European LTL industry - on the same road as US counterpart?

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The US has seen a big shift in the LTL (less than trailer load) road freight market, with the largest players having moved to not only consolidate their position but to dominate the sector. However, while the comparable European market shows some similarities, the overall picture there remains quite different.

Firstly, LTL operations in Europe are still heavily influenced by national markets. That is strongly illustrated by examples in Germany and France. In Germany, Gefco has withdrawn from domestic traffic, as has Geodis. However, both remain market leaders in the French domestic sector, despite the fact that Gefco's principle focus is on international business.

While European LTL market leaders DHL and Schenker have a region-wide presence, both are weak when it comes to domestic shipments in France and neither are the market leaders in the UK. The situation in the latter country, in particular, is surprising as it is a highly open market, if a competitive one. The reasons for the current European LTL market positions of DHL and Schenker are historical, with both players basing their businesses largely on acquisitions made either in Germany (Danzas Eurocargo) or Scandinavia (BTL). Even those market leaders have not been able to gain sufficient momentum to penetrate established markets.

It is not merely at national level that smaller players remain strong. On specific routes and in particular localities, small groupage players provide effective competition for the big boys. The question is, what are the margins in those segments? Judging by the behaviour of, for example Gefco, both growth and margins are lower in those areas − which is why that company seeks to focus its activity on international volumes where competitors have higher rates. Gefco withdrew from the German domestic market due to low or no returns but retained a presence in Germany to support its growing volumes across Europe, particularly into Central and Eastern Europe.

The operational profile of the LTL industry in Europe is also different. Few big players operate a pure hub and spoke model. Rather, there is a variety of traffic patterns that vary from a hub structure complemented by direct 'linehauls' to non-hub depots, to a 'hub-less' lattice-work structure where each large depot is served directly from a substantial proportion of the other depots in the network. The latter structure is favoured by DHL which has the big volumes necessary to support such a dense service network. It is notable that this structure is influenced by the inter-relationship of DHL Express and the other parts of DHL. Whilst the product offerings across the group are quite different at the operational level, each provides the others with important base volumes for 'last mile' delivery and linehaul.

As yet, it is impossible to say whether the 'hub and spoke' approach is superior to linehauling between depots. A brief review of some of the operating profits of the largest players is inconclusive. Gefco, DSV and Norbert Dentressangle, operating very different business models, have similar margins of around 4%. DHL Freight (linehaul) has a margin of 1.3% and Kuehne + Nagel (network) barely breaks even. One of the reasons for this disparity is that levels of profitability may be more influenced by scale and management of volumes in individual markets. Companies trying to offer services in all markets throughout Europe, irrespective of their strength and depth, struggle when volumes do not surpass the breakeven load factor.

In the past, networks have proved particularly vulnerable to a downturn in volumes. During the last recession in mainland Europe (around 2001-3), hub and spoke operators found that when volumes dropped below a certain point, the network became unprofitable. Network infrastructure is less flexible than linehaul, as it needs to be maintained whatever the throughput, if a market is to be served. However, the converse is also true. As the costs are fixed, revenues from volumes over a certain point go straight to the 'bottom-line'.

Another illustration of the idiosyncrasies of the European LTL market is the possible influence of the German 'Gebietsspedition' (areas transport) system. For several decades, major shippers have consolidated freight traffic at 'Lander' (Federal State) level, often using local LTL operators to collect/deliver and consolidate and then forward loads out of the locality either through FTL or even by rail. Such a highly efficient system negates the need for a hub and spoke structure and supports smaller local providers, something often actively encouraged by big shippers and manufacturers which prefer to deal with smaller logistics companies.

In fact, 'small players' can be quite large. For example, the family-owned Norbert Dentressangle group is probably the most important player in cross-channel traffic between Britain and France, all the more so now it has bought the UK's Christian Salvesen. Companies such as Willi Betz and LKW Walter are also major players with substantial revenues.

Even amongst the market leaders, the locality and fragmentation of the market has constrained growth.

A further restraint on European LTL industry consolidation is the nature of the companies competing in the sector. The two largest, Schenker and DHL, are both the product of German semi-privatised giants yet this has not been enough to ensure their dominance. In Geodis and Gefco, they are up against companies owned by, respectively, the French State and one of Europe's largest car manufacturers.

Gefco is one of the most interesting companies in the sector. Originally created to support Peugeot-Citroen car assembly operations in the east of France, it has become one of Europe's larger LSPs (logistics service providers). It is a profitable standalone company, yet its road freight business is underpinned by the huge volumes moved by Peugeot-Citroen. As the latter's production footprint has rapidly moved east, Gefco has been catapulted into a leading position in the Central and Eastern European road freight market. With around 50% of volumes outside France originating from Peugeot-Citroen, Gefco has a strong platform on which it can base both growth and, crucially, profitability.

Possibly only Schenker and DHL can match this underpinning by big industrial customers, with both receiving large volumes from their 'key account' German manufacturing corporations.

DSV and Kuehne +Nagel are private sector companies that have expanded through both acquisition and organic growth and they are apparently continuing to grow market share. Yet their prospects for constructing pan-European networks can only be made harder by the ambition and resources of the big corporations. The boss of German group Deutsche Bahn has already made clear his ambition to consolidate the sector, yet with so many well-resourced players already present, the prospects for profits even in a growing market could be endangered by three of the four of the largest LSPs in the world throwing money at the issue.

Therefore, any assessment of likely future developments in the European road freight sector has to include various caveats. Consolidation will happen, powered by the increasingly cross-continental nature of European trade. However, many exceptions will hinder the broader seep of rationalisation seen in the US.

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