



The business model of international express couriers

From value chain to policy indications

Executive Summary

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1) Introduction

The international express courier sector is going through a really important stage in its history and has to face important competitive challenges which could affect its position in its modern economic reference context.

Globalisation and the increased weight of international trade have, in fact, changed the role that logistics and transport can play as a competitive advantage factor for a national economy. Based on that approach, the enterprise is no longer the centre of the economic system surrounded by a linked supplier and end user system. It now becomes one of the umpteen nodes in a horizontal entrepreneurial network, each specialised in a production activity with complementary services, forming an alliance to achieve one or more goals and competing with other similar networks on the market. In the modern economy, competition between businesses moves from individual to aggregate level: possible sources of competitive advantage must be searched for, not just in maximising the productive efficiency of each entrepreneurial structure, but also in the efficiency of the logistics system supporting the entire network. Moreover, free competition is no longer based merely upon the ability of containing transport costs, but develops around the possibility of using an effective and efficient organised logistics chain, able to supply new high value added services (service regularity and safety, door to door services, customised solutions, etc.).

The propulsive function that express courier services can exert on the entire national economy must fit into this context.

As an example, in 2008 express couriers in Italy handled over 144 million shipments for an overall value of 2.5 billion euros. The time sensitive segment was about 74% of total shipments while 22% were “coming from” or “leaving for” abroad. Between 2000 and 2008, express couriers doubled their turnover in Italy, strengthening their propulsive partner role in developing the national manufacturing industry, favouring interchange and networking between companies which, in fact, represents 90% of senders and 85% of recipients.

From an ‘interchange with abroad’ point of view, the European Union is the most important destination (76% of arriving shipments and 72% of departing ones in 2008). The contribution that couriers made to Italy opening outwards must be highlighted: between 2004 and 2008, for example, there was a considerable increase in shipments

from China, +40.6%, with that destination representing 9.2% of all international arrivals.

To this aim, AICAI, the category association that covers an institutional function of strategic guide for the sector, has decided to promote this survey in order to make this sector better known: that despite first appearances, it is already considerably complex and therefore requires an in-depth analysis of its economic and competitive dynamics.

2) From couriers' value chain to value system: key elements

Analysing the value chain of international express couriers enables us to highlight their two main operational features:

- pressure over times;
- standardisation.

It could be said that if transporting goods from one place to another is relatively simple, to do it continuously every day and on a world-wide scale requires capillary planning of its own networks and activities to be carried out plus their scheduling.

A fast service, with time definite delivery, can only be provided by splitting the day into specific time windows and carrying out preset operations in these windows respecting implementation and completion times for each stage. All mechanisms must be perfectly synchronised: collections must all be carried out in the same time bracket, in every city so that goods can be handled properly in the branches and then sent on to the intermediate hub or final destination. It is evident therefore how a minimum hitch or problem can upset the entire mechanism thus compromising service continuity. In fact, one of an express courier's main skills is "handling unexpected hitches", or rather the ability to schedule and re-schedule its network with day to day, hour by hour flexibility in order to overcome any logistic or operational problems and always carry out the requested service. In this way, the express courier carries out its core activities directly, acting as coordinator and manager for all operations, also those assigned to partner companies which are usually small enterprises and therefore renders the express courier's structure more flexible.

In brief, express courier network and planning enable it to optimise times and transport

costs. Managing a single international network enables each operator to minimise costs for transported goods, leveraging on scale economies that the size of the networks and resulting high volumes are able to generate; however, at the same time, support required from small and medium enterprises in some production process stages renders the courier's operating structure agile and extremely flexible, minimising operating costs and enabling it to handle unexpected hitches. In a nutshell, express courier know-how guarantees an excellent compromise between advantages linked to scale and the efficiency of small organisations operating on small portions of the territory, thus maximising benefits for added value created for customers and the entire productive system.

With reference to advantages generated for end users, these can be summed up in three points:

- univocal service;
- productivity;
- efficiency.

For the first point, express couriers are a fundamental innovation compared to the traditional international postal service. In fact, the latter is a chain linking the different operators mainly planning their networks nationally. Express couriers, on the other hand, guarantee an univocal, unique process: each one creates a global connections network so that a single company is responsible for the entire process, from collection to delivery to final recipient, with doubtless advantages for the customer, such as: being able to trace the shipment along the entire route; guaranteeing that adequate safety standards are met, independent of the country the goods cross; managing custom requirements; customising the service for any final destination.

Instead, concerning the second point, express couriers now configure as logistics operators supporting their customers. Ideally, they can be considered an extension of the customer's company, insofar as they manage, especially for SMEs that make up the Italian production structure, a link to the end customers or suppliers. In this optic, their contribution is crucial to increase the national economic productivity.

In fact, express couriers operate during the night thus guaranteeing continuity for the production processes of customers using their services, enabling them to be competitive

and to reach other markets. Just think of the difficulties a small or medium sized business can come up against to expand its supplier or customer network, logistics, connection cost, management, etc. That is exactly where express couriers intervene, offering their know-how and becoming an active company growth partner.

Express couriers enable client companies to improve their productive efficiency, introducing technological innovations generated and created internationally into their competitive environment. The ongoing express courier innovation, besides improving their production process efficiency, guarantees concrete spill-over effects: consider the importance of ICT and the high value added services developed by express couriers which, in many contests, boost improvement and innovation and advance the production structure of the same customer companies. This process is really important in Italy where businesses stand out historically for their low propensity of investing in research and development and, on the contrary, a strong tendency to manage innovative processes thanks to spill-over effects generated between companies, their suppliers or customers. Express couriers, by spreading their international know-how, have increased the diffusion of high value added services based on ICT within Italian companies, enabling production activities to progress technologically both directly, imitating solutions developed and promoted by express couriers and adapting them to their own production processes, and indirectly, using the advanced services offered.

To sum up, the contribution guaranteed by express couriers to the creation of value in client companies can be generated:

- from inside (courier's value chain), thanks to the optimisation process to improve services offered;
- from outside (courier's system of values), through synergy developed with customers, right up to becoming real logistic partners, promoting innovation and competitiveness.

As a whole, the international express courier industry is linked to the economic cycle, thanks to evident connections with the production system, in the widest sense. Express couriers contribute to developing a virtuous cycle "expansion – logistic efficiency – expansion": an initial production increase generates the resulting need for businesses to be able to count on a more functional, efficient logistics chain (fast deliveries, reaching new market outlets at low costs) elements which, in turn, promote new stimuli and

growth opportunities for the entire system. Thus, the express courier industry has an important flywheel effect on the growth of the entire economic system, thanks to how it can multiply the productivity, efficiency and profitability of client companies.

3) Creating or destroying values? Express courier activity limits and some policy proposals

The value chain has highlighted the two key factors of the courier production process in both standardisation and respecting times. The result is that any obstacle, external intervention or problem undermining these two competitiveness drivers, could risk delaying all operations, increasing costs or even blocking them.

Express couriers do their maximum to plan and optimise their networks; but as with all businesses, effectiveness of actions contrasts with internal or external limits.

Internal limits generally concern the company's capacity to adapt its operating procedures and processes to customer and market needs, implementing new solutions to increase efficiency and productivity with a resulting drop in costs. Seen from this angle, a key variable is technological innovation, fundamental driver for the growth, development and consolidation of all companies. From this point of view, express couriers stand out for their considerable investment in research and development, an activity which has enabled them to thoroughly innovate the transport business, introducing new important features both for the network and the design of the final products to offer the clientele. ICT development has undoubtedly contributed very much to the latter, turning express couriers into advanced logistic operators able to help their customers find solutions for improving productivity and reducing costs (e.g. paperless documentation and invoicing, track control, shipment safety).

Instead, from an external point of view, each enterprise must compare its needs to the reference context in which it operates, a context that can be compared to all the relations the company has with: customers, suppliers, public entities, regulations and the legal environment. Specifically analysing express couriers, we can find a critical element in the relations with public reference entities. The public entity can interfere with courier activity when it hinders them in standardising processes and respecting times, or when it intervenes in the chain of values by an unjustified increase in costs, i.e. without recovering efficiency and costs. Our attention has concentrated on four aspects:

- access to town centres ;
- night flights;
- airport services;
- relations with Customs.

3.1) Access to town centres

The express delivery service (time definite and next day) is undoubtedly the one which has the highest added value. It differentiates express courier efficiency from other transport sector and logistic service operators. As we said above, these services can only be supplied with precise, standardised procedures and respect for times in each stage. Thus express couriers need to collect and deliver in the same time bracket and at the same time in all the linked cities. It should be possible for them to move freely around the area at all times. However, this need clashes with the ever-increasing tendency of regulating the access to certain geographical areas, typically town centres or the historical centres of medium-large sized cities. These restrictions are justified by public administrations, which in order to satisfy citizens' needs, strive to reduce traffic congestion by making these areas more liveable and lowering the environmental impact generated by circulating vehicles.

It is obvious that these restrictions hamper network scheduling and optimisation process carried out continuously by each single express courier: they are a critical element in their value chain. Then we also need to highlight how the lack of European and national legislation regulating Limited Traffic Areas, at present local autonomy responsibility, causes a deformed scenario all over Italy, thus making it difficult to standardise the network and somewhat deforming free market competition.

Starting with the consideration that limits are justified by reasons put forward by local authorities and considering the legitimate needs of citizens and those living in historical centres to live in a less congested, polluted environment, the obvious problem is the rigidity of certain regulations which, in some cases, ban traffic altogether.

However, we can show that citizen protection objectives can be pursued without necessarily imposing limits to express courier operations; limits which lead to a loss of affluence for all their company clients. It is well-known that urban mobility is the main

cause for town congestion: between 2002 and 2008 this registered a 48.2% increase in the overall number of passengers with a 64% incidence on use of own vehicle (car). On the other hand, goods transport in town centres is carried out directly 53% of the time, thus inefficient as it tends to increase the number of vehicles circulating, and only 47% through third parties, a way that could optimise vehicle loads thus reducing the circulating fleet. Overall, limiting express courier circulation, just a small part of those operating for others, has a limited impact on congestion but, on the contrary, generates heavy losses in the well-being of all company clients relying on speed and high added value services offered.

Therefore it is possible to identify some policy measures which enable local authorities to pursue their citizen protection goals without affecting express courier operations. In this direction, the first obstacle to be removed is the total difference in regulations in force from town to town with a negative impact on the operating practice and procedures of transport operators, like express couriers, operating all over the country at the same time. Without decreasing the powers of local authorities, it would be desirable to identify the basic principles that each single town council should adhere:

- *guarantee access to express delivery services at certain times (usually 8-12 and 14-18), needed to be able to carry out their high added value delivery services efficiently in the next day segment, acknowledging the public service function that express couriers rightly carry out;*
 - as stated above, express couriers have a minimum impact on congestion; just think that in all Italian towns with over 100,000 inhabitants, overall there are less than 1000 vehicles circulating;
- *guarantee nationally minimum ecological standards needed to circulate with no blockage;*
 - many town council regulations already go in this direction, but with different standards (euro5, hybrid cars, electric cars, etc.), thus causing, yet again, a highly fragmented regulation context of no support to those, like express couriers who, operating all over the country, could lever on the high scale to make new investments.

And then we need to consider sustaining transport operator vehicle fleet renewal through incentives similar to those in force for normal citizens. This measure, in a car sector crisis moment like this, could have a positive impact on re-launching the sector.

Alternatively, a compromise based on congestion charge (see the London experiment and the recent Milan city-pass) could be considered. However, without forgetting difficulties implicit in a system of that kind, from both a management point of view and social well-being goals (reduction in congestion and pollution) which local authorities mean to promote. A congestion charge could work correctly from a social point of view if configured as a Pigovian tax, i.e. where revenue is fully re-invested in activities and infrastructures needed to meet congestion and pollution reduction targets causing said tax to be applied (for example increasing the public transport service, new interchange car parks, infrastructures facilitating circulation of electric vehicles).

3.2) Night flights

One of the main express courier value creation elements for client companies is the former's capacity to become a real, true extension of the latter normal entrepreneurial activity: express couriers operate at night during normal company closing times, thus giving the production process and relations with suppliers and end customers continuity. In brief, we could consider each single client company as the centre of a small production system with suppliers up stream and end customers down stream; to carry out its tasks, the company must be supplied with goods input and must be able to serve its customers fast with its output. In modern production systems (for example just in time), one of the competitive advantages guaranteed to small and medium sized business by an efficient transport logistics system is the total absence of warehousing (for both input and output), as the logistics operator services guarantee continuity for the production process. However, to do that it has to operate when client companies are closed, at night. At present 74% of courier landings and 72% of their take-offs in Italy take place at night.

This need could be obstructed by a ban on night flights (23:00/06:00 bracket) and by laws regulating aircraft noise, disciplined by the European Union through Directive no.30 of 26 March 2002 (enforced in Italy through Legislative Decree no.13 of 17 January 2005) and by Directive no.49 of 25 June 2002 (enforced in Italy through Legislative Decree no. 194 of 19 August 2005). Some operating limits suggested in these laws are

logically justified by the need to reduce the acoustic impact of airport activity on the population living nearby. Yet here again, are motivations that pursue perfectly sharable goals, but, once more, it must be stressed how goals and tools are not proportional: it is legitimate to protect those living near an airport, but closing the facility completely at night is certainly not the only solution available to achieve that result, nor the fairest from a social well-being point of view; if on the one hand, it is an advantage for residents, on the other it causes considerable loss in well-being for all those linking productivity and efficiency to the transport system operating correctly.

You can also protect residents by adopting other solutions, less radical than total closure, thus reducing the loss of overall well-being:

- authorising flight for high acoustic standard aircraft (for example, the so-called chapter 4 in the ICAO ranking) which reduce noise emission;
- applying suitable operating procedures in flight manoeuvres and landing enabling reduction in noise emission;
- applying a noise charge on night flights, even of a temporary nature, whereby proceeds are strictly invested in every airport in necessary noise reduction infrastructures and thus compensate residents in the immediate vicinity.

3.3) Handling costs: liberalization or monopoly?

Another problem express couriers have to face is managing airport services, in particular handling. This, unlike the two mentioned above, does not necessarily stop the express courier from carrying out its operations correctly; however, said services can affect overall operating costs considerably: inefficient airport handling can be translated into increased costs for express couriers and a resulting loss in competitiveness of customer services.

Express couriers refer to the main handling companies operating in Italian airports which, despite liberalisation, often operate in a monopoly or oligopoly system. As economic literature shows, in many contexts liberalisation processes launched in the 90s have not guaranteed high service standards when supplying services inspired by transparency, effectiveness and efficiency as the pre-supposition for a high quality supplied at lower, accessible prices. These are complex problems which concern handling services for express couriers but, if considered generally, can concern other areas like the local

public services, infrastructural network services, etc. These sectors have been partially liberalised and the process should be effectively completed fairly soon. In the case of airport services, new regulations concerning, in particular, the critical problems that emerged during the present management process would be desirable and concretely promoting liberalisation with intervention to:

- reduce market entry barriers for ground assistance services;
- make the context in which airport handling companies operate more transparent, for example access to centralised infrastructures and airport spaces regulated more clearly, objectively, transparently and not discriminatory;
- eliminate, for service operator suitability certification, requirements that are not strictly needed and can create entry barriers;
- periodically monitor safety and quality standards indicated, foreseeing sanctions if the handler should be in default.

3.4) The e-customs project

The last area the study covers is relations between express couriers and Customs. In recent decades, the job done by Customs has changed rapidly, going from applying single state protectionist policies to guaranteeing safety and actively fighting falsification. This change has strengthened synergy between Customs and express couriers as the latter have always considered safety and fighting falsification two priority areas for creating value. So collaboration has increased in recent years, perhaps characterised by stop and go periods and differences at local level, but overall, express couriers are beginning to see positive improvements thus improving their efficiency and operations. The e-customs program foresees complete digitalisation of all documents needed to execute Customs procedures by the end of 2012 (paperless customs). However, the considerable progress made in this sector must not reduce the spur to improve existing practices even further and relations with the Customs Department; for example, there is still a lot of room for improvement over:

- safety policies, in particular, harmonising ENAC (National Civil Aviation Authority) and Customs Department regulations;
 - the lack of non harmonisation of these regulations means that express couriers have to carry out different procedures, with a wastening of

resources, especially considering the fact that Customs and ENAC safety objectives are fully compatible, so the harmonising of rules, besides simplifying practices adopted by express couriers, would simplify and improve auditing and monitoring by both the Customs and ENAC;

- greater attention towards practices and implementation at local level of single regulations and Customs circulars at a local level; this would avoid that interpreting the same regulation differently lead to different operating procedures from place to place with negative implications for process standardisation pursued by express couriers.

