



# WHAT IS THE RELEVANT MARKET(S) FOR PARCEL DELIVERY?

A discussion spurred by AGCOM's recent review of the Italian parcel delivery market

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The delineation of relevant markets for postal and delivery services is of high importance for a wide range of postal sector stakeholders. Notably, how relevant markets are defined has implications for i) market players' ability to grow through mergers and acquisitions, ii) market players' ability to price and in other ways engage in the competitive interplay in the market, and iii) the need for and extent of regulatory intervention.

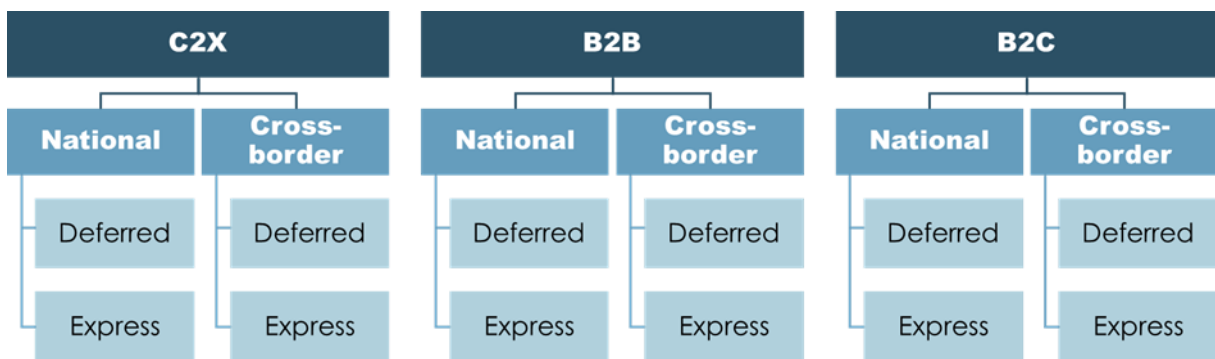
On 1 July 2020, AGCOM, the Italian communications regulator, published an interim report defining 12 separate relevant markets for parcel delivery services in Italy (see the figure below). The relevant markets defined by AGCOM (e.g. deferred delivery of national B2C items and express delivery of cross-border C2X items) are narrower than those defined in several previous decisions concerning European parcel delivery markets. In these decisions, relevant markets for parcel delivery have sometimes been defined as broadly as C2X delivery

and B2X delivery respectively, not distinguishing further between different groups of recipients, different destinations of the delivery, or the speed of delivery. Although market definitions must always consider local circumstances, regulators and competition authorities tend to be inspired by existing case law. AGCOM's preliminary decision, as well as the reasoning behind it, should thus also be of relevance to postal sector stakeholders outside Italy.

### Main points in AGCOM's preliminary decision

The key task when identifying relevant markets is to analyse the competitive constraints created by *demand side* and *supply side substitution*. Ultimately, the question that needs to be answered is whether a hypothetical monopolist providing the parcel delivery service in question could profitably increase the price of the service by 5-10% or if substitution away from the service by

### The newly defined Italian parcel market is made up of 12 separate relevant markets



Source: AGCOM (2020) [Delibera n. 212/20/CONS](#)

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its users and/or entry of new providers into the segment would render the price increase unprofitable.

Focusing on AGCOM's delineation of separate relevant markets for B2B and B2C deliveries respectively, AGCOM notes *on the demand side* that B2B deliveries do not include many of the receiver-oriented services required for B2C delivery, such as Saturday and evening delivery, multiple delivery location options for the recipient, and the provision of delivery notices. *On the supply side*, AGCOM puts forward a similar argument, stating that B2B and B2C delivery involve different delivery logistics, particularly for the last mile. For example, B2C delivery requires more widespread and less programmable deliveries, different delivery location solutions (i.e. delivery to the door or to a parcel locker) and different services for tracking.

Based on this, AGCOM concludes that B2B and B2C deliveries constitute separate relevant markets.

#### **Comments on AGCOM's decision**

Before one starts analysing demand and supply side substitution to define relevant markets, candidate product markets need to be clearly defined. For parcel delivery, it is worth noting that delivery operators themselves often do not distinguish services by *recipient* (i.e. there is no such thing as a "B2B delivery service" or a "B2C delivery service" in the product portfolio). Instead, delivery operators provide services aimed at different segments of *senders*, offering them a range of different features (delivery next day, evening delivery, delivery to a parcel locker, etc.). This would indicate broader delivery markets than those defined by AGCOM.

Moreover, while AGCOM found that private recipients (consumers) in Italy may require additional features, such as Saturday or evening delivery, to a larger extent than business recipients, we have seen evidence in other markets that several business recipients (e.g. retail stores in city centres) have a strong interest in Saturday delivery as well. Similarly, business recipients like smaller crafts- and tradespeople or field technicians might be interested in receiving shipments in their home office. Thus, product characteristics and delivery

requirements might sometimes be very similar for B2B and B2C deliveries, making it more attractive for users to switch between the two. To better understand the extent to which different delivery features cross over between business and consumer recipients, a survey of receivers' actual needs and preferences could be useful.

On the supply side, AGCOM highlights differences in delivery logistics as a reason for finding B2B and B2C delivery to be separate markets. However, to conclude on the potential for providers of B2B delivery to expand into B2C delivery and vice versa, one must also assess the actual cost of switching. The fact that the delivery process utilises the same resources (delivery vans, sorting machines, and manpower) irrespective of the identity of the recipient, is central in this assessment. It implies that a delivery operator, by using the same (existing) resources, can provide different variations of the delivery service – including delivery to different types of recipients. There are also several examples of delivery operators that have de facto expanded their service offerings from B2B to B2C and vice versa. For example, UPS, DPD and GLS entered the delivery market focusing on B2B deliveries, but now also offer B2C door-to-door delivery. Likewise, Hermes, initially a B2C operator, now provides delivery to both businesses and consumers. If the supply substitution is sufficiently strong, this indicates that the relevant market might include both B2C and B2B deliveries. A similar reasoning can be applied for deferred vs. express deliveries – or national vs. cross-border deliveries.

#### **The way ahead**

AGCOM's recent assessment reveals that the methods for defining a relevant market rely on many nuances related to the market being assessed and the local context. Due to the lack of a general consensus on how exactly to delineate relevant markets for parcel delivery, the continued growing importance of e-commerce, and the development of new business models in this area, it is likely that many delivery operators and national regulators, both in Italy and abroad, will weigh in on the discussions regarding relevant market assessments in the future.

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