The integrator market: actors and their strategies

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CONTENTS

1. DEFINITION OF INTEGRATORS

"Integrators are **vertically integrated** express companies that provide time-definite,

door-to-door services and, for that purpose, perform their own pick-up and delivery services, operate their own fleet of aircraft and trucks and tie it all together with advanced information and communication technologies"

(Source: based on Zondag, 2006)

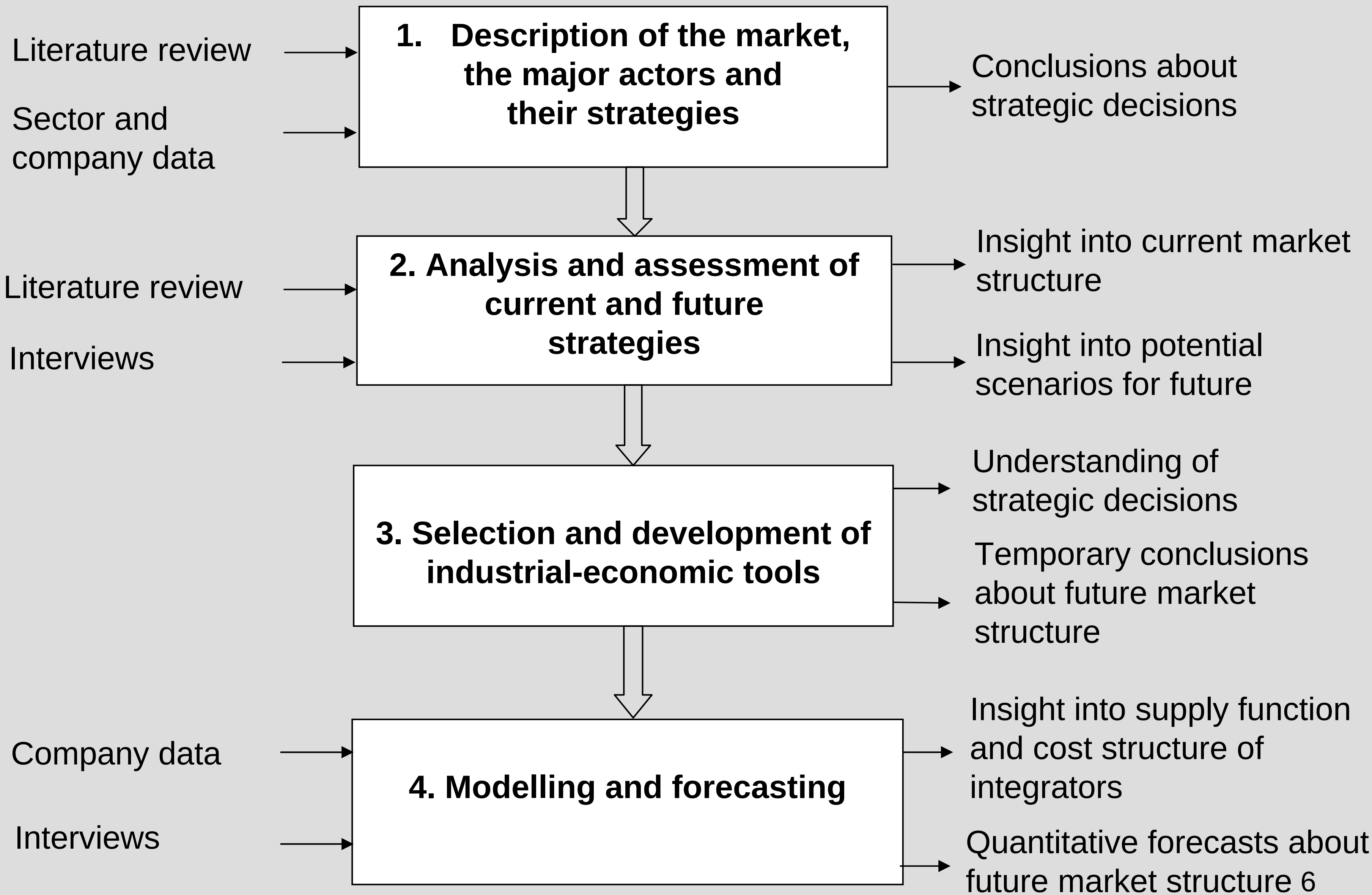
2. RESEARCH HYPOTHESES & METHODOLOGY

- Each integrator will finance its growth independently
- New players will enter the integrator market
- Total costs for vertically integrated companies offering an integrated, door-to-door supply chain are lower than the sum of costs for companies offering parts of the supply chain
- Integrators will get involved into different types of horizontal and vertical cooperation outside the integrator market

→Main objective: understanding, explaining and forecasting strategic behaviour of market players

2. RESEARCH HYPOTHESES & METHODOLOGY

Methodology, inputs and outputs



3. AIR EXPRESS REVOLUTION AND EMERGENCE OF INTEGRATORS

1960

Air express services in US

1970

1973 → Creation of FedEx, pioneer in air express industry
Example followed by many others → emergence of integrators

1978 → Deregulation of US air transport market

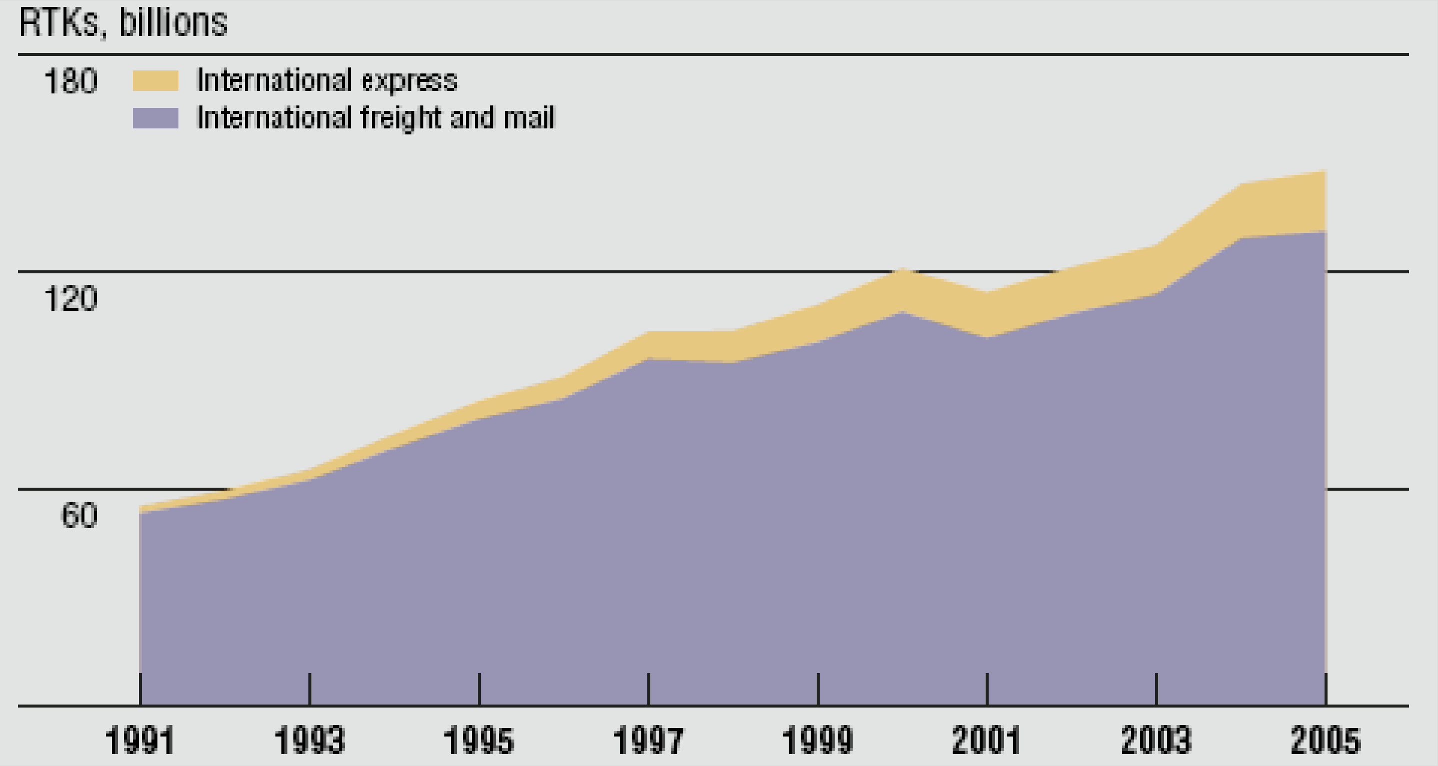
1980

1990

Role of Internet (e-commerce/decreasing demand for mail and document services)

Entry of integrators into more diverse markets
→ direct competition with non-integrated service providers

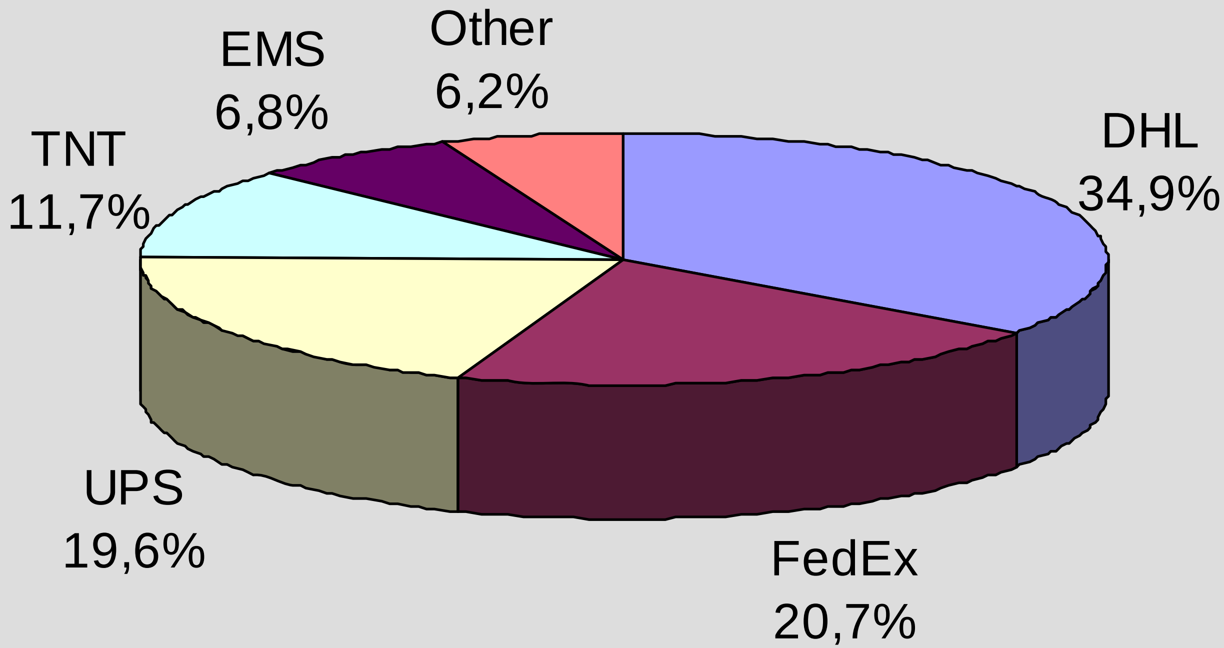
Growth of the international express sector as a proportion of total international air cargo traffic, 1991-2005



- Annual growth over past decade: 12.9%
- Annual growth since 2000: 6.9%
- Contribution international express to total international air cargo traffic:
  4.1% in 1992 → 11.4% in 2005

<u>Source</u>: Boeing World Air Cargo Market Forecast 2006/2007

Market shares of integrators in the international express market – based on daily shipment volume, 2006

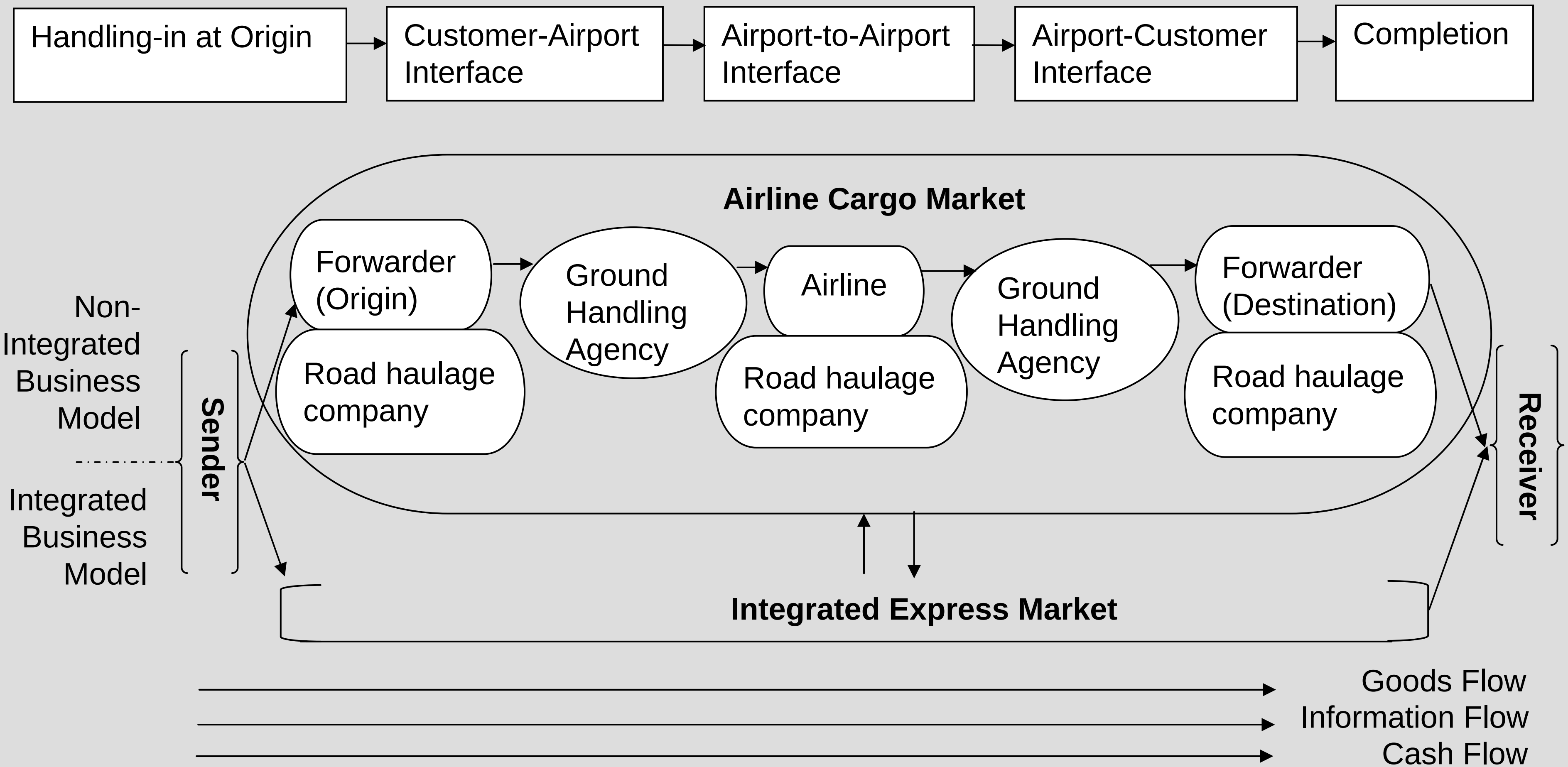


<u>Source</u>: ACMG, 2006

4. OPPORTUNITIES & CHALLENGES IN MARKET

- Express industry has matured → commoditization → poor profits, falling differentiation and reduced innovation
- To differentiate from competitors:
  - Competition not only based on price but based on quality+value
  - Use service, not technology as differentiator
- B2C market/Last Mile Logistics
- Regulations and trade barriers
- Role of information

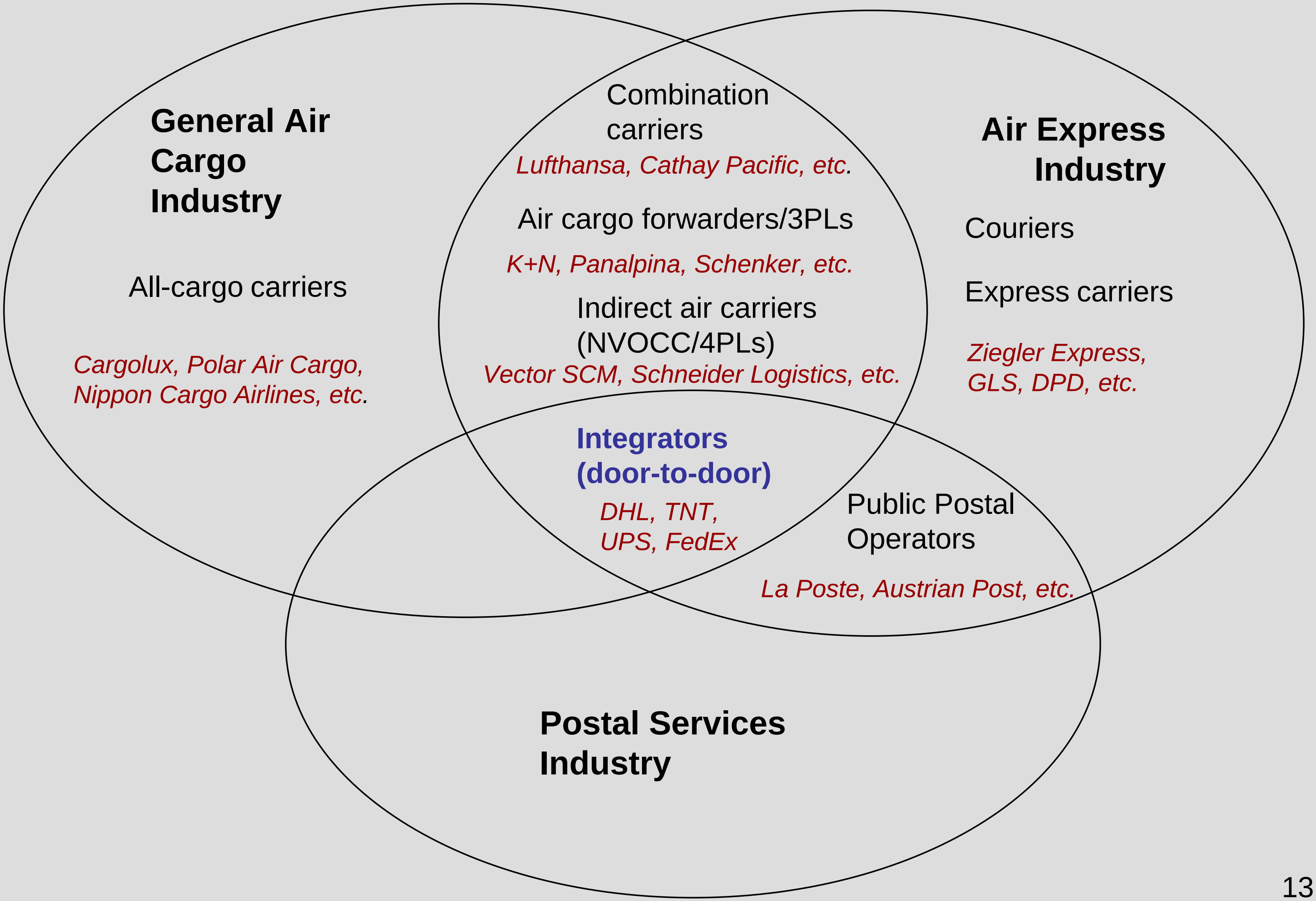
5. INTEGRATED VERSUS NON-INTEGRATED SERVICE PROVIDERS



Source: own composition based on Zondag (2006) and Hamlin (2004)

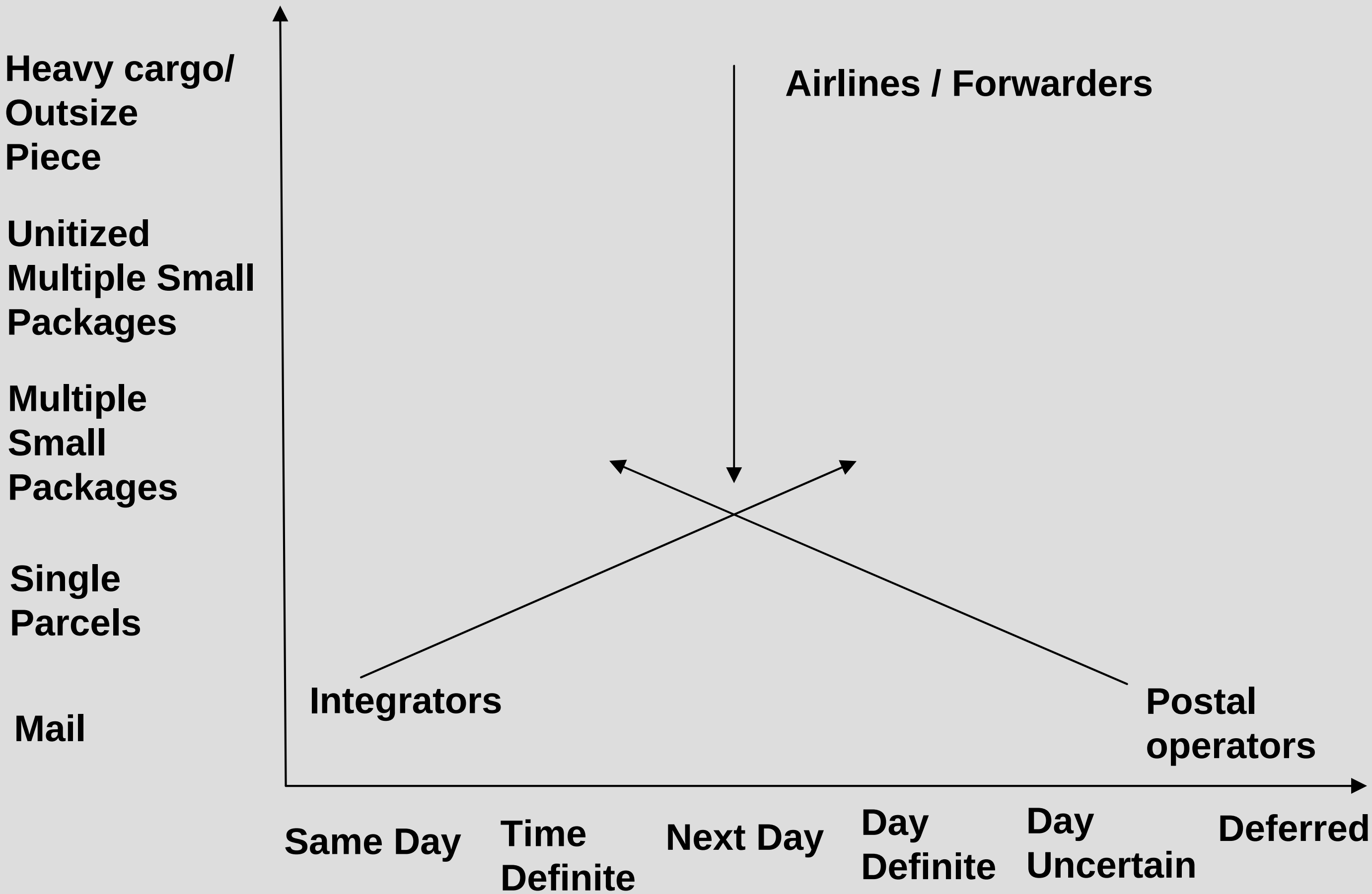
6. POSITIONING OF INTEGRATORS WITHIN THE AIR CARGO INDUSTRY

Integrators: active in 3 different industries



Source: own composition based on Zondag, 2006 and Duponselle e.a., 2005

6. POSITIONING OF INTEGRATORS WITHIN THE AIR CARGO INDUSTRY



	DHL 2006	FedEx 2006	UPS 2006	TNT 2006
Foundation	1969 100% Deutsche Post World Net since 2003	1973	1907	1946 Acquired by TPG (Dutch Post)
Main office	Brussels	Memphis, Tennessee	Atlanta, Georgia	Amsterdam
Revenues	DP, DHL, Postbank €60.6 billion	$32.3 billion	$47.5 billion	€10.1 billion
Packages per day	+5 million	+6 million	15.6 million	746000
Employees	DP 500 000 incl DHL 170000	275 000	427 700	162 244
Countries served	228	210	+200	200
Number of airplanes	251	672	325 charters	43
Number of vehicles	75 000	70 000	94 542	22 381

7. THE BIG FOUR

Growth and relational strategies

Strategically important acquisitions & cooperative agreements:

- UPS
  - Acquisition of **Fritz Companies** (2001) & **Menlo Worldwide Forwarding** (2004): freight forwarders (US)

    → entering heavy freight market (air/ocean)

  - Acquisition of **Overnite Corporation** (2005): LTL-carrier (US)

    → entering LTL-segment 4 years later than FedEx, stimulated by entry of DHL into US express market

7. THE BIG FOUR

Growth and relational strategies

- ➢ Acquisition of **Lynx Express** (2005): parcel carrier (UK)

  ➢ Joint venture with **Sinotrans**: LSP (China)
  → air express market intra-Asia and China-US

  ➢ Joint venture with **Poste Italiane** (2006)

7. THE BIG FOUR

Growth and relational strategies

-
  - Acquisition of **American Freightways** (2000): LTL-carrier (US)
    → entering LTL-segment
  - Cooperation agreement with **La Poste** (2000): postal operator (France)
    → access to European ground network of La Poste
  - Acquisition of **ANC Holdings Limited** (2006): express carrier (UK)
    → position in the UK domestic express market (FedEx UK)
  - Acquisition of **Flying-Cargo** (2007): all-cargo carrier (Hungary)
    → re-entering European air freight market
  - Acquisition of **Prakash Air Freight** (2007): air express carrier (India)
    → position in Indian domestic express market
  - Acquisition of **Tianjin Datian W. Group (DTW Group)** (2007): LSP (China)
    → position in Chinese domestic express market

7. THE BIG FOUR
Growth and relational strategies

- DPWN
  - ➢ Acquisition of **Danzas Holding** (1999): freight forwarding/logistics (Switzerland)
    - → Creation of logistics division
    - → Entering ocean freight business
  - ➢ Acquisition of **DHL** (2002): express carrier/international network (US)
    - → DHL brand for all express and logistics activities
  - ➢ Acquisition of **Airborne** (2003): express carrier/domestic air & ground network (US)
    - → competitive position in US
  - ➢ Acquisition of **Exel** (2005): logistics service provider (UK)
    - → ‘number one global player in logistics’
  - ➢ Joint venture with **Cathay Pacific** (2002) **Lufthansa Cargo** (2004)

7. THE BIG FOUR

Growth and relational strategies

- TNT
  - ➢ Acquisition of **Jet Services** (1998): domestic express carrier (France)

    → TPG's strategy to become European market leader in mail, express and logistics
  - ➢ Acquisition of **TG+** (2006): domestic road express carrier (Spain)

    → position in European express market
  - ➢ Acquisition of **Speedage Express Cargo Services** (2006): road express carrier (India)

    → Focus on Networks Strategy

    → leading provider of express delivery services in emerging markets

7. THE BIG FOUR

Growth and relational strategies

- TNT
    - Acquisition of **Hoau Logistics Group** (2006): freight and parcels carrier (China)

      → leading provider of express delivery services in emerging markets
    - Acquisition of **Expresso Mercúrio** (2007): road express carrier (Brazil)

      → expansion of South American road express network

      → leading provider of express delivery services in emerging markets

7. THE BIG FOUR

Service Portfolio

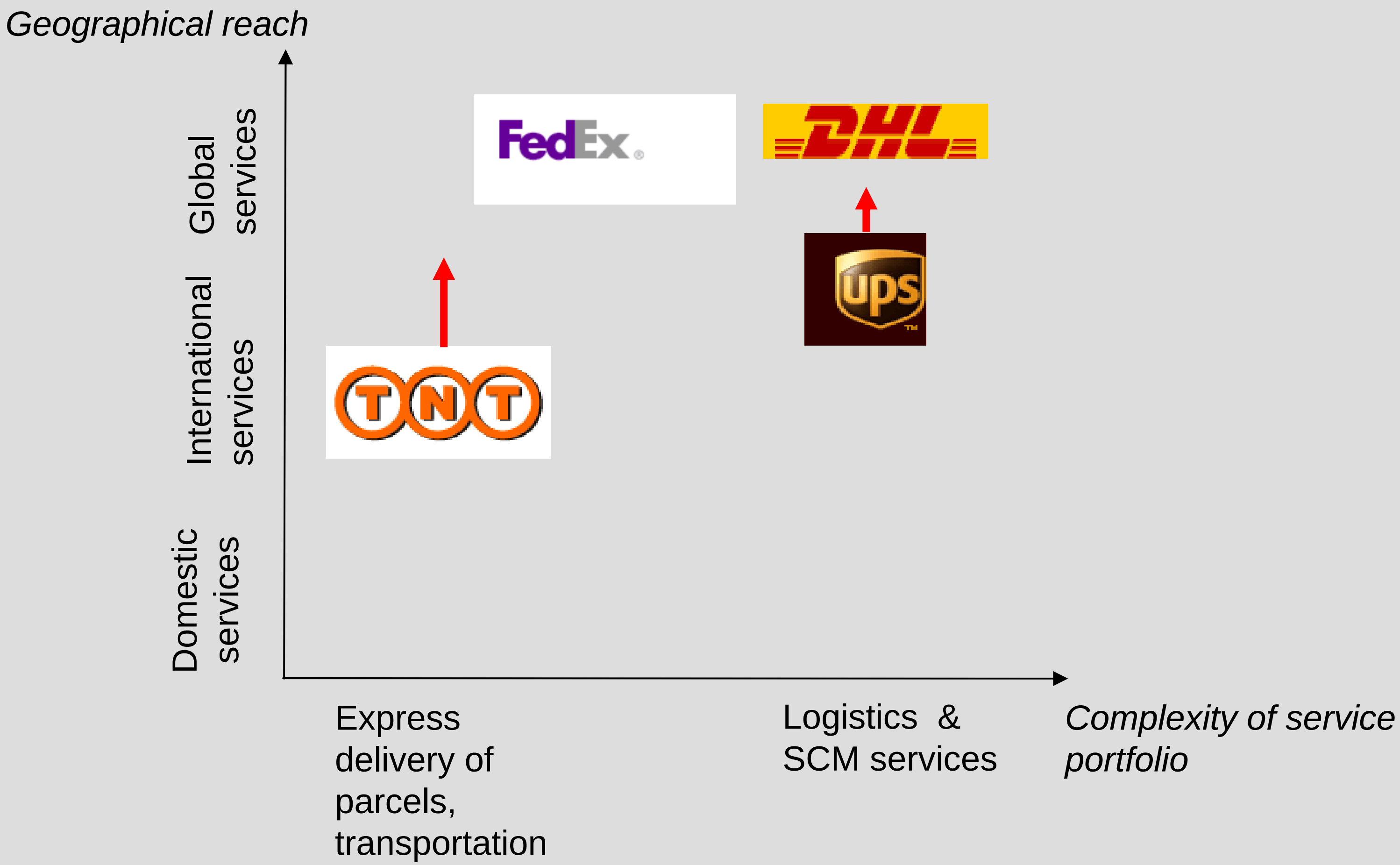
	Original focus	Reason for shift in focus	Current focus
ups	Ground	Creation of UPS Airlines (1985) Acquisition of Fritz Companies (2001) & Menlo (2004)	Ground Air Ocean
FedEx	Air	Acquisition of Caliber (1997)	Air Ground
DHL	Air	Acquisition by DPWN (2003) Acquisition of Danzas (1999) & Exel (2005)	Air Ground Ocean
TNT	Ground	Creation of European air network (1987)	Ground Air

7. THE BIG FOUR

Geographical Coverage

	Original focus	Reason for shift in focus	Current focus
UPS	US	Cooperation with Sinotrans (China) Acquisition of LYNX Express (UK) Acquisition of Challenge Air (US)	US, Europe, Asia-Pacific Latin America
FedEx	US	Acquisition of Flying Tigers (China) and route authority from Evergreen International Airlines Acquisition of Flying Cargo (Hungary) Acquisition of Prakash Air Freight (India)	US, Asia-Pacific, Europe
DHL	US	Acquisition by DPWN (2003)	Europe, US, Asia-Pacific
TNT	Europe	Acquisition of Speedage (India) Acquisition of Hoau (China) Acquisition of Mercúrio (Brazil)	Europe, Emerging Markets (China, India, Brazil, etc.)

7. THE BIG FOUR



7. THE BIG FOUR

Recent strategic choices

- ups
  - Focus on logistics/SCM
  - Emerging markets: development of its international express and air freight business instead of reinforcing its position in domestic market
- FedEx
  - Focus on express transport, less on logistics
  - Re-entering the European market: acquisitions mainly in air freight business. Ground-based services through alliances
- DHL
  - Wide product portfolio: express and logistics
  - Wide geographical coverage (own ground network in US)

7. THE BIG FOUR

Recent strategic choices

- TNT
  - ➢ Focus on Networks Strategy: express transport (no logistics, no freight forwarding)
  - ➢ Special services (niche player)
  - ➢ Europe: organic growth
  - ➢ Emerging markets: leading position through acquisitions → connection with Europe + development of domestic air/ground network
  - ➢ US: focus on intercontinental express transport in cooperation with local partners + niche markets
  - ➢ Intercontinental connections if volume is sufficiently large,

    e.g. Liege-China

8. NEW COMPETITORS

ABX Logistics Worldwide	
Founded	1993
Headquarters	Brussels
Revenues 2006	€ 2.3 bn
Employees 2006	8000
Network	250 sites under its own name in more than 35 countries Representation in a further 60 countries by its own exclusive agents
Business focus	international freight forwarding & contract logistics
Expansion/cooperation strategies	Smaller acquisitions Alliances with large LSPs (e.g. Penske Logistics – 2006) Strengthen network in strong growth countries Increase market share in traditional markets in Europe/US

8. NEW COMPETITORS

KUEHNE+NAGEL	**Kuehne + Nagel**
Founded	1890
Headquarters	Schindellegi, Switzerland
Revenues 2007	CHF 20975 million
Employees 2007	51075
Network	830 offices in more than 100 countries
Business focus	Traditional forwarder → leading provider of integrated supply chain solutions N°1 seafreight forwarder worldwide / top 5 air cargo forwarders worldwide
Expansion/cooperation strategies	Acquisitions to grow in contract logistics (ACR Logistics – 2005)

8. NEW COMPETITORS

	Panalpina
Founded	1954
Headquarters	Basel, Switzerland
Revenues 2007	CHF 10592 million
Employees 2007	15301
Network	500 branches in 90 countries Selected partners in other 60 countries
Business focus	Integrated freight forwarding & logistics company Core business: Air & Sea / Overland transport via subcontractors Asset-light strategy → flexibility
Expansion/cooperation strategies	Expand global network further: organic growth + targeted acquisitions/alliances (e.g. alliance with NYK Group/Japan)

9. CONCLUSIONS

- Boundaries between sub-industries are blurring
  → increased competition and cooperation
- New players are entering the integrator market *(hypothesis 2)*
  → fifth integrator?
- Importance of global network
  → ensure global presence via acquisitions / cooperation agreements outside integrator market *(hypothesis 4)*
- DHL/UPS – TNT/FedEx
- Next steps in methodology
  - ➢ industrial-economic analysis of current and future strategies
    → market structure
    → selection/development industrial-economic tools
  - ➢ interviews
  - ➢ variables of cost function

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