



Press Release

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European parcels market: price pressure eclipses growth through internet trade

A.T. Kearney study investigates the future of the European market for courier, express and parcel (CEP) services – oil price rise costs global transport industry up to US\$ 350 billion

After several years of strong sales growth for courier, express and parcel (CEP) services, in the coming years the figures in Europe are expected to slip back. Average annual growth in revenues in international CEP markets, for example, will decline from 8.6 percent today to 6.6 percent in 2010. The almost constant growth in transport volume resulting from steadily rising internet trade is being eclipsed by considerable price pressure. This is one of the conclusions from the latest study conducted by the top management consultancy A.T. Kearney. Transport costs are being driven ever higher by the rising price of oil, and this could lead to a significant shift in the choice of means of transport in future. Although costs are rising, for highly time-critical goods such as express parcels there will be no alternative to air transport even in years to come. CEP providers need to tighten up their own market positioning and service provision profile and compensate for price pressure and increases in factor costs through strict cost management. The key challenges are the pressure to differentiate, the expansion of international networks, zonal pricing, closed supply chains and continuing consolidation.

“In 2007 a total of 4.8 billion network-capable parcel and express shipments were dispatched in Europe (EU 16), bringing in revenues of €42.7 billion. This approximates to five percent of the total European logistics market, which is considered a key growth segment in the European economy”, says Ferdinand Salehi, partner and Head of Travel & Transportation at A.T. Kearney: “All in all the average growth in revenues achieved in the period 2004 to 2007 was 5.7 percent. Within this, revenue growth in the international markets – favoured by globalisation – was almost twice as high, at 8.6 percent, as that in national markets.”

While express services account for a share of only about 30 percent of the market in the domestic sector, on average they grew considerably more strongly than standard services (6.6 percent compared to 3.7 percent). Internationally, the trend is precisely reversed: the previously dominant express segment (60 percent market share) is if anything on the retreat, with 7.8 percent compared to 9.7 percent for standard services. The reason behind this is the distinct improvement in the quality and speed of international standard services, which in the long term could make international express shipment obsolete in many sectors.

Impacts of the high oil price on the global transport industry

For highly time-critical goods such as express parcels or spare parts, but also for high-value moisture-sensitive goods, there will still be no alternative to air transport in the future. Nevertheless, in the short and medium term opportunities to benefit from this within Europe will be available to service providers who build on a good road network, as in this case fuel costs are a considerably less weighty factor than in air transport.

If fuel costs continue to rise, however, less time-critical goods could be switched from air carriage to sea freight. Textiles, for example, account for a not inconsiderable 13 percent of all air freight from Asia to Europe, and about 20 percent of that from Asia to the USA. For time-critical and price-sensitive products it may become essential to relocate production, because fuel costs can account for up to 50 percent of manufacturing costs. For shorter transport routes, within Germany for example, there can be expected to be a greater shift from road transport to the well-developed inland waterways system over the long term. Increased use will be made of railways, too. More intelligent integration of product flows in overland transport will continue to be necessary. The utilisation rates of trucks leave further room for optimisation.

European CEP markets growing at widely differing rates

The rates of growth in the 16 EU countries are vary greatly. The Eastern European growth markets for example (such as Poland and the Czech Republic) were able to achieve extremely high growth of 15 to 25 percent in the CEP market too, which can be attributed above all to structural effects such as the outsourcing of internal transport or the deconsolidation of part-load consignments, in addition to generally strong economic development.

In the saturated markets of Western Europe on the other hand, such as France, the United Kingdom and Germany, revenue growth was notably more moderate at four to six percent.

The future of the European CEP market

“In all segments apart from standard domestic business, however, it can be assumed that there will be a noticeable decline in revenue growth in future”, says the author of the study, Dr. Walter Maderner from A.T. Kearney: “This will affect the express sector in particular, where there appear to be no more new growth impulses in future for its previous growth driver, international shipment. Furthermore there is expected to be considerable price erosion, especially in intra-European trade, because in the wake of disappearing European borders it will be difficult for CEP service providers to maintain widely differing prices for domestic and international services over identical distances.”

For the future, A.T. Kearney’s experts forecast that there will be five key drivers associated with significant structural changes in the CEP market: internet trade (eCommerce), pressure to differentiate in the express segment, expansion of international networks and zonal pricing, and closed supply chains.

Moreover, the consolidation of European market players, which is mainly being driven by network realignments and territorial expansion, will also continue to advance as a whole throughout Europe in the coming years. Nevertheless, consolidation varies from country to country. While there is every likelihood of consolidation tendencies persisting in heavily fragmented countries, i.e. Spain, the United Kingdom and Italy, in the major markets of Germany and France, where the

former national postal operators still occupy a significant position, and in many smaller markets this tends not to be the case. Furthermore A.T. Kearney's experts expect to see express and standard services inexorably growing closer together in the saturated markets.

“In addition to the operational success factors of good network utilisation and high operational quality there are four vital market-side factors that are key to providers achieving sustainably successful positioning on the market”, explains the author, Dr. Walter Maderner from A.T. Kearney: “These are excellence at the customer interface, focussing on operational strengths, the issue of convenience, and the topic of sustainability, which is becoming more and more important – for CEP providers especially in terms of the relevant environmental regulations. In this regard, given the great significance of road and air networks, it is high time for the parcels industry to think about possible alternatives in order to be equipped for the more distant future.”

CEP future is riddled with challenges

“European CEP providers are currently operating in an extremely dynamic market environment”, says Salehi: “They will no longer be able to sit back and rely on the steady growth figures that the market has seen in recent years – the pressure of rising prices will be too great. Coming to terms with this through strict cost management in the face of simultaneous rises in factor costs while concurrently tightening up their own market positioning and service provision profile in line with respective national requirements will become a central strategic task for European CEP providers.”

A.T. Kearney CEP market study Europe 2008

The latest A.T. Kearney CEP market study centres on an investigation of all network-capable standard and express services in 16 countries of the pan-European CEP market for the period 2004 to 2010. The focus is directed at national and international consignments of up to 1,000 kg, broken down according to domestic and international services and express and parcels business. The study is based on interviews with over 400 CEP service providers, industry experts and large B2B parcel customers.

About A.T. Kearney

A.T. Kearney is a global strategic management consulting firm known for helping clients gain lasting results through a unique combination of strategic insight and collaborative working style. The firm was established in 1926 to provide management advice concerning issues on the CEO's agenda. Today, we serve the largest global clients in all major industries. A.T. Kearney's offices are located in major business centers in 33 countries.

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