About this report

Background to the report

- China’s economy continues to perform strongly as the country has urbanised and the new middle classes have embraced consumption.
- In this context, online retail has grown rapidly, having quadrupled since 2012 to the point where China now accounts for over half of the global total.
- China’s parcels market has expanded rapidly to deliver this enormous retail volume as well as growth in demand from the B2B segment.
  - China accounted for almost half of the total global growth in the parcels market in 2017.
  - The chart illustrates how growth has been much faster than elsewhere

Parcels market growth by country: 2012-2016

- In meeting the delivery needs of the online retail segment, parcels carriers have not only added large increments of capacity, they have also innovated, deploying new technology and designing new processes which, in many cases, are far more advanced than those seen in the west

The report includes:
- Description of the market and the key trends which are shaping it
- Historical and forecast market size and growth covering the period from 2012-2022
- Analysis of drivers of market growth
- Competitive landscape comparing the performance of the main carriers present in the market and profiling them and other leading market participants such as marketplaces and parcel locker networks.

What are the sources on which the report is based?

- Extensive desk research on the parcels market and its operators covering company accounts, websites, official statistics and a wide range of other sources
- Published information on key market drivers such as economic data and estimates of online retail spending
- Interviews with senior-level contacts in the market

Who is it useful for?

- The report is intended for:
  - Owners and operators of parcel networks both in China and in other territories
  - Customers of those networks, in particular, retailers who sell via the internet
  - Investors in these businesses
  - Market regulators and policymakers
  - Banks, analysts, consultants and other parties with interests in the sector

Source: Apex Insight market model
Summary

Market context and growth

- The structure of the Chinese parcels market is different from that of most western countries. This reflects factors including:
  - Scale of the market – now the largest in the world by volume
  - High population density in the urban areas of eastern China with fast growth in tier 3 / 4 cities
  - Importance and rapid growth of online retail
  - Importance of marketplaces such as Taobao, Tmall and JD.com
  - Sophisticated mobile payment infrastructure
- Parcels volume reached 40.1bn in 2017, having grown at a CAGR of over 50% since 2012.
  - During Singles Day (11 November) in 2017 more than 800m parcels were sent in one day.
- Online retail spending has grown at an average of over 40% per year and exceeded US$1.1trn in 2017 – over twice the size of the next largest market, the US.
- Marketplaces play a very important role in both online shopping and the parcels market.
  - Alibaba, which operates the Taobao and Tmall marketplaces is the largest parcels customer, accounting for the majority of volumes for some carriers
  - JD.com which operates its own delivery network, is also important
- While volumes have grown strongly, competition has forced prices down, despite rising labour costs which are forcing Chinese carriers to automate and introduce new technology and processes.
- In our forecasts for the market to 2022 we expect to see further growth, driven by the ongoing growth of the Chinese economy and, in particular, online retail.

Competitive landscape

- The market is served by a combination of
  - China Post,
  - Privately owned domestic carriers, such as SF Express, YTO, ZTO, STO and Yunda, regional and local carriers,
  - In-house delivery operations such as those of JD.com
  - Open delivery platforms such as NewDada
  - Parcel shop and locker networks, including Hive Box, Sposter and Best Express.
- The integrators (UPS, FedEx and DHL) are also present but their overall market shares are small.
  - They have struggled to be competitive on price with their domestic competitors and mainly focus on international services and B2B services between major cities
  - Nevertheless, the scale of the Chinese market means it must remain a strategic priority for them.
- Of the Chinese carriers, SF Express – which has an integrated model – is the largest carrier by revenue while ZTO – which carries out line haul and hub sortation but outsources its local depots – is the largest by volume.
- All of the main carriers have grown strongly in recent years, mainly through organic means given the rising market, but also as a result of some acquisitions.
- High levels of investment have been required to cope with growing demand. For example, SF is currently building what it claims will be the world’s largest parcel hub, with its own airport, which it expects to handle c.2m tonnes of freight per year, at Wuhan. Several carriers have sought stock market listings to fund their expansion.
Key trends

- Labour costs are rising rapidly in all sectors in China. As a labour-intensive industry, parcel delivery is exposed to this trend. Pressure for improved pay and conditions, combined with a shortage of delivery manpower means we expect this to continue.

- One response to rising labour costs is automation. Chinese carriers are automating rapidly, introducing technologies such as sortation robots in hubs and driverless delivery vehicles with locker compartments, which are not yet common in western markets.

- Retailers increasingly require their carriers to provide storage capability and e-fulfilment services, to enable them to hold fast-moving stock close to their customers in the many large cities across China. This supports their ability to offer fast delivery. As a result, around 25% of the Chinese market is currently intra-city, for which the default delivery service is often same day.

- Parcel shops and lockers are much more widespread in China than in most western markets and play an increasingly important role, both in improving service levels and maximising labour productivity. Locker utilisation rates are high and we believe that over 10% of parcels are currently delivered via lockers or parcel shops, with the proportion rising.
# About Apex Insight: 2018-19 Parcels & Logistics Research Programme Highlights

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About Apex Insight: example parcels / delivery research and consulting clients
China Parcels Market: Market Insight Report 2018

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About the Market

Market Characteristics

- The structure of the Chinese parcels market is different from that of most western countries. This reflects factors including:
  - Scale of the market – now the largest in the world by volume
  - High population density in the urban areas of eastern China with fast growth in tier 3 / 4 cities (population up to 3m)
  - Importance and rapid growth of online retail
  - Importance of marketplaces such as Taobao, Tmall and JD.com
  - Sophisticated mobile payment infrastructure

Scale of the market – now the largest in the world by volume

- Parcels volume in China in 2017 reached 40.1bn, larger than the US market in terms of volume.
  - Not only are the volumes significant, but the growth rates are rapid: volumes have grown at a CAGR of over 50% between 2012 and 2016.
- During Singles Day (11 November) in 2017 more than 800m parcels were sent in one day.
- Guangdong is the largest provincial parcels region in China, worth RMB88.028bn in 2016, or US$13.204bn, a similar size to the UK parcels market.

High population density in the urban areas of eastern China with fast growth in tier 3 / 4 cities

- According to the United Nations, China’s population in 2017 was 1,411bn. Approximately one fifth of the world’s population lives within its borders.
  - The vast majority of China’s population (1.3bn) lives in the East of the country, mostly in major cities along the coast.
  - Population density in these cities is very high. This has implications for delivery:
    - Delivery costs are low because the distances involved are much smaller than in western cities.
    - Congestion can be a problem. For this reason, western-style parcel vans are rarely used. Motorised tricycles, scooters and e-bikes with trailers are more common
- Within the Eastern cities, the distribution of population has been changing.
  - The top ten cities in China are Shanghai with a population of 22m, Beijing (19m), Guangzhou (11m), Shenzhen (10m), Tianjin (11m), Taipei (8m), Hong Kong (7m), Dongguan (8m), Hangzhou (7m) and Chengdu (7m).
  - While these tier 1 (population >15m) and tier 2 (3-15m) cities have continued to grow, China now has more than 100 cities that have a population of more than 1m.
  - As a result of this growth the urban middle class, the key demographic segment for online retail and hence parcel delivery, is now more dispersed.
  - In 2002, virtually all of this segment was concentrated in a few cities, which meant that retailers only needed to store stocks in a handful of places to reach their entire market.
  - Now the split of urban middle class is approximately 50:50 between tier 1/2 cities and tier 3/4 cities – hence it is necessary for retailers to have product in many more locations to support efficient delivery operations.

Importance and rapid growth of online retail

- According to Alibaba, 467m Chinese Internet users engaged in online shopping in 2016, out of a total of 731m Internet users.
- Statistics from eMarketer show Chinese online retail spending has grown at an average of over 40% per year and reached US$851bn in 2016,
more than twice the size of the US online retail market at US$391bn in the same year.

- Shopping via mobile is much more common in China than in Europe or the US. In China, mCommerce sales were US$621.8bn in 2016, much larger than US$113.8bn achieved in the US and almost three quarters of total online retail.
- Growth in online retail is expected to continue to reach US$2,660bn in 2021, with forecast CAGR of 25.6%. In this year, it will be more than three times the size of the US online retail market.

**Importance of marketplaces such as Taobao, Tmall and JD.com**

- Online marketplaces occupy an important market position in China accounting for the overwhelming majority of all sales. The main operators are Alibaba and JD.com.
- Alibaba operates:
  - Taobao, its C2C marketplace
  - Tmall, its B2C marketplace for Chinese and international brands and retailers.
  - Alipay, the payment processing platform for Taobao and Tmall.
- It also has stakes in a number of Chinese and foreign logistics businesses, including YTO Express, Best Express and Singapore Post.
- Finally it has a controlling interest in Cainiao Smart Logistics Network, the platform that links order data to delivery providers’ systems allowing delivery firms to access a large national network of warehouse space.
- JD.com acts as both a retailer and a marketplace. It operates its own delivery network and does not rely on third-parties.
- Another important player is WeChat, the social network site.
  - It accounts for 35% of mobile time, or 66 minutes per user per day and 1bn users per month. It owns the payment platform, WeChat Pay, which has 280m transactions per month.
  - Retailers are able to list on WeChat’s commerce platform, WeCommerce.

**Sophisticated mobile payment infrastructure**

- China’s mobile payments market was worth around US$5.5tn in 2016, some 50 times larger than the US market. China leads the global market for mobile payment, driven by online shopping growth and the relative lack of alternatives like credit cards.
- There are a number of mobile and e-commerce payment methods in China, including:
  - Alipay
  - Tenpay (Weixin Pay)
  - 99Bill
  - Union Pay
  - LianLian Pay
  - Yeepay
  - Baidu Wallet
  - Union Mobile Financial
  - 1qianbao
- The market is dominated by two companies with around 90% market share; Alipay and Tenpay. The two companies operate mobile wallets Alipay and WeChat Pay, respectively.
- Alipay was launched in 2004 as a payment service to facilitate payments on Taobao. Alipay had a 54% share at the end of 2016, down from 71% in 2015. TenPay’s share grew to 37% in 2016, up from 16% in 2015.
  - Ant Financial is the Alibaba affiliate that runs Alipay. In April 2017, Ant Financial merged with HelloPay Group, which provides the payment solution for Lazada. Ant Financial also has stakes in Paytm, an Indian payments company, and Mynt, a financial services start-up in the Philippines.
- Tenpay is operated by Tencent, known for its social media platform WeChat, with 890m users. Alipay was the default digital wallet in China, but as Chinese consumers spend an increasing amount of time in the WeChat ecosystem, they keep funds in their WeChat Pay wallet for peer-to-peer payments and in-app purchases. Hence it has emerged as a serious competitor to Alipay.
UnionPay is China’s state run card network with a near monopoly over the country’s payment card system. It is seeking to enter the mobile payments market through offering a QR payment system. UnionPay could be an important mobile payments competitor – as it currently has 5.4bn cards issued. More than 38bn transactions were made on UnionPay cards in 2016.

In August 2017, The People’s Bank of China demanded that Alipay, TenPay and other online payment solutions send payments through a newly established clearing house by June 2018. The motive for this may be to restrict money laundering, but it has also been seen by some observers as a move to restrict the payments duopoly of Alipay and Tenpay.

The wide acceptance of mobile payment apps, for offline as well as online purchases, means that 84% of Chinese people report that they would be happy to leave home without their wallet, relying on smartphone payments for any transactions.

For the parcels industry, the widespread use of payment apps has facilitated the development of lockers, which use apps for their operation and for any payments.
Market Size, Segmentation and Growth

Value

- The Chinese parcels market reached RMB495.7bn in 2017, an increase of 24.7% on the 2016 market value. In dollar terms, it was worth US$74.4bn in 2017.
- It is approximately half the size of the United States parcels market (in value terms), but growing at about ten times the rate.
  - Per capita parcel volume in China (31) is still much lower than that of US (50).
- According to the State Post Bureau of China, marketplace sales via Alibaba accounted for 48% of all parcels volumes in 2016.
- Market value has growth at a CAGR of 30.6% between 2007 and 2017.


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<th>Market Value (RMB bn)</th>
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<td>2007</td>
<td>34,258.5</td>
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<tr>
<td>2008</td>
<td>40,842.7</td>
<td>19.2%</td>
</tr>
<tr>
<td>2009</td>
<td>47,900.3</td>
<td>17.3%</td>
</tr>
<tr>
<td>2010</td>
<td>57,460.3</td>
<td>20.0%</td>
</tr>
<tr>
<td>2011</td>
<td>75,798.8</td>
<td>31.9%</td>
</tr>
<tr>
<td>2012</td>
<td>105,533.2</td>
<td>39.2%</td>
</tr>
<tr>
<td>2013</td>
<td>144,200.0</td>
<td>36.6%</td>
</tr>
<tr>
<td>2014</td>
<td>204,540.0</td>
<td>41.8%</td>
</tr>
<tr>
<td>2015</td>
<td>276,960.0</td>
<td>35.4%</td>
</tr>
<tr>
<td>2016</td>
<td>397,440.0</td>
<td>43.5%</td>
</tr>
<tr>
<td>2017</td>
<td>495,710.0</td>
<td>24.7%</td>
</tr>
</tbody>
</table>

Source: State Post Bureau of China


<table>
<thead>
<tr>
<th>Year</th>
<th>Market Value (US$ bn)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>5,138.8</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>6,126.4</td>
<td>19.2%</td>
</tr>
<tr>
<td>2009</td>
<td>7,185.0</td>
<td>17.3%</td>
</tr>
<tr>
<td>2010</td>
<td>8,619.0</td>
<td>20.0%</td>
</tr>
<tr>
<td>2011</td>
<td>11,369.8</td>
<td>31.9%</td>
</tr>
<tr>
<td>2012</td>
<td>15,830.0</td>
<td>39.2%</td>
</tr>
<tr>
<td>2013</td>
<td>21,630.0</td>
<td>36.6%</td>
</tr>
<tr>
<td>2014</td>
<td>30,681.0</td>
<td>41.8%</td>
</tr>
<tr>
<td>2015</td>
<td>41,544.0</td>
<td>35.4%</td>
</tr>
<tr>
<td>2016</td>
<td>59,616.0</td>
<td>43.5%</td>
</tr>
<tr>
<td>2017</td>
<td>74,356.5</td>
<td>24.7%</td>
</tr>
</tbody>
</table>

Source: State Post Bureau of China

Growth rate comparison: China vs. other markets
China Parcels Market: Market Insight Report 2018

- Growth rates, both in value and volume terms, do not show signs of slowing. CAGRs for market value and volume between 2012 and 2016 were 39.3% and 53.2% respectively.
- As the chart shows, the Chinese market is growing significantly faster than other leading markets: over ten times faster than the US.
- China accounted for over half of total global market growth in 2017.

China parcels market value growth vs. other major economies, CAGR 2012-2016

Volume

- Parcel delivery volume, at 40.06bn, is up by 28.1% on the previous year.
- Growth, while still strong, has slowed from 51.3% in 2016.
- Market volume has grown at a CAGR of 42.0% between 2007 and 2017.

China Parcels Market Volume: 2007-2017 (m)

Source: Apex Insight

Source: State Post Bureau of China
China Parcels Market Volume and Growth: 2007-2017 (m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Market Volume (m)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1,202</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>1,513</td>
<td>25.9%</td>
</tr>
<tr>
<td>2009</td>
<td>1,858</td>
<td>22.8%</td>
</tr>
<tr>
<td>2010</td>
<td>2,339</td>
<td>25.9%</td>
</tr>
<tr>
<td>2011</td>
<td>3,673</td>
<td>57.0%</td>
</tr>
<tr>
<td>2012</td>
<td>5,685</td>
<td>54.8%</td>
</tr>
<tr>
<td>2013</td>
<td>9,186</td>
<td>61.8%</td>
</tr>
<tr>
<td>2014</td>
<td>13,960</td>
<td>52.0%</td>
</tr>
<tr>
<td>2015</td>
<td>20,670</td>
<td>48.1%</td>
</tr>
<tr>
<td>2016</td>
<td>31,280</td>
<td>51.3%</td>
</tr>
<tr>
<td>2017</td>
<td>40,060</td>
<td>28.1%</td>
</tr>
</tbody>
</table>

Source: State Post Bureau of China

Revenue per parcel

- The average price per parcel has decreased from RMB28.5 in 2007 to RMB12.4 in 2017.
  - This equates to a decrease from US$4.28 to US$1.86.
  - The price has changed at a CAGR of -8.0%.
- This fall in average price has occurred despite the increases in labour costs. It has resulted from a series of factors including the following:
  - Significant change in mix towards lower-priced B2C parcels
  - Change in mix towards intra-city (the lowest-priced segment) and away from international parcels (the highest-priced segment)
  - Shift in market share away from China Post towards its private sector competitors
  - Major increases in volumes which have improved the economics of parcel operations significantly by increasing delivery density
  - Automation and application of new technology throughout the parcels service process which have led to major improvements in labour productivity

A competitive market which has ensured that the gains from increased productivity have been shared with customers.

Revenue per parcel: 2007-2017 / RMB

Source: China State Post Bureau
China Parcels Market: Market Insight Report 2018

Market segmentation

- The market can be segmented in the following ways:
  - Online retail delivery vs other parcels
  - Local or intra-city vs. national vs. international
  - By geographical area: region / province

B2B / C2X and online retail delivery (B2C / C2C)

- The Chinese market segments between:
  - Online retail deliveries (B2C and C2C)
  - Other parcels, sent by consumers and businesses (B2B and C2X).
- Online retail parcel senders are considered to be more price-sensitive. They may have very large volumes.
  - Alibaba alone accounts for an estimated 48% of the overall market
- Commercial and personal senders are less price-sensitive and are more likely to use premium service levels.
- Growth is most rapid in the online retail segment, which we believe accounts for over 70% of total market value, up from 57% in 2011.
Local or intra-city vs. national vs. international

- The market splits between these types as follows:
  - 23% delivered locally or intra-city;
  - 75% national
  - 2% international (including Hong Kong and Macau)
- Carriers often have same day delivery options for intra-city deliveries. It is sometimes the default service
  - JD.com, which operates its own delivery infrastructure, offers same-day delivery for certain items if ordered prior to 11am.

China parcels market volume by destination, 2007-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Local (City)</th>
<th>National</th>
<th>HK &amp; Inter.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>333</td>
<td>772</td>
<td>97</td>
<td>1,202</td>
</tr>
<tr>
<td>2008</td>
<td>402</td>
<td>1,005</td>
<td>106</td>
<td>1,513</td>
</tr>
<tr>
<td>2009</td>
<td>437</td>
<td>1,308</td>
<td>113</td>
<td>1,858</td>
</tr>
<tr>
<td>2010</td>
<td>536</td>
<td>1,673</td>
<td>130</td>
<td>2,339</td>
</tr>
<tr>
<td>2011</td>
<td>818</td>
<td>2,727</td>
<td>128</td>
<td>3,673</td>
</tr>
<tr>
<td>2012</td>
<td>1,314</td>
<td>4,189</td>
<td>182</td>
<td>5,685</td>
</tr>
<tr>
<td>2013</td>
<td>2,287</td>
<td>6,637</td>
<td>262</td>
<td>9,187</td>
</tr>
<tr>
<td>2014</td>
<td>3,550</td>
<td>10,090</td>
<td>330</td>
<td>13,960</td>
</tr>
<tr>
<td>2015</td>
<td>5,400</td>
<td>14,840</td>
<td>430</td>
<td>20,670</td>
</tr>
<tr>
<td>2016</td>
<td>7,410</td>
<td>23,250</td>
<td>620</td>
<td>31,280</td>
</tr>
<tr>
<td>2017</td>
<td>9,270</td>
<td>29,960</td>
<td>830</td>
<td>40,060</td>
</tr>
</tbody>
</table>

Source: China State Post Bureau

- There are two forms of intra-city parcel delivery, fixed and un-fixed routes.
- To allow them to offer rapid delivery times, retailers typically store stocks of items locally in each major city.
  - Carriers frequently offer storage and e-fulfilment services which may involve using the Cainiao network of distributed logistics facilities.
  - Fixed routes are predominantly for the delivery of parcels within a city from a warehouse to individual customers. There is no need for sorting hubs and line-haul operations, nor parcel pick-up.
  - Non-fixed routes applies to ad-hoc deliveries of takeaway food, flowers, pharmaceuticals. Crowd-sourced delivery platforms dominate this delivery segment, including NewDada, Meituan and Ele.me.
- For national deliveries the process is more typical of that seen elsewhere: items are collected and sent to a local hub then line-hauled to the destination sorting hub, and moved out into the last-mile delivery network to the customer.
- Whilst international parcels account for small proportion of volume (2%), they account for 11% of value.
China Parcels Market: Market Insight Report 2018

China parcels market value by destination, 2010-2017, RMBm (chart)

- Local (city) average revenue per parcel has remained fairly static.
- National average revenue per parcel has nearly halved. International (and Hong Kong) average revenue per parcel has also declined significantly.
- Local parcels have grown the quickest with International the slowest.
  - The resultant change in mix has contributed to the fall in the overall average revenue per parcel.

Average revenue per parcel: Local vs national vs international: 2012 and 2017 / RMB / parcel

Source: China State Post Bureau

China parcels market value by destination, 2010-2017, RMBm

<table>
<thead>
<tr>
<th>Year</th>
<th>Local (City)</th>
<th>National</th>
<th>HK &amp; Inter.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>4,150</td>
<td>31,450</td>
<td>17,880</td>
<td>57,460</td>
</tr>
<tr>
<td>2011</td>
<td>6,590</td>
<td>44,590</td>
<td>18,470</td>
<td>75,799</td>
</tr>
<tr>
<td>2012</td>
<td>11,020</td>
<td>63,550</td>
<td>20,560</td>
<td>105,533</td>
</tr>
<tr>
<td>2013</td>
<td>16,640</td>
<td>82,900</td>
<td>27,070</td>
<td>144,168</td>
</tr>
<tr>
<td>2014</td>
<td>26,590</td>
<td>113,060</td>
<td>31,590</td>
<td>204,540</td>
</tr>
<tr>
<td>2015</td>
<td>40,080</td>
<td>151,290</td>
<td>36,960</td>
<td>276,960</td>
</tr>
<tr>
<td>2016</td>
<td>56,310</td>
<td>209,930</td>
<td>42,900</td>
<td>397,440</td>
</tr>
<tr>
<td>2017</td>
<td>73,365</td>
<td>251,325</td>
<td>53,041</td>
<td>495,710</td>
</tr>
</tbody>
</table>

Source: China State Post Bureau
Market by region

- The Eastern region is the most populated and most economically developed and accounts for the overwhelming majority of parcels: 81% by both value and volume
  - Four provinces of Shandong, Jiangsu, Henan and Anhui have a combined population of more than 320m people.
  - The Eastern region includes Shanghai, Shenzhen and Beijing – major population centres.
- As the charts show, growth has been at similar levels across the regions.

### China parcels market volume by region, 2010-2017 (chart)

### China parcels market value by region, 2010-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Eastern (m)</th>
<th>Central (m)</th>
<th>Western (m)</th>
<th>Total (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,850</td>
<td>270</td>
<td>210</td>
<td>2,330</td>
</tr>
<tr>
<td>2011</td>
<td>2,340</td>
<td>410</td>
<td>330</td>
<td>3,680</td>
</tr>
<tr>
<td>2012</td>
<td>4,660</td>
<td>600</td>
<td>430</td>
<td>5,690</td>
</tr>
<tr>
<td>2013</td>
<td>7,470</td>
<td>990</td>
<td>730</td>
<td>9,190</td>
</tr>
<tr>
<td>2014</td>
<td>11,450</td>
<td>1,480</td>
<td>1,030</td>
<td>13,960</td>
</tr>
<tr>
<td>2015</td>
<td>16,960</td>
<td>2,310</td>
<td>1,400</td>
<td>20,670</td>
</tr>
<tr>
<td>2016</td>
<td>25,320</td>
<td>3,710</td>
<td>2,250</td>
<td>31,280</td>
</tr>
<tr>
<td>2017</td>
<td>32,489</td>
<td>4,647</td>
<td>2,924</td>
<td>40,060</td>
</tr>
</tbody>
</table>

CAGR 2010-17: 50.6% 50.2% 45.7% 50.1%

**Source:** China State Post Bureau

<table>
<thead>
<tr>
<th>Year</th>
<th>Eastern (RMB m)</th>
<th>Central (RMB m)</th>
<th>Western (RMB m)</th>
<th>Total (RMB m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>46,580</td>
<td>5,680</td>
<td>5,200</td>
<td>57,460</td>
</tr>
<tr>
<td>2011</td>
<td>61,430</td>
<td>7,530</td>
<td>6,840</td>
<td>75,800</td>
</tr>
<tr>
<td>2012</td>
<td>86,810</td>
<td>9,870</td>
<td>8,860</td>
<td>105,540</td>
</tr>
<tr>
<td>2013</td>
<td>119,200</td>
<td>13,280</td>
<td>10,970</td>
<td>143,450</td>
</tr>
<tr>
<td>2014</td>
<td>169,430</td>
<td>19,160</td>
<td>15,950</td>
<td>204,540</td>
</tr>
<tr>
<td>2015</td>
<td>227,090</td>
<td>26,390</td>
<td>21,480</td>
<td>276,960</td>
</tr>
<tr>
<td>2016</td>
<td>322,410</td>
<td>42,540</td>
<td>32,490</td>
<td>397,440</td>
</tr>
<tr>
<td>2017</td>
<td>401,029</td>
<td>53,537</td>
<td>41,144</td>
<td>495,710</td>
</tr>
</tbody>
</table>

CAGR 2010-17: 36.0% 37.8% 34.4% 36.0%

**Source:** China State Post Bureau
Average revenue per parcel has fallen across all three regions – by a negative CAGR of 7-8%.

Average revenue per parcel: Western vs. Central vs. Eastern: 2012 and 2017 / RMB / parcel

Western Region
- Parcel volume: 2,250m
- Parcel value: RMB32,490m

Central Region
- Parcel volume: 3,710m
- Parcel value: RMB42,540m

Eastern Region
- Parcel volume: 25,320m
- Parcel value: RMB332,410m

Source: China State Post Bureau
China Parcels Market: Market Insight Report 2018

Market by province

- There are 31 provinces in China.
  - Guangdong is the largest province in terms of both parcels market volume and value. It had parcel volumes of 7,672m in 2016, worth RMB88,028m (US$13,204m).
  - Guangdong and Zhejiang account for 43.7% of parcels market volume and 35.8% of market value.
  - The top five provinces (including Jiangsu, Shanghai and Beijing) account for 67.3% of volume and 68.6% of revenue:

- The top cities in terms of express parcel volume are:
  - Guangzhou
  - Shanghai
  - Shenzhen
  - Hangzhou
  - Beijing
  - Jinhua
  - Dongguan
  - Suzhou
  - Chengdu
  - Wenzhou

- The provinces are discussed individually in the following chart and table.
### China parcels market by province, 2016

<table>
<thead>
<tr>
<th>Provinces</th>
<th>Region</th>
<th>Parcel Volume (m)</th>
<th>Parcel Value RMBm</th>
<th>Parcel Value US$m</th>
<th>Vol Share %</th>
<th>Val Share %</th>
<th>GDP RMB (bn)</th>
<th>Popn. (m)</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangdong</td>
<td>Eastern</td>
<td>7,672</td>
<td>88,028</td>
<td>13,204</td>
<td>24.5%</td>
<td>22.1%</td>
<td>8,085</td>
<td>109.9</td>
<td>Traditionally export-oriented, with major cities and a wealthy population. Manufacturers are seeking a shift to higher value-added production. Key cities: Dongguan, Foshan, Guangzhou, Shenzhen.</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>Eastern</td>
<td>5,988</td>
<td>54,125</td>
<td>8,119</td>
<td>19.1%</td>
<td>13.6%</td>
<td>4,725</td>
<td>55.9</td>
<td>Developing a regional energy production base and a major high-speed rail network. Proximity to Shanghai brings commercial benefits, such as back-office functions. Key cities: Hangzhou, Ningbo, Wenzhou, Zhoushan.</td>
</tr>
<tr>
<td>Jiangsu Province</td>
<td>Eastern</td>
<td>2,838</td>
<td>33,916</td>
<td>5,087</td>
<td>9.1%</td>
<td>8.5%</td>
<td>7,738</td>
<td>79.9</td>
<td>Heavily dependent on industry, but growth has remained relatively strong. Robust growth might be short-lived, as exorbitant loan levels are not sustainable. Key cities: Huaian, Nanjing, Suzhou, Wuxi, Xuzhou.</td>
</tr>
<tr>
<td>Shanghai</td>
<td>Eastern</td>
<td>2,603</td>
<td>70,951</td>
<td>10,643</td>
<td>8.3%</td>
<td>17.9%</td>
<td>2,817</td>
<td>24.2</td>
<td>The largest city in China by population. The world’s busiest container port and a major China transport hub. Key Cities: Shanghai is one of the four municipalities with province-level status.</td>
</tr>
<tr>
<td>Beijing</td>
<td>Eastern</td>
<td>1,960</td>
<td>25,657</td>
<td>3,849</td>
<td>6.3%</td>
<td>6.5%</td>
<td>2,566</td>
<td>21.7</td>
<td>Capital of China and the second-largest population after Shanghai. Home to the headquarters of most of China’s largest state-owned companies, and a major hub for the national highway and rail networks. Key Cities: Beijing is one of the four municipalities with province-level status.</td>
</tr>
<tr>
<td>Fujian Province</td>
<td>Eastern</td>
<td>1,290</td>
<td>13,483</td>
<td>2,023</td>
<td>4.1%</td>
<td>3.4%</td>
<td>2,881</td>
<td>38.7</td>
<td>Major beneficiary of new regulations that open up the economy to Taiwanese investment. Among the wealthiest national provinces, but GDP per capita is lowest of coastal provinces. Key cities: Fuzhou, Nanping, Quanzhou, Xiamen.</td>
</tr>
<tr>
<td>Shandong</td>
<td>Eastern</td>
<td>1,205</td>
<td>13,898</td>
<td>2,085</td>
<td>3.9%</td>
<td>3.5%</td>
<td>6,802</td>
<td>99.5</td>
<td>Second-largest province in China and a recipient of major government healthcare investment. Export economy closely tied to Japanese and Korean Markets. Key cities: Jinan, Qingdao, Weifang, Yantai.</td>
</tr>
<tr>
<td>Hebei</td>
<td>Eastern</td>
<td>904</td>
<td>9,426</td>
<td>1,414</td>
<td>2.9%</td>
<td>2.4%</td>
<td>3,207</td>
<td>74.7</td>
<td>Mainly an agricultural, forestry and animal husbandry region. Hebei’s other industries include textiles, coal, steel, iron and engineering. Key cities: Shijiazhuang, Baoding, Tangshan, Qinhuangdao.</td>
</tr>
<tr>
<td>Henan</td>
<td>Central</td>
<td>839</td>
<td>9,437</td>
<td>1,415</td>
<td>2.7%</td>
<td>2.4%</td>
<td>4,047</td>
<td>95.3</td>
<td>Agriculturally geared province and is also a major producer of coal and aluminium. Relatively poor province with a population of over 100 million. Key cities: Nanyang, Sanmenxia, Xinyang, Zhengzhou.</td>
</tr>
<tr>
<td>Sichuan Province</td>
<td>Western</td>
<td>801</td>
<td>9,636</td>
<td>1,445</td>
<td>2.6%</td>
<td>2.4%</td>
<td>3,293</td>
<td>82.6</td>
<td>Attracting major infrastructure programs due to national stimulus. Getting more attention from investors looking to relocate operations from coastal provinces. Key cities: Chengdu, Deyang, Leshan, Mianyang, Nanchong.</td>
</tr>
<tr>
<td>Province</td>
<td>Region</td>
<td>GDP</td>
<td>Population</td>
<td>Urbanisation</td>
<td>GDP growth</td>
<td>Inflation</td>
<td>Total Exports</td>
<td>Percentage of GDP</td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>---------</td>
<td>-------</td>
<td>------------</td>
<td>--------------</td>
<td>------------</td>
<td>-----------</td>
<td>---------------</td>
<td>------------------</td>
<td></td>
</tr>
<tr>
<td>Hubei</td>
<td>Central</td>
<td>773</td>
<td>8,717</td>
<td>1,307</td>
<td>2.5%</td>
<td>2.2%</td>
<td>3,266</td>
<td>58.8</td>
<td></td>
</tr>
<tr>
<td>Anhui</td>
<td>Central</td>
<td>689</td>
<td>7,056</td>
<td>1,058</td>
<td>2.2%</td>
<td>1.8%</td>
<td>2,440</td>
<td>61.9</td>
<td></td>
</tr>
<tr>
<td>Hunan</td>
<td>Central</td>
<td>486</td>
<td>5,160</td>
<td>774</td>
<td>1.6%</td>
<td>1.3%</td>
<td>3,155</td>
<td>68.2</td>
<td></td>
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<tr>
<td>Tianjin</td>
<td>Eastern</td>
<td>410</td>
<td>6,349</td>
<td>952</td>
<td>1.3%</td>
<td>1.6%</td>
<td>1,788</td>
<td>15.6</td>
<td></td>
</tr>
<tr>
<td>Liaoning Province</td>
<td>Eastern</td>
<td>398</td>
<td>5,569</td>
<td>835</td>
<td>1.3%</td>
<td>1.4%</td>
<td>2,224</td>
<td>43.8</td>
<td></td>
</tr>
<tr>
<td>Jiangxi Province</td>
<td>Central</td>
<td>383</td>
<td>4,129</td>
<td>619</td>
<td>1.2%</td>
<td>1.0%</td>
<td>1,849</td>
<td>45.9</td>
<td></td>
</tr>
<tr>
<td>Shanxi Province</td>
<td>Central</td>
<td>369</td>
<td>4,565</td>
<td>685</td>
<td>1.2%</td>
<td>1.1%</td>
<td>1,939</td>
<td>36.8</td>
<td></td>
</tr>
<tr>
<td>Chongqing</td>
<td>Western</td>
<td>284</td>
<td>3,896</td>
<td>584</td>
<td>0.9%</td>
<td>1.0%</td>
<td>1,774</td>
<td>30.5</td>
<td></td>
</tr>
<tr>
<td>Guangxi</td>
<td>Eastern</td>
<td>228</td>
<td>3,389</td>
<td>508</td>
<td>0.7%</td>
<td>0.9%</td>
<td>1,831</td>
<td>48.4</td>
<td></td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>Central</td>
<td>218</td>
<td>3,316</td>
<td>497</td>
<td>0.7%</td>
<td>0.8%</td>
<td>1,538</td>
<td>38.0</td>
<td></td>
</tr>
</tbody>
</table>

Manufacturing and distribution hub for nearby regions. The steel sector, a major contributor to GDP, is consolidating due to overcapacity. Key cities: Huangshi, Jingmen, Jingzhou, Wuhan, Yueyang.

Anhui GDP exceeded Beijing’s in 2017. The province is China biggest clusters of household electrical appliances as well as many electronic products with the largest volume manufacturing centres of Haier, Hisense, Whirlpool, Gree, Royalstar, Meling. Key cities: Hefei, Wuhu, Anqing, Huangshan.

One of the largest provinces in central China and potential manufacturing hub. Agriculture is still a major component of the economy. Key cities: Changde, Changsha, Hengyang, Yueyang, Zhuzhou.

Domestic demand-oriented, with high disposable income and sophisticated consumers. Relatively expensive labour and water. Key cities: Tianjin is also one of four municipalities with province-level status.

Liaoning has the largest provincial economy of Northeast China. Leading industries include petrochemicals, metallurgy, electronics telecommunications, and machinery. Key cities: Shenyang, Dalian, Anshan, Liaoyang, Fushun.

Rich in minerals with important copper and tungsten centres. Relatively poor province loses talent and capital investment to richer neighbours. Key cities: Ganzhou, Jingdezhen, Nanchang, Pingxiang.

Shanxi is a leading producer of coal in China and has more coal companies than any other province. Industry in Shanxi centres around heavy industries such as coal and chemical production, power generation, and metal refining. Key cities: Taiyuan, Datong, Linfen, Pingyao.

Economic centre of Upstream Yangtze area and modern manufacturing hub. Competitor with Sichuan as gateway to western China. Key cities: Chongqing is one of four municipalities with province-level status, which is the highest level of classification for a city, signifying a powerful local economy.

Guangxi is one of China’s key production centres for nonferrous metals. The province holds approximately 1/3 of all tin and manganese deposits in China. Liuzhou is the main industrial centre and is a major motor vehicle manufacturing centre. Key cities: Nanning, Guilin, Liuzhou.

Heilongjiang is part of northeast China, the country’s traditional industrial base. Industry is focused upon coal, petroleum, lumber,
<table>
<thead>
<tr>
<th>Province</th>
<th>Region</th>
<th>Region Code</th>
<th>Value</th>
<th>Value 2018</th>
<th>Value 2017</th>
<th>Growth</th>
<th>Key Cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shaanxi</td>
<td>Western</td>
<td>187</td>
<td>2,214</td>
<td>332</td>
<td>1,305</td>
<td>36.8</td>
<td>Heilongjiang is also an important gateway for trade with Russia. Key cities: Harbin, Dqing, Qiqihar.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The fossil fuel and high technology sectors compose the two largest industries in Shaanxi province. Shaanxi province also plays a major role in China's burgeoning aircraft and aerospace industries. Key cities: Xi'an, Xiayang, Taiyuan, Yan'an.</td>
</tr>
<tr>
<td>Yunnan</td>
<td>Western</td>
<td>174</td>
<td>2,896</td>
<td>434</td>
<td>1,478</td>
<td>47.7</td>
<td>Yunnan is one of China's relatively undeveloped provinces. Key cities: Kunming, Dali, Lijiang.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The fossil fuel and high technology sectors compose the two largest industries in Shaanxi province. Shaanxi province also plays a major role in China's burgeoning aircraft and aerospace industries. Key cities: Xi'an, Xiayang, Taiyuan, Yan'an.</td>
</tr>
<tr>
<td>Jilin</td>
<td>Central</td>
<td>139</td>
<td>2,513</td>
<td>377</td>
<td>1,477</td>
<td>27.3</td>
<td>Industry in Jilin is concentrated on automobiles, train carriages, and iron alloy. Key cities: Changchun, Jilin, Siping.</td>
</tr>
<tr>
<td>Guizhou</td>
<td>Western</td>
<td>113</td>
<td>2,179</td>
<td>327</td>
<td>1,177</td>
<td>35.6</td>
<td>Guizhou is a relatively poor and economically undeveloped province, with the lowest per capita GDP in China. Key cities: Guiyang, Zunyi, Anshun.</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>Western</td>
<td>87</td>
<td>1,734</td>
<td>260</td>
<td>964</td>
<td>23.9</td>
<td>Traditionally an agricultural region, Xinjiang also has large deposits of minerals and oil. Key cities: Urumqi, Kashgar, Turpan.</td>
</tr>
<tr>
<td>Inner Mongolia</td>
<td>Central</td>
<td>85</td>
<td>1,850</td>
<td>278</td>
<td>1,812</td>
<td>25.2</td>
<td>Key cities: Hohhot; Baotou; Chifeng, and Ordos.</td>
</tr>
<tr>
<td>Gansu</td>
<td>Western</td>
<td>61</td>
<td>1,250</td>
<td>188</td>
<td>720</td>
<td>26.1</td>
<td>Key cities: Lanzhou, Tianshui, Baiyan.</td>
</tr>
<tr>
<td>Hainan</td>
<td>Eastern</td>
<td>49</td>
<td>1,003</td>
<td>151</td>
<td>405</td>
<td>9.2</td>
<td>Key cities: Haikou, Sanya, Danzhou.</td>
</tr>
<tr>
<td>Ningxia</td>
<td>Western</td>
<td>32</td>
<td>586</td>
<td>88</td>
<td>316</td>
<td>6.7</td>
<td>Key cities: Yinchuan, Shizuishan, Wuzhong.</td>
</tr>
<tr>
<td>Qinghai</td>
<td>Western</td>
<td>11</td>
<td>300</td>
<td>45</td>
<td>257</td>
<td>5.9</td>
<td>Key cities: Xining, Golmud, Datong.</td>
</tr>
<tr>
<td>Tibet</td>
<td>Western</td>
<td>7</td>
<td>207</td>
<td>31</td>
<td>115</td>
<td>3.3</td>
<td>Key cities: Lhasa, Shigatse, Qamdo.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>31,283</strong></td>
<td><strong>397,436</strong></td>
<td><strong>59,615</strong></td>
<td><strong>77,991</strong></td>
<td><strong>1,378</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: China State Post Bureau, National Bureau of Statistics of China, UPS
Market Drivers

Population growth

- The population of China reached 1.379m in 2016 and has grown at a CAGR since 1960 of 1.3%. Since 2000, it has grown at a CAGR of just 0.6%.
- China brought in the 'one-child policy' in 1979 to slow the country's then rapid population growth.
- Since 2016, families have once again been permitted to have two children. Despite the policy change, China's fertility rate remains below replacement level.
- A report released by China’s State Council, called the National Population Development Plan 2016 – 2030, found that the aging of the population will accelerate over the next 15 years, increasing pressure on social security and public services. At the same time, the working-age population will shrink, damaging economic growth and reducing the tax base required to support the elderly.
- One issue for the parcels industry is that labour will be increasingly scarce. This, combined with improvements in pay and conditions, will lead to increases in labour costs which will translate into higher parcel delivery prices and increased pressure for automation.
Economic growth

- China’s GDP reached US$12,170bn in 2017, according to the IMF. GDP CAGR between 2012 and 2017 was 8.4%, the second fastest growing GDP behind India.
- The major provinces of the East of China are the industrial powerhouses of China, with Guangdong, Jiangsu, Shandong and Zhejiang leading the regional GDP by province and accounting for nearly 40% of GDP (IMF WEO October 2016).

<table>
<thead>
<tr>
<th>China GDP and growth, 2012-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US$bn</strong></td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2017</td>
</tr>
<tr>
<td>CAGR 12-17</td>
</tr>
</tbody>
</table>

Source: IMF

- China used to be one of the poorest countries in the world. From a rural agricultural-based economy the country has grown exponentially in the past few decades.
  - GDP per capita has nearly doubled from 2010 to 2016.
  - As recently as 2000, GDP per capita was less than US$1,000. Since 2000 it has grown at a CAGR of 14.3%.
- Economic growth has led to the creation of a large urban middle class, mainly in the cities of the East, which is driving the growth of online retail.

![China GDP per capita, 1960-2016 (current US$)](chart.png)

Source: Worldbank
China Parcels Market: Market Insight Report 2018

Online retail

Size and growth

- According to eMarketer, China’s retail sales reached US$4.5 trillion in 2016, having grown at a CAGR of 12.7% between 2012 and 2016, evidencing the growing consumer population of China.

- Online retail has been growing faster, at a CAGR of nearly 44% to reach US$851bn in 2016 and is expected to reach US$1.1trn in 2017.
  - Online accounted for nearly 20% of all retail sales in 2016

- China’s consumers are experiencing a growing affluence and have much greater spending power compared to the recent past.

- Growth in both online and offline retail has been supported by on-going increases in disposable incomes, which, while slowing in recent years are still about 7% annually.
Emergence of new categories of items sold online

- The main retail segments which have gone online are, as in other
countries, consumer electronics, home appliances, clothing and footwear,
cosmetics / personal care, and baby / maternity items
- Further growth is now believed to be coming from additional categories,
such as fresh food, FMCG items, pharmaceuticals and prepared food.
- These categories are more complicated as, in some cases they require
licences (e.g. pharmaceuticals) or integrated offline operations (e.g
prepared food).
- JD.com’s merchandise history illustrates category expansion.
  - It began selling computer products in 2004, and had introduced
    mobile handsets, consumer electronics and automotive parts and
    accessories by 2007.
  - It then expanded in 2008 with home appliances, and a wide range
    of general merchandise products.
  - It now has 15 product categories as well as an online marketplace
    where over 120,000 third-party sellers market their products.
- JD.com’s categories are as follows:
  - computers, including desktop, laptop and other varieties, as well
    as printers and other office equipment
  - mobile handsets and other digital products
  - home appliances;
  - automobiles and accessories
  - apparel
  - shoes, bags, jewellery and luxury goods
  - furniture and household goods
  - cosmetics and other personal care items and cleaning products
  - food, beverage and fresh produce
  - nutritional supplements
  - books, e-books, music, movies and other media products;
  - mother and childcare products and toys
  - sports and fitness equipment and watches
  - virtual goods, including online travel agency, tickets to the
    performing arts, and prepaid phone cards and game cards
  - financial services and products.

Seasonal and promotional trends

- According to the statistics of the China State Post Bureau, parcel delivery
  volume in the fourth quarter of 2016 accounted for approximately 33% of
  the annual total.
- There are several important promotional dates where parcel volumes
  increase significantly.
  - Singles Day is promoted annually by Alibaba and held on 11
    November. It is aimed at ‘lonely hearts’ and is now four times
    bigger than Black Friday and Cyber Monday.
  - Companies offer discounts for a range of products on the day.
    Chinese consumers spent more than RMB168bn, or more than
  - Parcel volume for Singles Day 2017 reached 812m, nearly double
    the 2015 volume of 467m parcels.
  - Another day promoted in the annual shopping calendar is ‘Double
    12’, (12 December). It is a day when Taobao and JD.com offer
    large discounts online. It was created to include those small online
    vendors that are not included on Singles Day.
Key Market Trends

Increasing labour costs

- Labour costs are rising rapidly in all sectors in China. As a labour-intensive industry, parcel delivery is exposed to this trend.
- The main reasons for labour cost rises are:
  - Increase in the number of white collar jobs leading to consequent reduction in blue collar labour force
  - Strong demand for labour from other sectors creating competition
  - Increasing demand, both from workers and government regulations, for better pay and conditions for delivery workers
  - Demographic factors – shortage of young male migrant workers
- There are around 2m couriers across China, most of them migrant workers from the countryside seeking work. Most are young men between 20 and 30 years of age. The slowing of population growth and the spreading of wealth to tier 3 and 4 cities mean that there are fewer migrant labourers who are willing to work for a low salary delivering parcels
- Drivers work long days, often without benefits like overtime pay or social insurance. Couriers’ pay is closely tied to performance, often composed of a basic wage plus various incentives like good customer ratings and per package rates, which are also subject to penalties. There is increasing pressure to improve their situation:
  - There are increasing numbers of crowd sourced delivery driver strikes, in protest at declining commissions and increasing workloads.
  - China State Post Bureau held a meeting in March 2017 calling for strengthened measures to protect couriers, including calling on China’s national union, the ACFTU, to increase organisation in the courier industry.
- It is very likely that labour costs will increase further, due to the pressure for improved pay and conditions, combined with the lack of available delivery manpower.
  - Just before Singles Day in November 2017, two carriers, ZTO Express and Yunda Express announced price rises and cited rising labour, material and transportation costs.
  - In November 2016, China Daily reported that ahead of Singles’ Day, courier firms were offering driver wages at the level of University graduates.

Investment in network operations

- Carriers are making major investments in their operations for two reasons:
  - To add capacity to support rapid growth in demand
  - To reduce labour costs by increasing automation
- The recent public listings of the major carriers mean they have significant capital resources to fund necessary investment.

New hubs

- In February 2017, SF Express announced plans to build Asia’s largest air freight hub.
  - It is to construct an airport in Ezhou City, Hubei province, intended to be able to handle 1.6-2.5m tonnes of freight and 1.5m passengers by 2025.
  - Projected cost is US$726m
  - Ezhou is close to the large city of Wuhan and is not more than two hours by air to most of the main cities in China, with more than 1bn people.
  - SF Express signed an agreement in December 2017 with Hubei Transportation Investment Group and Shenzhen Agricultural Bank to set up to RMB50bn joint venture to manage the project.
In June 2017, YTO Express received government approval to build a new logistics hub in East China’s Zhejiang province. The company will set up the RMB5bn hub in Yiwu, south of provincial capital Hangzhou.

ZTO Express has acquired land use rights in 42 locations with an aggregate land area of approximately 2.4m square metres to build new sorting hubs.

In January 2018, FedEx opened an international express and cargo centre at Shanghai Pudong International Airport.

In September 2017, ZTO Express began operations at its new sorting hub in Chengdu, Sichuan. ZTO invested around RMB400m (US$61m) to develop the new sorting hub.

In 2012, DHL Express opened a US$175m North Asia hub at Shanghai Pudong International Airport. The facility handles 20,000 documents and 20,000 parcels per hour.

Vehicle optimisation: use of bigger trucks and smart routing software

Carriers are looking to cut operating and labour costs by replacing smaller trucks with larger ones. For example, ZTO recently announced plans to replace its fleet of 9.6m line haul trailers with 17m trailers, doubling capacity.

Vehicle fill rates can also be improved by better routing using intelligent software.

Robots

Robots are being used to reduce labour costs by automating sortation and delivery processes.

STO Express employs robots manufactured by Hikvision to sort 20,000 parcels per hour.

According to STO Express, the robots improved efficiency by approximately 30% and saved 70% of manpower costs at the company’s Shandong Province sorting hub.

The robots can work eight hours non-stop and take 30 minutes to charge.

STO Express hub robots

In June 2017, JD.com launched a robot courier which consists of an automated vehicle with locker compartments.

The vehicles move slowly (3-4 km/h) following routes designed by an algorithm.

They send messages to give notice to consignees minutes before reaching the delivery point.

Consignees obtain their items with facial recognition or by inputting a code.

The vehicles can deliver six to 20 items in one trip.

JD.com intends to expand its robot courier fleet to more than 100, using them for Universities and residential communities.
Drones and driverless vehicles

- Drones are being used by JD.com to deliver parcels from a central hub to remote villages in different parts of China. The objective is to reduce transport costs.
  - It began its drone programme in 2016.
    - It started trials with drones to carry small packages to remote areas that are difficult to reach.
  - It is now flying parcels via drones in four provinces: Jiangsu, rural Beijing, Sichuan and Guangxi, where it has regulatory approval.

JD.com delivery drone

- Currently, it offers drone delivery on approximately 20 fixed routes and aims to have 100 drone delivery routes during the course of 2018.
The company designed its own drones (drone infrastructure was developed by its research and logistics innovation lab, JDX) and has five different models, depending on the size of the parcel being carried, four battery powered and one petrol powered.

The drones take parcels to a designated drop-off point in a village. JD.com has a courier in each village who then delivers the parcels.

Each drone can carry between eight and 15 packages.

JD.com has 300,000 village promoters around the country.

In April 2017, JD.com announced plans to build 150 operational sites for drone delivery in the south western province of Sichuan. The company stated that it expected to reduce freight costs by 70%.

ZTO Express completed its first trial delivery using a drone in July 2017.

- The custom designed drone, flew from ZTO’s sorting hub in Zhejiang Province to the office building of a local customer.
- The test showed that delivery time can be cut by 60%.

In October 2017, self-driving trucks manufactured by FAW Jiefang completed a road test in Jilin province.

- The trucks operate using adaptive cruise control, automatic emergency braking and lane keeping assistance.
- The company aims to market and sell the trucks as early as 2018.

Another self-driving truck, launched in 2016, has been developed by Foton Motors and tech company Baidu.

The ‘Model for express business operational guidance’ issued by the State Post Bureau, defines a number of service levels that need to be met for each of collection, sort, line-haul and delivery.

There are also vehicle regulations which impact on operations. For example, in Shanghai, only trucks with ‘BH’ on their registration plate can drive in the city centre during day time. Other vehicles require a special permit.

Changes in regulations are increasing some costs.

- In September 2016, a new truck transportation regulation from the Ministry of Transportation of China came into force. It aims to reduce road accidents caused by overloaded trucks. The overall weight of a truck with cargo is limited to 49 tonnes. If it exceeds this limit, the driver will be fined and licence credits will be deducted.
- Press reports suggest that road freight costs across China have risen by as much as 30% as a result.

Regulation

Permission is necessary to provide a parcel delivery service in China. One requirement is for a business is to have registered capital:

- RMB500,000 for a business operating within a province,
- RMB1m for a national business
- RMB2m for an international business.
Most carriers use electric motor tricycles rather than western-style vans for last-mile deliveries.
- Proposed national standards for e-tricycles were released in 2016 by the government and the State Post Bureau but have not yet been adopted.
- According to recent press reports, many are illegally constructed and do not meet roadworthiness standards.

The State Post Bureau issued its 13th five year plan in February 2017. In it, the plan states:
- All post and deliveries should be traceable by 2020
- Customers should have a wide choice of service
- Improvements should be made to the delivery network in China, with 100% coverage of both urban and rural areas
- There should be better connectivity to international networks
- Parcel lockers should be promoted to prevent delays of undeliverable items
- R&D and deployment of robots and unmanned autonomous vehicles should be promoted
- There should be a real-name system and open package inspections to ensure safety
- Packaging recycling levels should be increased

Storage and e-fulfilment services

- The development of online retail has enabled smaller manufacturers who have been successful to grow to the point where they are able to develop their own brands and sell their products nationally.
- Such suppliers require more sophisticated services than the basic delivery used by small sellers. Typically they require storage in or near a range of major cities across the country, and e-fulfilment services to support competitive delivery times.
- Parcel companies are increasingly offering these services. For example,
  - YTO Express has started to factor in storage capacity when building its new hubs and now has 170,000 sq. m of space.
  - Other carriers have even more capacity, such as SF Express (1m sq m), Yunda and Best (both 500,000 sq. m).
- Cainaio operates a system which links a wide range of nation-wide warehouse facilities owned by third parties.
  - It has access to in excess of 1m sq. m of space.
  - It allows space to be booked and inventory to be managed across the entire network
  - It sells its service on a SaaS basis to carriers and other parties who need to access warehouse space.
- The growth of storage and e-fulfilment services explains the high proportion of intra-city deliveries as it enables retailers in remote locations
to offer highly competitive delivery times by storing their products close to the customer.

**Growth of parcel shop and locker networks**

- Parcel shops and lockers are much more widespread in China than in most western markets and play an increasingly important role.
  - China has almost 90% of all parcel lockers worldwide
- These sites are seen as ways to reduce costs and reliance on increasingly scarce labour.
- Lockers and parcel shops are increasingly used after a failed delivery. The decision to use a locker is made by the self-employed courier, who pays a small fee (0.5-1 RMB) for using it.
  - The courier decides to use the locker as it will save him time by removing the need to attempt a re-delivery
  - In doing so, he judges that his time would be more productively spent in making additional deliveries.
  - The courier tells the consignee that the parcel is in a locker and provides instructions for retrieval. This model gets round a key barrier to locker adoption seen in other countries by taking the adoption decision out of the hands of the consumer.
  - This model also has the benefit of enabling high utilisation as the courier, who can only book a locker compartment if there is one free, must retain more parcels in busy periods.
- The leading locker networks are Hive Box (owned by a consortium of carriers led by SF Express) and Sposter.
- The leading parcel chains are JD.com, Cainiao and Best Express.
- We estimate that around 10% of parcels are currently delivered via parcel shop and locker networks, with the proportion likely to increase

**Carrier consolidation**

- There have been several recent examples of consolidation with the major carriers acquiring smaller operators. For example:
  - STO Express increased its stake in Shanghai-based Fast Express to 10% in August 2017.
  - YTO Express acquired 62% of Hong-Kong based On-Time Logistics in March 2017
  - In recent years, ZTO Express has acquired 39 of its own network partners.
- We expect to see further consolidation in the future with the number of national carriers reducing. We believe this is a likely response to:
  - Pressure on profitability from higher labour costs
  - Slower market growth (see forecasts)
- Mergers between one or more of the tongda operators are feasible given the similarity of their business models.
- There is also likely to be a consolidation in major tongda operators acquiring their local franchise operations meaning they effectively manage a combined franchise and direct model.
Competitive Landscape

Overview

- The following types of organisations play important roles in the market:
  - Marketplaces
  - Carriers
  - Open delivery platforms
  - Parcel shop and locker networks

Marketplaces

- In the absence of the large national retail chains seen in particular in Anglo-Saxon markets, marketplaces play an extremely important role in Chinese retail.
- Ecommerce business on retail marketplaces in China account for around three-quarters of the parcels market. As a consequence of this, several carriers are highly dependent on Alibaba’s marketplace parcel volumes.
- The important ecommerce marketplaces in China are the well-known shopping sites that many Chinese consumers visit using their mobile phones to make purchases. The most important of these are Taobao, Tmall (both Alibaba marketplaces) and JD.com.

Carriers

- There are four groups of carriers:
  - Global integrators which operate predominantly in the international express segment, e.g. UPS, FedEx, DHL
  - National carriers which have their own assets and integrated operations: SF Express and China Post. They carry out a combination of online retail and other deliveries. They are also strong in intra-city deliveries.
  - The ‘tongda operators’ (YTO, STO, ZTO, Yunda – collectively known as ‘three tong one da’ from their names: Yuantong, Zhongtong, Shentong and Yunda)
    - They operate hubs and line-haul only, leaving local collection and delivery operations to third-parties.
    - They tend not to focus on the intra-city segment as they lack their own local operations.
    - They mainly focus on online retail deliveries with Alibaba accounting for the majority of their parcels.
  - Regional carriers which mainly cover one or two large cities in a region / province.
    - They mainly focus on the intra-city segment and may partner with one of the tongdas to provide national services.
    - Examples include:
      - QC Express (Shanghai),
      - BS Express (Shanghai),
      - Barents (Chongquing),
      - Shengbang Express (Jiangsu),
      - Dasu Logistics (Xiamen),
      - East-Union Express (Shanghai),
      - Xiaohongmao (Beijing).
- The domestic carriers typically rely on self-employed couriers to carry out last mile deliveries.
  - Couriers are typically allocated their own small geographical territory within which they carry out deliveries
  - They are given a degree of autonomy regarding how they carry out deliveries. For example, they may decide to use a locker (at their own expense) where they believe it will save them time, rather than attempting a redelivery following a first-time delivery failure.
They are usually incentivised to sell parcels services to customers within their territory and to carry out collections from smaller customers.

**Open local delivery platforms**

- There are several crowd-sourced delivery platforms on which individuals can sign-up to become a local last-mile delivery courier.
  - The platforms deliver takeaway food orders, groceries, flowers and healthcare products.
  - They may also be used by the carriers to provide last mile courier delivery.
- The leading platforms include the following:
  - New Dada, which uses a crowdsourcing model to provide last-mile delivery services and has around 1.3 m delivery personnel. It is based in 37 cities and makes more than 1m daily deliveries. It has a particular strength in groceries and is backed by JD.com and also received a $50m investment from Wal-Mart in 2016
  - Ele.me, a Chinese food delivery business backed by investors Alibaba, Tencent and Sequoia. The Ele.me network covers 2,000 cities in China, with 1.3m food outlets and 9m daily orders.
  - Meituan-Dianping, which provides a mix of services, including food delivery, grocery sales, restaurant reviews and group discounts.
  - Shansong Express, which provides short-distance, inner-city deliveries. It guarantees a one hour or less delivery time for distances within 5km.
  - SHBJ.com, a local food delivery service. In 2015, it handled 30,000 daily orders covering 11 cities.
  - Dianwoba, a leading online food delivery company founded in 2009 with widespread networks in Hangzhou and Shanghai.

**Parcel shop and locker networks**

- Parcel shops and lockers are convenient last-mile locations where consumers can pick up their deliveries themselves. They are also convenient for the delivery firms, as it is easier and more cost-effective to deliver parcels in bulk to a local location rather than to the customers’ home.
  - Parcel shops are locations in existing businesses, such as convenience stores, pharmacies or petrol stations; and do not need much capital investment.
  - Parcel lockers typically have lower operating costs but require initial capital investment to manufacture, install and set up.
- Examples of parcel shop networks include Cainaio Stations, Best Express Stores, Shouhuobao and JD partner locations.
- Examples of locker networks include JD Locker, Hive Box, Sposter and E-Stack.

**Carriers**

**Share by category**

- As the chart shows, the overwhelming majority of the market is accounted for by privately-owned Chinese carriers.
  - The share of the integrators (foreign-owned) is very small (although larger in value than volume terms)
  - China Post (state-owned) has around 10% of the market
China Parcels Market: Market Insight Report 2018

China parcels market volume by type of company, (private, state-owned, foreign), 2011-2016 (chart)

Source: China State Post Bureau

China parcels market value by type of company, (private, state-owned, foreign), 2011-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Private</th>
<th>State-owned</th>
<th>Foreign</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>37,450</td>
<td>27,110</td>
<td>11,250</td>
<td>75,810</td>
</tr>
<tr>
<td>2012</td>
<td>63,870</td>
<td>29,910</td>
<td>11,750</td>
<td>105,530</td>
</tr>
<tr>
<td>2013</td>
<td>97,380</td>
<td>29,150</td>
<td>17,640</td>
<td>144,170</td>
</tr>
<tr>
<td>2014</td>
<td>154,100</td>
<td>30,000</td>
<td>20,420</td>
<td>204,520</td>
</tr>
<tr>
<td>2015</td>
<td>224,600</td>
<td>30,330</td>
<td>22,030</td>
<td>276,960</td>
</tr>
<tr>
<td>2016</td>
<td>332,880</td>
<td>39,780</td>
<td>24,780</td>
<td>397,440</td>
</tr>
</tbody>
</table>

CAGR 2011-2016: 54.8% for Private, 8.0% for State-owned, 17.1% for Foreign, 39.3% for Total

Source: China State Post Bureau

- The privately-owned Chinese carriers have been increasing their share:
  - The CAGR of parcel revenue between 2011 and 2016 for private companies is 55%, compared to state-owned companies of 8%.
  - Foreign companies' parcel revenues have grown at 17% per year over the same period.

Competitive advantages

- As discussed above, domestic carriers fall into two specific groups based on their operating model:
  - Franchise model
  - Integrated model
- The franchise model is where companies manage the sortation hubs and line-haul transportation but outsource pick-up and delivery operations to franchise partners.
  - The leading four private parcel delivery companies in China operate this model (ZTO Express, STO Express, YTO Express and Yunda Express).
- These four companies are known as 'Tongda' companies; as they have shared a 'Tong' or 'Da' in their company names. They are all from Eastern China and dominate the online retail delivery market.
- The integrated model is where parcel delivery companies use their own resources throughout the delivery process, including the last mile.
operation. Companies using this model include China Post (sometimes referred to as EMS) and SF Express.

- The operating model of the franchise network operators is reliant upon third parties, which pay them network transit fees for each parcel processed through the network, for services such as parcel sorting and line-haul transportation.

- The network transit fee pricing is generally comprised of two separate fees:
  - A fixed amount for a waybill attached to each parcel
  - A variable amount per parcel for sorting and line-haul transportation based on parcel weight, and the route.

- The franchise network model came about as a result of the C2C e-commerce structure in China, in which sellers are fragmented. They are mainly SMEs or individuals. For example, there are more than 10m sellers on Taobao/Tmall. A C2C e-commerce structure demands wide geographical coverage of sellers and buyers.
  - The franchise model companies are highly reliant on e-commerce activities, and specifically, Alibaba, which accounts for the majority of their volumes.
  - In contrast, integrated operator, SF Express’ business is significantly more diversified with lower dependence on Alibaba. SF Express has also recently been investing in cold chain logistics, further diversifying its business.

Competitive analysis – Chinese carriers

Size

- SF Express is the largest carrier in China in terms of revenues, with RMB46,035m (US$6,905m).
- However, the tongda operators handle more parcels than SF Express / China Post. But, as their revenue is just the network transit fee for the line-haul and hub sortation services, their revenue per parcel is much lower.

![Carriers by parcel revenue, 2016 (RMBm)](image)

**Source:** company data. Note: China Post is 2015.

- The top seven carriers have a combined revenue market share of 31%.
  - SF Express is the clear leader with c.12%
  - The tongda companies’ shares of the market by revenue are smaller than their volume share as they split their parcel revenues with their local collection and delivery partners.
- There are many thousands of smaller local carriers. Some industry analysts have suggested that there are as many as 19,000 such companies in China, mostly working as franchisees.
ZTO Express and YTO Express each handled more than 4.4bn parcels through their networks in 2016.

This is similar to the total global parcel volumes of UPS (4.8bn) and FedEx (3.4bn).

Nearly three quarters of the market, in terms of parcel volumes, is shared amongst the top seven carriers.

The largest market share by volume is held by ZTO Express (14.4%) with YTO Express on 14.3%.
The revenue per parcel chart illustrates the different operating models of leading carriers with SF and China Post being much higher than the franchised tongda operators, who receive a network fee rather than the full parcel revenue.

- In US dollar terms, SF Express receives $2.68 per parcel on average; compared to ZTO Express, which received $0.33 per parcel.

In addition to its integrated model, SF Express also has a higher revenue per package due to its greater focus on express B2B and C2X parcels.

- 25% of SF Express’ volume is from online retail, in contrast to c.75% for the tongda operators.

**Revenue per parcel of leading carriers, 2016 (RMB)**

Source: company data. Note: China Post is 2015 data.
Growth

- All of the top carriers have experienced rapid volume growth with the smallest, Best Express, having grown the fastest.
- ZTO and YTO have also seen annual growth at over 50% over the two-year period.
- The integrated operators – SF and China Post – have grown less rapidly, reflecting their need to build out local operations.

<table>
<thead>
<tr>
<th>Carrier parcel volume growth, 2014-16 (table)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parcel Volume (m)</td>
</tr>
<tr>
<td>ZTO Express</td>
</tr>
<tr>
<td>YTO Express</td>
</tr>
<tr>
<td>STO Express</td>
</tr>
<tr>
<td>Yunda Express</td>
</tr>
<tr>
<td>SF Express</td>
</tr>
<tr>
<td>Best Express</td>
</tr>
<tr>
<td>China Post / EMS</td>
</tr>
</tbody>
</table>

Source: company data

- Similar rates of growth are being achieved in revenue terms. In 2016, all companies achieved double-digit growth, ranging from 16% up to 61% growth.

<table>
<thead>
<tr>
<th>Carrier parcel revenue growth, 2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB mn</td>
</tr>
<tr>
<td>SF Express</td>
</tr>
<tr>
<td>China Post / EMS</td>
</tr>
<tr>
<td>YTO Express</td>
</tr>
<tr>
<td>STO Express</td>
</tr>
<tr>
<td>ZTO Express</td>
</tr>
<tr>
<td>Yunda Express</td>
</tr>
<tr>
<td>Best Express</td>
</tr>
</tbody>
</table>

Source: company data. Note: China Post 2016 data not yet available.
Margins

- Margins have risen for all of the main carriers in their latest year.
- Despite the low and falling revenue per parcel figures, carrier operating margins are higher than is typical in most western markets.
- The four leading carriers in the chart below operate line-haul and hubs only, with last mile operations outsourced to third-parties.
- SF Express, which operates an integrated model more similar to western carriers has lower, but nevertheless respectable – and rising – margins.

Margins of leading carriers, 2015-16

Stock market listings

- Several leading carriers have sought public listings to raise funds for network expansion. Some have sought to list in China, via reverse takeover, whilst others have chosen the IPO route abroad.
  - Reverse takeover of a quoted vehicle is widely used as a way to obtain a Chinese stock market listing more rapidly than a conventional flotation, which takes approximately three years.
- In January 2018, Deppon Logistics was given permission to undertake an IPO on the Shanghai Stock Exchange. It intends to issue 150m shares to raise RMB2.98bn (US$450m) to build branches and purchase new vehicles and equipment. It will be the seventh carrier to go public in recent years.

Recent public listings of major express parcels companies in China

<table>
<thead>
<tr>
<th>Express company</th>
<th>Date</th>
<th>Notes</th>
<th>Stock Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best Express</td>
<td>September 2017</td>
<td>US IPO, raising US$450m</td>
<td>New York</td>
</tr>
<tr>
<td>SF Express</td>
<td>March 2017</td>
<td>Reverse takeover with Maanshan Dingtai Rare Earth &amp; New Material Co</td>
<td>Shenzhen</td>
</tr>
<tr>
<td>ZTO Express</td>
<td>October 2016</td>
<td>US IPO, raising US$1.4bn</td>
<td>New York</td>
</tr>
<tr>
<td>Yunda Express</td>
<td>July 2016</td>
<td>Reverse takeover with Ningbo Xinhai Electric Co Ltd</td>
<td>Shenzhen</td>
</tr>
<tr>
<td>YTO Express</td>
<td>March 2016</td>
<td>Reverse takeover with Dalian Dayang Trans Co Ltd</td>
<td>Shanghai</td>
</tr>
<tr>
<td>STO Express</td>
<td>December 2015</td>
<td>Reverse takeover with Zhejiang IDC Fluid Control Co Ltd</td>
<td>Shenzhen</td>
</tr>
</tbody>
</table>

Source: Apex Insight, websites

Source: company accounts
Competitive analysis – Integrators

- The integrators – UPS, FedEx and DHL – each have operations in China.
- They focus on international traffic between China and their core markets in Europe and North America.
- They have made attempts to capture domestic business, focusing on higher-priced B2B traffic between major cities. However, their cost bases mean that they have struggled to be competitive with local carriers and their market shares have remained small.
- They have explored partnerships with Chinese carriers.

Competitive analysis – Parcel shops and locker networks

- Both parcel shops and locker networks are widely used.
- In total we believe that there are over 350,000 parcel shops and approximately 180,000 locker locations.
- We believe that both locker chains are well utilised with Hive Box having utilisation levels of around 82% and Sposter 67%. These figures compare favourably with international benchmarks.
- The leading chains are:
  - Lockers:
    - Hive Box, 75,000 locations, a JV between carriers SF Express, STO Express, Yunda Express and ZTO Express and the property firm Global Logistics Properties. Acquired CIMC, operator of lockers through GeGeBox and E-Stack, adding 15,000 locations in late 2017.
    - Sposter, 77,000 locker locations, owned by Chengdu Santai Holding, China Post, Cainiao Network and Fosum.
  - Parcel shops:
    - Best Express has 314,000 Best Store+ locations, which it also uses for PUDO points.
    - Cainaio Station operates around 40,000 stations via a franchised model.
    - Shouhuobao has 15,000 locations in Beijing, Shanghai, Guangzhou and Shenzhen.
    - JD.com partners with convenience stores giving it c.10,000 locations. Partners include Quik, Renben, Meiyijia, and Guoda.
    - Leading carrier, SF Express also operates a network of parcel shops.
Profiles of key market participants

- Key market participants can be segmented into the following categories:
  - Marketplaces
  - Carriers – Integrators
  - Carriers – National
  - Carriers – Regional
  - Open delivery platforms
  - Parcel shop and locker networks

Marketplaces

Alibaba

- Alibaba is a Chinese e-commerce company with revenues of RMB158.3bn (US$22.9bn) in 2017 (year ended March 31).
- It operates Taobao, a leading mobile commerce marketplace, and Tmall, an e-commerce platform for brands and retailers. It also operates 1688.com, a wholesale marketplace and AliExpress, a global retail marketplace for overseas customers. Alibaba operates Alibaba Cloud Computing, a provider of public cloud storage services with 874,000 customers. It also has digital media and entertainment services.
- Merchants on Taobao are primarily individuals and small businesses. Tmall caters for branded products and a premium shopping experience. Tmall has more than 100,000 brands.

- In April 2016, Alibaba acquired a controlling stake in Lazada, an operator of e-commerce platforms in Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.
- Alibaba also operates Alipay, a wholly owned subsidiary of Ant Financial Services. Alipay provides payment services for transactions on Taobao Marketplace, Tmall, 1688.com and AliExpress.
- Alibaba has shareholdings in a number of logistics businesses. It has the following equity stakes:
  - 34% of Qingdao Goodaymart Logistics Co., Ltd, a logistics subsidiary of Haier Electronics Group Co., Ltd
  - 11% of YTO Express an express parcels carrier.
  - 14% of Singapore Post
  - 34% of Quantum Solutions International, SingPost’s e-commerce subsidiary
  - 23.4% of Best Express

Cainiao

- Cainiao Smart Logistics Network Limited (Cainiao) was founded in May 2013 and is a 51%-owned logistics subsidiary of Alibaba Group. Other shareholders include investment firms and ZTO Express, YTO Express, STO Express and Yunda Express.
- Cainiao Network works with a number of third-party logistics providers in delivering orders. Cainiao Network operates a data platform and does not deliver packages itself. It links order data to delivery providers’ systems. The platform interfaces with a range of systems including Alibaba’s marketplace transaction systems, Alipay’s payment system, merchants’ CRM, ERP and warehouse management system and third-party transportation management systems.
- As of March 2017, Cainiao Network's fifteen strategic express courier partners employed over 1,800,000 delivery personnel in more than 600 cities and 31 provinces in China. Collectively they operated more than 180,000 hubs and sorting stations. The top six of the express courier
partners handle the delivery of the majority of packages from retail marketplaces.

- Cainiao also offers domestic fulfilment services to mainly medium to large merchants who require a nationwide warehousing network. Cainiao providers order fulfilment and package delivery to end consumers. It uses a combination of owned and partner warehouses to fulfill orders.

- The Cainiao network:
  - covers 224 countries and regions globally and 2,800 districts and counties in China.
  - processes the data for 70% of all the packages in China – an average of 42m per day
  - employs more than 2m delivery and warehouse personnel, with 230,000 vehicles and 180,000 delivery stations.

- Cainiao has also established a parcel pick-up network in partnerships with convenience stores, colleges and individuals. There are more than 40,000 Cainiao pick-up stations across China, including 2,000 college campus pick-up stations.

- In May 2017, Cainiao announced a smart logistics platform that employs 1m electric vehicles. By partnering with car manufacturers including SAIC Motor Corp and Dongfeng Motor Group, the network will dedicate the cars to couriers for smart transportation. The Cainiao vehicle platform is intended to reduce the number of empty vehicles, and reduces the driving distance via intelligent route planning using an algorithm.

- In June 2017 Cainiao announced the establishment of a logistics storage fund, with a leading Chinese insurer. It has partnered with China Life Insurance Group to create a RMB8.5bn fund to improve logistics infrastructure, as well as improving warehouse technologies.

- JD.com, also known as Jingdong and formerly called 360buy, is a Chinese e-commerce company. It had revenues of RMB260.1 billion (US$37.5 billion) in 2016.

- JD.com acts as both a retailer and an e-commerce marketplace. It launched its online marketplace in October 2010, which now has 120,000 third-party sellers. JD.com also operates a number of other businesses mainly in fulfilment and financial services.

- In April 2016, it completed a transaction with Dada, the largest crowdsourcing delivery company in China, in which JD Daojia became a subsidiary of Dada. JD.com owns 47% of Dada, which provides low-cost delivery services to China's retailers, service providers and O2O enterprises. Dada has partnered with 68 Walmart stores and 139 Yonghui stores to provide consumers with speedy premium online grocery delivery experience.

- JD.com differs from Alibaba in that it has developed its own logistics infrastructure, whereas Alibaba relies on third-parties to deliver products (although JD.com employs contracted third-party couriers to service areas that are not covered by its network). At the end of 2016, the company had:
  - 256 warehouses in 54 cities
  - 5.6m square metres of warehousing space
  - 6,906 delivery and pick-up stations
  - 65,968 delivery personnel, 17,544 warehouse staff and 11,699 customer service personnel

- It has seven major fulfilment centres:
  - Shenyang (Northeast)
  - Beijing (North)
  - Shanghai (East)
- Each of these fulfilment centres consists of between 11 and 32 warehouses for normal-sized items, 1 to 2 warehouses for bulky items, and associated sorting centres and related facilities. The company also has distribution centres in another 25 major cities, consisting of one or two warehouses with high demand products, one warehouse for bulky items and other sorting centres.
- JD.com provides same-day delivery and next-day delivery in 1,410 districts across China. For goods that it has in stock in the corresponding fulfilment centre, any orders received before 11am will be delivered on the same day. Any orders received by the evening deadline of 11pm will be delivered by 3pm the following day. There is no extra charge for delivery under this system for orders that meet a minimum size requirement. The program does not cover delivery through third-party couriers or products shipped directly from third-party sellers.
- In April 2017, JD.com formed a business unit JD Logistics, which will operate as an independent subsidiary. The aim is for JD Logistics to offer warehousing, transportation, delivery, customer service and after sales to third-party retailers.
- JD.com takes payment on delivery, which accounted for 23% of its transactions in 2016. Online payments via WePay, 99Bill and UnionPay accounted for 77% of transactions.
- In December 2017, JD.com and Tencent agreed to investment US$863m into discount online retailer Vipshop. Tencent will invest $604m for a 7% stake and JD.com is investing $259m for a 5.5% stake. Under the agreement, Vipshop will be able to attract traffic from Tencent’s social media app Wechat and to appear on the main page of JD.com’s mobile app and Wechat page.

### Carriers - Integrators

#### UPS

- UPS was established in China in 1988 and is headquartered in Shanghai.
  - It has 5,954 employees and a fleet of 890 vans, trailers, trucks and tractor units.
  - It operates 228 operating facilities (admin offices, distribution centres, field stocking locations, package centres, hubs, terminals and warehouses).
- UPS first received approval to provide domestic express services in some cities without the need for a Chinese joint-venture partner in 2012.
  - It had been waiting five years for the licences since a 2009 law barred foreign carriers from carrying out local deliveries.
  - It was given approval to five cities (Shanghai, Guangzhou, Shenzhen, Tianjin and Xi’an).
  - By 2014, this had expanded to 33 city licenses.
- UPS runs 210 weekly flights connecting China to the US, Europe and Asia. It has air hubs in Shanghai, Shenzhen and Hong Kong.
  - The UPS International Air Hub at Pudong International Airport (Shanghai) has a sorting capacity of 17,000 packages per hour. The hub links all of China via Shanghai to UPS’s international network, and has direct service to the Americas, Europe and other parts of Asia. It connects points served in China by UPS through a dedicated service provided by Yangtze River Express, a Chinese all-cargo airline.
  - The Shenzhen facility has a sorting capacity of 18,000 packages per hour and serves as a primary transit hub in Asia.
- In May 2017 UPS and SF Holding, the parent company of SF Express, announced plans to establish a joint venture and collaborate to develop and provide international delivery services initially from China to the US, with expansion plans for other destinations. The venture was intended to combine SF’s 13,000 service points in 331 cities in China with UPS’ global network spanning 220 countries.
In October 2017, UPS increased its presence in the country by improving services across 20 cities. This included extended pick-up cut off times, faster transit times from China to the US, Europe and Asia and value-added services.

FedEx

- FedEx started its China service in 1984.
- In 1999 it set up a 50% joint venture begun in 1999 with the Tianjin Datian W. Group to focus on Chinese domestic parcels.
  - FedEx handled international package shipments to and from China, and DTW Group also operated a domestic delivery network with 89 locations in cities across China.
  - In 2007, it bought out its partner for US$400m, taking full control of the JV and its domestic network.
- FedEx opened its Asia Pacific hub in Guangzhou in 2009, with a capital investment of US$150m. The facility was its second-largest logistics centre after its global headquarters in Memphis, Tennessee.
- It now has 9,500 employees in the country, operates 220 flights a week from five airports (Beijing Capital, Shanghai Pudong, Shenzhen Bao’an, Guangzhou Baiyun and Hangzhou) and its fleet comprises 2,700 vehicles working from approximately 90 depots.
- FedEx received approval to provide a domestic express service in 2012 – after waiting for regulators to renew permits. It was granted licences to eight cities in China (Shanghai, Guangzhou, Shenzhen, Hangzhou, Tianjin, Dalian, Zhengzhou and Chengdu).
  - It then received further city licenses in 2014, giving it a total of 58 licences.

DHL

- DHL operates international services but pulled out of its money-losing China domestic express delivery business in 2011 citing a lack of cost advantage.
  - DHL had a joint venture with Sinotrans, but exited the market blaming intense competition due to the highly fragmented nature of the market.
- In July 2017, press reports indicated that it was studying the possibility of forming an alliance with a local partner in China.

Carriers - National

China Postal Express & Logistics Company Limited (EMS)

- China Post Express and Logistics Company Limited was is state-owned limited company and was founded in June 2010.
- The company has almost 100,000 employee and operates 45,000 business outlets.
- China Postal Express & Logistics is mainly engaged in domestic express, international express, contract logistics, and LTL.
- It provides domestic express delivery services in 31 provinces and international delivery services to more than 200 countries. It operates an airline, consisting of 26 aircraft.
- In 2015, China Post Group’s revenue amounted to approximately US$65,645m, compared to US$60,722m in 2014. Operating profit amounted to US$5,991m in 2015, compared to US$5,335m in 2014.
- There are two lines of parcels business in China Post:
  - the parcel delivery business within the domestic postal service
  - the express parcel business of China Post Express & Logistics Co., Ltd (sometimes known as EMS)
- China Postal Express & Logistics Company Limited provides integrated express and logistics services in China and internationally. The company offers domestic express, international express, contract logistics, less-than-truck-load logistics, functional logistics, and international freight forwarding services. It provides logistics solutions to customers in hi-tech, FMCG, automobile, pharmacy, apparel, and retail industries. The company
China Parcels Market: Market Insight Report 2018

was founded in 1980 and is based in Beijing, China. China Postal Express & Logistics Company Limited is a subsidiary of China Post Group Corp.

- Express parcel revenues of China Post Express & Logistics Co., Ltd were estimated to be RMB28,960m in 2015.

SF Express

- SF Holdings is the holding company of SF Express. SF Express Co., Ltd. is a Chinese delivery services company based in Shenzhen, Guangdong, China. SF Express is the only private logistics company to have a fully in-house courier network; meaning that it does not outsource last-mile delivery to partner couriers. SF Express does not rely as heavily on Alibaba as, for example, ZTO Express or YTO Express. It also has non-parcels operations such as cold chain logistics and financial services.
- In September 2013, Citic Capital, Oriza Holdings, China Merchants Group and Jade Capital between them purchased less than 25% of shares in SF Express. The investment was estimated at US$1,303m.
- SF Express is a leading express parcel company. It has a daily volume of 10m parcels, operates 6,500 depots with 150,000 self-employed couriers. Couriers have a geographical service area and are paid a fixed fee per delivery and a share of revenue for collections.
- The company operates approximately 25,000 vehicles, both owned and outsourced, of which 900 were refrigerated trucks.
- SF Express has been growing at 30%+ per year for the last 5 years, and is investing heavily in facilities, automation, technology and new services. As e-commerce in China continues to grow at 40%-50% per year, SF saw a need to improve the economics of home deliveries as this was becoming a larger component of its business.
- SF currently has 400 thousand employees, of which 120,000 are directly employed.
- In January 2017, SF Express and Maanshan Dingtai Rare Earth & New Materials completed an asset swap to pave the way for the backdoor listing. SF Express went public in February 2017.
- The share swap had valued SF Express at an estimated $6.8 billion. The combined company has 4.18 billion shares, and is worth about $25.5 billion. SF Express’ founder, Wang Wei, holds 64.58% of the merged company.
- SF Express is building its own air cargo hub in Ezhou, Hubei province, near the capital, Wuhan. It is a joint venture with China VAST Industrial Urban Development Company, with each company investing US$14m. The hub will have a capacity of 2.6m tonnes per year.
- The company announced a joint venture with UPS in 2017, focusing on China-US deliveries.
- In 2016, SF Holdings reported revenue of RMB57.5bn and operating profit of RMB3.6bn. This equates to US$8.6bn in revenue and US$554m in operating profit.

SF Holding financial performance, 2015-2016

<table>
<thead>
<tr>
<th>RMB m</th>
<th>Revenue</th>
<th>Op. Profit</th>
<th>Margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>47,300</td>
<td>2,561</td>
<td>5.4%</td>
</tr>
<tr>
<td>2016</td>
<td>57,483</td>
<td>3,693</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

Source: company accounts

SF Holding financial performance, 2015-2016

<table>
<thead>
<tr>
<th>US$ m</th>
<th>Revenue</th>
<th>Op. Profit</th>
<th>Margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>7,095</td>
<td>384</td>
<td>5.4%</td>
</tr>
<tr>
<td>2016</td>
<td>8,622</td>
<td>554</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

Source: company accounts
In 2016, SF Express delivered 2,580m parcels. In the first half of 2017, it delivered 1,373m.

**SF Express parcel volume, 2014-2016**

<table>
<thead>
<tr>
<th>Vol m</th>
<th>Parcels (m)</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,610</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>1,969</td>
<td>22.3%</td>
</tr>
<tr>
<td>2016</td>
<td>2,580</td>
<td>31.0%</td>
</tr>
<tr>
<td>2017 H1</td>
<td>1,373</td>
<td></td>
</tr>
</tbody>
</table>

Source: company accounts

- SF Express’ average revenue per parcel declined to RMB22.15 in 2016, down from RMB23.83 in 2015. For the first half of 2017, average revenue per parcel was RMB23.30.

**SF Express average revenue per parcel**

<table>
<thead>
<tr>
<th>Rev/Parcel RMB</th>
<th>Rev/Parcel</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>23.61</td>
</tr>
<tr>
<td>2015</td>
<td>23.83</td>
</tr>
<tr>
<td>2016</td>
<td>22.15</td>
</tr>
<tr>
<td>2017 H1</td>
<td>23.30</td>
</tr>
</tbody>
</table>

Source: company accounts

- The company divides its businesses into three main divisions: Express Logistics (express delivery, cold chain logistics, warehousing), Other (supply chain finance, financial leasing, wealth management, general payments), and Commercial (SF Best Online Store, SF Best Store).

- The bulk of the business is from its logistics business. Most of that is derived from domestic China express delivery services.

**SF Express revenue by major business segment, 2015-2016**

<table>
<thead>
<tr>
<th>RMB m</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Express Logistics</td>
<td>46,935</td>
<td>57,141</td>
</tr>
<tr>
<td>Commercial</td>
<td>963</td>
<td>20</td>
</tr>
<tr>
<td>Others</td>
<td>203</td>
<td>321</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48,101</strong></td>
<td><strong>57,483</strong></td>
</tr>
</tbody>
</table>

Source: company accounts

- Domestic express is the largest segment of SF Express, with RMB46,035m in revenues in 2016.

**SF Express revenue by sub-segment, 2015-2016**

<table>
<thead>
<tr>
<th>RMB m</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Express</td>
<td>39,764</td>
<td>46,035</td>
</tr>
<tr>
<td>Warehousing and Distribution</td>
<td>3,233</td>
<td>4,061</td>
</tr>
<tr>
<td>Heavy Cargo Transportation</td>
<td>1,194</td>
<td>2,343</td>
</tr>
<tr>
<td>Value-added services</td>
<td>1,772</td>
<td>2,245</td>
</tr>
<tr>
<td>International Express Service</td>
<td>269</td>
<td>1,100</td>
</tr>
<tr>
<td>Cold business</td>
<td>702</td>
<td>1,355</td>
</tr>
<tr>
<td>Commodities</td>
<td>963</td>
<td>20</td>
</tr>
<tr>
<td>Others</td>
<td>203</td>
<td>320</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48,100</strong></td>
<td><strong>57,479</strong></td>
</tr>
</tbody>
</table>

Source: company accounts

**SF Express revenue by region, 2015-2016**

<table>
<thead>
<tr>
<th>RMB m</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Express Logistics - East China</td>
<td>14,039</td>
<td>17,292</td>
</tr>
<tr>
<td>Express Logistics - South China</td>
<td>12,436</td>
<td>14,531</td>
</tr>
<tr>
<td>Express Logistics - North China</td>
<td>9,715</td>
<td>12,172</td>
</tr>
<tr>
<td>Express Logistics - South Central</td>
<td>6,078</td>
<td>7,417</td>
</tr>
<tr>
<td>Express Logistics - Huaxi</td>
<td>3,324</td>
<td>4,128</td>
</tr>
<tr>
<td>Express Logistics - Hong Kong and Macau</td>
<td>1,027</td>
<td>1,227</td>
</tr>
<tr>
<td>Express Logistics - Overseas</td>
<td>316</td>
<td>374</td>
</tr>
<tr>
<td>Commodities and others</td>
<td>1,166</td>
<td>341</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48,101</strong></td>
<td><strong>57,483</strong></td>
</tr>
</tbody>
</table>

Source: company accounts
ZTO Express

- ZTO Express is a leading express delivery company in China. ZTO operates a scalable network partner model, using partners to provide pickup and last-mile delivery services. ZTO Express had a turnover of RMB9.8bn in 2016 (US$1.5bn).
- The company manages 75 sorting hubs (69 ZTO owned and 6 are owned by network partners) and a fleet of more than 2,900 trucks. It also has its own waybill tracking system and transportation management system. ZTO’s network consists of 26,000 outlets across China.
- ZTO Express’s business is heavily reliant on Alibaba marketplaces. Parcel volumes from Alibaba’s e-commerce platforms accounted for 76% of total parcel volume in 2016.

History

- ZTO Express began its express delivery business in Shangai in January 2009. The company was known as Shanghai Zhongtongji Express Service Co., Ltd.
- In January 2013, the shareholders of Shanghai Zhongtongji and the shareholders of 15 network partners located in the above cities and provinces, came together to establish ZTO Express as the holding company of Shanghai Zhongtongji and 15 network partners.
- In January 2014, ZTO Express acquired businesses and assets of Shanghai Zhongtongji and eight network partners that were wholly-owned by some of the shareholders who formed ZTO Express.
- In April 2015, ZTO Express (Cayman) Inc. was incorporated under the laws of the Cayman Islands as an offshore holding company to facilitate financing and offshore listing.
- In October 2015, ZTO Express and wholly-owned subsidiaries acquired express delivery business from 16 network partners and their respective shareholders in exchange for equity interest in ZTO Express (Cayman) Inc, and cash.
- In January 2016, the Group purchased the remaining 40% equity interest of Suzhou Zhongtong Express Ltd.
- In October 2016, the company raised US$1.4b in a US initial public offering in October 2016.

Operations

- The company operates express delivery services in Shanghai, Anhui Province, Jiangsu Province and Zhejiang Province. The company authorized and cooperated with third-party business partners to operate ZTO-branded express delivery services elsewhere in China.
- ZTO operates a parcel delivery network by focusing on the build-out and operations of the core sorting hubs and line-haul transportation assets, while relying on network partners to carry out pickup and last-mile deliveries.
As of December 31, 2016, ZTO had around 3,600 direct network partners and more than 5,500 indirect network partners (subcontractors of direct network partners) under the ZTO brand.

The company has a significant reliance on Alibaba’s e-commerce platforms, which accounted for 77% of ZTO Express’ total parcel volume in 2015. Alibaba is not a direct customer of ZTO Express.

ZTO outsources part of its line-haul transportation activities to Tonglu Tongze Logistics Ltd (Tonglu Tongze) which works exclusively for ZTO Express. Tonglu Tongze has a fleet of over 1,200 trucks. In 2015, ZTO Express paid Tonglu Tongze RMB703.1m in transportation service fees.

The company operates a fee sharing mechanism whereby the pickup and delivery outlets share the delivery service fees of each delivery order.

ZTO Express had revenues of RMB9,789m in 2016, a growth of 61% over the year. Operating profit amounted to RMB2,768m, resulting in an operating margin of 28%.

ZTO Express financial performance, 2014-2016

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Op. Profit</th>
<th>Margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>3,904</td>
<td>600</td>
<td>15.4%</td>
</tr>
<tr>
<td>2015</td>
<td>6,086</td>
<td>1,529</td>
<td>25.1%</td>
</tr>
<tr>
<td>2016</td>
<td>9,789</td>
<td>2,768</td>
<td>28.3%</td>
</tr>
</tbody>
</table>

Source: company accounts

ZTO Express parcel volumes, 2014-2016

<table>
<thead>
<tr>
<th></th>
<th>Volume</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,816</td>
<td>-</td>
</tr>
<tr>
<td>2015</td>
<td>2,946</td>
<td>62.2%</td>
</tr>
<tr>
<td>2016</td>
<td>4,498</td>
<td>52.7%</td>
</tr>
</tbody>
</table>

Source: company accounts

YTO Express

- Founded in 2000, Shanghai YTO Express (Logistics) Co is a leading express company in China.
- YTO Express is backed by Alibaba. Yunfeng Capital, a fund backed by Alibaba Chairman Jack Ma, owns a 20% stake in YTO Express through a strategic investment in 2015.
In March 2016, Dalian Dayang Trands Co Ltd acquired YTO Express through a RMB17.5bn asset swap and share issue, giving YTO Express a backdoor listing on the Shanghai Stock Exchange.

E-commerce platforms accounted for 70% of the turnover of YTO Express in 2015.

At the end of 2016, YTO Express operated 62 transit hubs. It had 2,593 franchisees and 37,713 terminals in China. The YTO Express network covers 31 provinces, autonomous regions and municipalities. The network consists of 3,745 transport lines and more than 36,000 vehicles.

In October 2015, Yuantong Airlines, a wholly-owned subsidiary of the Company, began operation. The Company became one of the two private express delivery companies in China that owns its own airline.

Shanghai-based YTO Express Group acquired a controlling stake in Hong Kong-listed On Time Logistics Holdings in May 2017.

YTO Express had revenues of RMB16,818m in 2016, equivalent to US$2,523m. Net profit stood at RMB1,372m, giving a margin of 8.2%.

YTO Express delivered 4,460m parcels in 2016, with an average revenue per parcel of RMB3.77.

YTO Express financial performance, 2014-2016 (RMB M)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Net Profit</th>
<th>Margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>8,229</td>
<td>704</td>
<td>8.6%</td>
</tr>
<tr>
<td>2015</td>
<td>12,096</td>
<td>717</td>
<td>5.9%</td>
</tr>
<tr>
<td>2016</td>
<td>16,818</td>
<td>1,372</td>
<td>8.2%</td>
</tr>
</tbody>
</table>
Source: company accounts

YTO Express financial performance, 2014-2016 (US$m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue</th>
<th>Op. Profit</th>
<th>Margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1,234</td>
<td>106</td>
<td>8.6%</td>
</tr>
<tr>
<td>2015</td>
<td>1,814</td>
<td>108</td>
<td>5.9%</td>
</tr>
<tr>
<td>2016</td>
<td>2,523</td>
<td>206</td>
<td>8.2%</td>
</tr>
</tbody>
</table>
Source: company accounts

YTO Express parcel volume / revenue per parcel, 2015-2016

<table>
<thead>
<tr>
<th>Region</th>
<th>Vol m</th>
<th>Parcels m</th>
<th>Rev/Parcel RMB</th>
</tr>
</thead>
<tbody>
<tr>
<td>East China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>South China</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Source: company accounts

The main business of YTO Express accounted for the majority of revenues, at RMB16,354.5m. The company classifies main business as its delivery services, value-added and other services.

YTO Express revenue by segment, 2015-2016

<table>
<thead>
<tr>
<th>Segment</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Business</td>
<td>11,746.7</td>
<td>16,354.5</td>
</tr>
<tr>
<td>Other</td>
<td>349.3</td>
<td>463.3</td>
</tr>
<tr>
<td>Total</td>
<td>12,096.0</td>
<td>16,817.8</td>
</tr>
</tbody>
</table>
Source: company accounts

Within the main business of YTO Express, Delivery Service accounts for the majority of YTO’s main business. ‘Delivery Service’ had revenues of RMB16,213.8m in 2016, accounting for 96% of total revenue.

YTO Express revenue by sub-segment, 2016

<table>
<thead>
<tr>
<th>Segment</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery Service</td>
<td>16,213.8</td>
</tr>
<tr>
<td>Value-Added Services</td>
<td>79.7</td>
</tr>
<tr>
<td>Other</td>
<td>61.0</td>
</tr>
<tr>
<td>Total</td>
<td>16,354.5</td>
</tr>
</tbody>
</table>
Source: company accounts

In terms of delivery service revenues by region, East China and South China are the major sources of revenue. The total revenue from express delivery services in these regions accounted for 75.6% of total revenue.

In 2016, YTO Express achieved an international express delivery revenue of RMB7.5m, accounting for 0.05% of total revenue.

YTO Express revenue by region, 2016

<table>
<thead>
<tr>
<th>Region</th>
<th>2016</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>East China</td>
<td>7,949.6</td>
<td>49.0%</td>
</tr>
<tr>
<td>South China</td>
<td>4,312.7</td>
<td>26.6%</td>
</tr>
</tbody>
</table>
STO Express

- STO Express is an express delivery company in China. STO and subsidiaries provide mainly express delivery services in major cities and provinces in China; as well as international delivery with coverage in South Korea, Australia, Canada, the UK and Japan.
- STO Express employs a franchise model and has a total of 1,654 independent outlets in its network. STO Express covers 2,755 districts and counties across China.
- STO Express has more than 25,000 service shops in China, with over 300,000 brand employees.
- STO Express went public in December 2015 via a reverse takeover of publicly listed Zhejiang IDC Fluid Control Co Ltd.
- In 2016, STO Express delivered 3.26bn parcels, an increase of 27% over the previous year. The company has benefited substantially from cooperation with Tmall, Taobao and other e-commerce companies.
- In 2016, revenue increased by 28% to RMB9,881m, due to an increased express parcel volume. Net profit increased 65% due to the increase in express volumes, combined with an improvement in cost management.
- During the year, STO Express added 159 new independent parcel delivery franchise outlets to its network, to increase the network to 1,654 franchise outlets.
- During 2016, STO Express continued to expand its international network. The STO network in Europe covers the UK, the Netherlands, France, Spain, Italy, Belgium, Poland, Portugal, Germany, Luxembourg and the Czech Republic.
- The company began using robots in 2016, in Yiwu, Tianjin and Linyi. The robot is used for small parcels no larger than 60cm wide, 50cm in length and weighing less than 5kg. The robots are manufactured by Hikvision, and can sort 200,000 packages per day; and are more accurate than human workers. According to STO Express, robots improved efficiency by up to 30%.
- In 2016, STO Express had revenues of RMB9,880m (US$1,482m), an increase of 28% on the previous year.
- Net profit amounted to RMB1,262m, an increase of 12.8% on the previous year.

<table>
<thead>
<tr>
<th>STO Express financial performance, 2014-2016 (RMBm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB m</td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
</tr>
</tbody>
</table>

Source: company accounts

<table>
<thead>
<tr>
<th>STO Express financial performance, 2014-2016 (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$m</td>
</tr>
<tr>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
</tr>
</tbody>
</table>

Source: company accounts
Yunda Express is a leading express carrier in China and is considered one of the tongda operators.

It has 55 hubs across China, with over 4,200 trunk lines and 20,000 delivery vehicles in its network. It has more than 3,000 franchisees and over 20,000 delivery outlets, covering 31 provinces.

Yunda Express operates a number of last-mile locations, with more than 16,650 convenience stores, and other third-parties, including Panda Express, Hangzhou Bai, Supersol Supermarket and Shanghai Liangyou.

Yunda Express also cooperates with the leading parcel locker network operators including Fengchao Express, Yiyun Yiyun, Yantai, CIMC and Fuyou. In 2016, the company increased its investment in Shenzhen Fengchao Technology Co., Ltd.

Yunda Express went public in a $2.7b reverse merger with Shenzhen-traded Ningbo Xinhai Electric Co Ltd, in July 2016. The agreement involved an asset swap and share issue, gave Yunda Express a listing on the Shenzhen stock exchange.

Over the last few years, the company has sought to expand into the West of China, by opening facilities in the regions of Sichuan Jilong, Luqu, Guanghe, Xinjiang Wushi, Keping, and Qinghai Ulan. The company has also started an international express network to 16 countries, including the Netherlands, Canada, New Zealand, Singapore, Japan and South Korea.
China Parcels Market: Market Insight Report 2018

Table 1: Yunda Express sub-segment revenue, 2015-2016

<table>
<thead>
<tr>
<th>Sub-segment</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surface</td>
<td>1,972</td>
<td>2,923</td>
</tr>
<tr>
<td>Transfer Fee</td>
<td>2,901</td>
<td>3,895</td>
</tr>
<tr>
<td>Material</td>
<td>137</td>
<td>318</td>
</tr>
<tr>
<td>Franchise</td>
<td>12</td>
<td>29</td>
</tr>
<tr>
<td>Other</td>
<td>32</td>
<td>185</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,053</td>
<td>7,350</td>
</tr>
</tbody>
</table>

Source: Company accounts

Table 2: Yunda Express revenue by region, 2015-2016

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Region (Express)</td>
<td>3,521.2</td>
<td>4,738.1</td>
<td>64.5%</td>
</tr>
<tr>
<td>South Region (Express)</td>
<td>428.7</td>
<td>753.6</td>
<td>10.3%</td>
</tr>
<tr>
<td>North Region (Express)</td>
<td>546.5</td>
<td>735.5</td>
<td>10.0%</td>
</tr>
<tr>
<td>Material / Other</td>
<td>168.7</td>
<td>503.1</td>
<td>6.8%</td>
</tr>
<tr>
<td>Central Region (Express)</td>
<td>159.9</td>
<td>209.9</td>
<td>2.9%</td>
</tr>
<tr>
<td>Southwest Region (Express)</td>
<td>94.0</td>
<td>164.0</td>
<td>2.2%</td>
</tr>
<tr>
<td>Northeast Region (Express)</td>
<td>75.4</td>
<td>132.3</td>
<td>1.8%</td>
</tr>
<tr>
<td>Northwest Region (Express)</td>
<td>58.9</td>
<td>113.3</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,053.5</td>
<td>7,349.7</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Company accounts

Best Inc (Best Express)

- Best Inc. is a supply chain service provider in China, with a number of logistics businesses, with 9,998 staff. Total revenues were RMB8.8bn in 2016 (US$1.3bn).
- The company began operations in May 2007, as Eight Hundred Logistics Technologies Corporation. In March 2008, BEST Logistics Technologies Limited was established and in June 2017, the name of BEST Logistics Technologies Limited was changed to BEST Inc.
- BEST Express was launched in 2010 through the acquisition of Huitong Express.
- It operates the following segments:
  - BEST Supply Chain Management
  - BEST Express
  - BEST Freight
  - BEST Global
  - BEST UCargo
BEST Store

- BEST Supply Chain Management offers warehouse management, order fulfilment, express delivery, freight and other services. The division has more than 500 corporate clients, including 3M, Cainiao Network, COFCO and Li Ning.
- BEST Express is a leading express delivery provider in China. BEST Express operates 64 hubs, 117 sortation centres, 21,000 service stations and has 2,883 employees. It delivered 2.2bn parcels in 2016. BEST Express carries out delivery of parcels under 15 kg.
- BEST Freight is a less than truckload freight service provider.
- BEST Global offers door to door cross border supply chain services to and from China. Services include international express, LTL, fulfilment, reverse logistics and freight forwarding. It operates warehouses in the US and Germany.
- BEST Ucargo is a real-time bidding platform to source truckload capacity from independent transportation providers and agents. As of June 2017, there were more than 1,900 transport providers and agent registered on the system.
- BEST Store was created in 2015 and offers online sourcing and store management services for convenience stores. The network is also used as a parcel pick-up and drop-off network. As of June 2017, there were 314,414 stores in the BEST Store network.
- Best Express is an asset-light business. It leases facilities and outsources all of its transportation operations to third-parties. It operates all of the hubs and sortation centres at provincial, city and district levels.
- The majority of service stations in the delivery network of Best Express are operated by franchise partners. Therefore the majority of express parcel revenues are from franchisee partners. A small proportion of express parcel revenues are derived from direct customers.
- As of 2017, Best Express has modified this relationship by becoming directly responsible for last mile delivery, and therefore responsible for damage or loss of parcels. The company increased the fee charged to franchisee service stations.

In the six months to June 30 2017, Best Express incurred costs of RMB1,969.2 million (US$290.5 million) related to service station fees. This is approximately 38% of revenue.

### Best Inc. revenue by business segment, 2014-2016 (RMB m)

<table>
<thead>
<tr>
<th>RMB m</th>
<th>Supply Chain Management</th>
<th>Express</th>
<th>Freight</th>
<th>Store+</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>536.0</td>
<td>2,260.4</td>
<td>265.9</td>
<td>-</td>
<td>3.4</td>
<td>3,065.8</td>
</tr>
<tr>
<td>2015</td>
<td>826.4</td>
<td>3,710.3</td>
<td>675.9</td>
<td>9.7</td>
<td>32.0</td>
<td>5,256.3</td>
</tr>
<tr>
<td>2016</td>
<td>1,241.4</td>
<td>5,388.8</td>
<td>1,604.6</td>
<td>560.2</td>
<td>49.1</td>
<td>8,844.1</td>
</tr>
</tbody>
</table>

Source: company accounts

### Best Inc. revenue by business segment, 2014-2016 (US$m)

<table>
<thead>
<tr>
<th>US$m</th>
<th>Supply Chain Management</th>
<th>Express</th>
<th>Freight</th>
<th>Store+</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>80.4</td>
<td>339.1</td>
<td>39.9</td>
<td>-</td>
<td>0.5</td>
<td>459.9</td>
</tr>
<tr>
<td>2015</td>
<td>124.3</td>
<td>556.5</td>
<td>101.4</td>
<td>1.5</td>
<td>4.8</td>
<td>788.4</td>
</tr>
<tr>
<td>2016</td>
<td>186.2</td>
<td>808.3</td>
<td>240.7</td>
<td>84.0</td>
<td>7.4</td>
<td>1,326.6</td>
</tr>
</tbody>
</table>

Source: company accounts

- Best Express had revenues of RMB5,389m in 2016 (US$808.4m). It made a loss of RMB284m in 2016.

### Best Express financials, 2014-2016

<table>
<thead>
<tr>
<th>RMB m</th>
<th>Revenue</th>
<th>Loss</th>
<th>Margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>2,260</td>
<td>(334)</td>
<td>-14.8%</td>
</tr>
<tr>
<td>2015</td>
<td>3,710</td>
<td>(328)</td>
<td>-8.8%</td>
</tr>
<tr>
<td>2016</td>
<td>5,389</td>
<td>(284)</td>
<td>-5.3%</td>
</tr>
</tbody>
</table>

Source: company accounts

- Best Express delivered 2,165m parcels in 2016, up 54% from 2015.
GTO Express

- GTO Express, a leading carrier, is headquartered in Shanghai. It was founded in 2003 and was formerly known as Shanghai Express - Express Co., Ltd.
- It employs approximately 50,000 and operates more than 40 distribution centres.

TTK Express

- The logistics subsidiary Jiangsu Suning Logistics Co Ltd paid RMB2.975bn to initially buy a 70% stake in TTK Express; and plans to acquire the remaining 30% within 12 months for RMB1.275bn.
- TTK Express operates 61 distribution centres in over 300 prefecture-level cities and 2,800 counties, over 10,000 delivery points across China and more than 1,800 operation lines

Quanfeng Express

- Founded in 2000, Beijing Quanfeng Express Co., Ltd is an express carrier in China. The company has 7,000 outlets across China and 65 network hubs.
- In early 2013, Leading Capital, Pengkang Investment and Phoenix Capital invested RMB200m in Quanfeng Express.
- In November 2016, CYTS Logistics became a strategic investor in Quanfeng Express with a RMB1.25bn investment.

ZJS Express

- The logistics subsidiary of Chinese retailer Suning Commerce Group Co Ltd acquired TTK Express, for RMB4.25bn (US$600m) in January 2017.
China Parcels Market: Market Insight Report 2018

- Established in 1994, ZJS Express is an express carrier based in Beijing, with 32 directly managed subsidiaries and 4,374 outlets across China.
- The company has 304 hubs across China, including 35 operations centres and 269 sortation centres. The company fleet consists of 119 trunk vehicles, 427 trucks and 1,337 delivery vehicles.
- In 2014, Beijing ZJS Express Co., Ltd. (ZJS Express) received an undisclosed investment from an investor consortium led by Fosun Capital Group. China Merchants Securities, Haitong Securities, Hongtai Capital and Zhong Xinjian Merchants Equity Investment Fund also participated. The five investors held a combined 30% of ZJS Express after the deal.
- ZJS Express has a partnership with Royal Mail European subsidiary, GLS. It was launched in 2012. The partnership provides a business-to-business parcel delivery service from China to Europe, including the UK.

UC Express

- UC Express was founded in 2009 and is headquartered in Shanghai Qingpu.
- UC Express has 93 distribution centres, 5,000 outlets and employs more than 60,000 staff.

Sure Express

- Sure Express was founded in 2006 in Shenzhen, Guandong. It now covers 2,000 cities and operates more than 100 hubs. It has 80,000 employees.
- It is part of the Uni-Top Group, a broad logistics group based on Shenzhen. Uni-Top also owns Apex Express. Uni-Top acquired three express courier businesses in 2011 from Sinotrans Transportation Development Co., the Chinese joint venture partner of DHL.

Carriers - Regional

- In addition to national carriers, there are a number of regional carriers, which focus on a specific city or region. The intra-city express market in China is very fragmented.
- National tongda carriers do cover local intra-city markets – however it is not a significant part of their business as they are set up for national sortation and line-haul operations.

<table>
<thead>
<tr>
<th>Carrier</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>QC-Express</td>
<td>Shanghai</td>
</tr>
<tr>
<td>East-Union Express</td>
<td>Shanghai</td>
</tr>
<tr>
<td>BS Express</td>
<td>Shanghai</td>
</tr>
<tr>
<td>Xiaohongmao</td>
<td>Beijing</td>
</tr>
<tr>
<td>Barents</td>
<td>Chongqing</td>
</tr>
<tr>
<td>BGEX</td>
<td>Heilongjiang</td>
</tr>
<tr>
<td>aliRush Logistics</td>
<td>Chengdu</td>
</tr>
<tr>
<td>Shengbang Express</td>
<td>Jiangsu</td>
</tr>
<tr>
<td>Neptune Logistics</td>
<td>North China</td>
</tr>
<tr>
<td>DTKD</td>
<td>Shanghai</td>
</tr>
<tr>
<td>Dongjun Fast Logistics</td>
<td>Sichuan</td>
</tr>
</tbody>
</table>
Dada has quickly grown to become the leader in China’s crowdsourcing delivery market.

Launched in June 2014, Dada uses a crowdsourcing model to provide last-mile delivery services.

Less than two years into operations, Dada has 1.3 million crowd sourced delivery personnel who have registered on the platform.

Dada operates in 37 key cities providing average daily deliveries of over one million in peak seasons for 300,000 merchants, making it China’s largest crowdsourcing delivery platform.

In April 2016, JD.com announced entered into a definitive agreement under which its O2O business, JD Daojia, would merge with Dada Nexus Limited, the leading crowdsourcing delivery platform.

Launched in April 2015, JD Daojia provides consumers two-hour delivery of products from local supermarkets and other partners through its location-based app. It has 3m customers in 13 cities.

The newly formed company will continue to operate its crowdsourcing delivery platform under the Dada brand. JD.com received 47.4% of the new company’s equity.

In October 2016, Wal-Mart made a strategic investment of US$50m into New Dada.

Ele.me

Ele.me (approximate translation ‘hungry now’) is China’s leading food delivery business. It is valued at around US$6 billion and has Alibaba, Tencent and Sequoia as investors.
China Parcels Market: Market Insight Report 2018

- The Ele.me network covers 2,000 cities in China, with 1.3m food outlets and 9m daily orders. The company has 3m riders registered to Fengniao Delivery, the delivery arm of Ele.me.
- In August 2017, Baidu sold its food delivery business, Xiaodu, to Rajax, which operates Ele.me. The deal was valued at around US$800m and gives Baidu a small stake in the larger company.

Meituan-Dianping

- Meituan.com began as a Chinese group discount website (similar to Groupon) for local consumer products and retail services. The company is headquartered in Beijing and was founded in 2010 by Wang Xing.
- Meituan.com offers deals of the day by selling vouchers on local services and entertainment. The company has around 5,000 employees.
- In 2015, it merged with Dianping, a Chinese group buying site to become "Meituan-Dianping". After the merger, the business is a mix of services, including:
  o Food delivery
  o Grocery sales
  o Movie ticket sales
  o Restaurant reviews
  o Group discount sales
- The company raised US$4bn in its latest round of funding, from Tencent Holdings. Sequoia Capital and Priceline Group Inc. It had a valuation of US$30bn as of October 2017.
- The company has 280m active users and works with 5m merchants.

Linqu

- Linqu is a food delivery service in China.
- Based in Shangai, Linqu completed an undisclosed series B round of financing led by Qiming Venture Partners. IDG Capital Partners also participated.
- However, Linqu is facing criticism for its slow response times and high delivery fees.

Shansong

- Founded in 2014, Shansong Express provides short-distance, inner-city deliveries. It guarantees a one hour or less delivery time for distances within 5km.
- In February 2017, the company announced a US$50m series C round of funding led by SIG Asia Investment, Prometheus Capital and Yi Capital.
- It operates in 31 cities in China, with an average of 100,000 deliveries daily. It has over 12 million users and 184,000 couriers. The average price is RMB35 per order.
- According to Shansong, the average delivery time for orders within 5km in Beijing is 23 minutes and orders within 10 km can be delivered in 33 minutes. According to Shansong, only 1% of parcels are later than promised.

SHBJ.com
Based in Beijing, SHBJ.com is a local food delivery service. In 2015 it received a RMB300m investment from Alibaba Group subsidiary Koubei. As of 2015, the company handled around 30,000 daily orders covering 11 cities. It charges RMB5 per delivery.

Dianwoba, founded in 2009, is a leading online food delivery company, with widespread networks in Hangzhou and Shanghai. It now covers 300 cities, with more than 2m orders per day. It has 1.5m delivery staff delivering items from 50m businesses to more than 50m customers. It has expanded from food deliveries and now delivers takeaway, express parcels, flowers, cakes, and other grocery items.

In September 2015, Alibaba subsidiary Koubei invested an undisclosed amount of Series C funding.

It has received a US$2m series A funding from Gobi Partners in 2012 and eight-digit B series from SAIF Partners, Telescope and Qiaojing Venture Capital in 2014.

HiveBox is a joint venture between SF Express, STO Express, Yunda Express, ZTO Express and property firm Global Logistics Properties. Each company invested RMB100m, representing 20% equity interest.

In September 2017, Hive Box acquired CIMC Electricity Commerce and Logistics Technology Co Ltd, the operator of GeGeBox and E-Stack locker networks (profile below). The acquisition added 15,000 lockers to HiveBox’s network.

SF Express is China’s largest parcel company. It has a daily volume of 10m parcels, operates 6,500 depots with 150,000 self-employed couriers. Couriers have a geographical service area and are paid a fixed fee per delivery and a share of revenue for collections.

SF Express was founded 20 years ago and is now China’s largest parcel company. It has been growing at 30%+ per year for the last 5 years, and is investing heavily in facilities, automation, technology and new services. As e-commerce in China continues to grow at 40%-50% per year, SF saw a need to improve the economics of home deliveries as this was becoming a larger component of its business.

In 2014 SF started rolling out the locker network with a target of 40,000 locations nationwide. At the end of 2016 they had installed 35,000 locations with each location having 110 doors, giving a total of 3.85m doors, making it comfortably the largest locker operation in the world.

HiveBox recently raised US$360m to expand its locker network to 150,000 locations over the next 2 years.

Consumers use the network via a smartphone app.
HiveBox locker in China

- There are 3 services offered via the SF Express locker network:
  - Failed delivery location; the SF locker is used as the delivery point when someone is not available to receive their parcel. In China, there are very few real home deliveries as most people are at work and choose their work address as their delivery address. In many cases, they are not available to meet the courier, so he will leave the parcel in a locker and SMS the consignee the code needed to open the locker.
  
  - Returns: The SF Express network can be used for returning items using a return label included in the original shipment. Only parcels going back via one of the five carriers using the network can be returned.
  
  - Send: Customers can use the SF network to pay and ship parcels which are handled by one of the 5 carriers using the network.

- The SF locker service is free for the consumer to use (with the exception of the send services where the consumer pays the shipping fees).

Consumers can use any of the 5 carriers in the network. This is handled via the app which is required to use the network.

- Payments for the use of the lockers are made by the couriers, based on the time savings created for them.
  - They are paid per stop for deliveries and a share of revenue for collections.
  - The SF drivers pay less than the drivers from the other carriers: 0.10¥ versus 0.35¥.
  - Due to high locker utilisation, many drivers reserve multiple lockers for a week at a time.
  - The normal commission paid to SF drivers for collections is 22%, but when they collect a parcel from a locker, they receive just 10% in recognition of the time savings to them which the lockers provide.

- The lockers are located mainly in office buildings and large factories.
  - In many cases there is no monthly site rental fee as landlords are keen to have the lockers as a benefit to their tenants or employees.

- The primary method used to drive consumer adoption of the Smart Hive Box service was forcing use of the lockers as the delivery point for failed deliveries. Consumers are required to download the app to retrieve their parcel, introducing them to the service and how to use it. This made them aware of the other services available: returns and send.

- The capex required to build the network has been in the region of US$316m, of which US$1m was required for software development and the remained for purchase of lockers, at a cost of US$9,000 each.

- Utilisation levels are high, at c.82% (this means that very few parcels are not collected on the first day)

- The network makes a small profit at an operating level (before depreciation):
  - Revenues are US$45.50m (S$64.78m) from 953m parcels, an average revenue per parcel of US$0.048 (S$0.068).
  - Total operating costs are US$41m (S$58) (mainly maintenance and rent)
Taking into account depreciation, costs increase to US$72m (S$103), making the network loss-making on a fully costed basis.

**Sposter**

- Sposter (www.sposter.net), a parcel locker network in China, serves 80 cities.
- Sposter is a private company that offers its locker network to all Chinese carriers.
- It also allows individuals use the lockers by purchasing a membership card.
- At the end of 2016, Sposter operated 25,000 locker banks across China, it had around 40m users and daily parcel volumes were approximately 1m, implying utilisation of around 67%
- In July 2017 Sposter received new investment and was merged with China Post’s network
  - Chengdu Santai Holding, the operator of the Sposter parcel locker network, announced new investors in the Sposter business. Following investment Santai, China Post, Cainiao and Fosun will own 34%, 50%, 10% and 6% share of equity respectively.
  - Sposter and China Post merged their locker operations to create a combined network or approximately 77,000 parcel lockers.

**CIMC**

- GeGeBox is a private company with an open network to other Chinese carriers. It had 20,000 locations in 2016. It is owned by CIMIC, a logistics equipment manufacturer.
- E-stack is a private company with an open network to other Chinese carriers. E-stack (http://www.myeslife.com) is a subsidiary of CIMIC, established in 2014. E-stack operated a total of 17,000 parcel lockers banks across China at the end of 2016. It is expanding rapidly – given that it had only 3,000 locations in 2015. E-stack reported that it handled 50m parcels in 2015, or 10 per location for approximately 15% utilisation.
- CIMC’s locker operations above were acquired by Hive Box in September 2017.
JD.com was one of the first e-commerce companies to introduce parcel lockers. In August 2012, its locker service went live, and by 2014 was extended to 600 pick-up lockers. JD.com’s lockers are manufactured by Hangzhou Dongcheng Electronic Company, a specialist manufacturer of electronic lockers.

Parcel shop networks

- Cainiao Station - Alibaba operates a parcel shop (pick up stations) network in China, consisting of 30,000 locations. These pick up station includes community offices, news stands, post office, supermarkets and convenience stores. Alibaba operated 20,000 pick up locations prior to an agreement with YTP Express and Best Express which added a further 10,000 pick up stations.
- Best Express uses its network of Best Store+ stores, which act as parcel pick-up and drop-off points, in addition to other services. There were 314,400 Best Stores as of June 2017.
- Shouhuobao is a leading parcel shop network in China, with 15,000 locations in Beijing, Shanghai, Guangzhou and Shenzhen. Location partners, such as convenience stores, laundries and digital shops, generally receive consumers’ parcels for free, and keep them for five days.
- JD.com operates its own locker network and pickup stations, as well as partnering with other convenience store partners with 10,000 locations. Examples of JD.com partners include Quik, Renben, Meiyijia, and Guoda. It operates 5,367 delivery stations and pickup stations and 600 parcel locker locations. In its locker operations, it partners with Hangzhou Dongcheng Electronic Company, which manufactures the lockers.
Forecasts

Population

- The population of China is forecast to reach 1,402m, growing at a CAGR of 0.3% between 2017 and 2022, slightly slower than the CAGR of 2012-17 of 0.5%.

Economic growth

- China’s strong GDP growth of 8.4% between 2012 and 2017 is expected to continue at a marginally lower rate to 2022.
- The slowing growth is a result of the slowing rate of population growth offsetting a faster increase in GDP per capita

<table>
<thead>
<tr>
<th>US$bn</th>
<th>GDP</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>8,115</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>8,954</td>
<td>10.3%</td>
</tr>
<tr>
<td>2014</td>
<td>9,708</td>
<td>8.4%</td>
</tr>
<tr>
<td>2015</td>
<td>10,487</td>
<td>8.0%</td>
</tr>
<tr>
<td>2016</td>
<td>11,195</td>
<td>6.8%</td>
</tr>
<tr>
<td>2017</td>
<td>12,170</td>
<td>8.7%</td>
</tr>
<tr>
<td>2018</td>
<td>13,204</td>
<td>8.5%</td>
</tr>
<tr>
<td>2019</td>
<td>14,317</td>
<td>8.4%</td>
</tr>
<tr>
<td>2020</td>
<td>15,520</td>
<td>8.4%</td>
</tr>
<tr>
<td>2021</td>
<td>16,798</td>
<td>8.2%</td>
</tr>
<tr>
<td>2022</td>
<td>18,119</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

CAGR 12-17: 8.4%
CAGR 17-22: 8.3%

Source: IMF

Source: World Bank
Per capita GDP is forecast to grow at a CAGR of 8.0% between 2016 and 2022 as the population becomes more affluent.

This compares to historical growth of 10.1% from 2012-17

GDP per capita, 2010-2022 (US$)

- Online retail
  - The parcels market will continue to be driven by the growth of online retail spending.
  - It is forecast by eMarketer to reach US$2,660bn in 2021, when it will account for more than 40% of total retail sales.
  - While growth of both overall and online retail is expected to be rapid at 8% and 26% respectively, it is forecast to be slower in percentage terms than in the recent past as the market inevitably matures. Adverse demographic trends will see growth of the high-spending young urban middle class group slow down
  - By the end of 2018, more than 75% of online retail sales in China, over US$1 trillion, are expected to be transacted via a mobile device.

Source: World Bank

China total and online retail market value, 2012-2021 (chart)

Source: eMarketer
China total and online retail market value, 2012-2021 (US$bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total retail sales</th>
<th>Online retail sales</th>
<th>% of Retail sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2,768</td>
<td>200</td>
<td>7.2%</td>
</tr>
<tr>
<td>2013</td>
<td>3,146</td>
<td>294</td>
<td>9.4%</td>
</tr>
<tr>
<td>2014</td>
<td>3,530</td>
<td>438</td>
<td>12.4%</td>
</tr>
<tr>
<td>2015</td>
<td>4,044</td>
<td>622</td>
<td>15.4%</td>
</tr>
<tr>
<td>2016</td>
<td>4,463</td>
<td>851</td>
<td>19.1%</td>
</tr>
<tr>
<td>2017</td>
<td>4,910</td>
<td>1,133</td>
<td>23.1%</td>
</tr>
<tr>
<td>2018</td>
<td>5,327</td>
<td>1,462</td>
<td>27.5%</td>
</tr>
<tr>
<td>2019</td>
<td>5,727</td>
<td>1,832</td>
<td>32.0%</td>
</tr>
<tr>
<td>2020</td>
<td>6,128</td>
<td>2,237</td>
<td>36.5%</td>
</tr>
<tr>
<td>2021</td>
<td>6,514</td>
<td>2,660</td>
<td>40.8%</td>
</tr>
</tbody>
</table>

CAGR 12-16: 12.7%  
CAGR 16-21: 7.9%

Source: eMarketer

Parcels market forecasts

- We believe that parcels market growth will continue at a healthy rate. Factors supporting this include:
  - GDP forecasts suggesting the overall economy will grow at a very similar rate as in the past
  - Expectations of further growth in online retail
  - Urban middle class continuing to grow as more people migrate to cities and become part of the modern, consumer-driven Chinese economy
  - Historical trend for fall in revenue per parcel not likely to continue indefinitely given the increasing shortage of labour and rising labour costs. A migrant worker for SF Express that could expect RMB300 per month several years ago, now earns in the region of RMB1,200 per month

- However, we expect the rate to become slower in the later years of the forecast period as the market becomes more mature. This view is based on:
  - Our discussions with those in the market
  - The slowing in forecast online retail sales growth as the market matures

- Our forecast is that the market will approach RMB1.1Tn in value in 2022.
### China Parcels Market: Market Insight Report 2018

**China parcels market forecast, value and volume, 2012-2022**

<table>
<thead>
<tr>
<th>Year</th>
<th>RMB bn</th>
<th>US$m</th>
<th>Volume m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>105,533</td>
<td>15,830</td>
<td>5,685</td>
</tr>
<tr>
<td>2013</td>
<td>144,200</td>
<td>21,630</td>
<td>9,186</td>
</tr>
<tr>
<td>2014</td>
<td>204,540</td>
<td>30,681</td>
<td>13,960</td>
</tr>
<tr>
<td>2015</td>
<td>276,960</td>
<td>41,544</td>
<td>20,670</td>
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<tr>
<td>2016</td>
<td>397,440</td>
<td>59,616</td>
<td>31,280</td>
</tr>
<tr>
<td>2017</td>
<td>495,710</td>
<td>74,365</td>
<td>40,060</td>
</tr>
<tr>
<td>2018</td>
<td>640,000</td>
<td>96,000</td>
<td>50,526</td>
</tr>
<tr>
<td>2019</td>
<td>806,667</td>
<td>121,000</td>
<td>63,684</td>
</tr>
<tr>
<td>2020</td>
<td>920,000</td>
<td>138,000</td>
<td>71,875</td>
</tr>
<tr>
<td>2021</td>
<td>1,000,000</td>
<td>150,000</td>
<td>77,720</td>
</tr>
<tr>
<td>2022</td>
<td>1,093,333</td>
<td>164,000</td>
<td>84,103</td>
</tr>
</tbody>
</table>

**CAGR 12-17**
- 36.3% RMB
- 36.3% US$m
- 47.8% Volume

**CAGR 17-22**
- 17.1% RMB
- 17.1% US$m
- 16.0% Volume

*Source: Apex Insight, China State Post Bureau*
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