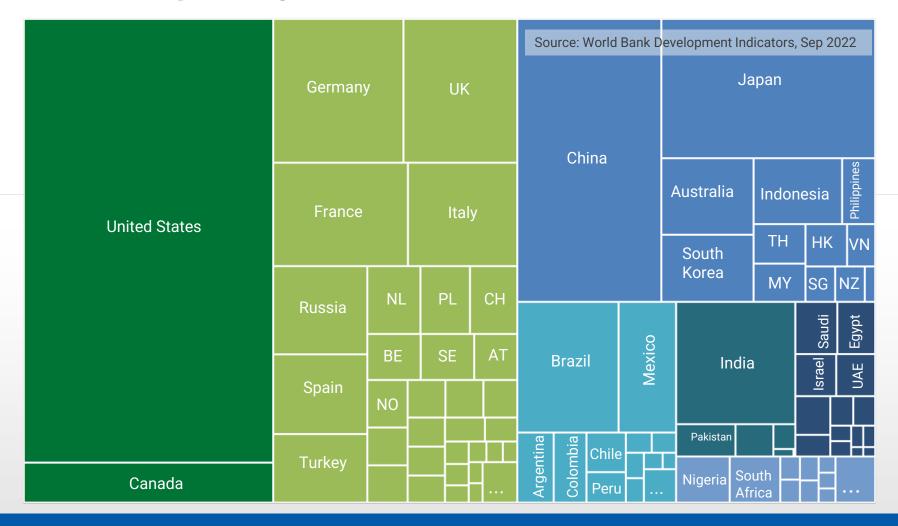
- Key Trends and Developments
- 2022: E-Commerce Activity Slowing Down
- E-commerce in Postal, Express and Air Cargo Networks
- Conclusions



Key Trends and Developments



The US, the European Union, the UK, China and Japan account for two thirds of worldwide consumer spending.





China, the US, the European Union, Japan and the UK are also the largest domestic e-commerce markets.

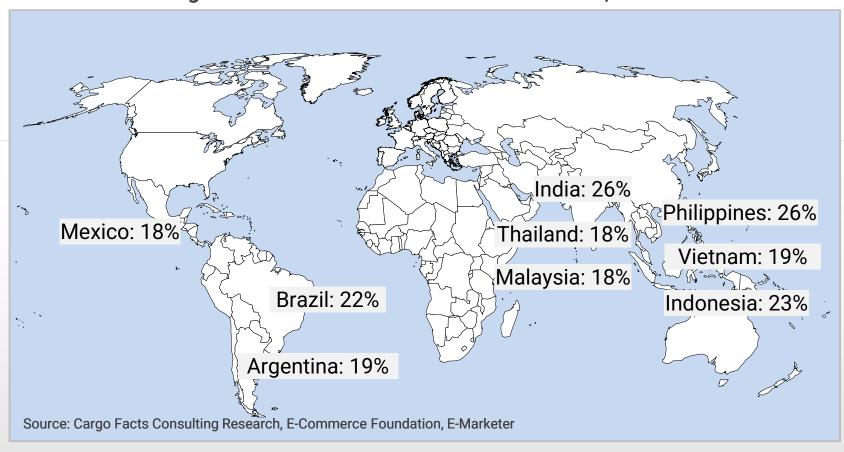
E-Commerce Revenue by Market 2021





South East Asia and Latin America registered the highest growth in terms of ecommerce sales, overtaking the more established markets.

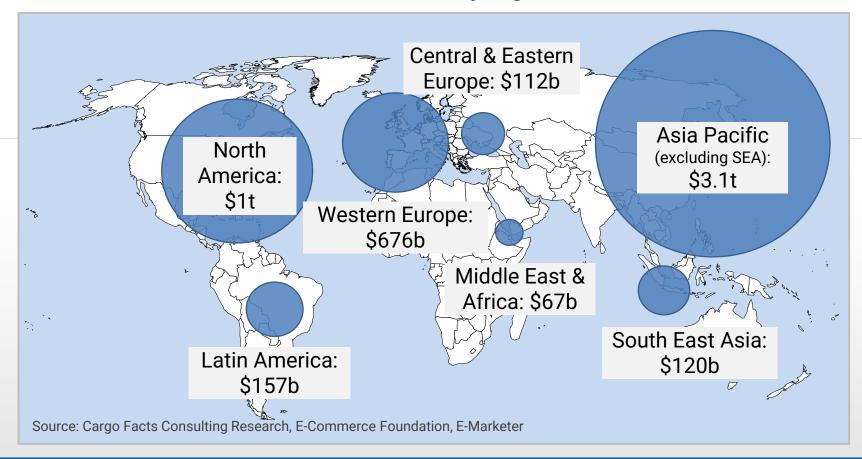
Largest E-commerce Revenue Growth Markets, 2022





These emerging markets will continue to display the highest growth rate over the next years but off a much smaller base.

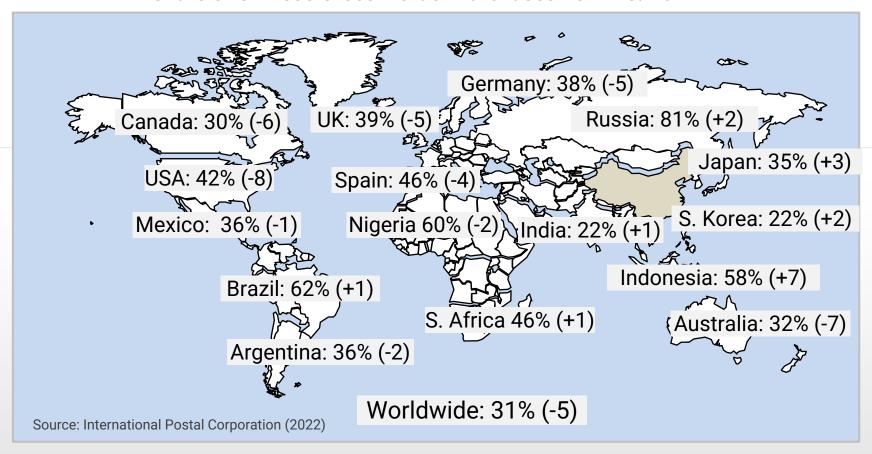
E-Commerce Market Revenue by Region, 2022





China is still the primary source of cross-border e-commerce but this rate decreased after 2020 mainly because of the lack of international capacity.

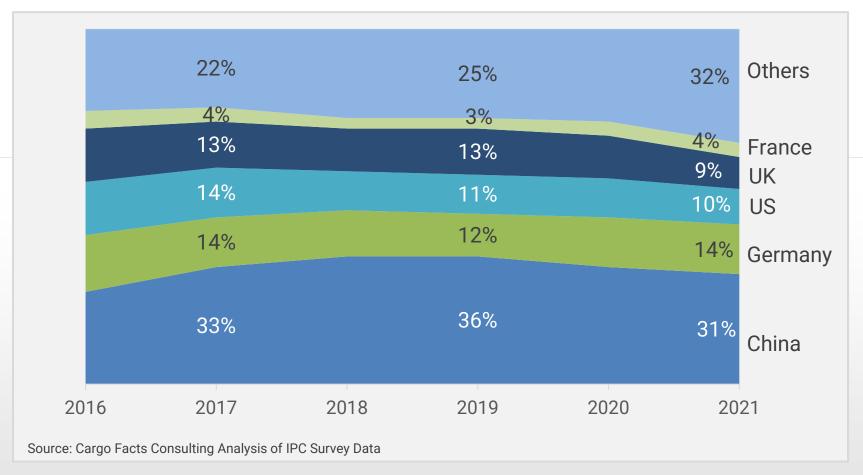
Share of Chinese Cross-Border Purchases 2019 vs. 2021





Cross-border e-commerce activity has geographically diversified over the last few years.





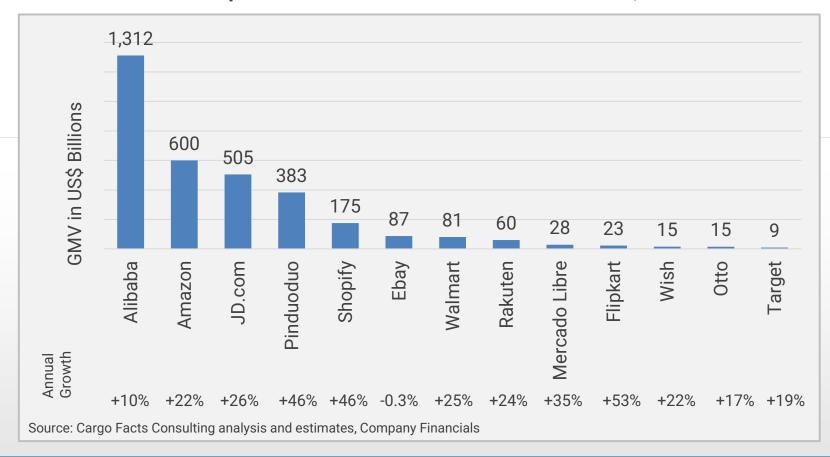


2022: E-Commerce activity slowing down



Thirteen platforms account for half of global Gross Merchandise Value. Alibaba, Amazon and JD.com dominate the business.

Top E-Commerce Platforms in terms of GMV, 2021





Several trends apply across most e-commerce platforms, even though geographical scope and scale vary between regions.

- Fulfillment costs continue to rise faster than revenues
- Own controlled logistics is seen as a competitive advantage
- Logistics networks are open to third-party sellers (Alibaba, Amazon)
- Some logistics networks are open to third parties who are not sellers (JD.com)
- Platforms moving from controlled to insourced logistics



The strategies of these global platforms drive (air) logistics opportunities.

Three Trends and Their Impact

 Own controlled logistics is seen as a major source of competitive advantage and some have started becoming logistics providers themselves.



Logistics subcontractor requirements have changed as platforms have made moves to **insource volumes** carried by third parties.

 A shift from two day to faster overnight and same day shipping has seen fulfilment costs growing faster than revenues.



Increased use of expedited shipping with express carriers and air capacity, but there is a pressure on yields.

 Increased reliance on 3rd party sellers with growth in 3rd party sales outpacing own sales.

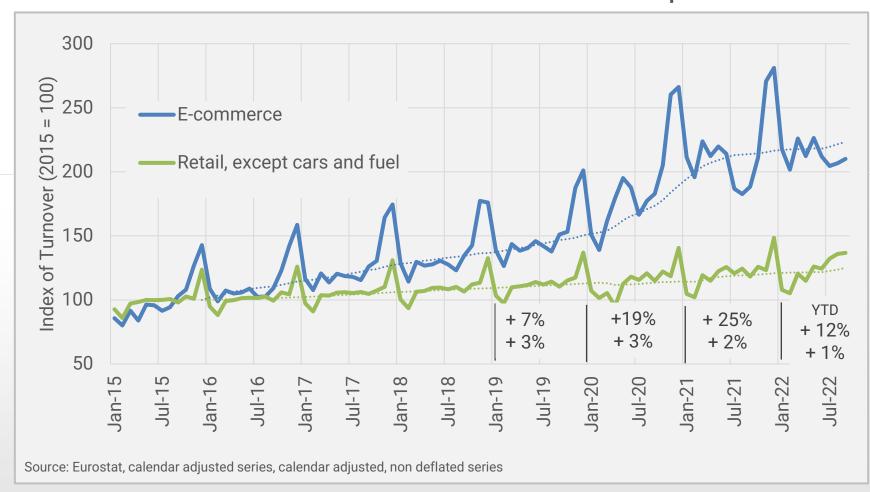


E-tailers are becoming **integrated commerce**, **logistics platforms** and finance providers.



EU e-commerce sales continue showing signs of normalization.

EU-27 Retail and E-Commerce Sales Index: Jan 2015 - Sep 2022





US e-commerce sales activity continues to move sideways at just over 18% of total retail sales, down from the peak in 2020 but above pre-COVID levels.

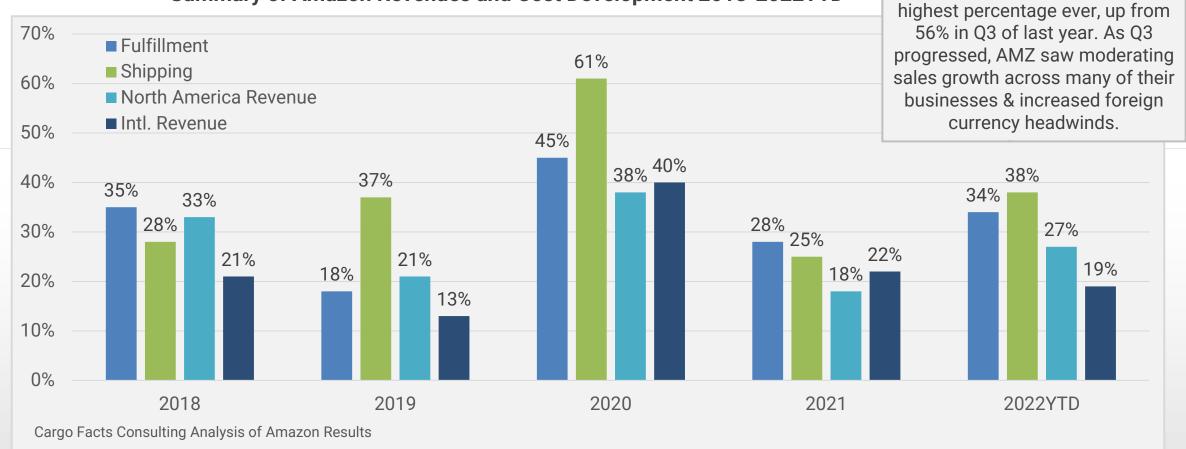




Amazon keeps spending heavily on expanding its fulfillment and shipping

capabilities.



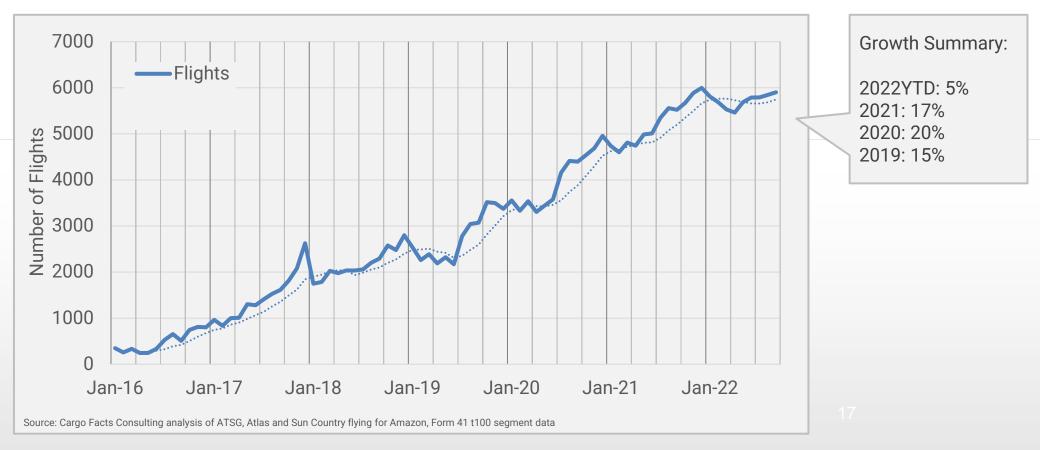


3rd-party sellers represented 58% of total paid units sold in Q3, the



The first nine months of 2022 shows indications of a slowdown in the growth of flights for Amazon.

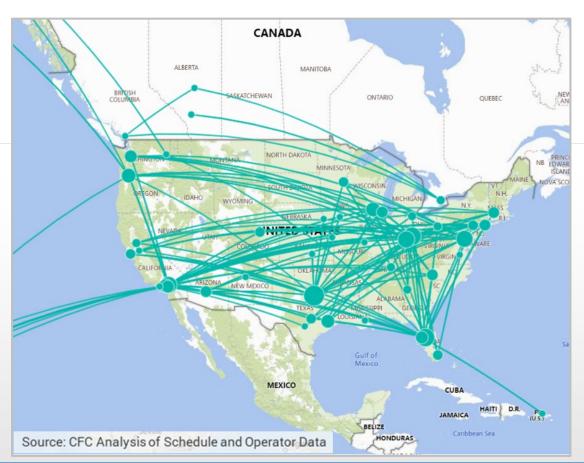
Amazon Air Flights in North America Per Month, Jan 2016 – Sept 2022

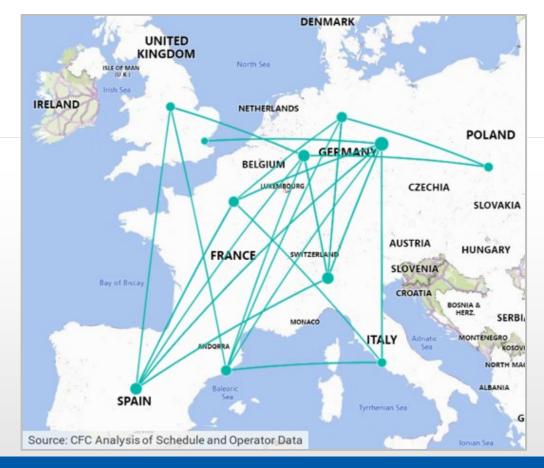




Amazon currently operates a network with 250 flights per day or about 7,500 per month across its North America and European network.

Amazon Air Network, October 2022





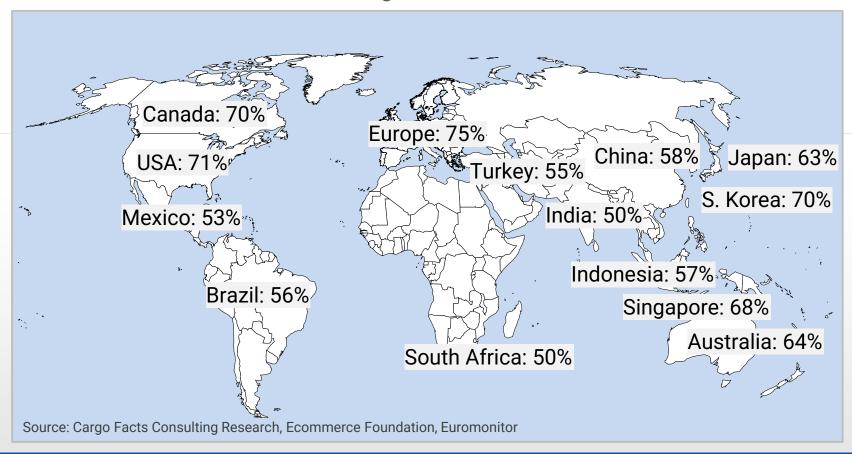


E-commerce in Postal, Express and Air Cargo Networks Today



Postal networks have become 'e-commerce parcel networks' - good for volumes but requiring large investments and changes in operating patterns.

Share of E-Commerce Packages in Postal Parcel Networks 2021





2022 so far – volumes down, yields up. E-commerce penetration keeps going down with business-to-business traffic taking a larger share.

2022 Express Carrier Performance by Market

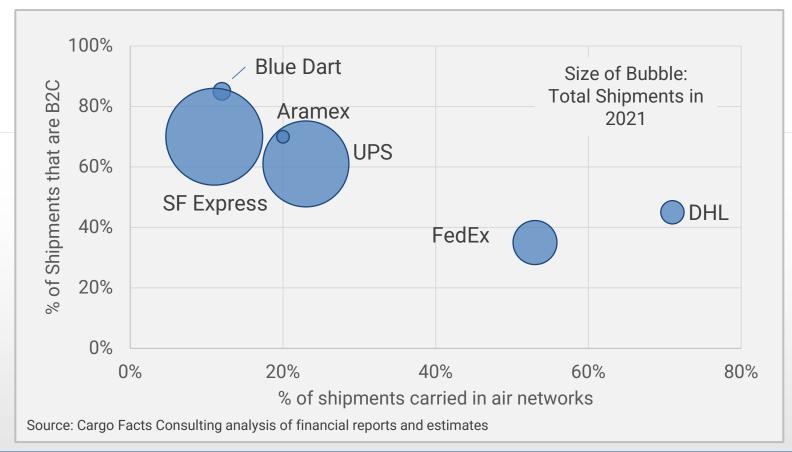
Company	International Export Volume	International Export Yield	Domestic Volume	Domestic Yield
DHL (Jan - Sep 2022)	- 5 % 👢	+ 19% 🏠		
FedEx (Dec 2021-Aug 2022)	- 4 % 👢	+ 12% 👚	-7%	+ 14% 👚
UPS (Jan - Sep 2022)	- 3 % 👢	+ 9%	- 4%	+ 14% 👚
SF Express (Jan - Sep 2022)			+ 2%	+5%

Source: Analysis of company financials, UPS domestic volumes exclude Ground, SF domestic volumes do not. For UPS and FedEx domestic represents US, for SF Express, domestic represents China. As at 30 Nov 2022



The share of B2C shipments stands at about 67% of all shipment volumes vs. 50% in 2019 but the return of B2B activity will have an impact on the 2022 figures.







All express carriers have made changes to their businesses to profit from ecommerce growth possibilities.

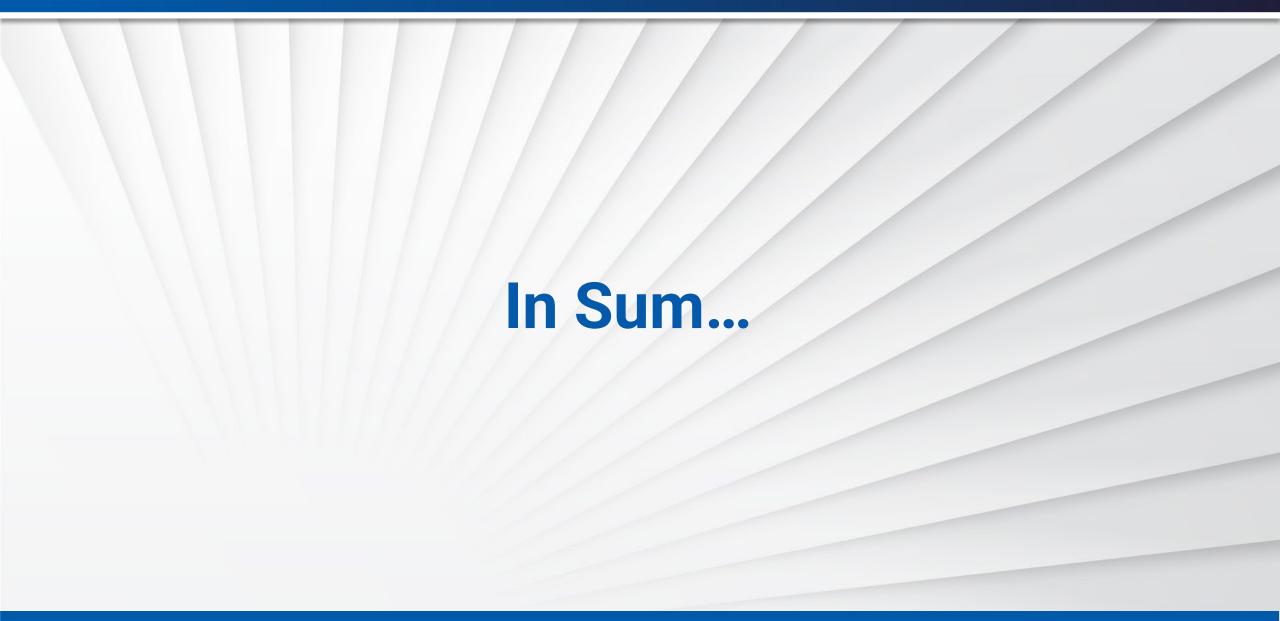
- Service Expansion: 7-day deliveries and pick-ups, same day capabilities, later cut offs
- Infrastructure and IT Investments: allowing customers to choose delivery times
- Alternative last-mile channels: through other pick-up points
- Cost Reductions: FedEx making greater use of the TNT road network in Europe
- Offerings for small and medium-sized business and cross-border e-commerce



The underperformers in 2021 have recovered further in 2022, but otherwise, growth has been very mixed. Overall YTD August tonnage declined 2.8%.









Some of the top global ecommerce trends to watch...



Supply Chain Resilience

Retailers are building supply chain resilience to combat disruptions.

Social & Mobile Ecommerce

Mobile shopping, social commerce sales are set to triple by 2025.

APAC Growth

E-commerce sales growth in Asia-Pacific is projected to be greater than the rest of the world combined.

Wholesale and B2B Industry going online

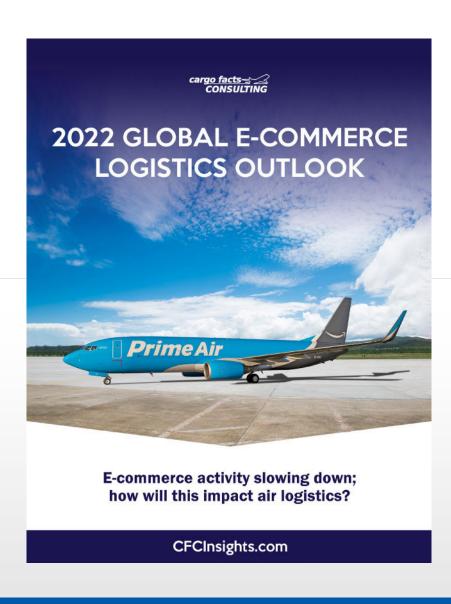
Rise of vertical and specialized B2B and wholesale marketplaces.



Conclusions

- Consumption of digital services remains strong more than two year after the pandemic started, a trend that will likely continue over the next years but at a slower pace.
- As traditional high e-commerce penetration markets reach a saturation point, the focus will shift to markets in other parts of Asia, Latin America and the Middle East.
- Domestic and intra-regional e-commerce performed better than cross-border due to the continuous lack of intercontinental cargo capacity.
- Shipping costs continue to grow faster than revenues. This is not a good development from an operational efficiency standpoint, and it likely puts future pressure on cutting costs.
- All platforms have one thing in common: controlling logistics is central to their strategy.



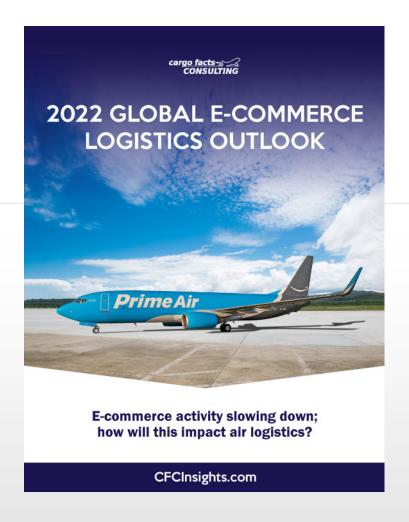


2022 Global E-commerce Logistics Outlook

- Released 22 September 2022
- Analysis of key e-commerce market trends and growth drivers
- Detailed logistics profiles of 14 e-commerce platforms accounting for 50% of global e-commerce revenues
- Market size estimates for e-commerce traffic in express, postal and general cargo networks
- An assessment of opportunities and risks in key segments: postal, express, contract flying, air cargo
- Interactive Power Bi dashboards
- Periodic updates to platform profiles and dashboards
- See <u>www.cfcinsights.com</u>



Three new reports and tools: E-commerce, Express, Freighter Forecast







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