Ten China Commercial Highlights 2016 series: Express delivery sector enters a “new era of service”; new business models bring new opportunities
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China's express delivery sector has seen phenomenal growth over recent years, thanks to the rapid development of e-commerce. This is particularly the case for cross-border e-commerce and rural e-commerce, as well as the growing O2O trend. In 2014, China's express delivery market recorded the aggregate business volume at 14 billion orders, up 52% year-on-year (yoy). Total revenue generated by express delivery companies was 204 billion yuan, up 42% yoy. Indeed, China's express delivery market has been growing at an average rate of over 50% annually over the past 46 months, making it the world's largest express delivery market. In 1-3Q15, express delivery companies in China handled around 13.7 billion orders, with total revenue amounting to 187.9 billion yuan. The figures obtained in the first three quarters of 2015 were almost higher than for the entire year 2014.

In recent years, the express delivery sector has undergone rapid transformation and upgrading. Many express delivery companies are constantly expanding their service offerings and improving service quality to keep pace with the changing needs of the market. For example, to ensure the timeliness of their services, some leading domestic delivery companies such as SF Express and YTO Express have invested in their own aircraft. Other courier companies are providing varying types of value-added services such as complete warehousing and distribution solutions, night services and targeted solutions for different industries. For the express delivery sector, enhancing service quality is now a key element for success.

Key trends to watch

Express delivery companies transform into integrated logistics services providers

An increasing number of express delivery companies are diversifying their businesses, with the aim of providing a full spectrum of quality services to customers. A typical example is SF Express. Over the past few years, the company has been expanding from express delivery to other parts of the supply chain, such as cold chain logistics, supply chain finance and cross-border e-commerce. SF Express set up its cross-border e-commerce platform, Fengqu Haitao (fengqu.com, formerly known as SF Haitao) in January 2015: the platform offers mainly imported baby and maternal care products, healthcare products, personal care products and cosmetics. SF Express leverages its extensive logistics network to deliver imported products to its warehouses overseas, providing customs clearance and handling domestic deliveries.

Cold chain logistics becomes a major area of focus

Chinese consumers are more quality-driven today and increasingly demand fresh produce. Cold chain logistics plays a crucial role in channeling fresh produce from farms into the hands of customers. The development prospects for cold chain logistics are huge. Some industry experts predict the market for cold chain logistics will reach 470 billion yuan by 2017. With such large potential, many express delivery companies are extremely keen to enter the market. That said, the development of the cold chain logistics sector is not without challenges. Huge capital investment, stringent technology requirements and lack of efficient cold chain logistics management systems are among major drawbacks facing the development of cold chain logistics.
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New business models emerge in the O2O era; crowd sourced delivery gains popularity

Express delivery plays a significant role in today’s commercial world where convenience and fast delivery become more imperative than ever. This also helps pave the way for O2O development by providing speedy e-commerce fulfilment and convenient last-mile delivery. In 2012, SF Express launched its O2O initiatives by opening community service store chains, Heike, across the country. Heike stores provide click and collect services for customers of SF Express’ online store, SF Best, and allow customers to place online orders with smart devices. Despite mixed comments on the Heike experience, SF Express has taken a major step in rolling out innovative business models.

Recently, a new type of delivery platform has become popular while also encouraging people to take up local delivery jobs. This is known as crowd sourced delivery. It is a web or mobile-based courier service which leverages large groups of geographically dispersed individuals to match demand with supply, digitally. Crowd sourced delivery connects enterprises with part-time individuals who can offer their time to fill spare capacity. This helps enterprises reduce their logistics costs, especially for last-mile delivery. It also solves part of the last-mile delivery problems resulting from e-commerce promotional spike periods, and is particularly valuable for categories in which fast delivery is needed, as with fresh produce. However, there are some potential challenges associated with this new delivery model such as safety issues, legal questions, liability concerns and reputational risks.

Express delivery companies speed up rural logistics investment

China’s rural market is set to become a new source of growth as the country moves towards a consumption-driven economy. In particular, the increasing popularity of online shopping in rural areas has contributed significantly to online sales growth. Ali Research estimates that China’s rural e-commerce market will reach 460 billion yuan in 2016.

The government has been very supportive towards the development of rural e-commerce. In October 2015, the State Council promulgated the Opinions on Promoting the Express Delivery Sector. According to the Opinions, the government will support the sector to work collaboratively with modern agriculture, advanced manufacturing and commercial enterprises. This could facilitate the distribution of agricultural products from farms to cities, and daily necessities from urban areas to rural areas. Underpinned by the government’s initiatives to improve logistics and distribution capabilities in rural areas, express delivery companies can be anticipated to invest more in rural logistics, and expedite their penetration into the rural market.

What the experts say

Amid the increasing competition in the sector, a trend towards moving into integrated logistics services, with attendant providers, is inevitable. As express delivery companies strive to transform and upgrade their businesses, our experts expect consolidation to take place in the industry, driving more mergers and acquisitions.

The express delivery sector is expected to continue its robust growth in 2016. Yet, the public will focus increasingly on service quality improvements rather than merely the growth rate on the proliferation of those services. Express delivery companies should continue to transform and upgrade their businesses, and invest in innovation.