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Parcel shipping rates firm up without DHL in the market

Exit of number three parcel carrier leaves freight buyers with fewer options.

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

While the remaining carriers are competing hard for DHL's business, most market watchers expect rates to firm as a result of DHL's exit.

In a recent report, analysts at Stifel Nicolaous said small parcel express rates would go up as a result of DHL's exiting the market. Stifel estimates that DHL's domestic pricing was 17% below FedEx and UPS on air business and 5% below, on average, on ground business.

"In our opinion, UPS and FedEx are not likely to lower their prices much to get the DHL business but rather let the prices come up to the new market rate," the analysts said.

Jim Berluti, CEO of Eastern Connection in Woburn, Mass., agrees that parcel rates may increase without DHL.

"With DHL out, there's no one to keep FedEx and UPS in check," Berluti says. "In the zone 2 service levels, about 150 miles from shipping point, rates will go up most because they're the heaviest use lanes."

On a conference call for media and analysts, Jerry Hempstead, president of Hempstead Consulting and former vice president at DHL Express said "you won't see any rate wars" between FedEx and UPS as DHL exits the market. "The pricing environment will be very firm for both FedEx and UPS in my opinion, due to the exit of DHL."

Hempstead pointed out that 2009 published rate increases for ground packages from FedEx and UPS are higher than ever and with DHL out of the market and the pressure on the two major carriers to discount rates is much less. "If you drilled down into the 2009 rate increases, UPS and FedEx again this year said they baked 2% of the fuel surcharge into the base tariff," Hempstead said. "Each time they do that, it compounds the following the year, so you have already 8% plus compounding already baked into the base tariff."