

Package Deal - Retailers and Delivery Surcharges



Contents

	Page
Executive Summary	01
Background	03
Objectives	06
Methodology	07
Findings	08
The prevalence of online delivery surcharging	08
Drivers for online delivery surcharges	10
Why retailers do not surcharge	17
Conclusions	21
Recommendations	22

1. Executive Summary

1.1

The level and fairness of parcel surcharging remains a longstanding and frustrating issue for consumers in Northern Ireland, the Highlands and Islands of Scotland and other remote areas in the United Kingdom (UK). Four in 10 UK online retailers apply an additional delivery surcharge for consumers living in Northern Ireland¹. This can cost on average an additional £6.72². With the predicted growth in online shopping³ this additional cost can potentially exclude or cause significant cost to consumers.

1.2

This study explored the factors behind why some retailers apply delivery surcharges and how some avoid surcharging consumers in peripheral areas of the UK. It showed there are many variables and drivers which can cause

genuine additional delivery costs for consumers in outlying areas of the UK. These can be summarised into the following categories:

- Type of retailer;
- Size of retailer;
- Lack of control over delivery costs;
- Size and weight of item;
- Parcel operators used; and
- Handling charges.

1.3

Yet despite, and sometimes because of, these factors, some retailers have greater control over whether to apply an online delivery surcharge. Either they have enough bargaining power (i.e. high parcel volumes) to negotiate a UK-wide flat rate with their parcel operator(s) or they can afford to opt for a

marketing approach to absorb any surcharges. However, in contrast, it can be more difficult for small and medium retailers, who do not have the same high parcel volumes to negotiate favourable flat UK-wide rates with parcel operators.

1.4

Equipped with the understanding of why retailers surcharge, we have proposed recommendations which require the cooperation of industry, public and private sectors across the UK. As the issue extends outside Northern Ireland, The Consumer Council will be working with our colleagues in the Consumer Protection Partnership (CPP) to take forward an industry initiative to explore solutions to improve the level and fairness of online delivery surcharges.

1.5

Finally, The Consumer Council commits to working with the Northern Ireland Executive to explore if any local solutions can be adopted to reduce logistic costs for parcel operators and help grow the e-commerce sector in Northern Ireland.

¹ Triangle Management Services: Online parcel delivery costs to Northern Ireland (March 2018)

² Ibid

³ By 2040, it is thought 95% of purchases will be facilitated by eCommerce (<https://www.nasdaq.com/article/uk-online-shopping-and-e-commerce-statistics-for-2017-cm761063>)

2. Background

2.1

The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland. The Consumer Council has specific statutory duties in relation to energy, postal services, transport, and water and sewerage.

2.2

Consumers in Northern Ireland, like their UK counterparts are increasing their participation in the digital world and appreciate the choice of shopping online⁴. However, the issue of online parcel surcharging may be creating a barrier to this method of shopping and therefore reducing the choice offered to consumers. Just over one third of consumers in Northern Ireland shop online weekly compared to almost half of all UK⁵.

2.3

For many consumers the online shopping experience doesn't end at the virtual checkout. Today's consumers are judging their experience with retailers' right from purchase to delivery and even returns. Therefore the delivery is a fundamental element of e-commerce.

2.4

The issue of parcel surcharging has long been a problem for many online shoppers in the UK, not least Northern Ireland. Consumers in Northern Ireland face an inconsistent and more costly approach to parcel delivery prices, when ordering online. Research undertaken by The Consumer Council in 2015⁶, showed that a third of online retailers apply delivery exclusions to addresses in Northern Ireland. Exclusions can include higher

costs, longer delivery times, and no delivery available. This was ten times higher than any other nation in the UK (Scotland 3%, Wales 3% and England 1%).

2.5

The challenge of identifying the reasons for surcharging and which party applies the surcharging is still in many cases commercially sensitive, unclear and complex. Much of the complexity is due to the tripartite relationship between the consumer, retailer and parcel operator. These relationships are outlined on the right:

Tripartite relationship of online shopping

Consumers

Purchase products and conclude a contract with an online retailer.

Online retailers

Responsible for setting the delivery policy (including price and coverage), agrees the contract with the consumer and separately agrees a contract for delivery with a parcel operator.

Parcel Operators

Agrees and fulfils the delivery contract with an online retailer. The parcel operator usually does not have a contractual relationship with the consumer. Additionally, parcel operators may agree a further contract with third party delivery networks to undertake all or part of the delivery.

⁴ Ofcom: Communications Market Report UK (August 2017)

⁵ Ibid

⁶ <http://www.consumercouncil.org.uk/sites/default/files/201807/Online%20Parcel%20Premium%20Report.pdf>

2.6

A recent report by Citizens Advice Scotland⁷ gathered information on how much more consumers have to pay when they are outside 'UK standard' delivery areas. It demonstrated that some of the highest average delivery prices were associated with addresses in Northern Scotland and Northern Ireland. It also showed that Northern Ireland consumers were asked to pay 41% more than the UK average for a parcel to be sent to them. The research also sought to ask why consumers in certain areas are charged more for delivery, by interviewing parcel companies, both smaller regional operators and the large national companies.

2.7

Therefore, as evidence exists on the impact of surcharges for both consumers and operators, understanding the influence of retailers on the online shopping tripartite relationship is important. We felt that to explore the reasons for surcharging with retailers, we could complete the picture and identify solutions, which could be adopted by industry.

3. Objectives

3.1

The general objective of the study was to develop our understanding of UK retailers' attitudes towards online parcel surcharging. In particular we wished to:

- Understand to what extent delivery costs to Northern Ireland and peripheral areas of the UK are absorbed by retailers so that they can offer a uniform price of delivery, or if they are passed on to the consumer.
- Understand to what extent product category/size drives additional delivery costs to peripheral areas.
- Investigate the reasons why some retailers choose to apply no delivery surcharge.

- Explore the correlation between delivery operators used and the prevalence of surcharging.

- Comprehend retailer's views on using Royal Mail's Universal Service Obligation (USO) products to avoid surcharging.

- Seek retailer led solutions to reduce delivery costs and the use of regional surcharging.

⁷ <https://www.cas.org.uk/news/postcode-penalty-delivering-solutions>

4. Methodology

4.1

The Consumer Council commissioned Triangle Management Services Ltd to undertake a mixed methodological approach to this study. The research took place from January to March 2018.

4.2

This involved:

- Desk based research with 270 retailers, which represented a broad cross-section of UK retailers.
- 35 retailer interviews and 24 in-depth semi-structured telephone interviews and 11 online surveys.

4.3

The 24 quantitative telephone interviews covered 13 different product categories and the retailers involved were characterised as either pureplay, mainly pureplay or multi-channel. The definitions of these retailer types are outlined on the right:

Pureplay

Retailers that only sell online.

Mainly pureplay

Retailers that have up to one or two outlets and then expanded sales online.

Multichannel

Retailers that use a variety of sales channels including physical stores, online, mail order.

4.4

The balance of the retailer interviews were 19 who surcharge versus 16 who don't surcharge.

4.5

It is important to note that where possible, the main focus of this study was on online parcels⁸ delivered by one person, rather than heavy or large items such as furniture or larger appliances.

⁸ A 'parcel' is defined by the delivery industry as an addressed item that can be carried by one delivery person, weighing up to 31.5kg.

5. Findings

The prevalence of online delivery surcharging

5.1

Online delivery surcharging is an additional cost that is added on to deliveries, usually this is based on the geographical location of the destination.

5.2

The research found that 39% (n=104) of UK retailers apply a delivery surcharge to consumers living in Northern Ireland.



4 in 10 UK online retailers apply a delivery surcharge to Northern Ireland consumers

5.2

"Around 30% (n=72) of the surcharging retailers published a surcharge cost on their website, and a further 5% indicated that there would be a surcharge for certain conditions, such as higher



5% of retailers fail to provide full upfront information on additional delivery costs

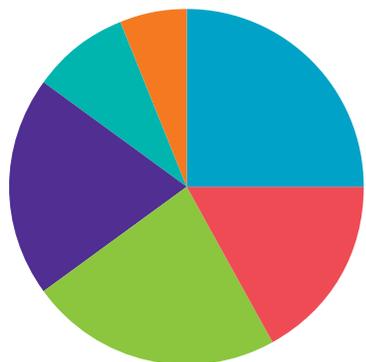
parcel weights and sizes, or that the consumer would have to request a cost for delivery to Northern Ireland. This leaves 5% (n=12) of retailers failing to comply with the Consumer Contract Regulations 2013 on providing upfront delivery information.

5.3

Online delivery surcharging can range from £0.45 to £39.95 per parcel. The variation in cost is due to a range of factors and drivers, which are discussed later in this report. The average cost of an online delivery surcharge to Northern Ireland is £6.72, however a quarter (25% n=17) of the surcharging retailers were charging up to £2.00, while over half (58% n=27) charged over £5.00.

Figure 01
Published surcharge by cost band

Base: 69 retailers



- **2%** Up to £2
- **17%** £2.00 – £4.99
- **23%** £5.00 – £7.99
- **20%** £8.00 – £11.99
- **9%** £12.00 – £14.99
- **6%** Over £15.00



Northern Ireland consumers pay an average additional **£6.72 for online deliveries.**

5.5

Just under half (48% n=116) of all the retailers surveyed offered free delivery for a minimum spend amount. The majority (72% n=83) of these made the same or similar offers to Northern Ireland consumers. However under a third of retailers (29% n=33) did not extend the same offer to Northern Ireland consumers and in some cases (7% n=8) twice the amount of minimum spend was required.



Almost one in three retailers who offer free delivery to UK mainland, did not extend the same offer to Northern Ireland consumers.

5.6

Almost two thirds (65% n=13) of surcharging retailers interviewed, said that they receive complaints from Northern Ireland consumers expressing their frustration at this issue. Dissatisfied consumers can lead to extra costs through staff time dealing with these complaints, potential reputational brand damage and ultimately loss of business.

“We get 1 or 2 emails a week and I always explain that our extra surcharge reflects the additional charge the courier charges us to deliver to Northern Ireland. We would have to increase the price of our goods if we wanted to offer free delivery across the whole of the UK... Even if the customer was spending over £100 or £150 I would never waive the delivery charge, it is the same for everyone.”

(Mainly Pureplay, Apparel/Footwear, surcharger)

Drivers for online delivery surcharges

Type of retailer

5.7

Multichannel retailers, with a variety of sales channels including physical stores, were less likely to apply online delivery surcharges than pureplay (all)⁹ retailers that have a limited physical store presence. The research shows that 70% of multichannel retailers do not apply a surcharge compared with 54% of pureplay retailers.

Figure 02

Retailer Category	Don't surcharge	Do surcharge	Share of total sample
Pureplay (all)	55% (n= 91)	45% (n= 75)	62%(n= 166)
Pureplay (all) retailers who use marketplaces ¹⁰	73% (n= 49)	27% (n= 18)	25% (n= 67)
Multichannel	71% (n= 72)	29% (n= 29)	38%(n= 101)
Multi-channel retailers who use marketplaces	57% (n= 4)	43% (n= 3)	3% (n= 7)
Weighted total (n=269)	61% (n= 163)	39% (n=104)	100% (n= 267)

⁹ Pureplay (all) category includes pureplay (online only) and mainly pureplay (mainly online with some physical stores).

¹⁰ Some retailers use both their own distribution networks as well marketplace platforms.

5.8

The marketplace plays a pivotal role in the consumer journey, with 51% of consumers starting their online shopping journey on Amazon and 11% starting on eBay¹¹. The use of online marketplaces has a bearing on the application of online delivery surcharges. The findings show that retailers who have limited store presence and use marketplaces, tend to display a propensity not to apply online delivery surcharges. Namely, 45% (n=75) of all pureplay retailers apply a surcharge but this decreases to 27% (n=18) with retailers who use marketplace platforms. However, conversely the opposite is true for multi-channel retailers who use marketplaces, with 14% (n=26) more charging an online delivery surcharge.

Size of retailer

5.9

Larger retailers have greater control over whether to apply a delivery surcharge. Either they have enough bargaining power (i.e. high parcel volumes) to

negotiate a UK-wide flat rate with their carrier(s) or they can afford to absorb any surcharges. In contrast, it can be more difficult for small and medium retailers, who do not have the same high parcel volumes to negotiate favourable flat UK-wide rates with parcel operators.

“We didn’t really negotiate a contract...they [the carrier] originally tried to charge us a very high price and they said the only way we could reduce the cost was by sending more items. I explained that it didn’t really work like that! So, I told them I wasn’t interested.”

(Pureplay, Hobbies, surcharger)

5.10

As well as limited bargaining power, small and medium retailers can often have limited time resources, or do not outsource the parcel fulfilment service. This can mean they prefer the simplicity of dealing

with one or a limited number of parcel operators. Whereas, larger retailers stressed that each carrier has different strengths and so they tend to use more than one to meet their needs.

“But it also depends on the item we are shipping. We use different carriers depending on the items we ship, so for example, we use [X] for our express items, [X] for our heavy items, [X] and [X] for items up to 30kg.”

(Multichannel Retailer, Apparel/Footwear, surcharger)

Parcel operators

5.11

Online retailers are under time and financial constraints. The survival of their online business can often depend on the ability of parcel operators to deliver on time, at low costs and in a fashion that is convenient for consumers. Despite the requirement for low cost delivery, 95% (n=33) of the retailers interviewed claimed that

their reasons for surcharging is because they are simply reflecting what the parcel operator has charged them, with some retailers claiming they even lose money on delivery.

“We just pass on what the courier charges us, I’m not going to pay £25 delivery charge if the customer is spending £5 on an item. Just delivery to be honest, we usually lose money on shipping.”

(Pureplay only retailer, surcharger)

“Sometimes we even charge the customer less than the courier charges us”

(Pureplay retailer, surcharger)

¹¹ The Future Shopper 2018 and beyond – Wunderman Commerce (Salmon Insights).

5.12

Not all retailers publish the operator they use to deliver their orders. We also know that retailers tend to use more than one parcel operator. Retailers interviewed reported that they use an average of 2.3 different parcel operators.

“Price is probably our main concern.....we tend to use a mixture of carriers.”

(Multi-channel retailer, non-surcharger)

5.13

Therefore for the purposes of this study it was difficult to identify those parcel operators that most frequently apply additional costs when delivering to Northern Ireland. However, from the information available, our research has found that Royal Mail is one of the most popular operators for delivering to Northern Ireland. This would go some way to explain how 61% of retailers do not apply a parcel surcharge. We believe this may be due to the uniform flat-rate delivery across the UK, therefore retailers can avoid applying online delivery surcharges.

5.14

Easy switching between providers helps drive a competitive market and keeps prices low in the parcel market. Over half of the retailers interviewed (59% n=21) indicated that they did not perceive any obstacles to switching parcel operators. However, some retailers expressed resistance to switching due to a number of factors. These included IT integration issues, which were the main barrier, particularly as in-house software systems can be inflexible.

“It would cost us thousands. Because we would have to change our despatch set up, computer systems, where all our warehouse orders are stored and collected. We have had issues in the past, with items being in the wrong part of the warehouse and being collected by the wrong courier and then turning up a week later. Yes, it’s a complicated process.”

(Multi-channel retailer – surcharger)

Figure 03

Average parcel operator used by retailers for Northern Ireland consumers

Base: 160 retailers

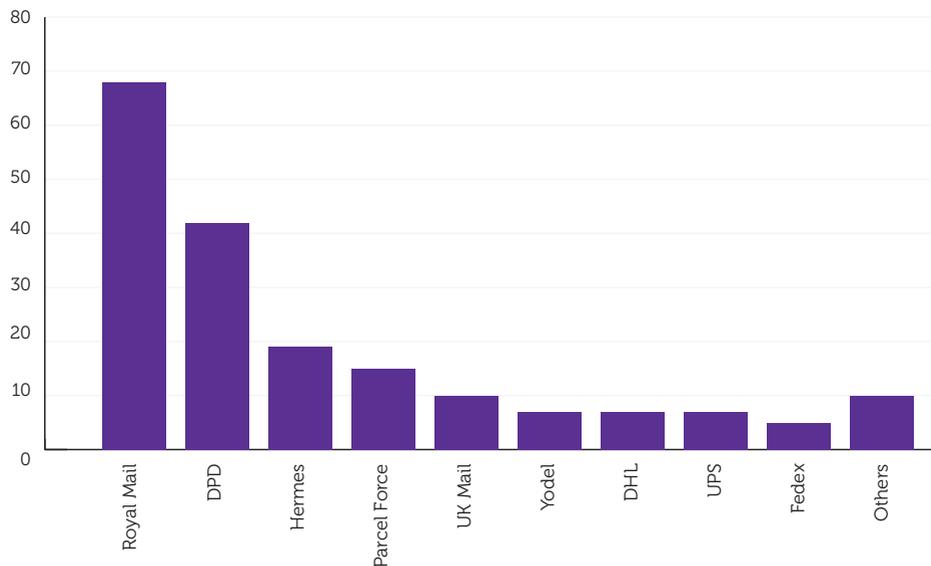
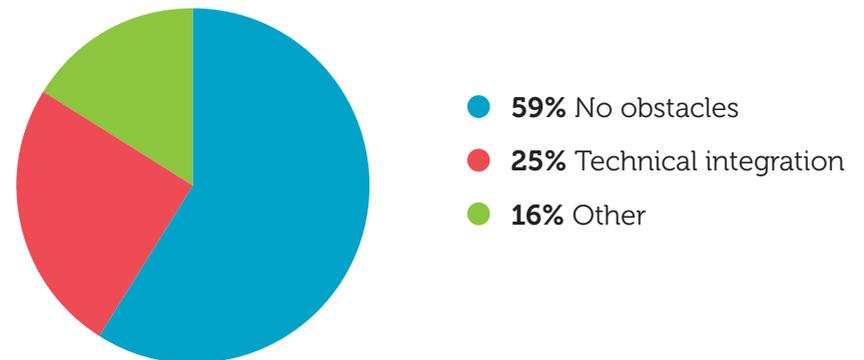


Figure 04

Obstacles to changing operators

Base: 32 retailers interviewed



5.15

Other areas of internal resistance stemmed from retailers perceiving they had good contract and working relationships with their current operators, which they did not want to change.

Product category or size

5.16

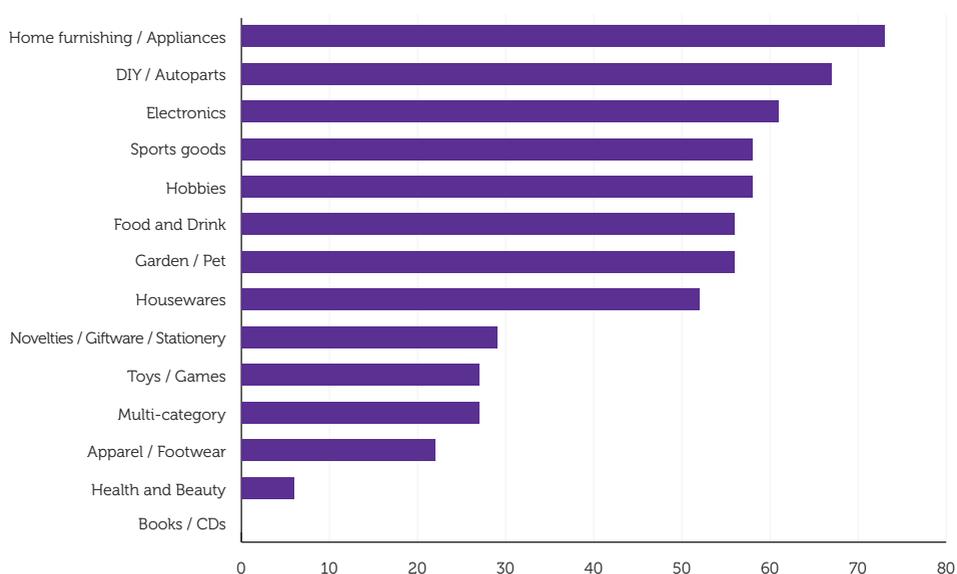
One of the key drivers for cost in the delivery and logistics market is the size and weight of the package or parcel. This determines the

number of personnel, cost and method of transportation required. Therefore, product types can play an important role in the likelihood of delivery surcharges being applied. The chart below shows the percentage of retailers within each product category that were found to apply delivery surcharges. The top eight product categories in the chart includes some large items, whereas the goods in the lower half of the chart are largely low weight.

Figure 05

Online retailer surcharging by product category

Base: 267 retailers



Handling Charges

5.17

Whilst online delivery surcharging can be seen by the consumer as a solely transport/postage costs, in reality, many retailers include the cost of handling the items and preparing for posting in the cost of delivery. However, the majority of respondents (56% n=20) said that they only included transport costs in 'Post & Packaging'. Over a third (35% n=12) said delivery charges included some element of packaging and handling, whilst it varied by type of product for 9% (n=3) of retailers.

Lack of control over delivery costs

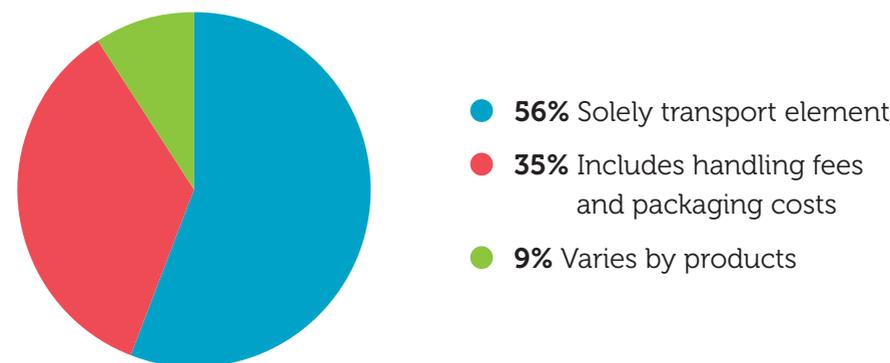
5.18

An additional driver for surcharging included the use of third party delivery fulfilment services or items shipped directly from suppliers leading to retailers having less control of their delivery costs.

Figure 06

Retailer Delivery Price Composition

Base: 35 retailers interviewed



Why retailers do not surcharge

5.19

Despite the surcharge drivers for online delivery, the majority (61% n=163) of retailers do not apply additional costs for Northern Ireland consumers. Our research identified why and how retailers do not apply online parcel surcharges.

Delivery rates

5.20

As explained under item 4.4, retailers that generate high parcel volumes are able to negotiate a UK wide rate with their delivery partner. This uniform rate provides simplicity for consumers and does not differentiate against consumers living in peripheral regions of the UK.

5.21

Similarly, retailers seek out and use operators, such as Royal Mail, that apply a uniform tariff across the UK. With 61% (n=163) of retailers not applying a surcharge this would go some way to explain the high preference for Royal Mail for Northern Ireland deliveries.

“Most carriers support flat rates too, volumes are so minimal that costs are negligible. I also believe that it is important to make delivery as simple and straightforward for the consumer if you want them to complete the order.”

(Multichannel, Apparel/
Footwear, non-surcharge)

Marketing decision

5.22

High delivery costs, or unclear delivery costs, tend to be the largest reason why a consumer abandons their online shopping cart¹². Therefore to provide free delivery or delivery promotions is a sure way to stay competitive in the online market place. Where retailers have not negotiated favourable delivery rates across the UK, some may choose to absorb the extra cost and offer standard or free delivery as a marketing promotion.

“We don’t surcharge, our courier company does, but we have decided to take the hit and not pass it on to our customers.”

[Pureplay Gardens/pets,
non-surcharge]

“We waive the delivery charge if the customer spends over £100.”

[Pureplay hobbies, non-
surcharge]

Collection alternatives

5.23

Many retailers are using click and collect and parcel shops, as a way of reducing costs. Almost a third (31% =11) of retailers interviewed offer collection from their own or (25% =9) third party stores. Multi-channel retailers, particularly those with a store presence nationwide are ideally located to

offer an alternative for consumers to delivery surcharges through a click and collect option.

5.24

For some retailers however, a click and collect service could cost multi-channel retailers more than four times more than in-store purchases, but this is cheaper than home delivery which can be anywhere between five and 23 times more expensive than in-store purchases¹³. Therefore, to adapt to a changing retail environment, retailers must position their online delivery or collection services to meet the needs of consumers.

¹² <https://www.imrg.org/blog/what-customers-want-behaviour-shopping-cart/>

¹³ <https://postandparcel.info/71804/news/uk-online-delivery-and-click-and-collect-to-double-by-2025-claims-new-report/>

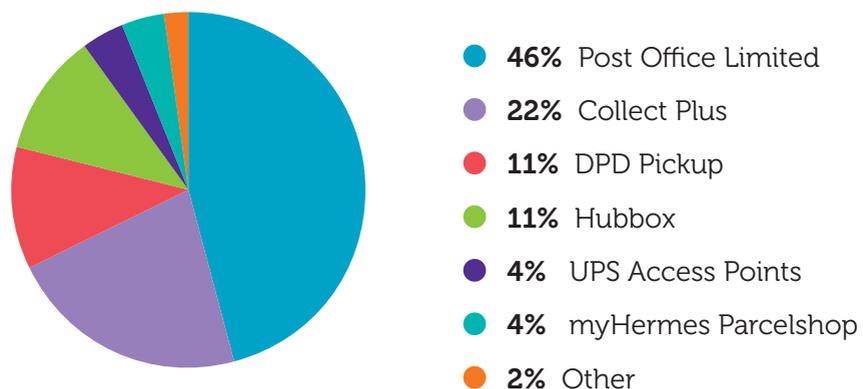
5.25

Parcel shops are a growing area in Northern Ireland. Just under half (40% n=14) of retailers interviewed are willing to use/explore the use of parcel shops. The use of parcel shops reduces the cost of delivery for consumers to between free to use to £5.00. There are over 900 parcel shops in Northern Ireland. The chart below illustrates the availability of the various networks operating in Northern Ireland.

Figure 7¹⁴

Breakdown of parcel shops in Northern Ireland

Base: 929 parcel shops



¹⁴ Source: earlier research by Triangle Management Services Ltd (2017)

6. Conclusion

6.1

Online parcel delivery surcharging remains an issue for consumers in Northern Ireland, the Highlands and Islands of Scotland and other remote areas of the UK. The work of the CPP organisations has started to make strides to improve the transparency and accuracy of delivery cost information on retailers' websites. However, unpicking and progressing the issue of the level and fairness of surcharges applied for delivery has proved challenging.

6.2

The findings of this report will go some way to present the final piece of the picture on the issue of parcel delivery surcharging in the tripartite relationship between consumers, delivery operators and retailers. By looking into the reasons why retailers choose to surcharge or not to surcharge we can identify and work with industry on solutions for all parties.

6.3

The research shows that six in 10

retailers choose to find ways around online parcel surcharging to ensure they do not lose the important business from outlying areas of the UK. The Consumer Council believes that greater transparency around tariffs and reduction in barriers to switching are central to increase the level of non-surcharging retailers.

6.4

Further, the opportunities for online retailers to extend their business offering and grow their businesses to all areas of the UK must be promoted as it paves the way for greater domestic ecommerce growth. Indeed, Northern Ireland presents good potential within the e-commerce marketplace. Gross disposable household income is growing faster than the rest of the UK¹⁵ and home internet access is similar to UK average at 83%¹⁶. The region has 2.9% of the UK total population size (1.86 million)¹⁷, but population growth is the second highest after England and projected to grow by 10% in the 2012- 2037 period¹⁸.

7. Recommendations

7.1

It is clear from our study that to improve upon the level and fairness of online delivery surcharging, there must be a co-operative approach between all sectors, public and private. It should include the consumer, parcel and retail industry, the UK Government and the devolved administrations. This approach must focus on removing or lessening the obstacles to a fair UK delivery market, and promotion of the opportunities that exist for online retailers and parcel operators to grow their business in outlying areas of the UK.

7.2

Industry Initiative: The Consumer Council will work with partners including Citizens Advice Scotland's Consumer Futures Unit, The Competition and Markets Authority and CPP organisations to establish an industry initiative to encourage retailers and parcel operators to come together and explore solutions to improve the level and fairness of online delivery surcharges.

7.3

Understanding parcel operators' cost structures: The CPP Task Team¹⁹ should continue to work with Ofcom to better understand the costing structures parcel operators use across the UK, including areas that are most rural.

7.5

Local Solutions: The Consumer Council will work with the Northern Ireland Executive to explore if any local solutions can be introduced, which may help minimise parcel surcharging costs for last mile deliveries in Northern Ireland and promote greater e-commerce growth.

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- 15 <https://www.nisra.gov.uk/statistics/economic-output-statistics/gross-disposable-household-income>
- 16 https://www.ofcom.org.uk/__data/assets/pdf_file/0022/104926/northern-ireland-telecoms-networks.pdf
- 17 <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/bulletins/annualmidyearpopulationestimates/mid2017#growth-varies-less-across-the-uk-london-no-longer-growing-fastest>
- 18 <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/nationalpopulationprojections/2016basedstatisticalbulletin>
- 19 The Task Team consists of representatives from The Consumer Council for Northern Ireland, Citizens Advice Scotland Consumer Futures Unit and The Competition and Markets Authority.



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