The best way to avoid indigestion

Larry Woelk on the growth strategies of express integrators that have become industry models

TNT's decision to offload its logistics business was a surprise to many in the industry. But they are, in many ways, just following the FedEx model. There are three basic models in the express industry: UPS, DHL and FedEx.

The UPS model is to offer a broad range of services through one integrated company. UPS is a process-driven company. As one business guru maintains: "Quality is in the process, not in the people."

UPS's methodical growth from a delivery company in Washington State in the US to the largest transportation company in the world exemplifies the success of its process approach – and long-term thinking.

UPS is committed to offer services from a few grammes to several tonnes. It is combining back-office activities for its package and freight business and will probably eventually combine front-office activities. The problem with this strategy is that moving heavy freight is not quite the same process as moving packages. But history tells us UPS will get it right, even if it takes decades.

An integrated freight and express company means one face to the customer. One face which will enable UPS to capitalise on the strength of its brand.

The DHL model is to offer services from a few grammes to several tonnes – through separate divisions. DHL is, for all intents and purposes, four companies – Express (packages), Global Freight (international air and sea freight forwarding), Freight (road freight) and Supply Chain (logistics).

Rather than trying to integrate front or back-office activities, the strategy is to have each division stand on its own two feet. This enables very clear strategic and management direction and easy evaluation of each division's performance and results.

There is potential for customers to get lost between the four divisions. DHL handles this by having a commercial organisation which is not division-specific and bundles the all services together. This enables DHL to capitalise on its brand image without combining the operations.

Both the DHL and UPS models are driven by acquisition and they have sopped up some of the biggest names in the logistics business – Exel, Danzas, Fritz, AEI, Menlo/Emery, Airborne Express and many more. They have also suffered from "merger pains" as it is never as easy to merge operations as it looks on paper.

Which brings us to the FedEx model – increase your range of services, but do it generically.

Like DHL and UPS, FedEx can handle anything up to several tonnes. However, it handles only air (express or freight) and not sea freight like UPS and DHL.

FedEx service range covers primarily premium services. It does not get down into the trenches moving tonnes of cargo for margins of a few cents a kilo. Neither has its growth been driven by aggressive acquisitions – especially not into areas such as freight forwarding where it has no experience and margins are low.

FedEx uses its own lift to provide premium services for both packages and heavy freight. If a shipper "absolutely, positively" has to move something heavy internationally, he will probably use FedEx. I don't have any figures to hand, but would speculate that company-wide yield (revenue per kilo) and, consequently, the margin, is considerably higher at FedEx than UPS or DHL.

The City must like the FedEx model as the share price is outperforming its major competitors.

TNT is following the FedEx model. It has shed its logistics business and is in the process of offloading the freight forwarding business gained through the acquisition of Wilson.

Although not in the US, TNT has very strong integrated systems, air and road, in Europe and Asia – particularly China. It uses its lift to move its packages, and urgent freight.

With the digestion problems both DHL and UPS have had with their models, is it any wonder that TNT has opted for the FedEx example?