Unlocking Markets, Profitability
Thailand – A success story

Last Mile Fulfilment Asia
Singapore, March 3rd 2017
South East Asia is one region................. But

<table>
<thead>
<tr>
<th>Country</th>
<th>2016 (EUR mn)</th>
<th>2020 (EUR mn)</th>
<th>CAGR 2016-2020</th>
<th>Share of CoD (%)</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>1,162</td>
<td>3,551</td>
<td>+20%</td>
<td>40-50%</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,095</td>
<td>1,856</td>
<td>14%</td>
<td>20-30%</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>2,721</td>
<td>4,764</td>
<td>18%</td>
<td>20-30%</td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>896</td>
<td>2,060</td>
<td>23%</td>
<td>90-95%</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>628</td>
<td>1,003</td>
<td>18%</td>
<td>40-50%</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>558</td>
<td>1,004</td>
<td>16%</td>
<td>30-40%</td>
<td></td>
</tr>
</tbody>
</table>

Source: eCommerce market sizing (2014 and 2020 in EUR mn) and CAGR 2014-2020 from Euromonitor; Bain & Company "Can Southeast Asia Live Up to Its E-commerce Potential?"
Every country in SEA is different........very different

Don’t call me more than once before a delivery; I will reschedule a lot

Convenience is most important to me; I buy locally and internationally

I buy local and I buy on social media; Trust is not a major issue

Call me as many times as you wish to get my address right; but I will open the package before I pay

Brands are of high significance to me; I will buy if I like the brand or there is a massive deal

I prefer that you come during the day; I don’t like night deliveries
## Introduction - DHL eCommerce

**Deutsche Post DHL Group**

| 2015 Revenue €59+ Billion | 2015 EBIT €2.41 Billion |

### Post - eCommerce - Parcel (PeP)
- Leader in B2C e-commerce related logistics
- Largest network for parcel distribution worldwide
- Delivers 67 million mail items to 40 million households in Germany
- Present in over 15 countries in Asia with a workforce of >10k employees

### Express
- Cross-border express
- Presence in more than 220 countries
- Approx. 3,900 facilities
- > 250 aircrafts
- 36 hubs

### Global Forwarding – Freight
- World's number one air and ocean freight operator
- Specialist in industrial projects and end-to-end supply chain solutions

### Supply Chain Williams Lea
- Global market leader in contract logistics
- 22.8m square meters of warehouse space
- 2,500 facilities
DHL eCommerce offers solutions across the merchants’ e-commerce process chain

- Fulfillment
- Cross Border
- Last Mile Delivery
Introduction – Arun Mambully

Arun Mambully
Director, Operations
New Markets and Domestic Development
DHL eCommerce Asia Pacific

- Responsible to **build** domestic delivery in Asia Pacific
  - New countries
  - New technologies
  - New product features
- First on the ground in Thailand
- Project Manager for market entries
- Past experience in supply chain consulting for DHL Consulting – Automotive, Life Science, E-Commerce, Technology sectors
Unlocking Markets, Profitability
Learnings from DHL’s Business Strategy in Thailand

Unlocking Markets

Value Proposition & Project Learnings

Unlocking Profitability

Revenue \( \textit{minus} \) Cost = Profitability
Significant growth potential in Thailand E-commerce market.....

2nd
Largest E-commerce market in SEA with a size of EUR 1.1 billion

~2% of total retail sales

22%
annual market growth expected up to 2020

>10% of total 2024 retail sales

Expected to triple in size to EUR 3.6 billion by 2020

Source: eCommerce market sizing (2014 and 2020 in EUR mn) and CAGR 2014-2020 from Euromonitor; Bain & Company ,Can Southeast Asia Live Up to Its E-commerce Potential?’
Significant logistical challenges exist

<table>
<thead>
<tr>
<th>Issue</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unreliable transit time</td>
<td>Significant logistical challenges</td>
</tr>
<tr>
<td>En-Route Damages</td>
<td>Unreliable transit time</td>
</tr>
<tr>
<td>Complex administrative processes</td>
<td>En-Route Damages</td>
</tr>
<tr>
<td>Limited notifications</td>
<td>Complex administrative processes</td>
</tr>
<tr>
<td>Limited access to CoD</td>
<td>Limited notifications</td>
</tr>
<tr>
<td>Poor doorstep experience</td>
<td>Limited access to CoD</td>
</tr>
<tr>
<td>Difficult label generation</td>
<td>Poor doorstep experience</td>
</tr>
<tr>
<td>Limited data integrations</td>
<td>Difficult label generation</td>
</tr>
<tr>
<td>Lack of trust</td>
<td>Limited data integrations</td>
</tr>
</tbody>
</table>
The value proposition was designed to cater to consumers and merchants.

**Consumer Benefits – Improved Experience**

- Prompt and hassle-free notifications
- Parcels delivered on committed date
- Receive parcels with no damage
- Positive experience with qualified couriers
- Customer service with a human touch
- Get parcels anywhere in Thailand

**Merchant Benefits – Focus on Growth**

- Easy-to-use shipping portal
- Fast and reliable delivery of parcels
- Professional customer service
- Various seamless data integration options
- Transparent tracking of parcels and CoD
- Simplified back-office processes

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**Merchant Benefits**

- Focus on Growth
- Simplified back-office processes
- Various seamless data integration options
- Transparent tracking of parcels and CoD

**Consumer Benefits**

- Improved Experience
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**DHL**
A strong B2C focused offering was built from scratch

- **100%** Geographic coverage
- **3,222 m²** Sorting Hub
- **15 million** Shipments annually (capacity)
- **>50** facilities
- **>97%** delivery performance
- **>500** Experts
- **>400** vehicles

Public
Last Mile Market Entry Project
Top 2 learnings from every stage

Design
- Market research better with own teams
- Involve IT, Ops, and Finance from the start

Build
- Spend - build for the future
- Negotiate, Negotiate, Negotiate

Launch
- Hire well ahead of the curve
- Have your best people on the ground at launch

Shit will hit the fan
Current Status in DHL eCommerce Thailand

Rapid Volume Growth

No Compromise on Quality

- 1st Attempt Delivery: 91%
- 1st Attempt Made: >99%
- Successful Delivery: 97%
- Pickup Punctuality: >98%
- COD Return: < 3 days
- Return Rate: 3%
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Unlocking Markets

Value Proposition & Project Learnings

Unlocking Profitability

Revenue minus Cost = Profitability
Revenue Diversification - From B2C to C2C and B2B

What SME’s want
- 77% said logistics is a time-killer from core focus
- 33% want to grow outside Thailand
- Self-service in preparation and business reporting

What big companies say?
- Delivery reliability is most important
- Need requirements like documentation
- Want professional/ courteous deliverers

Source: DHL Survey
Cost Control and Management – First Wave is relatively easy

Typical Domestic Cost Structure

- 40-50% Last Mile
- 15-20% Hub
- 10-15% Depot
- 5-10% First Mile
- 5-10% Line Haul

First Wave of Cost Optimization – Steep Reduction

- Increase in volume
- Revision of incentive schemes
- Consolidation of vehicles
- Re-negotiation of rates
- Re-deployment of assets
- Changes to processes

Primary Levers
Cost Control and Management – Second Wave needs a lot of Work

Second wave requires a lot of discipline across every step of the process chain.
Strengthen Nationwide Network

- Less competition
- Higher revenue/parcel

30-35% High upcountry growth rate

- Low volume density
- Higher driving distances
- Poorer quality of labor
Unlocking Markets, Profitability

Summary

Unlocking Markets

• Design: X-functional Process
• Build: For the Future
• Launch: Invest in People

Unlocking Profitability

• Cost Management
• Revenue Diversification
• Network Expansion
“When people think of E-commerce we want them to think of DHL e-Commerce.”

We ‘Deliver the Smile in the Last Mile’