EXPRESS DELIVERY SERVICES IN EUROPE

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INTRODUCTION

Financed from the resources of the French Department of Planning and French Ministry for Infrastructure, Housing, Transport and Space, EUROTRANS Club conducted a collective research on the strategies employed by **European express delivery services.** It covers five European countries, France, Germany, Italy, Netherlands and Spain, and confirms that, in this subsector of the goods transport industry, the trends generally affecting the whole of transport are particularly clear to see.

Throughout Europe, and beyond, far-reaching changes are taking place in the carriage of goods. The most lively expansion in the freight markets is in express delivery services. **Demand for rapid transport streams** is growing throughout the economy and, on the **supply side of express deliveries,** completely new techniques, forms of organization and services are being established. New operators are setting up in Europe, traditional demarcations between occupations are disappearing, new strategies are being developed as part of the intensive restructuring taking place in the European area and all this means stiff competition between businesses.

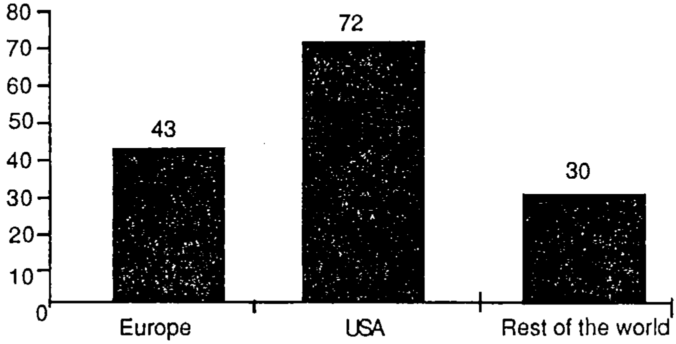
1. WHAT IS AN EXPRESS DELIVERY SERVICE ?

The tag "express" is becoming quite current in the world of freight forwarding. It describes the type of service where the **emphasis is on the time** taken to forward items, and on flexibility and releability, rather than on the usual criteria of productivity and cost.

The concept of "express" is **relative** and is defined by comparison with "normal" transport services, be these postal, conventional delivery services or groupage. The delivery times for documents, which are light, have no commercial value and can therefore be carried by air and given faster customs processing, for parcels and for freight differ. For items in envelopes customers demand delivery within a few hours in a big city or between two airports. Within national territory items collected on the evening of day A have to be distributed on the morning of day B. On the international scale 24, 48, 72 or 96 hours must be allowed for the most distant destinations but the European conurbations and New York can be linked by a "night hop"...

Express delivery services are developing rapidly even if the United States, where this type of transport began, still accounts for half the world market. Express delivery activities in Europe (currently 30 % of the world total) will expand even further with the full establishment of the single market.

World market for express delivery services (1990, FF thousand million)



Source : Chronopost

The three main criteria used for the diagrammatic representation of the supply and demand of express services and the segmentation of the markets are the **time** taken, the **distance** covered and the **weight** (and dimensions) of the items. Whilst time taken is more or less the same for all operators (although it still has to be adhered to and guaranteed), weight (where a distinction is made between documents, packages and freight) and distance (whether the traffic is regional, national or international) determine the nine main segments, as can be seen from the French example below.

Express delivery services
Segmentation of the French market in terms of value (%) 1988

	regional	national	international	total
documents	2	6	6	14
parcels	26	37	6	69
freight	3	12	2	17
total	31	55	14	100

Source : Chronopost

At the moment the national, and even the regional, markets are much larger than the international one. Where items are concerned, parcels are sent much more frequently than documents. The main area of competition for a large share of the market is therefore over the ability to cover the geographical area and send large objects. But courier services between large conurbations in Europe and internationally, a form of traffic which uses very different equipment and transport techniques than those used in overland delivery services, are developing even faster.

2. DEMAND FOR EXPRESS SERVICES

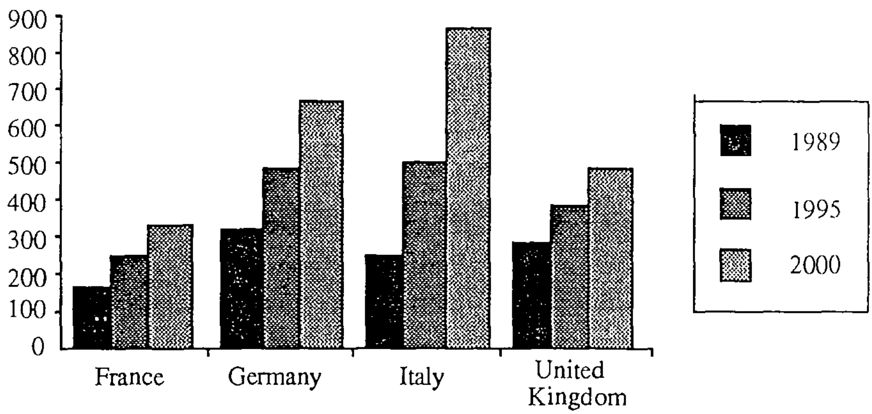
The **demand** for express deliveries is part of a more general demand for **faster transport streams** which is increasing with the spread of manufacturing and distribution methods bases on holding small stocks (demand-let managements, just in time, etc.).

Whereas products with a high specific value and perishable products are the main items sent by fast stream, **all economic sectors**, from the most "high tech" to the most traditional, use the services at **every stage of production**, i.e. to obtain supplies, in manufacture, distribution and after-sales services (where many urgently required spare parts are sent by special delivery), not to mention all the peripheral traffic arising out of research, prototypes, machine maintenance, samples and publicity or commercial documents, etc. Tertiary sector services, such as banks, make massive use of express delivery. In others it is reserved for one-off or emergency consignments, for dealing with situations where there is a danger of disruption, a breakdown in production or loss of sales.

Depending on the nature of the goods, i.e. whether they are bulky or split up, whether they are one-off or regular consignments, various organizations are used for rapid forwarding. The latter range from services **fully integrated** into an industrial or commercial undertaking, such as shuttles linking the undertaking's various establishments several times a day, to **external providers** of services which are specialized to a greater or lesser degree. The express service is therefore seen as a matter of producing fast transport streams which are horizontal to the individual pathways of the many customers of special delivery services, of aggregating the widely scattered or irregular streams provided by such delivery services and thereby achieving transport costs that are lower than those for exclusive, specially tailored services.

Growth prospects for express delivery services are very good everywhere as, in Europe as a whole, they are expected to roughly double between now and the year 2000.

Market forecasts for papers and parcels in 1995 and 2000 (million consignments)



Source : Prognos

3. THE SUPPLY SIDE OF EXPRESS DELIVERY SERVICES

This major innovation has come from the United States where, since the seventies, **Federal Express** has built up an **original network** based on the integration of the entire forwarding chain (hence the fact that this type of operator is called an **integrator**), systematic carriage by **air** (except for the terminal pick-up and delivery sections which are by road), a star-shaped plan of transport routes with all sorting done at the **hub** in Memphis, computer **tracking** of each item and a flat-rate charge. Fedex entered into competition at the same time in several markets which had till then been separate, i.e. road parcel delivery, Post Office and air freight services, thereby forcing those operators to redeploy their resources and redefine their services (i.e. themselves become integrators) or become part of a more powerful group.

From a strong base in terms of experience and financial reserves built up in this remunerative market, the American integrators (DHL, UPS, Fedex) and the Australian integrator (TNT) have been trying for several years to establish their system in **Europe**. They have been hindered by the political and geographical fragmentation, the efficiency of road transport over many distances and the strength of solidly established **national networks** capable of mounting a counter-offensive (the Post Offices, road delivery services, subsidiaries of the railway undertakings, airlines and the big multi-modal transit undertakings).

The result is that the **market is split up** very differently for domestic and international links. The smaller and densely populated countries of northern Europe are easier to serve than the bigger territories of France, Italy or Spain. The integrators have not as yet really tackled the French domestic market (and to do so will try to take over a French network), whereas they are already among the main domestic operators in the United Kingdom, the Netherlands, Germany and Italy. But Transoflex and DPD in Germany, SEUR in Spain, Danzas, Calberson, France Express and SERNAM in France, not to mention the Post Offices and their specialist subsidiaries, are holding their own in their respective national markets and follow patterns which differ from one country to the next.

For the moment, the Europe of express delivery services essentially means the juxtaposition of diverse national systems which maintain communication with each other via a few connecting bridges. Will this **diversity** be maintained or will economic integration, the single market and the intensive development of intra-European trade flows create a single European express delivery system ?

4. PROSPECTS AND STRATEGIES

The expected growth in demand suggests that express delivery services are a **promising market**. Large-scale operators are investing heavily in both air transport equipment and data processing systems and in developing their network of agencies. Several of them are accepting losses which they hope will be temporary and looking to future profits from the markets they have already conquered. All consider that a drastic **concentration** of the sector is likely and that it will be precipitated by the imminently expected price war. Each operator expects to be among the survivors or to sell up at a profit.

In all this diversity **two main strategies** are emerging, namely the "from the top down" and the "from the bottom up" strategies. The choice of each undertaking depends on its point of departure, i.e. its technical background, its network of bases and its financial capacity.

The first strategy (**from the top down**) is the one used by the integrators who, working on a continent-wide plan set out with the aim of establishing a Europe-wide system (accepting that any obstacles they encounter and the different contexts in which they operate will make them adjust their organization on a country by country basis). Once they have the rough outline of the network in place they try to fill it in on a country basis through internal or external growth.

The second strategy (**from the bottom up**) is that of the national operators who, whether they were orignally transit undertakings, road or rail operators, airlines or postal subsidiaries, try to extend their networks beyond their original area. They expand by means of internal growth, by buying up existing businesses or by forming local partnerships, involving various more or less integrated forms of cooperation.

It is not necessarily the case that these two opposite approaches, the **densification** of a loosely meshed network and the **extension** of a dense network will result in a homogenous structure. There are other possibilities which will help maintain the **variety of supply**. Should we :

- promote any particular **transport techniques** (the competition between road, rail,air transport and the many multi-modal combinations has not been decided once and for all on all links) ?
- adopt a decentralized, flexible and densely-meshed pattern of transport **routes** or the star plan based on a single sorting centre ?
- offer a wide range of **times** taken to deliver items, an even more rapid and more expensive "super-express" system or one that is less fast but cheaper ?
- diversify the range **of weights and dimensions**, with mail specialists spreading into freight and vice-versa ?
- add extra more or less complicated **services** to the basic transport service, including the taking over of the consignors' commercial or even industrial logistical services ?
- supply a service geared to a family of products, search out a competitive niche, go for economies of scale through **specialization** or, on the contrary, place the emphasis on **wide range** and the ability to handle several types of streams, regardless of whether any economies of scope emerge ?
- finally, what would be the most efficient **forms of growth** - buying businesses (which would be rapid from the point of view of financing but would take longer from the point of view of efficient technical integration), creating new subsidiaries or forming partnerships ?

The answers to these questions are less than clear since not all the actors in the world of transport have yet made their choice. Some of the railway undertakings, the Post Offices and the European airlines are hesitant about entering the new, but highly disputed, market and about forming the now indispensable inter-modal and international alliances. In addition, Central and Eastern Europe still represent almost virgin territory and here the most entreprenneurial of the undertakings are already staking out their claims.

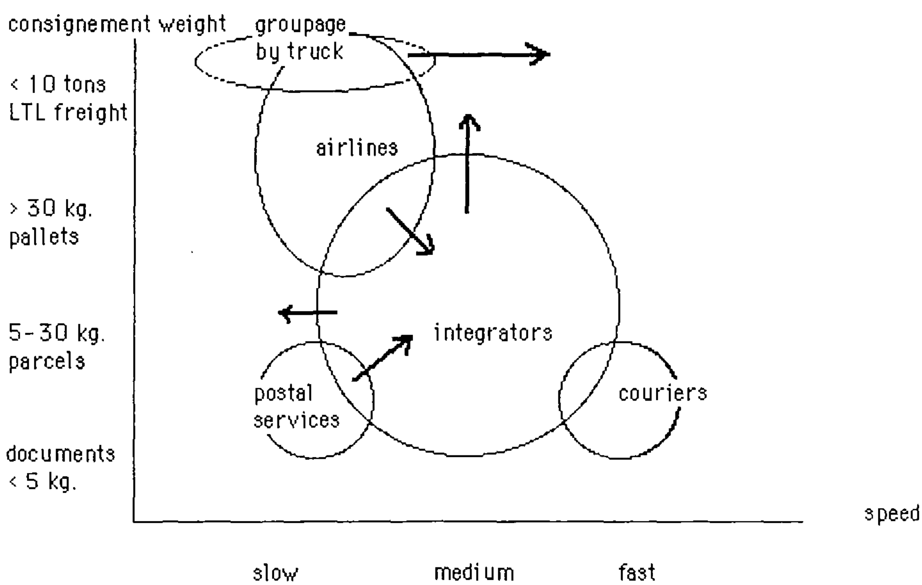
Unification of the European market will therefore probably not mean uniform national and international express delivery systems.

For a long time to come industrialists, businessmen and transport operators will still have to have the skill and knowledge to **manage diversity**.

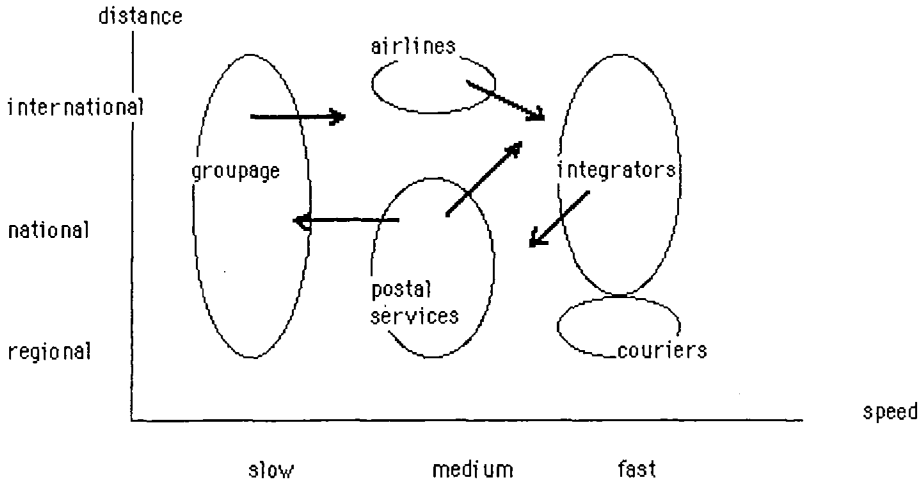
The role of national and Community **politics**, whether in relation to the techniques, the social or the tax aspects of transport, should not be underestimated. For instance, what will be the scope of the **infrastructure** programmes that have yet to be decided ? And will **congestion**, which will probably get worse, hold up the development of express delivery services or represent a boost and therefore bring about further expansion aimed at by-passing the delays and uncertainties of "normal" transport methods ?

Whatever happens, we may expect a complete **rearrangement of occupations** in the world of transport. A recent study on express delivery services drew attention to a band around the outside edge of transport where occupations merge but also compete. Are we not, rather, approaching a period when there will be a much more lively "war of movement" in which all the actors have to redefine themselves and which will be comparable to the period following deregulation of, and the arrival of Federal Express on, the American market ?

Changes in the express deliveries markets and occupations (time taken, weights)



Changes in the express deliveries markets and occupations (time taken, distance)



The extreme nature of express delivery services, which justifies the development of expensive and innovative techniques, undoubtedly makes this the high tech end of the freight sector, i.e. the most advanced area, in which solutions are sought and from which they will later spread into a larger area of transport activities. It would therefore seem particularly desirable to observe changes in businesses, the express delivery market and other fast stream organizations in order to obtain more information on technical and economic matters which are basic to an understanding of transport in Europe and the related policy problems.

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