Global Express and Small Parcels Report 2017 - Sample

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Disruption and Innovation in the Express and Parcels Sector

The express parcels industry has undergone a major transformation over the past ten years. In the early 2000s, when Ti published its first Global Express parcels report, the e-tailing revolution was in its infancy. It was far from certain that many of the major express players, such as UPS, FedEx or DHL, would embrace home delivery due to the high costs involved in the number of undelivered parcels caused by not-at-home end-recipients. Higher margin B2B services, especially in the buoyant economic years in the run up to the Great Recession of 2008, drove innovation in the industry, with huge corporate budgets resulting in initiatives such as electronic proof-of-delivery notes, providing for greater levels of visibility in the supply chain. B2C home delivery companies, often off-shoots of traditional home shopping, catalogue retailers were seen as a separate sector. Today it is hard to convey the extent of the change in management sentiment and operational and technological focus with B2C such an important part of the major players' thinking and revenues.

No doubt the external demands being placed on express parcels carriers to meet the needs of e-retail customers will continue to drive changes in the industry for many years to come. However, this year's report will take a different perspective – examining how technological forces have the potential to transform the supply side of the industry from within.

1990s onwards	express companies invest in supply chain visibility technology
1995 onwards	build out regional and global operations networks
Mid-2000s onwards	development of B2C capabilities
2015 onwards	adapt operational models to take advantage of new technologies and defend against market disruptors

At the outset it is important to draw a distinction between innovators and disruptors. Of course some companies may be both, but the terms are not wholly interchangeable. Many innovators provide technology services which make the industry more efficient rather than transform it. An example of this is in the Transport Management Software (TMS) sector. By automatically and dynamically ordering delivery schedules, the latest TMS can improve vehicle utilization. This is not disruptive on its own, but it is innovative. The potential disruption is created by the low cost of the technology involved (the use of smartphone technology, for instance) which makes the solution far more democratic. This allows SMEs to compete against the large corporates very effectively (with far lower overheads), a theme which will be addressed throughout this report.

02

Future Trends

2.1 URBANIZATION

According to a recent report by the UN, the current world population of 7.6 billion is expected to reach 8.6 billion in 2030, 9.8 billion in 2050 and 11.2 billion in 2100.

From 2017 to 2050, it is expected that half of the world's population growth will be concentrated in just nine countries: India, Nigeria, the Democratic Republic of the Congo, Pakistan, Ethiopia, the United Republic of Tanzania, the United States of America, Uganda and Indonesia (ordered by their expected contribution to total growth).

At present, 54.5% live in urban settlements. By 2030, this is expected to rise to 60% and by 2050, this could rise to two-thirds of the population. For express providers, the denser population provides opportunities. However, the growth in population also adds to congestion issues and it will require a partnership between administrators, infrastructure providers, technology companies and express operators to devise solutions to these challenges.

The network profile of operators will inevitably vary depending on the type of development experienced. This in turn will depend on the competence of urban planners. One study concluded that growth is rarely optimized when '…multiple objectives such as profit, equity, and ecological integrity come into conflict.' This can result in what has been termed 'urban sprawl' which is exacerbated by enhanced mobility.

In less developed countries, the rapid movement of populations to areas just outside cities provides complex problems. The favelas of Rio de Janerio are an example of this, where living conditions are poor and poverty is widespread.

Careful city planning can provide opportunities for express providers. With more efficient transport networks surrounding these areas, the last mile service is more efficient than it would be for rural areas. However urban sprawl is generally lower density than inner cities and so efficiency is decreased from that perspective.

As well as growing wider, cities are also getting taller. Within the last mile, providing services to a denser population is far more beneficial than moving towards rural areas. However, building up means there is increased congestion on the ground. This provides transport challenges and means that more sophisticated infrastructure planning is needed. These challenges will only be exacerbated by the increased e-commerce volumes.

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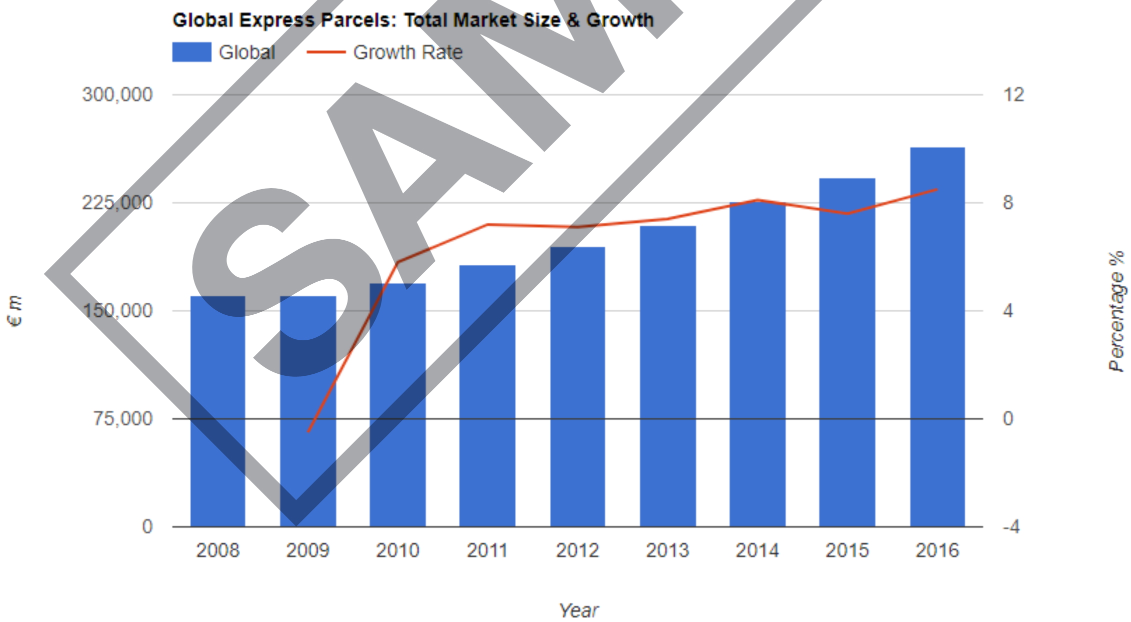
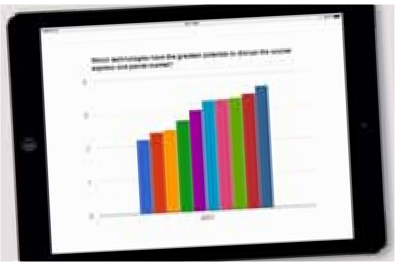
Market Size and Forecasts

3.1 GLOBAL EXPRESS PARCELS MARKET

Ti estimates that the global express and small parcels market reached €263bn in 2016. In real terms (holding prices and exchange rates constant), the market is estimated to have expanded by 8.5%.

Chart 3.1 Global Express Parcels Total Market Size & Growth





04

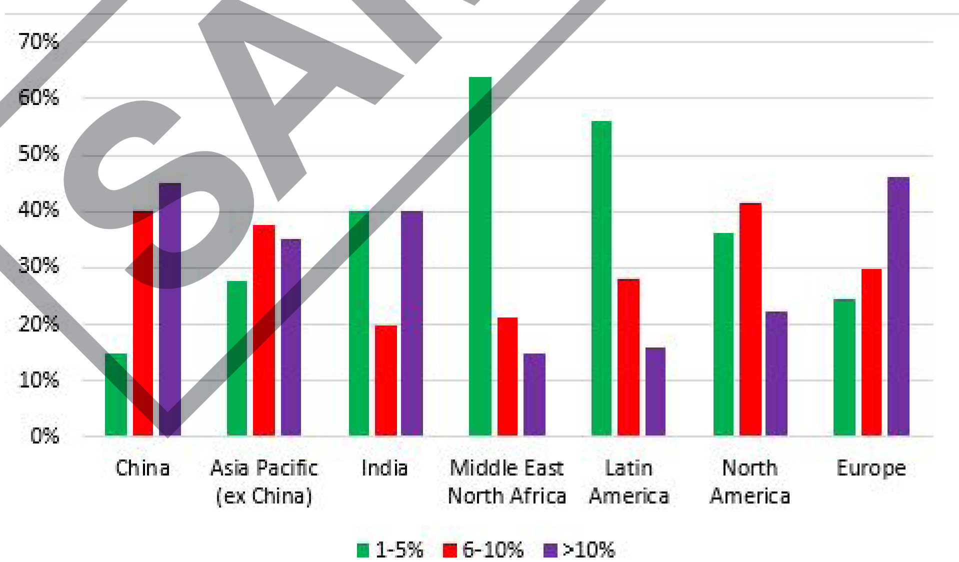
Global Express Market Survey

In July 2017 Ti undertook a market survey of over 100 executives active in the global express and parcels market.

Cross-Border Volumes

Cross-border volumes, especially related to the growth in e-commerce platforms such as Alibaba and Amazon have been identified by many large express carriers as a driver of future growth. This is borne out by the results of the survey although not every region has benefited to the same degree.

Chart 4.1 What changes are you experiencing in cross-border parcel volumes in the following regions?



China, then Europe followed by the rest of the Asia Pacific region (excluding China and India) are experiencing the greatest increases in cross-border volumes. In fact, 46% of European respondents indicated that they were experiencing volume growth of more 10%, a fact no doubt attributable to the closely integrated Single European Market. China, the world's largest manufacturing exporter, also saw double digit-plus growth in cross-border volumes.

At the other end of the spectrum, the Latin America and Middle East/North Africa regions reported the fewest respondents experiencing 10%+ growth. This is reflected in the chart below which shows overall indicative average cross-border growth rates by region.

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Major Express Players

5.1 COMPARATIVE REVIEW OF THE YEAR

All of the major express carriers benefited from the positive impact of e-commerce and a more robust global economy in 2016. Indeed, this has carried into the first half of 2017.

DHL's 'Post-eCommerce-Parcel'(PeP) saw revenues increase by 4.1% fuelled by volume increases in the e-commerce-Parcel unit, 9.3% in Germany for instance. Profit margins hardened from 6.8% in 2015 to 8.6% in 2016.

Its Express division, focused on the more mature time definite B2B market, saw revenues increase by a slower 2.7%, impacted by currency fluctuations. Without these, revenue growth would have been 5.9%. Its international volumes increased by 7.6% (domestic by 9.9%) and profits jumped by double digits (11.3%). This allowed it to increase margins to just over 11%, coming into line with its closest competitors.

For 2016, UPS recorded a revenue increase of 4.2% in its U.S. Domestic Package segment. Despite volume growth of 4.1% and the growth of the number of delivery stops by 4.4%, the use of its new ORION transport management system meant that package miles only increased by 0.2%.

It was not all good news. Yields fell in its Next Day Air and Ground businesses due, in part, to lighter packages caused by a greater volume of e-commerce packages.

UPS's International Package division achieved year-on-year revenue growth of 1.7%: Domestic package volumes (i.e. non-USA domestic packages) increased by 3.8% for the year, whilst Export (cross-border) volumes rose by 5.1%. However as can be deduced from these figures, there were declines in yields caused by currency and fuel surcharge rates. UPS noted particular success in its export services on the Europe-to-U.S. and intra-Europe trade lanes, though exports from the US were negatively affected by the strength of the US Dollar.

FedEx Express revenue increased 3% in 2016 (year end 31 May 2017), impacted by unfavourable currency rates (not including revenue from its TNT acquisition). Overall average daily volumes grew by 2%, although international volumes grew faster at 3%, and margin reached 9.8% with profits increasing strongly as a result of growth in e-commerce, including B2B e-commerce, and global trade growth.

FedEx Ground revenues increased 10% in the year although segment margin (including FedEx Supply Chain) was down on the previous year at 12.7%, partly as a result of network expansion costs. Its volumes were up 5%.

Including the TNT acquisition, the company's overall revenues increased by 20%.

In Europe, GeoPost, the subsidiary of La Poste Group, saw its revenues increase by 8.6%, an improvement which was primarily driven by an increase in volumes (11.2%). Best performing markets were UK, France and Spain, all recording double digit revenue increases. B2C has become highly important to the company with this segment increasing by 22% year-on-year. Margins improved from 4.7% to 7.1% as the company managed its cost base effectively.

Rival Royal Mail-owned GLS, also performed well. Its revenues increased by 9% excluding acquisitions and its volumes rose at the same rate. Due to a more beneficial product mix with the increase of international volumes, this would have been greater but for lower average parcel weights. Margins improved slightly to 7.8%.

Aramex saw a significant increase in revenue by 15.7% whilst at the same time

CONTACT US

Michael Clover

Business Development Manager

Direct: +44(0)1666 519907

Email: mclover@ti-insight.com

Skype: mjcloverti

Linkedin: uk.linkedin.com/in/michael-clover-95625187