E-COMMERCE IMPACT ON THE WAREHOUSE MARKET IN POLAND

August 2015
## Introduction

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Retailing is forever engaged in the creation of new concepts to drive business; concepts that often sound somewhat exotic for the uninitiated. Look at the following ideas that have emerged in recent years:

- **Omnichannelling** – the use of all retail channels (offline and online);
- **M-commerce** – the conducting of transactions through wireless mobile devices;
- **Showrooming** – using shops as a place where customers are able to have a look at goods and order them online, in-store or remotely;
- **KEP services** – courier services, express mail and postal services;
- **Big Data and Smart Data** – in-depth customer analysis;
- **Generation Y and generation Z** – the generations born between the years 1984-95 and after 1995;
- **Click & collect** – shopping online and collection from a chosen location.

The terminology describes ideas that developed in the e-commerce industry and which are now strongly impacting the industrial and logistics services sector.

Poland is one of Europe’s leaders in the dynamic growth of the online shopping market, which between 2009 and 2014 grew 15-30% per annum. This trend is to continue in the coming years and subsequently will have a significant impact in both the retail and industrial property sectors.

And it is the latter segment that we will be analysing in this report entitled: **E-commerce. Impact on the warehouse market in Poland**.

Anna Staniszewska
Dyrektor, Head of Research and Consultancy, BNP Paribas Real Estate
E-commerce is one of the fastest developing sectors worldwide, significantly impacting retail and warehouse property markets.

Over the past several years e-commerce has been one of the key economic growth factors within the European Union, with the European Commission estimating a positive impact on employment of approximately two million jobs generated indirectly and directly by businesses in the e-commerce sector.

In the era of mobile and fixed-line internet and social media access, omnichannelling is becoming a tool providing greater opportunities for reaching the customer.

Poland has great potential for growth of the e-commerce market as demonstrated by the sales dynamics, which in 2013 reached a level of 22.8%, compared to the EU average of 14.7%.

The existing potential is made further apparent by the gap to be closed by Poland with other countries. Depending on the source of information, the e-commerce turnover in Poland is estimated at 2.5-4% of total sales. This remains far behind countries such as the UK (13.2%), Germany (10%) and Norway (9%). The Ministry of Economy estimates that by 2018 this share for Poland will increase to 9.0%.

The data provided by Ecommerce Europe shows that the average online shopping basket in Poland amounts to €539, which constitutes only 43% of the EU average of €1,243. This difference is also representative of the opportunity for growth in the sector, as access to broadband internet is increasing and the economic situation of the population is improving. This in turn translates into a dynamic increase of the number of people shopping online. 10 years ago it was only 3% of Poland’s population that shopped online, while in 2014 this ratio amounted to 24%. It is still less than the EU average of 41% and the values for the leading countries: the UK (72%), Denmark (66%), Sweden (62%) and Germany (61%).

“At the moment we are recording a share of between 15-30% in total sales. Taking into account investments in new solutions from the IT sector, and with an extended range of goods and services offered, we are estimating a 15% increase in sales. (...) Additionally, given that the e-commerce market is a market of continuous increase in sales that absorbs stationary retail outlets, we are expecting that within the next 3-4 years our e-commerce sales will reach a share of 60% in total sales.” — Jacek Archacki, Logistics Director, Polanglo

FACTS AND FIGURES

E-COMMERCE TURNOVER IN POLAND (PLN billion)

GROWTH OF RETAIL SALES IN POLAND

Source: PBI

Source: POHiD

“F- forecast

10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
-20.0%
The high demand for goods and services sold on the Internet is seeing the number of registered online shops in Poland continue to grow year by year. However, IAB Polska report: *E-commerce in small and medium-sized Polish enterprises*, indicates that the majority of businesses in Poland are made up of micro-enterprises (up to 9 staff), the share of which amounted to 89%. Small enterprises (between 10 and 49 staff) constituted 8%, while medium-sized ones (between 50-249 staff) amounted to 3%.

Nonetheless, the issue here is the length of time they remain operational, as many businesses do not withstand competition and disappear quickly. According to IAB Polska, 43% of online shops are businesses operating for between 2 and 5 years.

One problem seems to be the international expansion barrier. Transborder trade for small Polish online shops continues to be expensive, while competition from the international multi-chain platforms is strong.

In addition to businesses operating exclusively online, numerous stationary and mail-order stores offer the option to shop online. Many renowned brands are already present online, while others declared their intent to open an online shops soon. Furthermore, omnichannel distribution, m-commerce and showrooming are all growing in significance.

“I am of the opinion that in spite of two-digit year-over-year increases, this continues to be a market that has a small share in total retail sales, however, due to the entry onto the consumer market of the 90s and early 21st century generation, we will be dealing with gradual levelling off of the disparities between the Western markets and Poland, which means that we are now facing a ‘golden era’ for this type of trade.” — Adam Pawelczak, e-commerce expert

“A positive trend that can be observed now, in particular as far as the younger Polish generation is concerned, is the willingness to shop online. There continues to be a great growth potential. Your statistical Kowalski makes approx. 2 online purchases per annum, while your statistical Smith makes 10 times more of them. Greater trust and openness in respect of this format of shopping allows new businesses to emerge on the e-commerce market.” — Wojciech Wytrykowski, Business Development Director, Tba Express

“The characteristic typical of our native e-commerce is still its local nature and orientation to trade on the domestic market. Our market is, no doubt, evolving and at the moment more and more Polish companies are intending to market their goods and services on foreign markets. The main directions are, of course, Germany, the Czech Republic and Slovakia.” — Zbigniew Gawęda, Business Development Manager, FIEGE

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### EVOLUTION OF SALES CHANNELS

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<td>• Catalogue</td>
<td>• Call centre</td>
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<td>• In-store</td>
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<td>• Post office</td>
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<td>• Home delivery</td>
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<td>• Parcel centre / pick-up locations</td>
<td>• Pick-up from the warehouse</td>
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**TRADITIONAL BRICKS AND MORTAR RETAIL (1990-2004)**

- In-store
- Catalogue
- Call centre

**ONLINE/CROSS CHANNEL RETAIL (2005-2009)**

- In-store
- Call centre
- Catalogue
- Computer / laptop

**OMNI-CHANNEL RETAIL (2010-OBECNIE)**

- In-store
- Catalogue / call centre
- Computer / laptop
- Mobile phone
- Social media
- E-kiosks
- QR codes

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**Shopping methods**

- In-store
- Catalogue
- Call centre

**Methods of receiving goods**

- In-store
- Post office
- Home delivery
- Parcel centre / pick-up locations
- Pick-up from the warehouse directly
The traditional TSL industry (transport, shipping and logistics) and the CEP sector (courier services, express mail and postal services) have to meet the ever-growing requirements of online shops and shopping platforms, which in turn respond to the demands from customers. Logistics services, next to having an advanced and user-friendly IT platform in place, are the most complex and demanding operational processes as far as e-commerce is concerned.

The survey conducted among the largest logistics operators, courier companies and online stores shows that the following criteria are taken into consideration when deciding on the warehouse servicing e-commerce sector:

- **Location** – well connected, enabling short delivery time
- **Flexibility of warehouse space occupied** – adjusted to demand fluctuations as well as different assortment of goods distributed
- **Full range of logistics services** – to be provided
- **Availability and low cost of labour** – in place
- **Price** – a derivative of location, quality of space as well as range and standard of services provided

The key challenge here is to remain flexible. An online shop should be prepared to swiftly change the selection of goods and services offered and react to changes in operating procedures.

An equally important issue is business scalability, which means the ability to handle sales peaks (standard e-sales increases, special offers, holiday season), as well as the matching of warehouse infrastructure to variable stock levels.

The third aspect is quality, with the ability to process orders in a timely manner (irrespective of the volume of orders) and with the ability to package orders correctly.

The last challenge is suitable price, on which it is possible to optimize business operating costs.

“There are numerous factors that e-commerce customers take into consideration when choosing a specific location. Starting with fully objective factors that include the main dispatch directions (Poland, foreign markets, key local markets), shorter lead time, e.g. access to ‘same-day’ services and available road infrastructure, through to subjective criteria, e.g. distance to the current warehouse or company headquarters. The characteristic feature of the e-commerce industry is the occurrence of strong seasonal fluctuations, high market and sales growth that frequently exceeds 40% per annum. This forces the operator to ensure that there is appropriate infrastructure in place, as well as to provide tools for process optimization and select locations that enable acquiring more space to meet the growing demand from the customers.” — Zbigniew Gawęda, Business Development Manager, FIEGE

“When handing over the logistics aspects of your operations to a third-party provider, the key factors affecting your decision are, in my opinion:

- technical specification: combining IT systems that enable direct cooperation on sales and distribution levels (combining ERP with WMS);
- balancing of costs relating to the third-party services;
- the profitability factor is naturally the main driver;
- time needed for the third-party provider to process an order.

We are now witnessing increased interest on customer side in order processing time.” — Jacek Archacki, Logistics Director, Polanglo

“From our point of view, the most important factors that have an impact as far as selection of a warehouse is concerned, are the workforce, as well as road and technical infrastructure.” — Stefan van Hoof, Managing Director, Doc Data

**IMPACT OF E-COMMERCE ON THE WAREHOUSE SECTOR**

Development of e-commerce in Poland is not only lucrative for retailers but is also a positive spur for the logistics sector.
“The selection of a particular warehouse location is only to a small degree dependent on the infrastructure maintenance costs. The decision on commencing the operations of a distribution centre in a specific location is to a large extent driven by accessibility to the company’s key customer. In certain cases this may be e.g. a short transit time to EU countries, while in others it will be the expectation of individual customers in Poland, e.g. the same-day delivery service.

When examining the changes that are currently taking place at the meeting point between warehouse logistics and courier services in European countries, particularly the UK, as well as the USA, there is a clear trend to depart from the so-called central warehouse model with only one distribution centre. Therefore, logistics companies are striving to match their services to customer expectations and put into practice the slogan “being close to your customers”. A significant factor when selecting a logistics operator is the operator’s ability to quickly adjust to the changes occurring. This refers to both technical aspects such as the warehouse management system, as well as handling the product, e.g. custom packaging of the product, time that lapses from the moment of placement of the order to collection of the parcel by the courier. Additionally, the one constant always valued by customers is the ability to contact the operator personally.” — Wojciech Wytrykowski, Business Development Director, Tba Express
KEY TYPES OF SUPPLY CHAIN

TRADITIONAL (IN-STORE)

- Linear product line from manufacturer / supplier to customer

COMBINED OR DEDICATED APPROACH (E-COMMERCE AND IN-STORE)

- One single DC servicing both e-commerce and in-store platforms; single delivery point from DC to customer
- 2 regional DCs, one dedicated to e-commerce and one for in-store replenishment
- Single delivery point from DC to customer

BLENDED APPROACH (E-COMMERCE)

- Either a single “combination” warehouse or 2 regional DCs (one dedicated to e-commerce and one for in-store replenishment)
- Multiple delivery points for the consumer
As the estimates, e-commerce is generating 10-15% of the total annual demand for modern industrial space. BNP Paribas Real Estate estimates that over a medium-term perspective the share of this sector will increase to 20%. Nevertheless, it has to be stressed that this share does not take into consideration space leased by companies from the 3PL sector, in particular companies providing CEP offering, which frequently provide their services to online shops.

Furthermore, the share of tenants from the e-commerce sector does not take into consideration space leased by retail chains, which often operate within the omnichannel distribution format.

Packages dispatched and delivered as part of e-commerce operations have parameters different to the TSL model (transport, shipping and logistics). According to a CEP market research report prepared for PP S.A. by ARC Rynek i Opinia, the predominant weight for packages dispatched by online shops is between 1-5 kg (43%).

All the above elements affect the size, type, location, standard and range of additional services provided to online shops.

“(…) As we all remember, not so long ago the B2C service was not particularly welcomed in the portfolio of services offered by courier companies due to the high costs involved; today virtually all courier companies are planning their budgets with an individual customer in mind and are significantly increasing his share and role played in achieving their business objectives. However, global players such as UPS, DHL and FEDEX are providing a simple next-day delivery service. In our opinion, over the coming 2-3 years, the market will force and lead to significant divisions on the logistics scene. There are new operators emerging all the time that specialize in providing services to the e-commerce sector and deliveries to the individual customer. It is worth noting here that the changes may have a positive impact on the profitability of the courier services industry. Clients are now ready to accept premium prices that are 20-40% higher than the standard next-day delivery prices simply for the reason that they have a guarantee that the delivery will be carried out within few hours or in the evening when the customer returns home.” — Wojciech Wytrykowski, Business Development Director, Tba Express

“Our customers have the choice of express and economy deliveries with guaranteed delivery times. Additionally, we are providing the option to deliver particularly heavy or unusual goods, monitor the delivery status online and use postal services via mobile applications and text messages. This is furthermore supplemented by banking and insurance products necessary to operate a small e-commerce business. Entrepreneurs are able to use a postal company account and a current account, as well as apply for a credit facility and traditional loans. Moreover, Poczta Polska offers insurance for offices and the goods purchased. We are also developing our digital services.” — Marek Cynowski, E-Commerce Manager, Poczta Polska SA
Therefore, the preferred locations include Central Poland together with the Warsaw area, as well as Upper and Lower Silesia.

In addition to the above, six logistics specialists name Szczecin, which as a result of its efficient links with Germany and the Scandinavian countries, may become more attractive in the future for shops providing services in this region.

“We are currently using the services of only one logistics centre – located in the Poznań area. Our decision in this respect was dictated by pricing terms and the distance from the central warehouse (located in Stupsk), which in turn has an impact on the cost of transporting our footwear along the Stupsk – Poznań route. The distance from the potential customer markets domestically did not play a role here, as we are operating on the basis of a fixed rate per each dispatched package up to a certain weight irrespective of the region in Poland that it is being dispatched to. Naturally, our decision to choose this logistics centre was also based on the very good reputation enjoyed by it.” — Jolanta Bytomska, Head of Logistics, Gino Rossi

“The distance from the potential customer market is the key criterion when optimizing the flow of goods. In certain cases, however this is now less and less common, the ability to deliver the goods to the client within 24 hours of placing the order is also taken into consideration. Nonetheless, this is now of lesser significance. It usually means that additional distribution centres are needed that would provide their services to the particular areas (or the so-called cross docks). The 24-hour delivery factor could be of relatively greater consequence in respect of e-commerce, but it seems to me that companies will be now competing through providing quality of goods and services, as opposed to the speed of delivery.” — Roman Moczyróg, General Manager, HOPI

“If we are looking at an e-commerce project of national reach, the unquestionable leader here is the central region (starting with the Warsaw area through to Łódź). If looking at a project of European reach, then the leader here is the south-west Poland (Upper and Lower Silesia) – this is the location that provides easy access to the neighbouring countries and the European motorway network.” — Paweł Rzepka, Production and Logistics Director, Delta Trans Group

“The potential locations for erection of logistics centres include first and foremost: Stryków, the immediate surroundings of Warsaw, as well as Upper and Lower Silesia.” — Adam Pawelczak, e-commerce expert

“The market with the most prospects is Central Poland, which due to its attractive location offers the best delivery times to all customers across the country.” — Stefan van Hoof, Managing Director, Doc Data
E-commerce being one of the main driving forces for the warehouse market development in Poland, is still difficult to be analyzed and quantified. However, our experience in cooperation with number of companies within the e-commerce sector, allows us to fully understand coming changes and to take a view from the wider perspective. By noting the specific nature of the local markets, we take advantage of our knowledge of trends on global markets.

Currently the opportunities generated by retail chains within e-commerce deserve special attention. The biggest players have already done the first step towards e-commerce development, not only providing their clients with the possibility of the internet shopping, but also opening regional warehouses for local markets and implementing one-day delivery services.

Aside from preparing detailed market analysis, understanding specific needs of logistic players and their e-commerce clients is always an inseparable part of our work. We treat new projects assuming possible dynamic development of the sector.

Taking under consideration the Polish market and its specific conditions, which are attracting the biggest international investors and at the same time enabling continuous and stable growth of local players, we find e-commerce as one of the most interesting areas of logistic market.
Opinions and forecasts presented by the stakeholders connected with the sector signal inevitable changes that will occur.

The key trends to consider include:

**CHOICE OF A SUITABLE LOCATION**

The fundamental rule of the property market: location, location, location is also valid for e-commerce. Warehouses servicing e-stores are and will be located in the optimum distance to the serviced areas (focus on quick delivery time).

These are the best regional distribution centres when considering transport accessibility. They will be complemented by small business units (SBUs) located in-town that will play a greater role as these schemes could swiftly serve customers living within large agglomerations.

**OPERATIONAL AND COST OPTIMISATION**

A warehouse servicing e-commerce orders must be able to receive bulk goods from producer or distributor, but at the same time it has to provide sorting and dispatching of smaller parcels to individual customers. The perfect solution is a cross-dock facility, where inbound goods are sorted, consolidated, and stored until the outbound shipment is complete and ready to ship. There is no need to carry the cost of storing goods. Such a solution also enables quick handling of orders.

Considering the highly competitive e-commerce market, apart from quality of offer and marketing of goods, handling of returns, additional services and post-service offer is equally important. This is also a challenge of warehouses, logistic operators and courier companies. Returns, along with other e-commerce related services such as labelling, invoicing, order personalization, generate additional requirements. They require modern technology, software as well as increased employment that in turn should be reflected in the technical specification of warehouse, which should be designed accordingly.

Transport plays an instrumental role in e-commerce. This is why warehouses targeting e-commerce should focus on that subject by allowing servicing both by large trucks as well as smaller vans and scooters.

Lease costs along with the level of service standard are also pivotal for e-commerce. Therefore many internet stores and platforms decide to cooperate with specialized 3PL and courier companies. When analyzing the services provided, the vast majority of key players have a dedicated line of services focused on e-commerce, starting from preparing orders, packaging, storing, handling of returns, throughout invoicing management, client handling and software management.

By outsourcing the whole logistic process for e-stores, the cost may turn much lower than if done on its own, allowing companies to concentrate on the core business of selling of goods and services.

**FLEXIBILITY**

Unlike traditional retail chain stores, whose demand for warehouse space is relatively predictable, e-commerce requires much more flexibility. The range of goods as well as number of customers and place of delivery may vary significantly. Therefore it is extremely important to adapt warehouse space to changing demand, encouraging landlords to be flexible with the space actually occupied by e-stores, for example, in peak times such as pre-Christmas rush.

Flexibility of warehouse space for e-commerce will be further enhanced through automation of processes and use of modern technologies to identify, sort, personalise, package or track orders.

Furthermore, the omnichannel way of selling goods forces retailers to monitor closely the stocks both at point of sales as well as in warehouses. This in turn influences demand for
warehouses. Big data, Smart data and data mining allows the optimum logistic flow of goods and proper use of space.

Since a warehouse facility handling e-commerce requires more employment than the regular one, it is necessary to provide optimum social work solutions and amenities. This includes break-out areas, changing rooms, canteen, bike racks or additional parking places.

Multi-shifts and pressure to handle orders quickly requires flexibility when it comes to accessing the warehouse. As much as it does not refer too much to regional distribution centres, located out of the agglomerations, it does concern SBU (small business units) within towns and cities, which may generate increased noise and traffic, thus negative impact on the neighbourhood.

Multimodal transport solutions are not popular yet in Poland, but they are likely to gain on importance in the foreseeable future. Warehouses located at a multimodal transport hub, combining road, sea and rail transport may have competitive advantage over a solely road-transport depend ones.

When providing e-commerce dedicated facilities all of the above factors should be taken into consideration. E-commerce is here to stay changing retail supply chains and warehouse property market. In order to gain maximum benefits resulting from e-commerce and explore its potential, companies involved in this business should understand these trends and adopt to the changing landscape of logistics.
CONTACTS

Patrick Delcol
Chief Executive Officer
Central & Eastern Europe
patrick.delcol@bnpparibas.com

Katarzyna Pyś-Fabiańczyk
Head of Industrial & Logistics Department
katarzyna.pyś-fabianczyk@bnpparibas.com

Martyna Kajka
Junior Consultant
Industrial & Logistics Department
martyna.kajka@bnpparibas.com

Tomasz Gnich
Assistant
Industrial & Logistics Department
tomasz.gnich@bnpparibas.com

Anna Staniszewska
Head of Research & Consultancy
Central & Eastern Europe
anna.staniszewska@bnpparibas.com

John Palmer FRICS SIOR
Director, Industrial Investments & Valuations, Central & Eastern Europe
john.palmer@bnpparibas.com