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DHL's exit from the U.S. market leaves small package market share up for grabs

New market dynamics will likely impact parcel shippers, regardless of carrier.

By David Hannon -- Purchasing, 1/15/2009

Deutsche post's decision to have DHL exit the U.S. express shipping market this month has the remaining players competing fiercely for the DHL market share, amid rapidly declining volumes. While some shippers expressed concern that the loss of what was viewed as the lower cost alternative in the market could impact pricing, the scramble for DHL's market share amid rapidly declining volumes in the parcel market may have given logistics buyers—even those not using DHL—some leverage in 2009.

Just how much market share is up for grabs? Analyst Stifel, Nicolaus & Co. in St. Louis estimates that DHL held 3% of the U.S. ground express market and 8% of the air parcel market. While it may not sound like much, that adds up to \$3.4 billion worth of business in play at a time when the remaining players need a lift. Stifel's report says "UPS should be able to handle its fair share of DHL business without significant capacity additions. The company was ready to handle all of the domestic airlift for DHL without new equipment, so a small portion of it should be no problem."

UPS officials in Atlanta confirm the logistics giant won't have to adjust current capacity levels to accommodate the additional DHL volumes. In an interview with *Purchasing*, UPS spokesman Norman Black said "our hope is to get as much of that business as we possibly can."

"When DHL announced in May [2008] that they wanted to change the way they ship air packages we made it clear we had the capacity and wanted to negotiate that contract, but that we were still going to compete with DHL in the marketplace. We never stopped competing with them and they're still a major competitor in overseas markets."

UPS set up a special web site for DHL shippers looking to transition to UPS and used direct mail and advertisements to try to win the DHL business. Black says that with the 2008 peak shipping being lower than expected, the increased business from DHL customers basically filled in some of the gaps.

"In the current market, everyone's capacity is down to some extent and we're used to ramping up at the end of year for the holidays, so our operating model can handle this," Black says.

Who's the new #3?

But beyond the 300 lb. gorillas in the small parcel market, Plantation, Fla.-based DHL's exit leaves market share available for both the U.S. Postal Service as well as the regional parcel carriers.

Gary Reblin, vice president of expedited shipping at the U.S. Postal Service, tells *Purchasing* that USPS had been targeting DHL customers prior to the announcement because they were nervous about rumors they were hearing.

"Once the announcement was made that DHL was pulling out we saw an accelerated movement—saw shippers move up their 2009 plans to transition away from DHL," Reblin says.

Washington-based USPS is not, however, trying to duplicate DHL's efforts and take on the major players in the market in all service levels and markets. USPS is, in fact, a major customer of FedEx and, to some extent, UPS. Instead, it is focusing on developing its strongest service areas. For example, Reblin says because USPS delivers to every address in the U.S. every day, it provides a very good service level for business to consumer (B2C) shippers.

"We won't challenge UPS and FedEx, for example, on large, heavyweight boxes because we don't own our own airline so we pay to ship those by the pound," Reblin says. "So we're focused more on small packages, as well as the actual delivery part of the B2C market. It doesn't do any good to fight in a very established market."

Todd Civin is a Massachusetts-based logistics professional who recently ran the distribution center for a book publisher. As that company was a heavy B2C shipper, Civin used UPS' Mail Innovations service for much of his shipments. UPS Mail Innovations is a UPS-owned company that works with the USPS to provide a shipping solution directly to homes, businesses and PO boxes (a service that UPS does not provide). It has some of the advantages of UPS such as barcodes for delivery confirmation, but also some of the advantages of the USPS, such as delivery six days a week.

Going regional

Regional parcel carriers also see DHL's exit as a chance to grow their business and remind shippers there are other alternatives. Jim Berluti, CEO of Woburn, Mass.-based Eastern Connection, says DHL's move has already resulted in new business for his company and this may be the exact event that regional parcel carriers have been waiting for.

Why? Well, Berluti says there is an informal network of information sharing among the major regional parcel carriers but the current market dynamics may drive those carriers to make the network a more formal alliance. "We do have monthly conference calls and meet on how to target certain accounts collectively," he says. "While there are no decisions yet, we're trying to figure out if it makes sense to have a centralized organization [to serve the regional parcel carriers]."

That type of alliance could well fill the void left by DHL. At the very least, Berluti says, "bringing in a regional carrier can help create some competition for the shipper. But it's competition without a lower service level. In most instances, regional carriers can outperform the nationals on service within their regions."

Berluti also says new information systems from providers such as Kewill and Pitney Bowes can facilitate multi-carrier shipping much more easily.