

Consumers express their preferences

The express industry's focus is switching from speed to quality of service. And e-commerce is moving the goalposts again, says **Larry Woelk**

The use of the word "express" in terms of delivery is considered a modern phenomenon. But that's not entirely true. In the late 1700s, John Adams, one of the founding fathers of the US, would "express" his dispatches via special couriers. And in the 1800s, Pony Express could deliver long distances quicker than anything else due to its horse relay system.

Federal Express is normally credited with creating the modern express market. But taking a broader view, the Railway Express Association (REA) started in the US when rail was the primary means of long-distance transport and aircraft were not yet flying. Securicor was delivering letters for its security customers in the 1930s, long before FedEx delivered its first package.

REA at its peak was the world's largest express delivery system. The organisation went out of business in the mid-1970s, even though its packages had priority boarding over mail and even passenger baggage on all commercial flights, because its service could not keep up with what the market wanted, and what FedEx could provide.

Since the mid-1970s and FedEx's launch of the first dedicated express network by air, the word "express" has become a brand of its own and is attached to many companies' names and services.

For example, if you put the words "express courier" into www.yell.com for London you get 195 hits. That is a lot of express companies for one city. The term "express" is everywhere. Federal Express, DHL International Express, TNT Express, A1 Express, Five Ways Express and 190 others in the London yellow pages. UPS has three express services – express, express saver and express plus. And we haven't even talked about Pizza Express.

The concept of express has certainly changed over the years from delivery by foot, horse and ship; then to bikes and trains; and now to motorcycles, cars, trucks and planes. The current meaning of express is synonymous with "fast".

However, many industry pundits say the word is in the process of changing its meaning again.

Christian Emery, MD of ColiPoste in France, speaking at

the recent World Mail & Express Conference in Paris, said: "We are moving from a production culture of just shipping parcels to homes to a service culture offering choice, innovation, new services, responsiveness and speed that puts the customer in control."

Mark van der Horst, director of EU affairs at UPS, said participants in today's express market must be able to provide "same-day, next-day, deferred, time-day services, which are unique, door-to-door, fully traceable, high-speed,



van der Horst: customers only satisfied by high-quality service

standardised services and provide global delivery if they are to satisfy their customers".

Enhancing service is fine, but what about the price?

There has always been interplay between price and service, according to Neil Jackson, CEO of event organiser Triangle Management Services. "All things considered, if the

service is the same, the client will use the cheapest provider. However, if the client needs service he will pay more to get it.

"Good companies are upgrading their service delivery all the time. The best companies are constantly investing in their network and providing better services. It is a virtuous circle because they can charge more for better services, which means they make more money. The trick is making sure that the increased revenues you can generate by providing a better service more than cover the cost to do so," Jackson said.

"The 'bottom feeders', or companies that get business only on price, can't afford to improve their services so they discount their prices to attract business, which reduces their margins even more. This, in turn, means their service deteriorates and they have to drop their prices again. The cycle continues until they go out of business."

Linehaul capacity, moving packages between the depot and the hubs, is an example of the positive and negative effect of pricing.

Profitable companies are charging enough so that they can fund growth and service and can add linehaul capacity – trucks – before they can fill it. They are always improving service.

Struggling companies cannot afford to add capacity until they can fill the extra vehicle. Service is then negatively impacted, which means they lose business and have to reduce prices.

According to Jackson: "The best companies keep churning their service up. They produce better services for their customers, then try and demand higher prices for the better services. The bottom feeders are left with the dregs you can't make money on and as described they eventually go out of business.

"The core competency in express is yield management. The express company has to handle the right kind of business for its infrastructure."

Although the strategy for success and profitability in the express industry is straightforward, the ability to achieve it is not that easy.

Jackson's "dynamics" of the express industry is certainly borne out in the UK, where the number of express providers is falling because the multinationals are acquiring the profitable companies and the



FedEx's business grew on the back of speed, but now it's about delivering on your promises

unprofitable ones have been going out of business at the rate of one or two a year for the past five years.

The survival of high-cost providers and liquidation of low-price ones will put upward pressure on rates as eventually no low-price carriers will be left. Some say this "eventual" development is already here.

Airborne struggle

An example of the negative interplay between price and service recently emerged in the US.

Airborne Express, until its acquisition by DHL, always played second fiddle to FedEx and UPS from a service standpoint. It got its business by offering lower prices.

In order to enter the US market, DHL bought Airborne and although over two years have passed, it is struggling to provide a competitive service and make money. DHL lost more than US\$800m in the first quarter of 2006 alone trying to get things right in the world's largest express market.

Many market pundits say DHL has similar problems in the UK resulting from its acquisition of Securicor, whose strategy had also been also to increase revenue through competitive pricing.

It is likely that when we look back at the first decade in the 21st century, we will note the change, yet again, in the meaning of "express".

E-commerce is having a dramatic effect on express and changing its definition yet again. Until now, express has been primarily a business-to-business (B2B) transaction but e-commerce is changing it to a business-to-consumer (B2C) one.

Even companies that have previously concentrated on B2B business are positioning themselves in the B2C market, as demonstrated by TNT's recent acquisition of JD Williams, a home delivery specialist in the UK.

Express is becoming less about speed and more about quality – delivering when you say you are and being able to track and trace a shipment from start to finish.

Consumers don't need to have a pair of shoes, a DVD or a mobile phone delivered the next day, they just need to have it delivered when it's supposed to be.

If express starts to mean quality and not speed, it will be interesting to see how the providers react.

Express operational infrastructures are geared towards speed. From an operating cost standpoint, it doesn't cost that much less to deliver a package in two days than it does in one – certainly not as much less as the customer expects in price reduction. The same facilities, trucks and planes are used for both. Margins will be squeezed as customers migrate towards slower, but quality deliveries.

Providers must give customers what they want, not what they want them to have. Or as Coliposte's Emery says, we are moving towards "a service culture offering services that puts the customer in control".

The changing dynamics of express will certainly make for an interesting express conference this week in Birmingham, again run by Triangle, where service providers and users will debate the hot issues of the day. ●



TNT's takeover of JD Williams signals its move from B2B (above) towards the B2C market