

SLIDE 1.

Good morning, everyone! My name is Jeremiah Acena from U.P. Public Administration Research and Extension Services Foundation or UPPAF. My presentation is entitled the *Evolution of Last Mile Delivery Service Providers*. It is part of a study that was commissioned by the Department of Trade and Industry and was prepared by our office. It is a special section in the study that put the spotlight on last mile delivery providers, particularly those that are catering to e-commerce.

The objective of the special section was to conduct a situational assessment of the last mile delivery service providers in support of e-commerce transactions. It aims to have an in-depth understanding about the regulatory framework, identify market players market players, and estimate market size. In addition, the study aims to contribute to the literature on the subject matter. At present, there is very limited number of studies about the Philippine last mile delivery sector. The study also aims to determine pain points or areas for improvement and provide recommendations that can be pursued by the government to address these problems.

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Before I continue discussing last mile delivery service providers, I would like to talk about the growth of e-commerce. A study conducted by Google, Temasek, and Bain & Co. in 2021 estimated that e-commerce gross merchandise value in the Philippines quadrupled from three billion USD in 2019 to 12 billion USD in 2021. This figure is forecasted to reach 26 billion USD by 2025 or the next three years. As e-commerce continues to grow, last mile delivery and other ancillary services are expected to grow and efficiently cater to increasing demands and standards of e-commerce firms and clients.

The dramatic increase of e-commerce transactions during the pandemic has resulted to an equally dramatic growth in last mile deliveries. This has caused last mile delivery firms to shift their focus and attention to e-commerce. This has resulted firms to integrate to large e-commerce platforms. This has led to their evolution.

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There are multiple layers in delivery. There is the first mile or the process of transporting finished goods from a factory or supplier's facility to a retailer's warehouse. There is mid-mile where in a retailer strategically positions its products from its main warehouse to its regional warehouse even without orders. And then there is the last mile, which is the last leg of transport wherein a package reaches the end consumer. In e-commerce, it is part of the supply chain where in a product is delivered from the seller's store or warehouse or distribution center up to the buyer's door step.

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Last mile is considered as the most expensive part of the transport chain. In a publication released by Capgemini in 2019, last mile delivery in the United States accounts for 40 to 55 percent of the total transport chain.

The study team got curious if this was similar in the Philippines. To have a faint idea on the percentage share of last mile delivery in total transport cost locally, the study team conducted two case studies – one is a company that imports and retails fast moving consumer products (FMCG) from China; second is a firm that imports and retails furniture and fixtures from China. Both have

a centralized warehouse in Metro Manila. Both sell their products using the two major e-commerce platforms.

After our detailed discussions and pencil pushing with the owners from the two companies, the team found out that last mile delivery, in the Philippines, comprise at least 60 percent of the total transport cost. For Case 1 or FMCG company, it made up 60.7 percent while for Case 2 or furniture and fixture company, it was at 67.0 percent.

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There is no single legal framework that governs the last mile delivery service sector. However, there are regulations that cover the different types of last mile service providers. Philippine Shippers' Bureau (PSB) Administrative Order No. 06, s. 2005 regulate freight forwarders and third-party logistics providers. All freight forwarding firms, whether international freight forwarder, domestic freight forwarder, and non-vessel operating common carrier (NVOCC), are covered under the regulation and are required to secure license and certificate of registration from DTI. At present, DTI is in the process of updating this administrative order. That have already prepared a draft Department Administrative Order (DAO) for Freight Forwarding to modernize the regulation. However, the DAO is yet to be finalized and issued by the trade department.

The Civil Aeronautics Board (CAB) regulates air freight forwarders by the virtue of CAB Economic Regulation No. 04.

Department of Information and Communication Technology (DICT) regulates courier and messengerial services through Department of Transport and Communications (DOTC) Department Circular No. 2001-01, which was later fully adopted by DICT with the issuance of Department Order No. 2017-01. This regulation gives DICT the authority to grant licenses to courier and messengerial service providers as well as the messengers. The licenses given to service providers can either be national or regional in scope.

Recently, DICT issued Department Order 001-2022 regarding the rationalization, accreditation, and monitoring of independent tower companies, satellite service providers and operators, and private express and/or messengerial delivery service operators. The new department order (DO) aims to streamline DICT's accreditation process of firms providing above-mentioned services. Part of the order is the restructuring of the Postal Regulatory Division (PRD) into the ICT Infrastructure and Services Enabling Division (IISED), which will placed under the Office of the Undersecretary for Digital Philippines (OUDP). As such, private express and/or messengerial delivery service (PEMEDES) accreditation will be handled by the newly created division under DICT.

Through the issuance of Republic Act No. 11659 that amended the Public Service Act, last mile delivery service is no longer classified as public service. As such, the country now allows up to 100 percent ownership for last mile delivery firms.

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Last mile delivery firms can be categorized based on the timeframe wherein they can deliver products from the supplier to the consumer. There are the on-demand or same day delivery firms. There are also conventional or scheduled delivery firms. For on-demand service, products or parcels are immediately delivered to the consumer within the day. This market segment is currently dominated by online platforms such as Grab Express, Lalamove, Borzo, among others. Firms under conventional or scheduled service deliver products within a specified timeframe, depending on the distance between the source of supply and end consumer. Conventional last mile delivery service enables business to consolidate their shipments to reduce delivery cost. It is more economical between the two categories. Large e-commerce companies rely on conventional last mile delivery service providers to ensure that products purchased within their respective platforms reach the end consumer. However, it does not offer the speed similar to on-demand delivery service.

While these are the two main types, there are firms that have started to offer hybrid service. This means that some on-demand firms have started scheduled service while some conventional firms have started to offer same day delivery. Either way, this creates more competition that is beneficial for consumers.

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There are a lot of established last mile delivery service providers in the Philippines. However, the rise of e-commerce has resulted in the entry of new market players that are specialized in e-commerce delivery. Based on the Department of Information and Communications Technology (DICT) list of Private Express and/or Messengerial Delivery Services (PEMEDES), there are 109 express and courier companies listed. However, not all firms included in the list cater to last mile deliveries for e-commerce transactions.

Records from the Civil Aviation Board indicates that there 504 firms registered as air freight forwarders.

Based on DTI - Fair Trade and Enforcement Bureau (FTEB) inventory shows that there are a total of 833 freight forwarders operating across the Philippines. Out of the total, 273 are domestic freight forward firms.

It is important to note that some last mile delivery companies have more than one government accreditation. As an example, Airspeed International Corporation has accreditation as NVOCC, international freight forwarder, and domestic freight forwarder under DTI. It is also registered under CAB as airfreight forwarders and DICT as a courier service provider.

Lastly, there are also digital platforms that facilitate last mile deliveries. Digital startups utilize their transport management system to book deliveries, designate deliveries to third party service providers, and trace the shipment until it reaches the end consumer. There are already a number of established last mile delivery platforms in the Philippines such as Grab Express, Gogo Express,

and Toktok, that have secure express accreditation from DICT. However, a number of digital platforms operate similar to a freight forwarder or express/courier service provider without accreditation from the government. An Organization for Economic Cooperation and Development (OECD) study estimates that there are 50 to 70 courier companies that are operating without a DICT license, some of which are online delivery platforms and digital startups.

The top five players in the last mile delivery sector are J&T Express, LBC Express, Shopee Express, Ninja Van, and Food Panda.

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The market for last mile delivery service is estimated to reach at PHP 58.24 billion in 2020 based on the revenue generated. The top firms account for 73.3 percent of the market with J&T able to capture 23.7 percent pie.

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In 2022, J&T Express was able to make PHP 13.79 billion in terms of revenue, which already accounts to 23.7% of the market as mentioned earlier. LBC Express was able to earn PHP 10.9 billion in 2020. Bulk (64%) of LBC Express' revenue comes from retail logistics while the rest comes from corporate logistics. Shopee Express, Ninja Van, and Food Panda were able to earn PHP 5.14 billion, PHP 5.06 billion, PHP 4.19 billion, respectively.

LBC Express, JRS Express, Air 21, and 2GO are all established players in the market. They have been operating in the Philippines for more than a decade. Prior to the boom of e-commerce. However, the growth of e-commerce has given rise to new players. Five out of the top six are relatively new companies that primarily cater to e-commerce platforms. J&T Express (1st) service both Lazada Philippines and Shopee Philippines. Shopee Express (3rd) is the in-house last mile delivery arm of Shopee Philippines. Ninja Van (4th), like J&T, caters to the two main e-commerce platforms in the country. Food Panda (5th) and Grab Express (6th) are the top on-demand last mile delivery firms.

The COVID-19 pandemic brought about mixed fortunes to the different service providers. Firms that are catering to e-commerce experience dramatic growth in revenue in 2020. J&T, Shopee Express, Food Panda, Grab Express, Entrego, and Toktok increased their revenue by more than 250%. Toktok and Entrego Express increased their revenue by 34,589% and 14,877%, respectively. On the other hand, firms such as Black Arrow Express, 2GO Express, and LBC experience a decrease in revenue. Even the Philippine Postal Corporation also suffered a decline in revenue in 2020 by 48 percent.

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With the sectoral assessment, the team was able to identify the strengths and weaknesses of the last mile delivery sector. Just to highlight a few, the Philippines has a growing market for last mile delivery since e-commerce is expected to continue its growth. As mentioned earlier, it is estimated to reach 26 billion USD in terms of gross merchandise value by 2025. The increase in e-commerce

transaction would directly result to an increase in deliveries, which will be completed by last mile service providers.

To further improve the sector, the government needs better coordination with each other. This includes the implementation of regulations, simplification of procedures, and better safety for all stakeholders of the ecosystem – sellers, riders, buyers.

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The team has come up with specific recommendations to further foster the growth the last mile delivery. First is to streamline the regulatory process required in getting license and registration to operate as a last mile delivery service provider. The first step that needs to be done is to make an inventory of all national and local regulation relevant to the sector. Second is to create an e-commerce bureau under the Department of Trade and Industry that will focus on the industry's development. Third, there is need a pursue legislations that will protect stakeholders such as the SIM card registration bill. Fourth is the creation of a last mile delivery association that can represent the sector during dialogue with government offices, such as DTI.

Ease of doing business should also be improved. This includes the harmonization of national and local permits, promotion of digital payments and cashless transactions, and promote the investment of last mile delivery firms in tertiary cities.

Lastly, there should be continuous training and skills improvement for stakeholders. In particular, there should be a skills training for motorcycle drivers. DTI can also capacitate MSMEs about last mile delivery firms and its potential benefits in business.

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Thank you very much for your time and attention. Good day!