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The Economic Impact of Express Carriers in Europe

OXFORD ECONOMICS

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Executive Summary

What is the express delivery industry and what does it do?

- The core business of the express delivery industry is the provision of value-added, door-to-door transport and deliveries of next-day or time-definite shipments across the globe.
- The express delivery industry provides its customers with a comprehensive service: organising collection, usually at the end of the business day, allowing the sender access to information on the progress of shipments from pick-up to delivery, and providing proof of delivery.
- Furthermore, where shipments cross international borders, the express delivery industry handles customs clearance as well as the payment of duties and taxes as required.
- This report describes the size and reach of the express delivery industry within the EU27 economy, in terms of its contribution to employment and GDP.
- However, the most important contribution that the express delivery industry makes, is through its impact on the capabilities and competitiveness of other sectors of the economy.

579,000 European jobs and over €23.4 billion of EU27 GDP are supported by the European express delivery industry.

The express delivery industry supports jobs and GDP in Europe through three main channels:

- The express delivery industry employs over 272,000 people and through its own activities generates €10.3 billion to EU GDP.
- Through purchasing goods and services from other European companies, the express industry supports a further 191,000 European jobs and generates a further €8.4 billion of GDP to the European economy.
- Spending on European goods and services by the 463,000 workers who are either directly employed by the express delivery industry or whose jobs depend on the industry's indirect impact, supports a further 116,000 European jobs and generates a further €4.7 billion to the EU's GDP.
- Furthermore, the express delivery industry contributes close to €3 billion to EU27 public finances, a significant contribution for an industry of its size. Almost all of this contribution is accounted for by corporation tax, income tax, and social security contributions (both employer and employee).

The express industry plays an important role in Europe's internal market…

- Based on industry data, we estimate that 269 million intra-EU cross-border express deliveries took place during 2010, with a wide spread in terms of country of origin and country of destination.
- Intra-EU trade is of increasing importance to Europe's economy. Over the past decade, trade in goods has grown almost twice as fast as the economy as a whole. At the same time, the European express delivery industry sales revenues have grown at an even faster rate, suggesting that the sector continues to make an important contribution to the deepening of the Single Market.

- Express delivery helps small firms to export by providing rapid and reliable delivery services that they cannot provide themselves. Business surveys conducted for this report show that SMEs depend on express delivery services for 15% of their sales revenues.

…and supports Europe's international trade

- Express carriers are facilitating Europe's trade with the rest of the world by investing in new delivery routes and services, connecting EU member states with over 90% of the world economy within 72 hours, and ensuring that European companies remain competitive, by growing their exports and investments.
- Business surveys show that around 20% of express shipments that originate from EU member states are sent to destinations outside the EU. Moreover, 77% of respondents consider express delivery services to be important for competitiveness in markets outside the EU.
- Good access to markets is of the utmost importance in influencing firms' decisions on where to locate. For many firms, 'good access' to international markets includes the availability of next-day delivery.

If allowed to grow in-line with demand, by 2020 the industry will directly employ a total of 300,000 people…

- Like many of its customers, the express delivery industry has been badly affected by the recession.
- Yet despite the uncertainty over the timing and pace of the recovery, we believe the long-term prospects for the industry are bright. Over the next decade, we expect the express delivery industry to grow by around 3.9% a year in real terms, around 1.8 percentage points faster than our growth forecast for EU27 GDP.
- By 2020, we expect the express delivery industry to directly employ 300,000 European people, compared with 272,000 today.
- Today, express delivery services are used to delivering around €4 trillion worth of goods, equivalent to 16% of European businesses sales revenue. By 2020, we expect this proportion to increase to over 20%.
- Many industries use express delivery services to transport time-critical goods. Express delivery services are crucial to many manufacturing businesses' ability to operate just-in-time inventory management processes.

The express delivery industry represents significant supply-chain value for EU businesses.

- 96% of EU27 companies indicate they use express delivery services because they need next-day and guaranteed delivery.
- Many European companies rely on next-day express delivery services because their company's products are time-sensitive or perishable, especially where customers have streamlined production processes or have an urgent need for spare parts.
- Next-day delivery services enable European firms to maximize the efficiency of their production activities, reducing production shut-downs, enabling firms to implement best international techniques, such as build-to-order, and minimize their inventory costs. 36% of EU27 companies have production processes for which next-day delivery is very important.

Next day delivery has become an integrated part of modern manufacturing and business.

- The business survey revealed that 47% of companies believed they would be very badly affected if no next-day delivery services were available.

- For many firms, the loss of international next-day delivery would harm their sales. 43% indicated that orders could be lost because of longer delivery time, while 43% stated that they would need to increase the size of their inventories to meet customer demand.
- But production would also be affected. 42% of businesses said they would need increased inventories for production processes while 15% stated that the loss of next-day delivery services might force them to relocate.
- Through disrupting both their sales and production, the loss of next-day delivery services would undermine the competitiveness of European businesses. 74% of businesses surveyed stated that their international competitiveness would be harmed if international next-day delivery services were no longer available.
- Restrictions on express delivery services, therefore, would generate significant economic costs. We estimate that imposing a restriction that led to next-day delivery services no longer being available in the EU, would reduce EU GDP by around €30 billion a year.

"If allowed to grow in-line with demand, by 2020 the express industry will directly employ a total of 300,000 people…"

Oxford Economics

1 The size and reach of the express delivery industry

This report sets out the impact of express carriers on the EU27 economy. The most important contribution that the express delivery industry makes is through its impact on the capabilities and competitiveness of other sectors of the economy. In this report, we describe in detail how the express delivery industry facilitates increased output, trade, investment and employment across European business.

But first we begin by explaining what the express delivery industry is, how it initially developed and how it has grown over the past three decades.

We then illustrate the size and reach of the express delivery industry within the EU27 economy, in terms of its contribution to employment and GDP.

Key findings

- The core business of the express delivery industry is the provision of value-added, door-to-door transport and deliveries of next-day or time-definite shipments across the globe. The express delivery industry provides its customers with a comprehensive service: organising collection, usually at the end of the business day, allowing the sender access to information on the progress of shipments from pick-up to delivery, and providing proof of delivery. Where shipments cross international borders, the express delivery industry handles customs clearance as well as the payment of duties and taxes as required.
- Today, the industry supports 579,000 jobs across the EU27. Of this total, 272,000 are employed by express delivery companies (direct impact). The remainder are supported outside the express delivery industry, either through the industry's supply-chain, or through the spending of the wage income that the industry and its supply-chain generates (the indirect and induced impacts).
- Today, the express delivery industry contributes €23.4 billion to the EU27 economy.(1) €10.3billion is attributable to the industry's direct impact; with the remainder due to the industry's impact in generating demand in other sectors of the economy (the indirect and induced impacts).
- Like many of its customers, the express delivery industry has been badly affected by the recession. Over the last five years the industry's output has declined on average by 2.5% a year in real terms. Despite this setback, looking over the past decade sales revenue has grown by 2.0% a year in real terms, slightly ahead of the rate of growth of EU27 GDP.
- The express delivery industry contributes close to €3 billion to EU27 public finances through the taxes it generates. Of this total, corporation tax, income tax, and social security contributions, both employer and employee, account for around €2.7 billion. Other taxes, excluding sales taxes such as VAT, paid on the express delivery sectors' sales contribute a further €0.25 billion.

(1) Throughout this report, the industry's contribution to Gross Domestic Product (GDP) is measured at basic prices. This is equivalent to Gross Value Added (GVA) as reported in countries' national accounts.

What is the express delivery industry?

The core business of the express delivery industry is the provision of value-added, door-to-door transport and deliveries of next-day or time-definite shipments across the globe. (Time-definite shipments normally incur a transit time of less than 1 day within Europe, and between 2 to 5 days for extra-EU shipments, depending on distance.)

Four companies – DHL, FedEx, TNT and UPS, also referred to as 'integrators' – are the largest operators in the European express delivery industry, but there are many others in this highly competitive sector. The term 'integrator' refers to the ability of these companies to offer door-to-door, time-definite integrated services, where the company maintains control over all aspects of the distribution process – for instance, by offering the possibility of changing the destination and addressee in transit – and with each item being tracked at every step throughout its journey.

Development of express delivery services in Europe

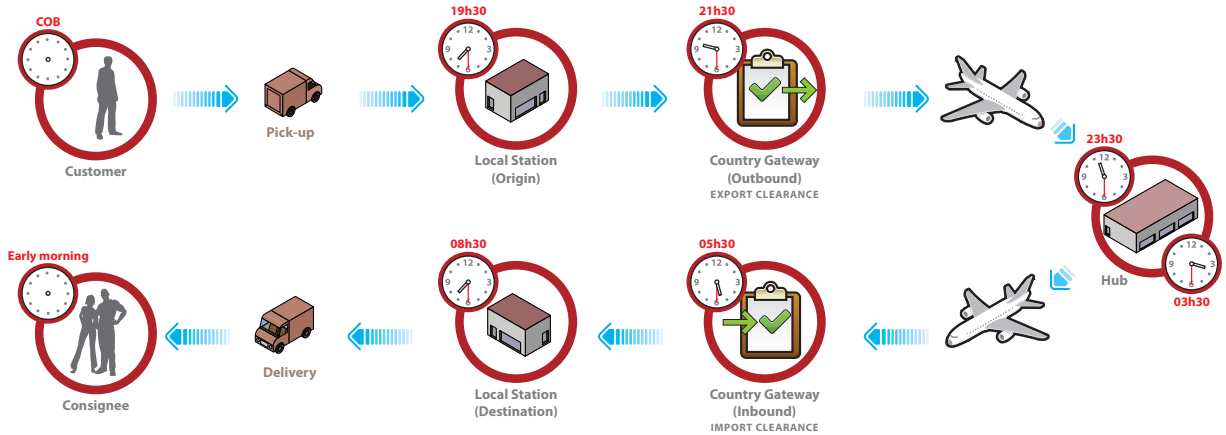
Express delivery services were introduced to Europe in the mid-1980s, having initially developed in the USA. At that time, the requirement of European companies for time-definite, guaranteed delivery could not be met by either postal services or freight forwarders.

Typically, the types of goods transported by express delivery services are items that are high-value and low-weight, such as electronic components, designer fashion and pharmaceutical products, such as tissue or blood samples for clinical trials that need to be delivered quickly. For example, data on the weight and value of goods carried by air, sea, and land transport is available for EU trade with the rest of the world. While air accounts for less than 1% of the tonnage of EU trade, air freight makes up over 22% of the value of EU trade with the rest of the world.[2]

Characteristics of the express delivery industry

The express delivery industry simplifies and accelerates the process of transporting goods allowing companies to reduce inventories and hence save cost. It organises collection, usually at the end of the business day, allows the sender access to information on the progress of shipments from pick-up to delivery, and provides proof of delivery. The express delivery industry also helps cross-border trade by handling customs clearance and the payment of customs duties: services that particularly help small and medium sized companies (see Figure 1.1).

Figure 1.1: The key stages of a typical express delivery



(2) See, 'Economic Benefits from Air Transport in the UK', 2011, produced by Oxford Economics in association with the International Air Transport Association (IATA).

Other transport operators on their own cannot respond to the needs of European business as effectively as the express delivery industry. In particular, they are not able to offer the same level of rapid, guaranteed delivery within a transparent supply chain to as wide a range of destinations.

To meet the requirements of business in Europe, the express delivery industry relies on overnight transport to use the 'dead time' from when a company hands over its shipment late in the working day to delivery to the recipient early the following day. Express delivery transportation is achieved by using a variety of different transport modes; for example, lorries, vans, aircraft, as well as on-foot delivery. Express delivery companies are also involved in pilot projects investigating the potential use of high-speed trains in express networks, together with the use of electric and hybrid cars. For urban distribution, the express industry optimises its pick-up and delivery route planning and operates in a very efficient way compared to most other freight transport operators. Furthermore, where possible, the express delivery industry uses surface transport modes: air transport is only used where there are no other options available to meet same day and next-day delivery requirements.

For some companies, members of the express delivery industry manage all aspects of their distribution process.

The largest share of the European time-definite express volumes lies within the Business to Business (B2B) area (which is also the most competitive market segment) and only a far smaller share in the Business to Consumer (B2C) and Consumer to Consumer (C2C) market segments. The largest part of the B2C and C2C markets are served by day-definite parcel services.

Today express delivery is a €38 billion industry in Europe…

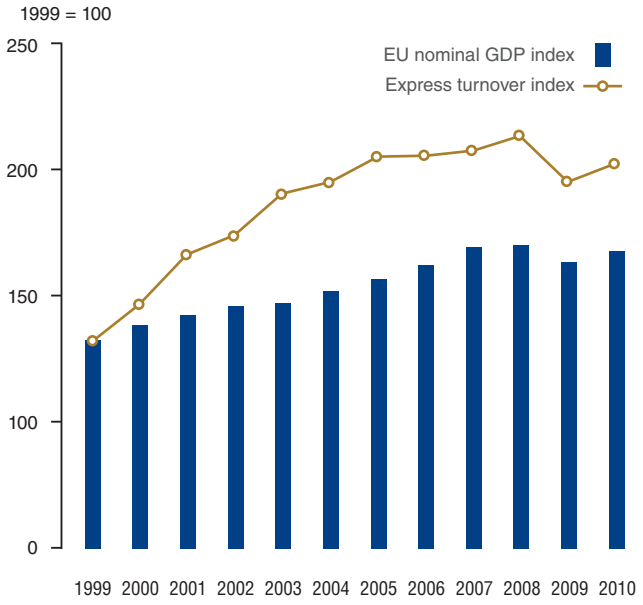
Estimates of the size and reach of the European express delivery industry are based on the financial data of the four largest express delivery companies in Europe – DHL, FedEx, TNT and UPS. Country specific market size estimates provided by the integrators shows that the four integrators account for around 41% of the European express delivery industry. [3,4] Accordingly, the results obtained from the integrators are scaled-up to estimate the size of the overall European express delivery industry – it is these scaled-up estimates that are presented in this report.

In 2010, the express delivery industry generated total sales revenue of €37.8 billion across the EU27. The express delivery industry's output has risen by 22.5% between 2000 and 2010 (the growth in output is measured by adjusting the growth rate of industry revenues to account for inflation). This is equivalent to an average compound annual growth rate of 2.0% per year, slightly ahead of the EU27's GDP of 1.3% per year).

As a key provider of delivery services to European businesses, the industry was inevitably affected by the economic downturn. Over the last five years the express delivery industry has seen output declining on average by around 2.5% a year. 2009 was an especially difficult year. Against the backdrop of a contraction in both EU27 GDP and intra-EU27 trade, output in the European express delivery industry declined by almost 12.3% (Chart 1.1) between 2008 and 2009.

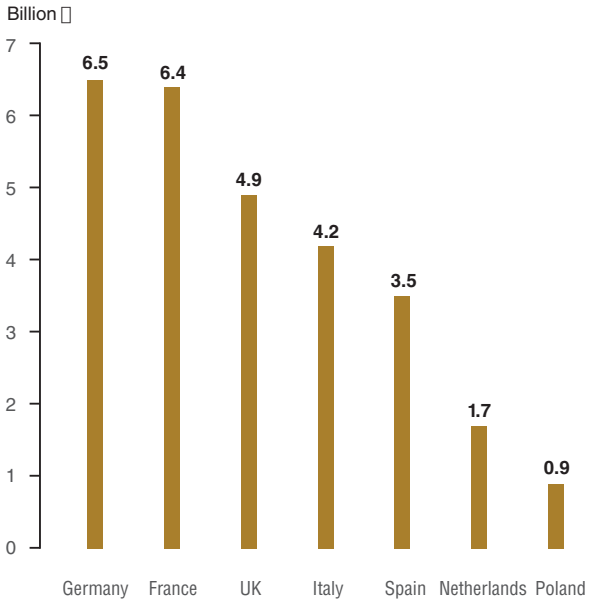
(3) Estimates based on the existing express business segmentation of the four integrators. Adjustments are made to the estimates to account for changes to the integrators business segmentations over the past few years using restated company accounts data.
(4) Our estimate for the market share of the four integrators is consistent with estimates derived by other recent studies, such as those reported in "Postal and courier services", World Trade Organisation, 2010 (available on the WTO website).

Chart 1.1: Sales revenue of the European express delivery industry vs. GDP



Source: Industry data and Oxford Economics Global Economic Databank

Chart 1.2: Express delivery sector sales revenue in 2010 by country



Source: Industry data

…directly employing over 272,000 people...

The express delivery industry employed 272,000 people (full-time equivalent) in 2010. Employment in the industry increased from 240,000 in 2003, a rise of over 12%. Today the industry supports a similar number of jobs as the aerospace sector, a sector that includes aircraft manufactures such as Airbus.[5]

The express delivery industry's employees are in every EU Member State. Moreover, the express delivery industry provides work for people with a wide range of skills, including sorting and delivery, administration and sales, as well as engineering, informatics, technical and managerial roles.

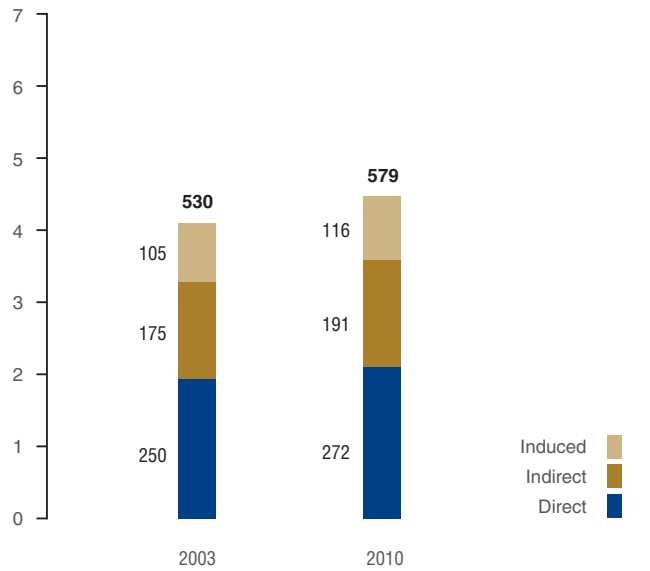
…and supporting a further 307,000 indirect and induced jobs in other European industries

The express delivery industry helps to support other jobs in the EU27, including:

- Employment in companies supplying goods and services to the express delivery industry, hereafter referred to as the express delivery industry's indirect employment impact. Examples include those working in: commercial and cargo airlines providing services to express operators; the aerospace industry building aircraft operated by express delivery companies; the automotive industry building delivery vehicles; companies supplying IT equipment and support services; oil companies; and business services, such as accountancy and legal firms, etc.

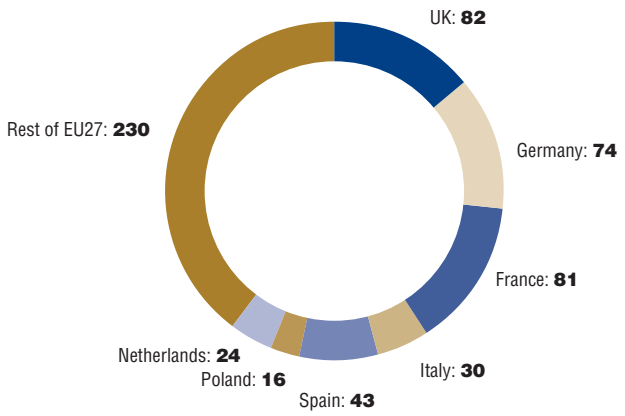
(5) Aerospace employs 290,000 people in total in Spain, France, Germany, Italy, Sweden and the UK.

Chart 1.3:
Employment supported by the express delivery industry



Source: Industry data

Chart 1.4:
Total employment supported by the express delivery industry, by country in 2010 [6]



Source: Oxford Economics, based on industry data

On the basis of information provided by the four integrators and the input-output tables prepared by national statistics offices, we estimate that the 272,000 direct jobs in the express delivery industry generate an additional 191,000 indirect jobs in Europe through the supply-chain.

- Employees in the express delivery industry (whether directly or indirectly) use their income to purchase goods and services for their own consumption, and this spending then helps to support jobs in other sectors. It is estimated that this so-called induced employment may be around 116,000 people (i.e., about 25% of direct and indirect employment in the express delivery industry).

Putting these different elements together implies that the express delivery industry now helps to support 579,000 jobs in the EU27, an increase of 9% since 2003. These jobs are widely distributed across EU27 member states (Charts 1.3 and 1.4).

In addition, the express delivery industry also helps to generate employment elsewhere in the economy by, for example, facilitating trade and investment in Europe and improving the efficiency of its client companies, as discussed later in this report. These wider effects reflect the so-called catalytic impact of the express delivery industry and are discussed in further detail later on in this report.

The express delivery industry contributes over €23 billion to EU27 GDP

Out of this total contribution, we estimate that the direct contribution of the express delivery industry to EU27 GDP was over €10.3 billion in 2010.[7] The direct impact is measured by the industry's gross output and less intermediate inputs such as fuel, packaging materials etc. To calculate the direct impact, we use detailed financial data provided by the integrators, building on previous

(6) Total employment supported through direct, indirect and induced impacts.

(7) By way of comparison, the European express delivery industry has a similar GDP contribution to the European computer and office equipment manufacturing sector (€9.3 billion in 2008).

Oxford Economics research on the economic contribution of the express industry to the European economy. However, the industry also supports other industries within the EU27 through the industry's supply-chain and through the spending of the wage income that the industry and its supply-chain generate (the indirect and induced impacts). These additional impacts contribute a further €13.0 billion to the EU27 GDP, leading to a total contribution of over €23.4 billion.

The express delivery industry makes a substantial contribution to Europe's public finances

The express delivery industry makes a valuable contribution to European public finances. Table 1.1 reports estimates for the corporation tax paid by express delivery companies, the income tax paid by their employees, and social security payments (both employer and employee contributions).

Through the tax payments that it generates, the express delivery industry contributes close to €3.0 billion to EU27 public finances. Of this total, corporation tax, income tax, and social security contributions (both employer and employee) account for around €2.7 billion. Other taxes (excluding sales taxes such as VAT), contribute a further €0.3 billion. The industry's tax contribution is likely to increase in the future on the basis of the predicted growth estimates in Chapter 4.

Table 1.1: Express delivery sector makes a valuable contribution to public finances

	€ billion
Tax contribution (exluding sales & VAT)	3.0
of which:	
Corporation tax	*0.4*
Income tax & Social Security payments	*2.3*
Other taxes	*0.3*

"The express industry also supports other industries within the EU27 through the industry's supply-chain and through the spending of wage income that the industry and its supply-chain generate."

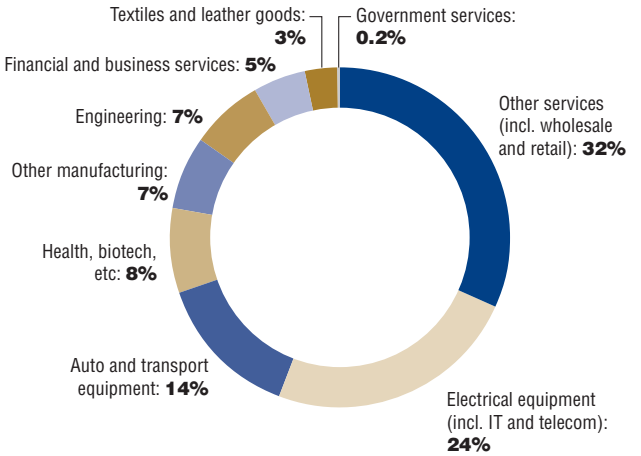
Oxford Economics

Express delivery is especially important for high-tech sectors

The services provided by the express delivery industry are used by companies across the spectrum of European business. The most important client sectors include service sectors, electrical equipment (for example, IT and telecommunications), and auto and transport equipment. Engineering services, financial and business services, and health and biotechnology are also important client sectors for the express delivery industry (Chart 1.5).

Relative to its size, the European express delivery industry today is an important contributor to GDP and public finances. However, the most important economic contribution of the express delivery industry is in facilitating the success of other parts of the European economy, which is the subject of the remainder of this report.

Chart 1.5:
The express delivery industry's main client sectors



Source: Industry data

Case study: a French health industry company

A French company provides services in medical imaging and information technologies, medical diagnostics, patient monitoring systems, disease research, and drug discovery. The global parts warehouse in Paris ensures that critical shipments are dispatched to hospitals and laboratories around the world in the event of a malfunction or total breakdown of life saving equipment. Due to the sensitivity and high dependency of these shipments, the selected express services provider ensures priority boarding of all packages at Charles de Gaulle airport from this location whilst continuing to maintain a late pick-up time from the customer's premises. All shipments are pro-actively monitored by a dedicated service agent who offers peace of mind to the customer, their client and ultimately the patient in need of life saving treatment.

2 The role of the express delivery industry in the internal market

In this chapter we set out the importance of express delivery for the development of the Single Market. In particular, we focus on how express delivery facilitates growth of SMEs and how express delivery contributes to e-commerce.

Key findings

- Express delivery providers are important for deliveries across borders within the Single Market. Indeed, Oxford Economics estimates that close to 269 million intra-EU cross-border express deliveries took place during 2010, with a wide spread in terms of country of origin and country of destination.
- Intra-EU trade in goods has grown more quickly than the EU27 economy, with the value of this trade rising by some 70% between 1999 and 2010 (despite a dip in the recent recession), compared with growth of around 40% in the money value of GDP. At the same time, EU express delivery revenues grew by some 85%, implying – on the basis of reasonable assumptions – that the sector made a significant contribution to the growth of intra-EU cross-border trade and development of the Single Market.
- Express delivery helps small firms to export by providing rapid and reliable delivery services they cannot provide themselves. Overall, SMEs reported that 15% of their sales revenues rely on express delivery services.
- Our surveys showed that 30% of e-commerce sales are dependent on express delivery services.

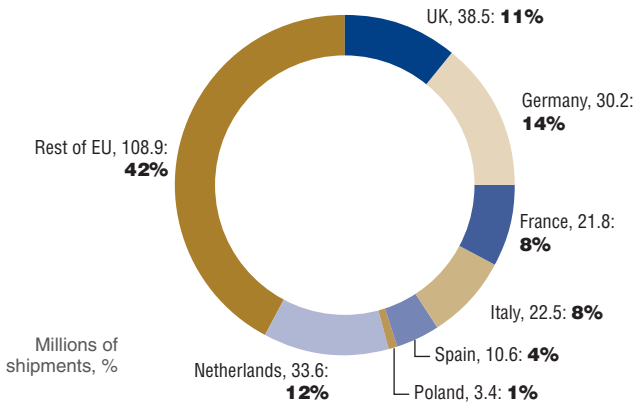
Almost 269 million express deliveries are made across national borders within the EU …

The express delivery industry plays an important role in facilitating cross border trade with businesses throughout the EU27 who use these services to deliver their goods to their customers situated in other EU27 countries. The scale and breadth of the express delivery sector's operations is illustrated in Chart 2.1, which shows the distribution of express delivery cross-border shipments by country of origin (the distribution by destination gives a similar picture).

Oxford Economics estimates that:

- During 2010, the express delivery sector delivered around 269 million intra-EU cross-border shipments, where the shipment's origin and destination were both within the EU27. This amounted to just over 74% of the industry's total shipments within the EU27 (361 million).
- Detailed industry data on the flow of shipments to and from Germany, Netherlands, the UK, Italy, France, Spain, and Poland, show that shipments originating from these countries account for 59% of the total cross-border shipments within the EU27 (160 million).

Chart 2.1:
Cross-border express shipments within the EU27 by country of origin

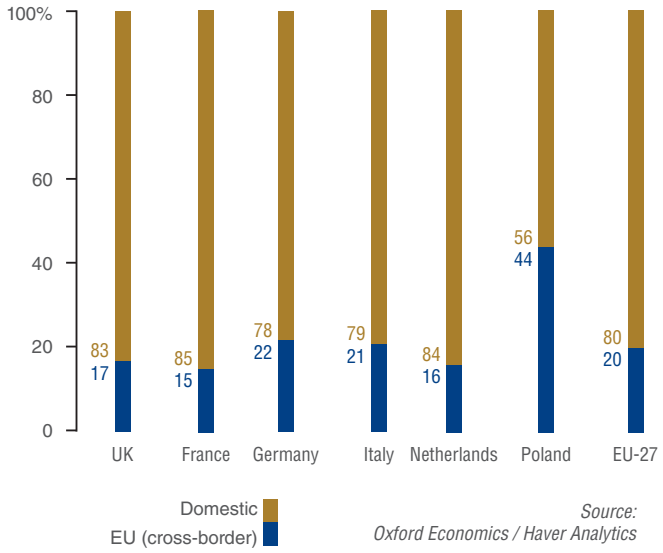


Source: Oxford Economics / Industry data

Among this group of countries, Germany, Netherlands, and the UK account for 14%, 12% and 11% of the total cross-border shipments within the EU27; Italy and France both account for 8%; while Spain and Poland account for 4% and 1% respectively.

The importance of the express delivery industry to Europe's internal market is highlighted by the results of business surveys in six European countries. Conducted by an independent research group, NSM Research, the surveys asked 419 companies, drawn from all sectors of the economy, about their use of express delivery services. The survey, conducted in June 2011, covered small, medium, and large enterprises in six European countries: the UK, France, Germany, Italy, the Netherlands, and Poland. Questions explored the extent to which European companies rely on the express delivery industry to get timely shipments of production inputs, deliver finished goods to their customers, and remain competitive within domestic and international markets.

Chart 2.2:
Express industry customers sending shipments frequently, by destination (8)



Source: Oxford Economics / Haver Analytics

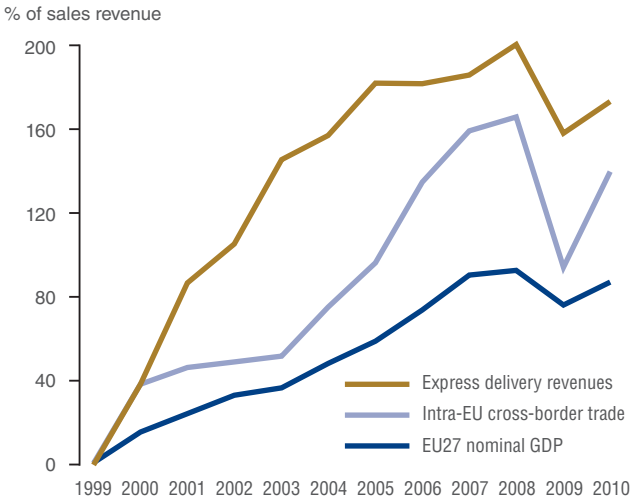
(8) % of respondents who state they send shipments frequently. EU27 is an estimate based on survey data for the six member states, grossed up using each country's share of overall EU27 shipments.

These business surveys show that within the EU27, express shipments are predominantly used for cross-border shipments (Chart 2.2). This is consistent with data provided by the industry, where cross-border shipments are estimated to account for 74% of all express deliveries within the EU.

…. thereby assisting greatly in the development of the Single Market

Cross-border trade within the EU27 has grown strongly over the past decade. Between 1999 and 2008, the value of intra-EU27 trade in goods increased by around 80%. Despite subsequently slipping back in the global recession, this value was still almost 70% higher in 2010 than 1999, helped by a strong rebound in 2010. Cross-border trade in goods therefore grew at a much faster rate than the EU27 economy, with nominal GDP increasing by just over 45% over the same period (Chart 2.3). As such the past decade has seen a deepening of the Single Market with greater integration of the EU27 economies.

Chart 2.3:
Intra-EU cross-border trade and EU express delivery revenues



Source: Oxford Economics / Industry data

Express delivery services have played an important role in facilitating such intra-EU cross-border trade. Chart 2.3 also illustrates this by comparing growth of the express delivery, based on revenue, with growth in intra-EU27 trade. The chart illustrates how the express delivery services have grown faster than the value of intra-EU cross-border trade and EU GDP.

Express delivery services help SMEs access markets in other EU member states…

Small and medium sized enterprises (SMEs), firms that employ less than 250 people, comprise the overwhelming majority of European firms and form an important part of the European economy. According to Eurostat, in 2005 SMEs in the EU27 employed an average of 4.3 individuals, but despite their small size they account for over two-thirds of total EU employment.

The business surveys confirm that SMEs are substantial users of express delivery services. For example:

- On average, 15% of sales revenue of SMEs is dependent on express delivery services.
- 43% of responding SMEs reported that without next-day international delivery, they would probably lose orders.

Express delivery services are important to SMEs because they typically do not have the same transport delivery infrastructure that large companies have in place. 20% of SMEs whose next-day delivery commitments to clients are very important stated that express delivery services are vital or very important to meeting that delivery commitment because the company is too small to have its own in-house logistics and transport expertise and assets – for large companies that dependence falls to 11%.

(9) % of respondents frequently sending shipments. EU27 is an estimate based on survey data for the six member states, grossed up using each country's share of overall EU27 shipments.

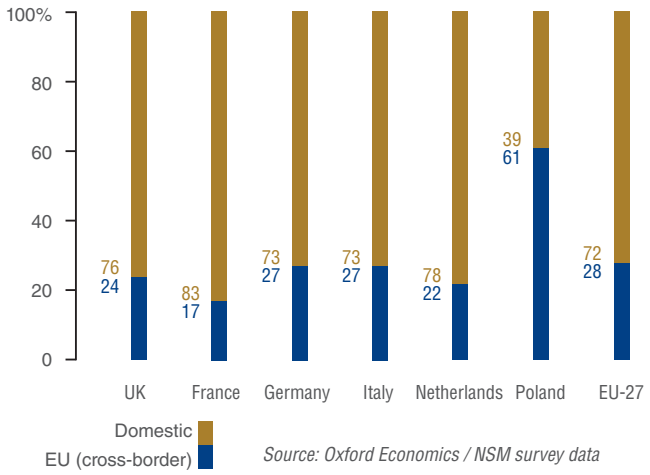
Case study: a French SME

Founded in 1993, this SME has 30 employees located just outside of Paris. It offers a wide range of upmarket, creative products, including cutlery, accessories and dinner sets. The company's exports have grown quickly, thanks to its presence at trade shows in France, other European countries, and the USA. Today, this company makes 55% of its sales revenue through exports, mainly to the USA (20% of global sales revenue), but also to Germany, Italy, the United Kingdom and Australia.

To ensure the quality of customer service and guarantee business development, the company must deliver ready-to-use products to its customers and be able to inform them about the status of their delivery at any time. To meet demand, this company must send numerous shipments (the average weight per package destined for the USA is 8 kilos). These shipments are destined for multiple locations and must meet short deadlines.

To manage these constraints, this company uses express delivery services to deliver its shipments within the European Union (France, Germany, Italy and the United Kingdom) and to the USA. This service allows the company to plan delivery times in a reliable way according to the destination and to track its shipments very closely in order to provide the most accurate information possible to customers at any time. Moreover, by managing the constraints of an SME specialised in upmarket products, the express delivery services provider helps the company to reinforce brand image, meeting customers' needs for quality, reliability and transparency.

Chart 2.4: Express industry SME customers sending shipments frequently, by destination [9]

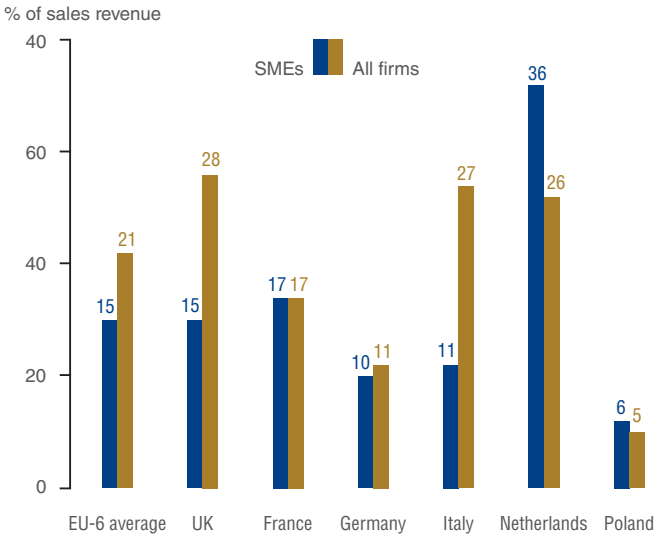


Source: Oxford Economics / NSM survey data

The survey data shows that within the EU27 SMEs use express shipments predominantly for cross-border shipments (Chart 2.4). Cross-border shipments account for around 72% of all express shipments within the EU. Of the six countries surveyed, Poland is the exception where the proportion is closer to 40%.

The business surveys asked companies about the proportion of their sales revenue which depend on express delivery services. The results are shown in Chart 2.5. Overall, SMEs reported that 15% of their sales revenues rely on express delivery services. The reliance that SMEs place on express delivery services to support their sales varies considerably from one country to the next. SMEs in the Netherlands, for instance, rely heavily on express services with 36% of their sales dependent on express. SMEs in the UK and France rely on express for around 15-17% of their sales, while in Germany and Italy the proportion was closer to 10%. The fact that SMEs are somewhat less dependent on express delivery could indicate that they are more reliant on their home and local markets for sales revenues and have not yet fully embraced the potential of the internal market. (The Chart also shows the average for these six countries, labelled the EU6 average. Together, these six economies represent around 70% of total EU27 GDP.

Chart 2.5: Proportion of SME sales revenue dependent on express delivery services



Source: Oxford Economics / NSM survey data

…and support regional development

We noted in Chapter 1 that employees of the express delivery industry are widely spread around Europe. But the express delivery industry contributes to regional development in a number of other ways as well:

- It enables businesses to access and supply markets that are not geographically close to their home base.

Companies that rely on next-day delivery to customers may locate near hubs for express delivery services so as to make the pick-up time for their deliveries as late as possible, providing them with maximum production flexibility. With express carriers using regional airports in addition to some of the main hub airports, this further promotes regional development.

Case study: regional development

The company is a famous research institute in the healthcare industry based in the South East of France. Its shipments contain time sensitive and temperature controlled products. The company needed a 24-hours transit time service to the USA and they had a specific requirement: they needed proactive monitoring from their carrier to ensure that both cold storage and re-icing could be implemented should customs delays occur.

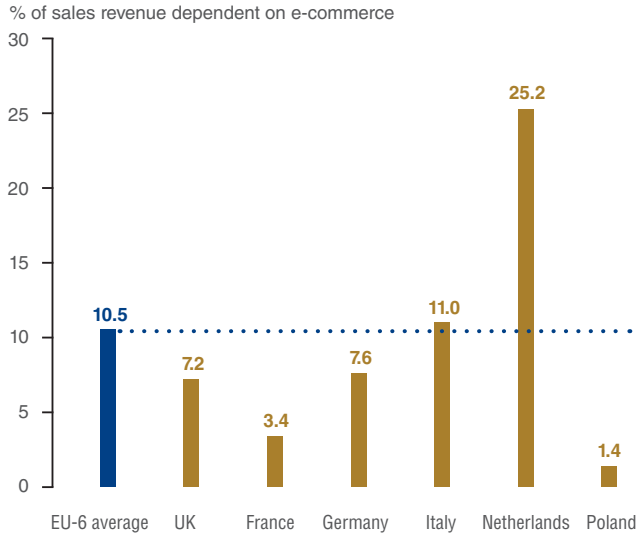
Thanks to the network of the express delivery services provider and its daily regional connection to Paris Charles de Gaulle airport, the company could benefit from a 24-hours transit time and a delivery by 10.30am to all US cities. In addition, the "Priority Alert" service did meet the customer's expectations: combined with efficient cold chain solutions, a very close monitoring is performed by a dedicated agent to minimize the impact of any customs delay.

Our surveys show the importance of express delivery services for e-commerce

Today e-commerce is an important marketing channel for European companies. Our business surveys found that on average e-commerce accounts for just over 10% of sales revenue.[10] There was considerable variation across the seven European countries covered by the surveys (Chart 2.6). E-commerce sales are particularly important in Netherlands, where e-commerce accounts for 25% of sales revenue; while in Poland, it accounts for less than 2% of sales revenues.

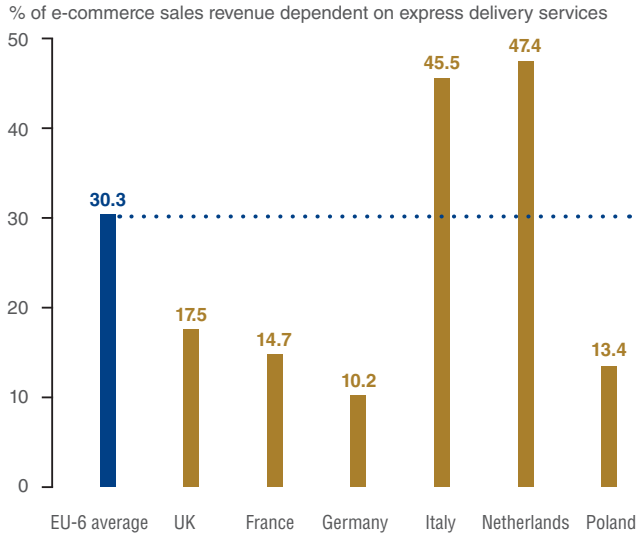
(10) Here, e-commerce refers to direct online purchase by the end consumer on the companies' website.

Chart 2.6: EU company sales revenue dependent on e-commerce



Source: Oxford Economics / NSM survey data

Chart 2.7: E-commerce sales dependent on express delivery services



Source: Oxford Economics / NSM survey data

The business surveys also show the importance of express delivery services for the development of e-commerce. For instance, just under a third of e-commerce sales revenues are delivered using express delivery services. Companies in the Netherlands and Italy are leaders in using express services to expand their e-commerce business (Chart 2.7).

Conclusions

The express delivery industry makes a valuable contribution to the development of the Single Market. Close to 270 million express deliveries are made across national borders within the EU27 connecting businesses with their customers across the Single Market with a reliable next-day delivery service. Express shipments are predominantly used for cross-border shipments, with these shipments accounting for 74% of all express deliveries within the EU. SMEs also rely on the express industry for many of their most critical logistics tasks and for their sales revenues, with 43% of SMEs stating that they would lose sales should next-day international delivery not be available. Finally, our surveys show that express delivery services are important for e-commerce.

3 The role of the express delivery industry in international trade

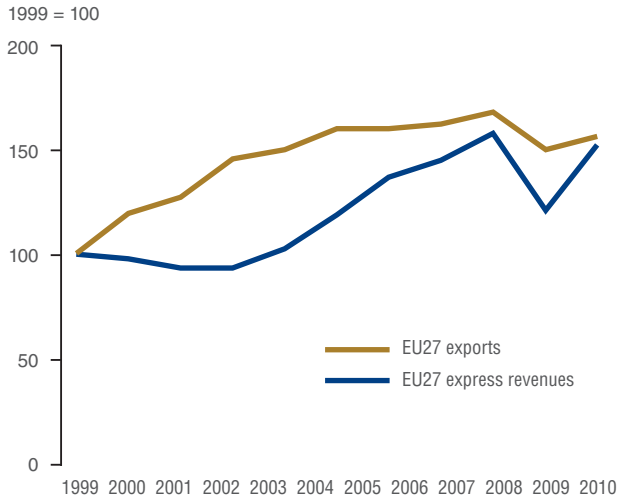
In this chapter, we continue our analysis of the contribution that the express delivery industry makes to the long-term growth potential of the European economy by considering its role in international (extra-EU27) trade.

Key findings

- Revenues of express operators have grown more quickly than the value of European exports.
- Express delivery services are important to ensure that European companies remain competitive by growing their exports and investments. The survey results indicate that 77% of respondents consider express delivery services to be important for competitiveness in markets outside the EU.
- Business surveys show that 21% of companies frequently use express shipments to send consignments outside the EU.
- Express carriers are facilitating this trade by investing in new delivery routes and services, connecting EU member states with over 90% of the world economy within 72 hours.
- Good access to markets is of the upmost importance in influencing firms' decisions on where to locate. For many firms, 'good access' to international markets includes the availability of next-day delivery.

The benefits that express delivery offers to European trade have resulted in the revenues of the express operators rising more quickly than the value of European exports over the past decade (Chart 3.1).

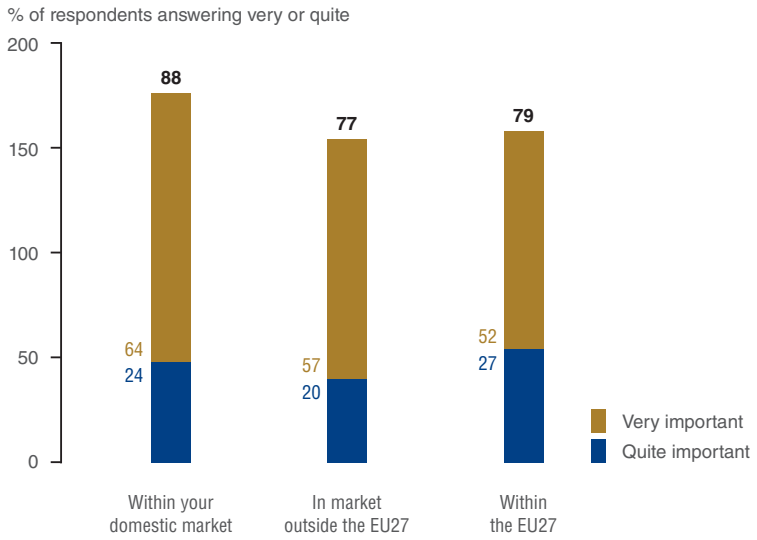
Chart 3.1:
Express delivery industry revenues in the EU27 and the value of extra-EU trade



Source: Industry data and Eurostat

The availability of express delivery services is considered an important factor for businesses within the EU27 to stay competitive within domestic and international markets (Chart 3.2). For the domestic market for example, 64% of those surveyed stated that express delivery services are very important to their company's ability to remain competitive, with a further 24% stating that they are quite important. Beyond domestic markets, express delivery services are important for companies' competitiveness within the Single Market for 52% (very important) and 27% (quite important) of survey respondents, while in international markets outside the EU27 these proportions are 57% and 20% respectively.

Chart 3.2:
Importance of express delivery to companies' competitiveness



Source: NSM survey data

Case study: a Danish producer of gas measurement instruments

This Danish company was formed 25 years ago and has around 125 employees globally, 75 of whom are based in Denmark. The company is a global leader for gas measurement instruments used in the food, medical and electronics industries.

This company operates in worldwide niche markets, with about 95% of all products exported from Denmark to places as far afield as China, Mexico and Ukraine.

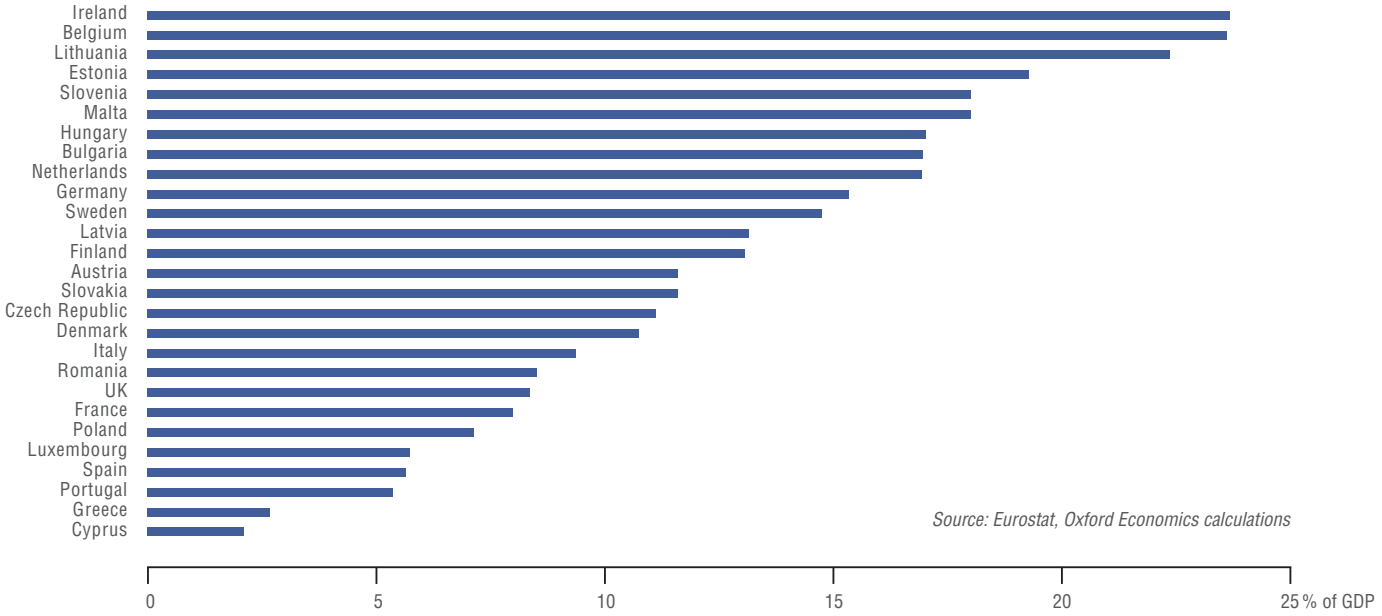
Express delivery services are integral to this company's operations. It uses express services to reach destinations around the globe in just one or two days. This often happens, for instance, when customers need a spare part to continue the production of their goods. According to the company's shipping manager "it is imperative for us that the distribution of our products runs smoothly. It has to be easy, fast and without complications. With our express delivery partner we can cover the entire world, focus on our main competences and let our express partners do what they know how to do best".

Express industry plays an important role in international trade…

Trade performance is a key determinant of economic growth and prosperity. Over the last 45 years, the countries that have grown the fastest have typically been those that have also seen the fastest growth in international trade. Trade and the free movement of goods, people, and capital are also at the very core of the European Union.

The economies of all of the member states of the EU27 trade heavily with countries outside the EU. As Chart 3.3 shows, many member states have significant export markets outside the EU. For instance, exports of goods to markets outside the EU exceed 10% of GDP for 17 of the 27 EU member states, and for all but two (Greece and Cyprus) the proportion exceeds 5%.

Chart 3.3: Exports of goods (extra-EU27), as % of GDP, 2010



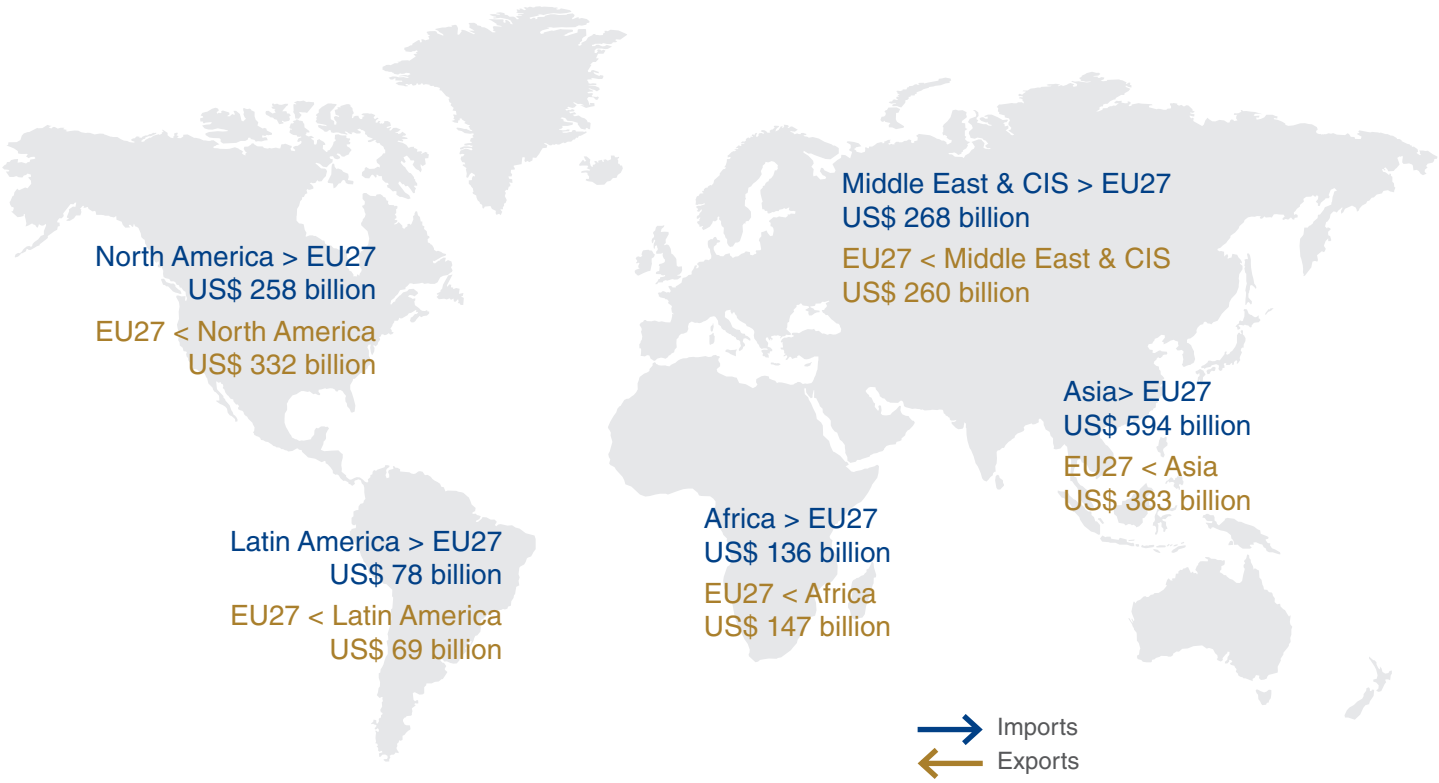
Source: Eurostat, Oxford Economics calculations

Rapid growth in international trade is by no means only a recent phenomenon, nor is it confined to Europe. For example, world trade increased nine-fold between 1950 and 1973. But the absolute volume increase in world trade since the mid-1970s has been over two times that over the previous 25 years, driven by:

- The gradual **removal of barriers to international trade** – reflected in the importance of international trade agreements and organisations such as the WTO.
- **Globalisation** – as new markets have opened up and more companies have established international operations and foreign subsidiaries.
- **Increased specialisation** – encouraging countries to focus on the activities in which they have a competitive advantage, and trade with other countries that have an advantage in the production of other goods and services.
- **Global communications** – enabling companies to market their products around the world, and liaise with customers and suppliers in other countries.

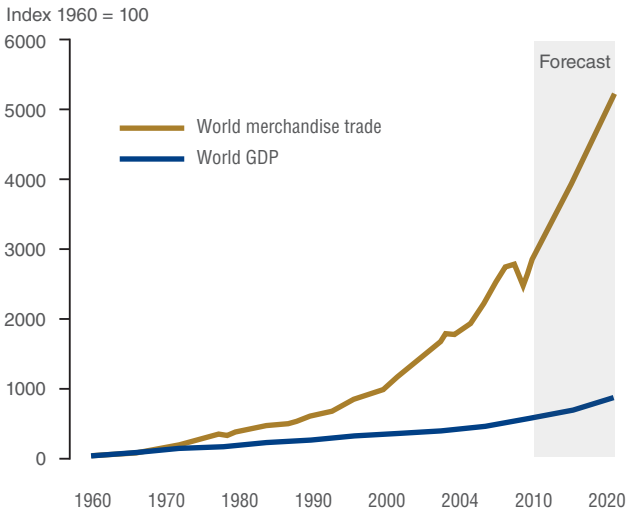
Figure 3.1 shows the pattern of Europe's international trade. Asia is now the EU27's most important external trading partner, having recently overtaken North America. In addition, the value of trade between countries in the EU27 is close to twice that between the EU27 and its external trading partners.

Figure 3.1: The pattern of EU27 trade with other regions



Oxford Economics' global forecast suggests that the global economy will become even more dependent on trade, with world trade increasing by almost 90% over the next decade (Chart 3.4).

Chart 3.4: World trade and GDP



Source: WTO, Oxford Economics

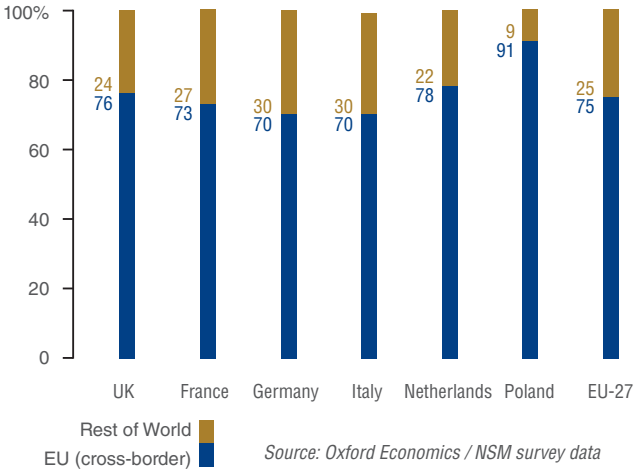
…with rapid, guaranteed delivery increasingly important to competitiveness…

The European economy's increasing reliance on trade means that it is also increasingly dependent on efficient and competitive means of both delivering its exports to their destinations and bringing in imports from other countries. There are a number of aspects to such services that are important:

- **Speed:** For some organisations, speed to market is even more important than cost in determining their competitiveness. This is obviously vital for high-value perishable goods, such as pharmaceutical test materials. But it is also important, for example, for firms meeting orders to strict delivery dates or having to respond immediately to customer demand (i.e., the so-called 'Day+1 economy').
- **Reliability:** The reputation of European exporters can be undermined if their deliveries fail to arrive with customers on time or are lost in transit.
- **Destinations served:** With trade growing most rapidly in the so-called emerging economies, particularly in Asia, the ability to ship products to and from an increasing number of countries cost-effectively and quickly is also important.

Business surveys show that 21% of European businesses frequently use express shipments to send consignments to destinations outside the EU27 (Chart 3.5). This proportion is broadly similar across most of the six countries surveyed; Poland is the exception, where the proportion is just over 5%.

Chart 3.5: Express industry customers sending shipments frequently, by destination (11)



Source: Oxford Economics / NSM survey data

(11) % of respondents frequently sending shipments. EU27 is an estimate based on survey data for the six member states, grossed up using each country's share of overall EU27 shipments.

Case study: an Italian garment producer

This company, based in northern Italy, is a family run business which has been producing exclusive knitwear for more than 35 years. All raw materials and fabrics are produced in Italy by highly-skilled craftsmen using the latest in knitwear technology. This guarantees excellent quality garments carrying the 'Made in Italy' label and makes them highly appreciated in international markets. The company distributes quality and fashionable knitwear to high-end stores in Europe and North America.

This company realised that in order to be competitive in these mature markets it needed a supply chain solution that could synchronise various fulfilment milestones - customs clearance included - and reduce delivery times, whilst keeping costs down. Accordingly, the company turned to an express delivery services provider to handle their entire fulfilment supply chain, from collection at their production facility in Italy to the delivery of knitted garments to high-end stores located in Las Vegas or Calgary.

With the support of express delivery services, order fulfilment time was reduced from 15 days to between just 48 to 72 hours which meant that this company exceeded its new business targets and expanded rapidly in the United States and Canada. Supported by express delivery services, in less than two years this company has been able to double its order volume in North America. The company now has a presence in leading multi-brand stores in 31 large cities and further international growth is anticipated.

…and express carriers investing in new routes to fast-growing markets

European companies use a variety of means to transport goods to and from markets outside the EU27, including road, rail, sea-freight, and air-freight. Express delivery services represent the 'value added service' of the freight transport market. They connect 90% of EU27 members with the rest of the globe within 72 hours, providing fast, highly reliable delivery services that many European firms depend upon.

Express carriers are responding to the growth in Europe's trade by investing in new delivery routes and services to ensure that they can meet the growing demand for rapid and guaranteed international delivery. Moreover, they are increasingly working with their clients to provide support with distribution and logistics services.

Case study: a Danish manufacturer

This company, based in Denmark, manufactures aluminium logo nameplates for television sets, hi-fi products, computers and cellular telephones amongst other small electronic devices.

Having analysed the demands of their widely-dispersed customer base, they came to the conclusion that deliveries, no matter where in the world, had to be done within one to three days in order for the company to remain competitive.

Maintaining a leading market position depends on this company being faster with their production and shipping without being more expensive. With that in mind, they had to ensure that their finished goods could be shipped from Copenhagen to Beijing just as fast as if the company was located in South China.

This company exports close to 99% of its production globally which necessitates not just fast, but also reliable delivery across the world. Timely deliveries are also essential for this company during their customers' development and approval of new logos. Most of the company's customers have strong brands and decisions regarding a new logo design are always taken at the top management level. Logo prototypes in hand, delivered by an express services provider, aid these companies in the decision making process. Around 90% of their shipments are sent using express delivery services which provides next morning delivery within Europe and within two days to their key destinations across the rest of the world.

Express delivery services are typically used for delivering items that are high-value and light-weight. Data on the weight and value of goods carried by air, sea and land transport is available for EU27 trade with the rest of the world. So while air accounts for less than 1% of the tonnage of EU27 trade, air freight makes up over 22% of the value of EU27 trade with the rest of the world.

…and helps facilitate foreign direct investment

Foreign direct investment is critical to the development of many EU27 members, and express operators offer multinational investors high quality transport links, both for bringing in materials, components and spare parts to their production facilities and for transporting finished products to market. In this way, express operators help investors overcome both problems of geography and weaknesses in the transport infrastructure.

A wide range of factors influence firms' decisions about how much and where to invest. However, surveys of international investors suggest that ease of access to markets and transport links are particularly important. A survey by Healey & Baker, for example, shows that 61% of companies consider easy access to markets customers or clients as "absolutely essential" when deciding where to locate their business.[12] Express delivery services are vital to delivering a competitive Europe. Being able to respond quickly to customer demand is essential to winning and maintaining business in an increasingly competitive global economy.

(12) Rossall, E. and Gorman (2010) European Cities Monitor 2010, Cushman and Wakefield.

4 Prospects for the express delivery industry and its impact on European growth

In this chapter, we consider the future prospects for the express delivery industry and calculate its likely direct contribution to EU27 GDP and employment in five and ten years' time. We highlight the dependence of companies' sales revenues on express delivery services, while in Chapter 5 we discuss the implications that restrictions on the availability of express delivery services would have on economic performance.

Key findings

- There is great uncertainty over the timing and scale of recovery in trade and GDP growth in most European economies. Accordingly, growth of express delivery services is expected to average a cautious 3.9% a year in real terms over the next decade.
- The growth prospects of the industry will outpace that of EU27 GDP growth and mainly reflects the longer-term prospect of expansion of international trade and the increasing need for rapid, guaranteed delivery, particularly to emerging economies.
- As a result, employment in the express delivery industry in Europe is expected to increase from 272,000 now to 300,000 by 2020.
- EU27 companies are dependent on express delivery services for around 16% of their sales revenue on average worth around €4 trillion. By 2020, 21% of EU27 sales revenues are expected to be dependent on express delivery services.
- A broad range of industries use express delivery services. These sectors use express delivery to transport time-sensitive goods. E-commerce is now also an important source of demand for express delivery services. Hi-tech industries use express delivery to transport items that are light-weight and high-value, assisting them in their just-in-time inventory management.

Growth to return to express delivery industry…

The express industry was hit particularly severely by the fall-out from the global financial crisis. In 2009, against the backdrop of a contraction in both EU27 GDP and intra-EU27 trade, sales revenue in the European express delivery industry declined by 12.3% in real terms. Real growth returned to the express industry in 2010, as world trade and EU27 GDP picked up.

….as the need for rapid, guaranteed delivery intensifies…

Although there is much uncertainty over the growth prospects for the express delivery industry over the short-term (next two to three years), the industry is likely to grow strongly over the medium to long-term and regain its position as one of Europe's fastest growing sectors. The requirement for rapid delivery is likely to intensify further among existing users of the express delivery industry and spread to other sectors as, for example, more businesses use the internet for purchasing and supply management, and the demand for logistical services increases.

International trade is expected to grow strongly over the longer-term – Oxford Economics forecasts it to increase by over 60% in real terms (i.e. adjusted for inflation) over the next decade compared to a rise of around 21% in European GDP.[13] Growth will be slightly stronger over the next five years than in the latter half of the decade as the European economies start to rebound from a climate of falling trade volumes and a contraction in world growth.

The business surveys conducted as part of this study support the view of growth returning to the express delivery industry over the next five years. The surveys asked companies in France, Germany, Italy, the Netherlands, Poland and the UK how they believe their use of express delivery services will change over the next five years. 9% of respondents expect their use of express delivery services to rise by more than 10% over the next five years, while 23% expect to increase their use of express delivery services by between 5-10% over the next five years. Moreover, respondents reporting an increase in the use of express delivery industries significantly outweigh those anticipating a decline in use.

In addition, while the market for express delivery services is relatively mature in many European countries, such as the UK, the Netherlands and Germany, there is considerable scope for expansion in countries relatively new to the EU, such as Poland.

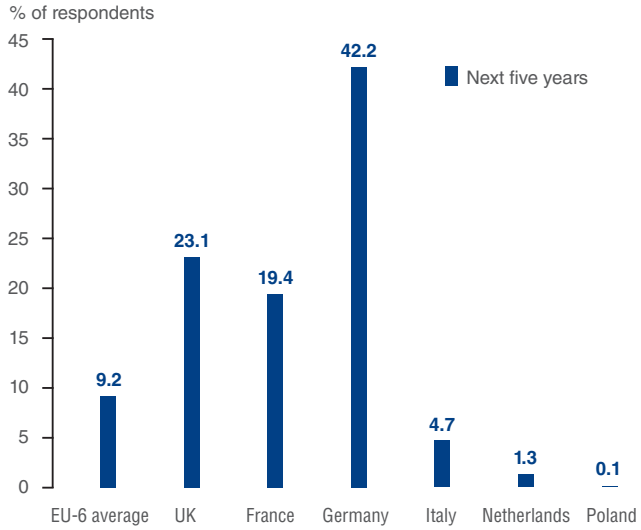
…and output expected to rise by 3.9% a year over the next decade…

We expect the express delivery industry to maintain its share of the European air cargo market, growing by an average of 3.9% a year in real terms between 2010 and 2020. This is slightly behind the growth we expect in world trade but well ahead of our forecast of 2.1% annual real growth for the European economy over the whole of the next decade: the growth forecast is slightly slower than growth implied by projections from Boeing for European air cargo traffic over the next two decades, as we are more cautious about the timing and extent of economic recovery over the next decade [14].

(13) These long-terms projections are broadly-in line with medium-term world trade projections published by The World Bank and The Economist Intelligence Unit (EIU).

(14) See http://www.boeing.com/commercial/cmo/pdf/Boeing_Current_Market_Outlook_2010_to_2029.pdf

Chart 4.1: The use of express delivery services in the EU6 countries



Source: Oxford Economics / NSM survey data

Table 4.1: Prospects for the express delivery industry over the next decade

Real terms (i.e. inflation-adjusted)	Average anual growth (%)				
	2000 -2010	2005 -2010	2010 -2015	2015 -2020	2010 -2020
World trade	4.7	4	6.9	5.6	6.2
Express industry output	2	-2.5	4.9	4	4.5
EU27 GDP	1.3	0.8	2.2	2	2.1

Source: Eurostat, WTO, Oxford Economics calculations

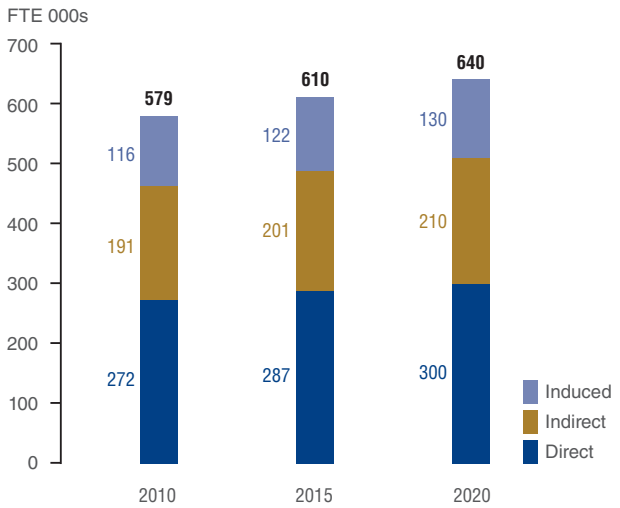
The direct contribution of the express delivery industry to European GDP is set to increase by over 45% by 2020 to reach €15.1 billion in today's prices. This rate of growth will result in the overall GDP contribution being €2.4 billion higher by 2020 than if the express delivery industry grew merely in line with our EU27 GDP forecast of 2.1% per annum. (And note that this is only the direct impact of the express delivery industry's growth: it does not include the indirect or wider catalytic impacts of growth in the express delivery industry on other sectors of the economy).

There will also be benefits to EU27 employment from the express delivery industry's future growth. In 2010, employment in the express delivery industry is estimated to have been around 272,000 in Europe. Looking forward, we assume that productivity growth in the sector will rise at 2.5% per annum. On this basis, we expect employment in the express delivery industry to reach around 300,000 by 2020.

…and around 640,000 jobs supported by the express delivery industry

The expansion of the express delivery industry will support growth in jobs both in its supply chain (indirect employment) and as its employees purchase goods and services from other sectors (induced employment). The total EU27 employment supported by the express delivery industry is forecast to increase to around 640,000 by 2020.

Chart 4.2: Employment supported by the express delivery industry by 2015 and 2020



Source: Oxford Economics

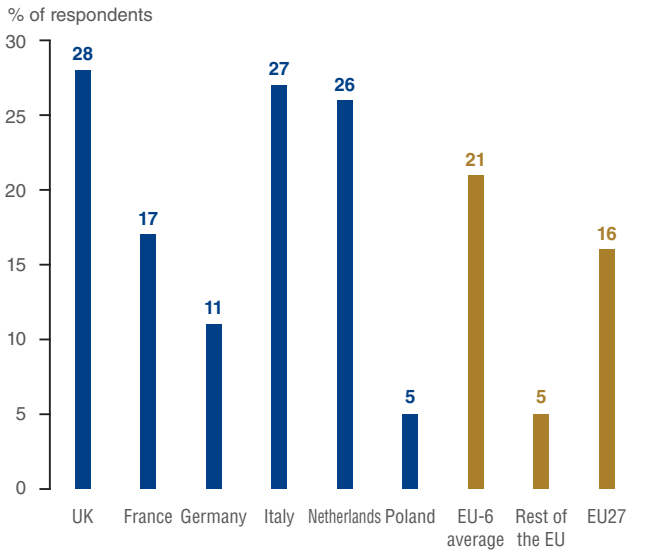
16% of EU27 companies' sales revenues are dependent on express delivery services

For the EU27 as a whole, we estimate that 16% of sales revenues are dependent on express delivery services. This is based on survey evidence from the EU6 countries, where the sales dependence averaged 21%. For the remaining 21 EU countries, Poland's current sales dependence by industry was applied to the industrial profile of each country: Poland has the lowest sales dependence among the EU6, so our estimate for the EU27 can be considered conservative.

Express delivery services are likely to be particularly critical to the EU27's success in the fast growing knowledge-based sectors such as business services and 'high-tech' industries (e.g. IT service suppliers).

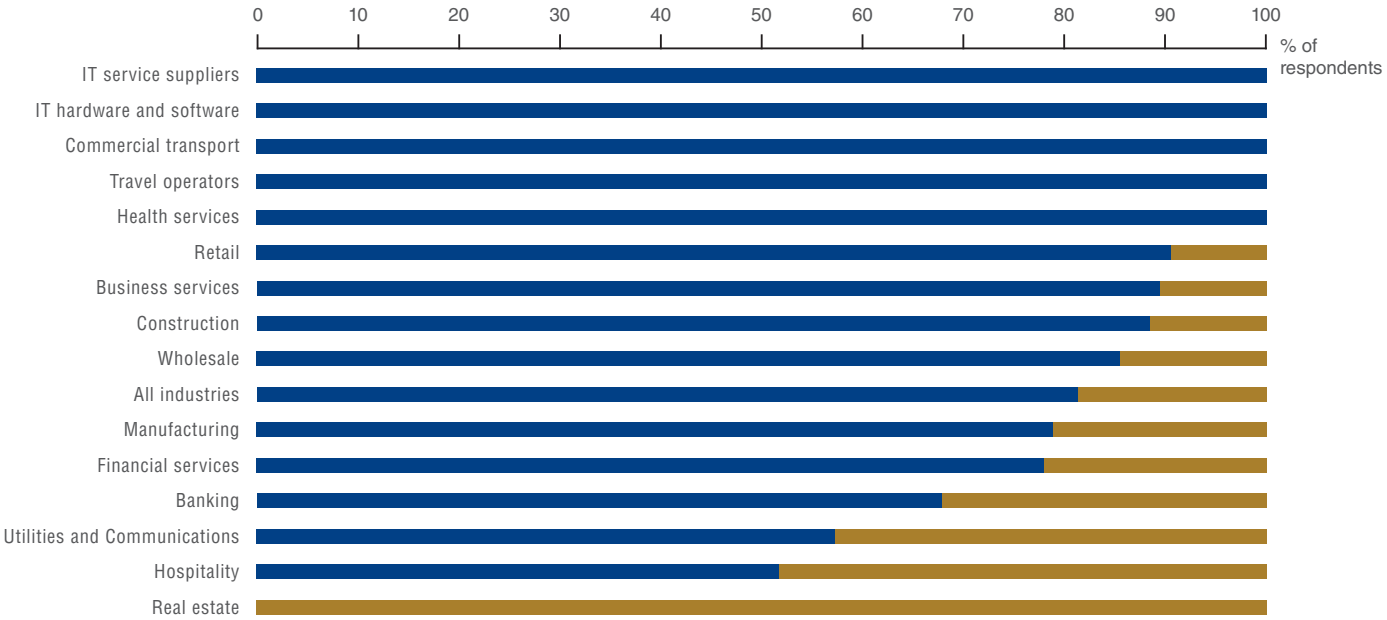
But it should also be emphasised that express delivery services predominantly operate in the Business-to-Business (B2B) market rather than serving customers directly in the Business-to-Consumer (B2C) market.

Chart 4.3: Proportion of sales revenue dependent on express delivery services in 2010



Source: Oxford Economics / NSM survey data

Chart 4.4: Nature of business activities using express delivery services, by industry



Source: Oxford Economics / NSM survey

For this reason the business surveys conducted for this report focused entirely on express delivery industry's business customers. To explore this further, Chart 4.4 reports the proportion of companies that described their customers as primarily individuals (Business-to-Customer, or B2C), and the proportion that described themselves also engaged in Business-to-Business (B2B) trade. The chart shows this split for 15 industry sectors. In only three industries - hospitality, real estate, and utilities and communications - are primarily B2C-orientated businesses a significant proportion of firms using express delivery services. In most industries, express customers have at least some B2B-orientation – the average across all industries is 80%. Express delivery is therefore primarily a tool used to facilitate B2B shipments. Moreover, we have already noted that express shipments are primarily used for cross-border deliveries. Both these facts suggest that express delivery provides a crucial element to European businesses' cross-border supply-chains. By doing so, the industry is helping to break down barriers to a Single Market within Europe.

…with 21% of sales revenue dependent on express delivery by 2020…

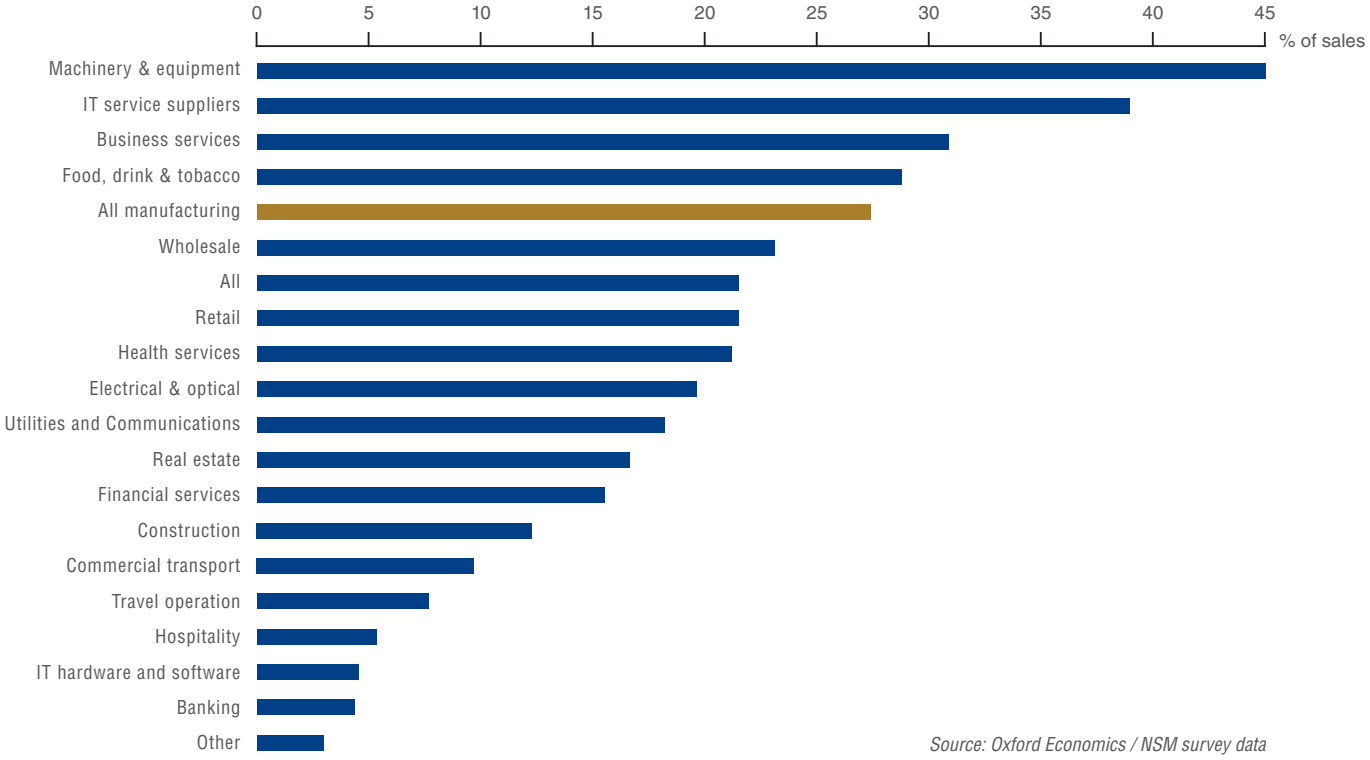
Given these survey responses, we estimate that about 16% of EU27 companies' total sales revenues are currently dependent on express delivery services. Forecasts based on Oxford Economics' published view of economic growth by industry across Europe, combined with survey responses on expected expenditure on express delivery services over the coming years, suggest that this is set to increase to 21% of total sales revenues by 2020.

…as both knowledge-based and e-commerce related sectors expand

The business survey and case studies suggest that firms in knowledge-based and e-commerce-based sectors are more-than-usually dependent on express delivery services. This reflects the kind of products and services they provide, such as:

- Failed items, such as personal computers, for which rapid repair and return is essential, and more urgent parts where companies operate just-in-time inventory management (such as the automotive sector). All of the IT service providers surveyed in Europe stated that express delivery services were very important to their overall business performance.
- Time-critical items (such as tissue or blood samples for clinical trials) – 94% of health companies in our survey of European businesses would be very badly affected if next-day delivery services to and from their country were no longer available.
- Important items, such as the two-way exchange of important documents between companies and their clients, ensuring compliance with confidentiality clauses and safety of the data – two-thirds of the financial and banking companies surveyed in Europe stated that the need for guaranteed next-day delivery of items that can be tracked en-route is very important in their decision to use express delivery service industries.
- Items purchased on-line, where rapid delivery to the customer is essential – 60% of e-commerce sales revenues in the wholesale sector are fulfilled using express delivery services, and this is expected to grow at a fast pace and become an increasingly more important area of growth for express delivery companies operating in Europe.

Chart 4.5: EU6 company e-commerce sales revenues dependence on express delivery services by industry



The implication is that if economies are to be successful in these sectors – and we expect these to be among the fastest-growing industries in Europe over the next ten years – they will become increasingly reliant on the services of the express delivery industry.

Conclusion

There is great uncertainty over the timing and scale of recovery in trade and GDP growth in most European economies. Accordingly, growth of express delivery services is expected to average a cautious 3.9% a year in real terms over the next decade.

The growth prospects of the industry will outpace that of EU27 GDP reflecting the longer-term prospect of expansion of international trade and the increasing need for rapid, guaranteed delivery, particularly to emerging economies.

EU27 companies are dependent on express delivery services for around 16% of their sales revenues on average today worth around €4trillion. By 2020, 21% of EU27 sales revenues are expected to be dependent on express delivery services.

As a result, employment in the express delivery industry in Europe is expected to increase from 272,000 now to 300,000 by 2020, if growth is not constrained. The impact of constraints on growth of next day delivery services is the subject of Chapter 5.

5 The express delivery industry's supply-chain value for EU business and impact of no next-day delivery services

The previous chapters have explained the important contribution made by the express delivery industry to the European economy. In this chapter, we continue our analysis of the contribution that the express industry makes to the European economy through its supply-chain value for EU businesses. In particular, we analyse the impact the express delivery industry has in facilitating the performance of other sectors by considering its role in the delivery of time-sensitive goods, reducing costs, and avoiding costly shut-downs.

The chapter then moves on to consider the economic impact of no next-day delivery within the EU27 on the express industry's customers and thereby on Europe's competitiveness.

Key findings

- The express delivery industry represents significant supply-chain value for EU businesses.
- 96% of EU27 companies indicate they use express delivery services because they need next-day and guaranteed delivery.
- Many European companies rely on next-day express delivery services because their company's products are time-sensitive or perishable (customers have streamlined production processes or need spare parts).
- Next-day delivery services enable European firms to maximize the efficiency of their production activities – reducing production shut-downs and enabling firms to implement best international techniques such as build-to-order. For example, 36% of EU27 companies have production processes for which next-day delivery is very important.
- Express delivery helps firms to minimize their inventory costs.
- 16% of EU27 companies' sales depend on express delivery services.
- The express industry needs to move shipments at night to deliver the economic benefits of next-day delivery services.
- Restrictions on express delivery services not only adversely affect the efficiency of express delivery companies but also undermine the competitiveness of companies across Europe. The business survey revealed that 47% of companies believed they would be very badly affected if no next-day delivery services were available. 43% indicated that orders could be lost because of longer delivery time, 43% expected increased inventories for customer demand, 42% expected increased inventories for production processes while 15% felt that operations would have to be relocated.
- As a result, restrictions on express delivery services generate significant economic costs. For example, imposing a restriction that led to next-day delivery services no longer being available in the EU could reduce GDP across the EU by around €30 billion a year.

Business surveys confirm the importance of express delivery services to companies…

The importance of the express delivery industry in European trade is highlighted by the results of the business surveys in six European countries. These surveys show that around 47% of European companies frequently use express delivery for sending products to customers, while a further 11% do so at least occasionally. 87% frequently use express delivery for documents such as contracts and tenders, while a further 11% do so occasionally. And 47% either frequently or occasionally use express delivery for sending subcomponents to other production facilities within their own organisation.

The surveys shed light on the reasons why companies use express delivery services rather than alternative means of delivery. As Chart 5.1 shows, almost all respondents consider both guaranteed delivery and the availability of next-day delivery to be very important. And most firms also value the ability to track the location of products en-route.

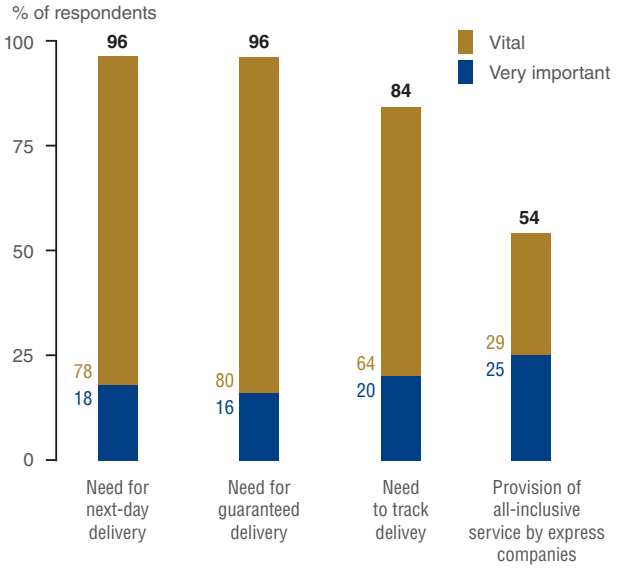
…as companies rely on express services for the delivery of time-sensitive goods…

As Chart 5.2 shows, companies use express delivery services to transport time-sensitive products. Many of these companies would be adversely affected if their products or contracts arrive late. Particular examples include:

- A garment manufacturer who must produce and dispatch new designs within days for order fulfilment.
- Companies in the manufacturing sector who must be able to produce and dispatch new samples to their customers' during the development and approval of new products to secure a new order.

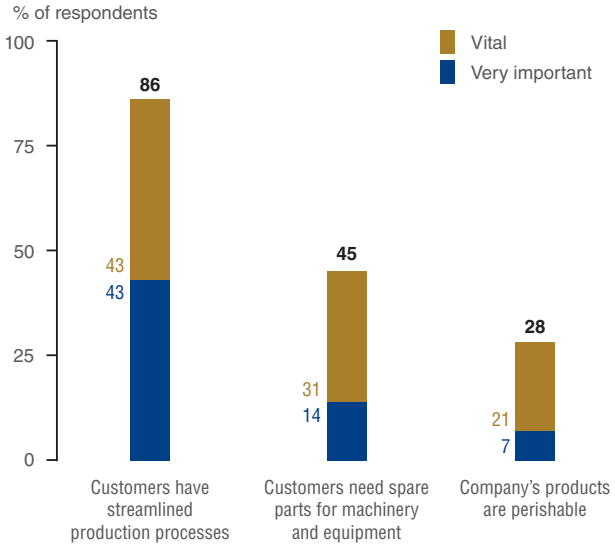
Moreover, express delivery services allow companies to centre their operations in a particular European country, while still serving a global market in perishable materials.

Chart 5.1: Reasons for using express delivery services



Source: Oxford Economics, NSM survey

Chart 5.2: Why is next-day delivery important?



Source: NSM survey data

Express services enable firms to reduce their costs…

Providing rapid and reliable delivery is clearly one critical way in which the express delivery industry contributes to Europe's success in international trade and is therefore vital to its competitiveness.

There are a number of other ways in which express delivery services and their operators contribute to Europe's competitiveness:

- Enabling firms to **reduce purchasing costs**, by increasing the area from which inputs can be sourced and facilitating sourcing from cheaper suppliers.
- Facilitating **cost-savings on inventories** by enabling better concentration, rationalisation and location of warehouses.
- Providing extensive **logistics support services** to companies, enabling them to delegate responsibility to professionals in the sector who seek the most cost-effective way of transporting goods and paperwork on their behalf. This both relieves companies of the burden of running their own transport departments and vehicles, and allows managers to focus on their core business.
- Improving companies' **handling of returns and complaints** – for example, by allowing next-day delivery of replacement equipment to customers or quick turnaround of repairs.
- Facilitating **improved stock-management and production techniques**, reducing firms' storage costs, losses due to stock-outages, and disruption caused by failure of machinery on production lines.

…helping to avoid costly production shutdowns…

The key role express delivery services play in helping companies avoid interruptions to the production process is also illustrated by the survey of large English and Dutch companies. For example, 19% of large UK companies responding to the survey indicated that, without next-day delivery, production process would probably be interrupted on occasion because spare parts for equipment were not available quickly, while 14% of large Dutch companies indicated the same.

Our case studies provide a number of examples illustrating how firms rely on express delivery services to maximise their efficiency. And they show it is not only companies in the manufacturing sector that rely on express delivery services; they are key to efficient operations for many firms in the service sector too.

Case study: a Romanian business services support company

This company has become the first Romanian supplier capable of providing complex integrated solutions for cash management, customer flow management, automated identification of data, and brand/documents security. As the leading Romanian expert in the analysis and automation of cash processes, the company is able to provide any type of store with complete front-office and back-office store equipment and anti-theft systems. Since its beginning, it has provided solutions, along with service and technical assistance, to over 3,000 companies in finance and banking, retail, logistics and warehousing, distribution, transportation, telecommunications, and other industries. By investing in the latest technologies and offering the best-in-market products and services, it assured not only its own rapid growth but the success of its customers and partners on the local and international markets.

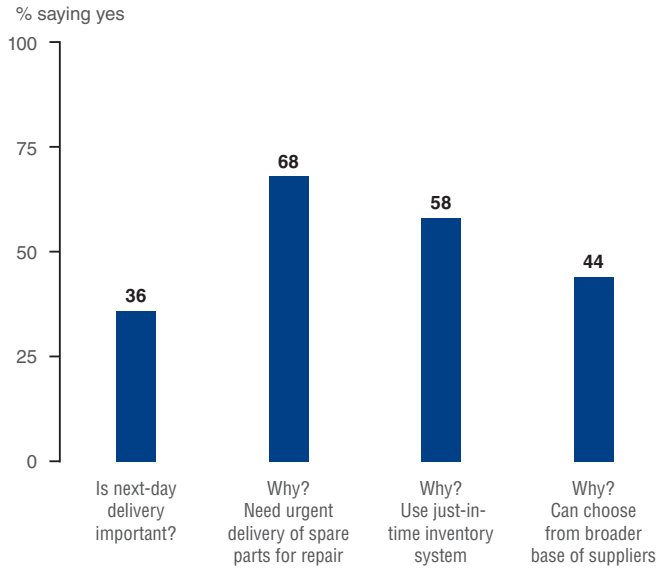
In order to achieve and maintain its high pace of development in a market that has recently joined the European Union, the company needed the support of a reliable and flexible partner in transportation, able to ensure its connections with key suppliers – more than 25 international partners – and with customers in all Romanian cities. From the beginning, its partner in transportation has been a business-to-business express delivery company. The use of time-definite services have helped to shorten distances and provide the best service on the market, and has been an essential contributing factor in delivering 24/7 expert customer service.

…organising production efficiently and reducing companies' inventory costs

36 % of all firms surveyed report that there are aspects of their production process for which next-day delivery of subcomponents from their suppliers or elsewhere in their companies is very important (Chart 5.3). Of the firms that went on to provide greater detail, around 58 % report that next-day delivery of subcomponents is important because they operate a just-in-time inventory system, while 68 % require urgent delivery of spare parts for machinery in case of breakdown. Other reasons for needing sub-components on an express delivery basis mentioned by respondents include being able to choose from a larger supplier base rather than just those that are geographically close.

It is clear from the surveys and case studies that just-in-time inventory controls are now increasingly important in European industry, and that these have created strong demand for express delivery services. Under just-in-time, an increasing number of firms hold only very limited 'buffer' inventories in case they run short of critical sub-components or spare parts. Instead of keeping large inventories, they require their suppliers, which may be other parts of their business, to deliver to a strict timetable to fit in with the production runs.

Chart 5.3: Use of express delivery services for production processes



Source: NSM survey data

Next-day delivery is vital for European companies…

Express delivery services are used primarily by European businesses to ensure the rapid delivery of time-sensitive products (see Figure 1.1 on page 7).

Since 16% of EU27 companies' sales revenues are dependent on express delivery services, it is vital that guaranteed next-day delivery services are available so that these companies and their supply-chain can operate effectively.

The only way to achieve such a delivery schedule is by the transportation of shipments outside of normal business hours, including at night. Aircraft are only used when no other alternative is available to meet the next-day delivery service requirement. Based on the survey of the four integrators, around 60% of next-day delivery shipments are delivered using aircraft. A next-day delivery service would not be possible without transportation at night, including night-flights.

Not only is it important that shippers have access to the speed and efficiency of next-day deliveries, but there are also other operational advantages to be gained from air operations at night. It would be difficult to operate express flights during the day because of increased congestion both in terms of surface access to airports and the availability of runway slots at the airports themselves.

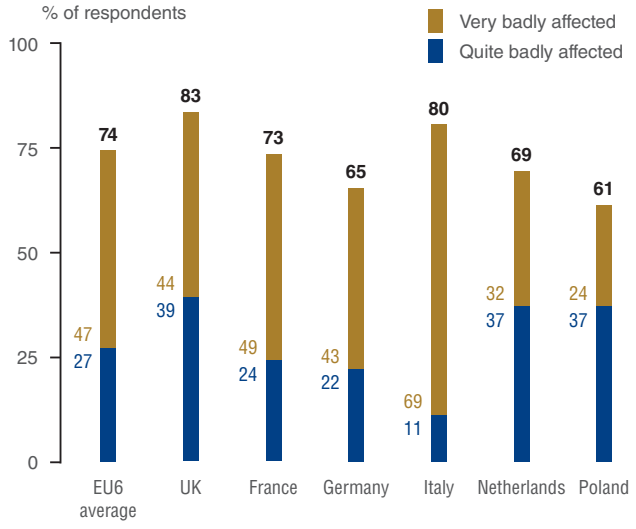
Operating express flights outside of normal business hours enables:

- Optimal use of both road and air infrastructure (i.e. on a 24 hour basis).
- Spreading of airport, airspace and Air Traffic Control utilisation, keeping those capabilities open for passenger traffic during daylight hours.
- Better utilisation of existing airport resources since night flights have little add-on cost to their normal operations.

European firms would be badly hit were there no international next-day express delivery services

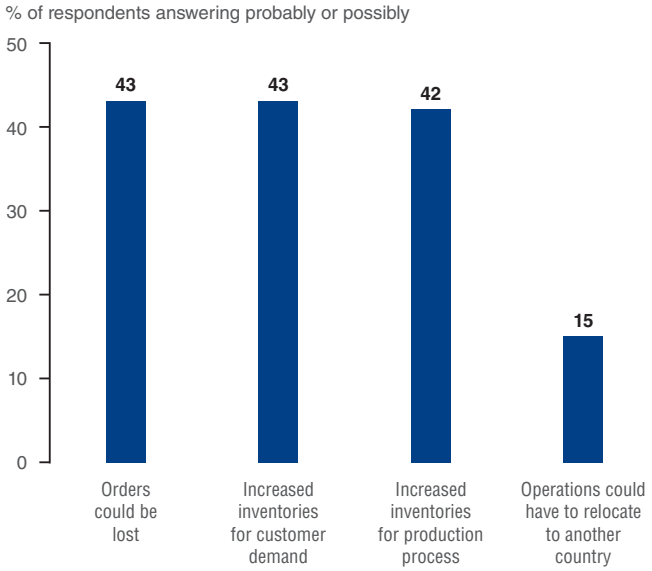
Respondents to the European business survey believe that their companies would be seriously affected if international next-day delivery services were no longer available (Chart 5.4). Overall, some 47% of businesses consider that their company would be very badly affected by the various ways in which the constraints on the availability of express delivery services would impact on them, and around 74% of businesses surveyed considered their ability to compete would either be very badly, or quite badly affected.

Chart 5.4: Impact on companies if international next-day delivery services to or from the country were no longer available



Source: Oxford Economics, NSM survey data

Chart 5.5: Impact of losing next-day express delivery



Source: NSM survey data

Firms were also asked how they would react if next-day delivery services to or from their countries to foreign locations were no longer available (Chart 5.5). 43% indicated that orders could be lost because of longer delivery times, while 15% thought that operations might have to be relocated to another country as a result. 42% responded that increased inventories might have to be held at their production sites to meet the requirements of their production process, and 43 % suggested that increased inventories could be required to meet customer demand.

Restrictions on international next-day express delivery generate significant economic costs...

It is important to emphasise that restrictions on international next-day delivery services not only have an adverse impact on the efficiency of the express delivery companies. They also damage the competitiveness of companies across the whole economy and have a substantial overall economic cost.

The wider costs of restrictions on express delivery services are clear from the survey of businesses across Europe. Respondents believe that their companies would be seriously affected if government regulations stipulate that international next-day delivery services were no longer available:

- 70% of companies in France expect that they would lose orders. It is estimated that orders would fall by around 20%. 69% of companies in France would have to increase inventories held in order to meet customer demand.

- 38% of firms in the Netherlands report that they would lose sales revenue and 18% of companies production processes would be interrupted on occasion because spare parts for equipment would not be available quickly. As a result, 30% of firms in the Netherlands would consider relocating operations to another country.
- 19% of companies in Germany would have to increase their inventories of products in order to meet customer demand, while 16% of firms expect that they would lose orders.
- Over half of companies in the UK would expect their sales revenues to fall by around 15%, while 55% of firms reported that they would have to hold increased levels of inventories of products in order to meet customer demand.
- 21% of companies in Italy believe their production process would be interrupted on more than 20 days per year because spare parts for equipment could not be delivered the next-day when needed, and 31% of companies expect that they would lose orders.
- In Poland, (surveyed to reflect the views of companies from countries that have recently joined the EU) 24% of companies report that they would be very badly affected and a further 37% would be inconvenienced, which could prompt about 14% of companies to consider relocating operations to another country.

Those industries reporting that they are likely to relocate were there no next-day deliveries include electrical and optical, machinery and equipment, and retailers. These sectors also typically report that they would expect a significant loss of orders, as do wholesalers and business services sectors.

…worth €30 billion a year to EU GDP

Updating previous work by Oxford Economics that takes into account the impact on European companies' sales revenues, costs, investment plans, and investment decisions, Oxford Economics estimates that restrictions that would lead to next-day delivery services no longer being available in Europe could cut GDP each year by [15]:

- €5 billion in France
- €4 billion in the UK
- €3 billion in Italy

If these figures are indicative of Europe as a whole, we estimate that the loss of over-night express delivery services would reduce GDP across the EU by around €30 billion a year.

In addition, many of the jobs supported by the express industry would be jeopardised. While these employees might eventually find jobs in other sectors, there would be a substantial transition cost.

The more recent members of the EU, where we expect to see the fastest growth of express delivery services in the next few years, would be hardest hit by the withdrawal of next-day delivery within the EU.[16] But, more importantly, the absence of rapid, guaranteed delivery would undermine the investment by multinational companies and would limit the ability of recent members to compete effectively in other EU markets.

(15) Figures updated by Oxford Economics and presented in today's prices.
(16) Other studies also see the industry's growth being increasingly concentrated among the former-accession states. For instance a study by The Warsaw School of Economics forecasts a doubling of direct employment in the Courier, Express and Parcel (CEP) services market in Poland between 2009 and 2015.

Conclusion

Express delivery services generate significant supply-chain value for European businesses. Being able to respond quickly to customer demand – for new products, spare parts, contracts, etc. – is essential to winning and maintaining business in an increasingly competitive global economy.

Express delivery services are now integral to business operations in Europe, helping to reduce firms' operating and inventory costs, and facilitating the use of the latest production techniques. Without them, Europe's competitiveness – and so investment - would be significantly undermined.

Restrictions on express delivery services can undermine the competitiveness of companies across Europe. The loss of over-night delivery services could have a significant negative economic impact on many of the sectors of industry associated with express delivery, reducing EU27 GDP by around €30 billion a year.

"Without the express industry, Europe's competitiveness - and so investment - would be significantly undermined"

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