

E-commerce & Logistics - A reluctant marriage takes hold

Transportation & Logistics

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The big question is - who dislikes the other more? No business has been thrown on its head by e-commerce more than the international logistics industry. This sector is comprised of couriers, airlines, trucking firms, freight forwarders, and customs agents. In a recent KPMG survey of 400 leading global logistics firms, 28% predicted that they would be out of business within 24 months. They expect to be replaced by large consolidators and the dot-com logistics rivals that have muscled their way into privileged partnerships with e-commerce portals.

For their part, e-commerce operators - particularly B2C firms - are frustrated by a lack of service and support from traditional logistics firms. They say that high prices, slow service and limited coverage seriously handicap their expansion plans. In Latin America, protectionist and bureaucratic customs officials, high transport costs, and a lack of modern infrastructure exacerbate the problem.

No help in sight for B2C delivery

In Mexico, Colombia, Venezuela, Chile and Argentina, between 60% and 80% of B2C purchases are imported from the United States. The average purchase is in the order of roughly \$70, but logistics costs can raise the client's bill to as much as \$150. At those rates, B2C purchases are limited mainly to hard-to-find items, bought by the upper classes. As a result, logistics costs are preventing B2C vendors from challenging traditional consumer good distribution channels. In Brazil, where import tariffs and customs fees are notoriously high, local e-commerce has filled the gap. About 80% of B2C purchases are sourced within the country. But in countries like Venezuela, which manufacture virtually no high-end consumer goods domestically, consumers are forced to shop abroad. The Internet offers these customers a much wider choice, but few cost savings.

The B2B e-commerce environment is much more promising, because the average order is closer to \$1,500. So the fixed logistics costs such as brokerage and customs fees and small-package handling have a much smaller impact on the final delivered price. The costs of delivery are more than offset by lower product prices since the buyer deals directly with the manufacturer, rather than through a Byzantine multi-level distribution chain.

The leading courier companies fully understand the advantages of the Latin American B2B market compared with its B2C market. UPS, for example, has no plans to replicate in Latin America its low cost 3-to-5 day delivery service that successfully services about half of the B2C market in the United States. In Latin America, the leading courier firms continue to regard the B2C market as a nuisance rather than an opportunity. For one thing, nearly one-third of on-line orders placed by consumers contain data entry errors compared with only 10% to 15% of B2B orders. Tracking down the business customer to verify the data is also far easier than with consumers. B2B delivery is also much simpler. Courier companies typically require an average of about 2 visits to a household to complete a

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delivery compared with 1.2 visits for a business. These problems translate into higher costs and more hassles for a much smaller slice of the total courier business. So it's hardly a mystery why courier companies prefer B2B.

The biggest need for improvement in B2B delivery services lies in the breadth of geographical coverage. Current services are still limited to major centers. There are hundreds of smaller cities with more than 200,000 residents throughout the region that still cannot receive courier services from the major players. Consequently, customers are forced to turn to small and unreliable small local companies to fill the gap.

The costs add up

| DELIVERY COVERAGE | | |
|-------------------|--------------|----------------------|
| Cities | UPS | DHL |
| Argentina | 5 locations | 12 locations |
| Brazil | 8 locations | 21 locations |
| Chile | 3 locations | 7 locations |
| Mexico | 18 locations | Approx. 80 locations |

International courier costs in Latin America run anywhere from 20% to 60% higher than the prevailing rates in the United States and Europe. This is a consequence of smaller economies of scale, customs bottlenecks, and inadequate infrastructure.

| 400 gram | | | | | | |
|-----------------------------------|-------------|---------|--------------|---------|-----------|---------|
| From/To | Mexico City | express | Buenos Aires | express | Sao Paulo | express |
| USA | | | | | | |
| New York (10199) | \$35.00 | \$45.00 | \$45.00 | \$55.00 | \$45.00 | \$55.00 |
| Los Angeles (90099) | \$35.00 | \$45.00 | \$45.00 | \$55.00 | \$45.00 | \$55.00 |
| Miami (33199) | \$35.00 | \$45.00 | \$25.00 | \$45.00 | \$25.00 | \$45.00 |
| MEXICO | | | | | | |
| Mexico City | NA | NA | NA | NA | NA | NA |
| ARGENTINA | | | | | | |
| Buenos Aires | \$31.50 | \$41.50 | NA | NA | \$21.00 | \$31.00 |
| BRAZIL (TNT estimate only) | | | | | | |
| Sao Paulo | \$31.93 | \$41.93 | \$28.84 | \$38.84 | NA | NA |

5 kg

| From / To | Mexico City | express | Buenos Aires | express | Sao Paulo | express |
|-----------------------------------|-------------|----------|--------------|----------|-----------|----------|
| USA | | | | | | |
| New York (10199) | \$140.00 | \$160.00 | \$170.00 | \$190.00 | \$170.00 | \$190.00 |
| Los Angeles (90099) | \$140.00 | \$160.00 | \$170.00 | \$190.00 | \$170.00 | \$190.00 |
| Miami (33199) | \$140.00 | \$160.00 | \$150.00 | \$170.00 | \$150.00 | \$170.00 |
| MEXICO | | | | | | |
| Mexico City | NA | NA | NA | NA | NA | NA |
| ARGENTINA | | | | | | |
| Buenos Aires | \$101.85 | \$111.85 | NA | NA | \$72.45 | \$82.45 |
| BRAZIL (TNT estimate only) | | | | | | |
| Sao Paulo (box size 30x30x30cm) | \$91.67 | \$101.67 | \$82.40 | \$92.40 | NA | NA |

25 kg

| From / To | Mexico City | express | Buenos Aires | express | Sao Paulo | express |
|-----------------------------------|-------------|----------|--------------|----------|-----------|----------|
| USA | | | | | | |
| New York (10199) | \$210.00 | \$240.00 | \$490.00 | \$545.00 | \$490.00 | \$545.00 |
| Los Angeles (90099) | \$210.00 | \$240.00 | \$490.00 | \$545.00 | \$490.00 | \$545.00 |
| Miami (33199) | \$210.00 | \$240.00 | \$370.00 | \$420.00 | \$370.00 | \$420.00 |
| MEXICO | | | | | | |
| Mexico City | NA | NA | NA | NA | NA | NA |
| ARGENTINA | | | | | | |
| Buenos Aires | \$338.30 | \$348.30 | NA | NA | \$270.90 | \$280.90 |
| BRAZIL (TNT estimate only) | | | | | | |
| Sao Paulo (box size 60x60x60cm) | \$422.30 | \$432.30 | \$375.23 | \$385.23 | NA | NA |

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Import duties and taxes vary by product and country. The following table shows the basic costs for IT products, one of the leading product categories for Latin American E-commerce.

| Americas: Tariffs and Other Taxes on Computer Hardware and Software | | | | | |
|--|-------------------------------------|--|------------------------------------|------------------------|---|
| Country | Tariff on Hardware (HS 8471) | Tariff on Software (HS 8524) M.C.U. | Tariff on Manuals (HS 4901) | W/Holding Taxes | Other Taxes |
| Argentina | 2-10% | 19-25%(M) | 0% | unknown | 21% VAT ¹ ; 0.5% Customs Processing Fee; 3% statistical tax; 9-10% advanced VAT; 10-24% excise tax |
| Brazil | 5-19% ² | 19% ² (M) | 0% | unknown ³ | 18% ICMS VAT; merchant marine tax 25% ocean freight charges; 2.2% syndicate fee; 1% warehouse tax; 3% port tax; various handling charges and state taxes. |
| Chile | 9% | 9%(C) | 9% | 0-20% | 18% VAT |
| Mexico | 10-20% | 10-15%(C) | 0-20% | 10% | 15% VAT; 0.8% handling charges |

*1/ VAT applied to the value of the medium plus the value of the content.
2/ An additional tax, the Industrial Products Tax (IPI), is assessed on the cif value of the goods: 15% on hardware, 0-15% on software. A temporary 0% duty rate exists for selected hardware products.
3/ Interest and royalties paid to non-residents are subject to a withholding tax of 25%.*

Other major logistics costs include customs handling and insurance. Depending upon the country, customs broker's fees may be levied as a flat fee of between \$25 and \$40 or as a percentage of the product's value ranging from 1% to 3%. In the case of insurance, most carriers provide up to \$100 of coverage without any additional fee, with additional protection in the range of 1% to 2% of the value of the shipment.

Prohibited goods

Restrictions on certain goods are imposed both by courier company policy, by the laws of the destination country and by the airlines that handle the cargo, if the courier does not operate its own transport fleet. Standard and country-specific prohibitions are shown in the tables below.

| Standard Prohibitions | |
|---|---|
| <ul style="list-style-type: none"> • Animal Products, Non-Domesticated • Articles of Unusual Value • Dangerous Goods • Firearms • Furs • Hazardous Materials • Live Animals • Personal Effects • Pornographic Materials • Unaccompanied Baggage | <p>The following commodities MAY be acceptable for transport if the stated conditions or circumstances are complied with or if there is a pre- arranged contract</p> <ul style="list-style-type: none"> • Alcoholic Beverages • Perishables • Plants • Seeds • Tobacco |

| Specific Prohibitions by Country | | |
|--|---|---|
| Mexico | Brazil | Argentina |
| <ul style="list-style-type: none"> • Antiques • Furs • Gambling devices • Ivory • Jewelry • Military equipment • Perishables • Playing cards • Precious metals & stones | <ul style="list-style-type: none"> • Used goods, except personal effects • Gambling devices • Ivory • Personal mail • Postal envelopes | <ul style="list-style-type: none"> • Cash letters (NI) • Checks, blank (NI) • Cotton seed • Fire extinguishers • Isopropanol • Ivory • Perishables |

The future for Latin American logistics companies

Wilhelm Althen, the former chairman of Lufthansa Cargo, describes the future of the Latin American logistics industry in these words: *"E-commerce will be the real revolution in our industry, the Internet changes everything. It will completely change the marketing and sales strategies. Distribution will never be the same again."*

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Latin America has only to look north to see how its logistics industry will change. The larger players, such as DHL, FedEx, TNT, UPS, and Airborne Express will continue to consolidate their industry as they develop on-line tracking and other value-added services that their IT-challenged competitors cannot provide.

The real competition will come in the race for predominance in digital B2B marketplaces, where buyers and sellers meet to buy and sell. The logistics firms that partner with online market sites generally enjoy quasi-monopolies for delivery of goods sold on those sites. Emerging dot-com couriers like quoteship.com, freightgate.com, rightfreight.com, gf-x.com, and bidcargo.com have taken the US by storm, capturing a substantial chunk of the online delivery market. These companies started as single mode, domestic operations, but they're sufficiently leveraged to go global. All of them have expansion plans for Latin America, considered home to about 7% of future B2B delivery traffic.

TransExpress provides a good example of how Latin American customers can get around the difficulty of receiving goods from the US. They are the leaders in the "International P.O. Boxes" market segment. This is a logistics model that permits a person or company to keep a permanent US address. TransExpress receives correspondence and packages at their Miami hub and then batch them for shipment to domestic hubs across the region. Once the shipment arrives at the hub, local firms handle delivery, and the customer avoids the hassles of import customs, import licenses and endless import paperwork. For consumers and small businesses, International P.O. Boxes greatly reduce the hassle factor, although this convenience does come at a cost.

The dilemma over how to deliver B2C purchases will inevitably drive some interesting solutions. Argentina's new privatized mail service will provide a wide network and competitive pricing. Peru is proposing to privatize its own system. Brazil is debating a diluted privatization scheme in congress. A PAN victory in Mexico may finally overhaul that country's dilapidated system. In Brazil, where many consumer goods are produced domestically, and the scale of e-commerce is much larger than elsewhere, courier companies will likely develop the same type of low-cost alternatives as they have in the US. If the major players don't move into this niche, the mid-sized players will do it.

In the end, e-commerce and logistics will probably enjoy a happy marriage but for now, they are reluctant spouses.

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