

Apex  
Insight

# UK Express Parcels

## Market insight report

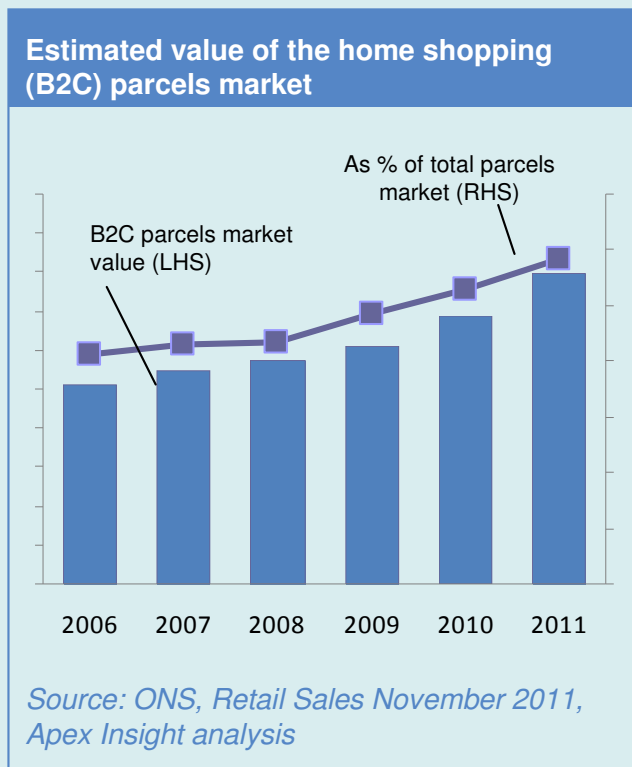
Product brochure

January 2012

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# About this report

Example chart



## What does the report contain?

- In this report we review the UK parcels market encompassing both the business-to-business and business-to-consumer segments. We quantify the market size, historical growth rates, segmentation patterns and levels of industry profitability while reviewing key factors behind these figures.
- We also carry out an in-depth analysis of the relevant drivers of industry growth – in particular the macroeconomic environment and home shopping – setting out historical trends and available forecasts.
- Our forecast for industry growth by segment is based in this analysis of historical trends and our understanding of growth drivers.
- While many reports on the industry contain data and description, a critical objective for us in writing this report has been to supplement this with our insights and conclusions

## Why did we write this report?

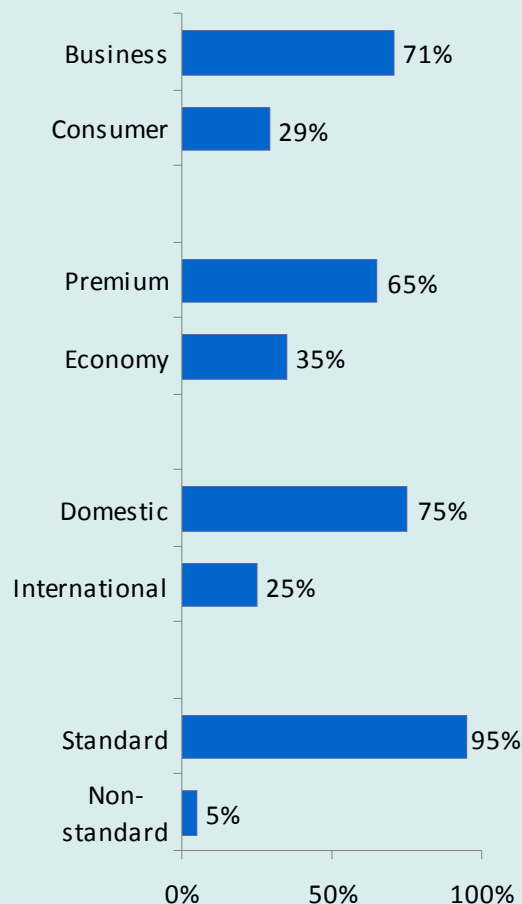
- The UK parcels industry has continued to evolve dynamically with
  - Continued overall growth
  - Macro factors such as the trend growth of home shopping and the cyclical impact of the economy on volumes continuing to provide challenges and opportunities
  - Some continued consolidation of the market through acquisition
  - Ongoing refinement of operating models to enable evolving customer needs to be served profitably
- We believe that, in order for those involved in the market to make the best decisions in this complex and changing environment, they need to have access to the best information. The aim of this report is to provide this
- It is intended for parcels carriers themselves, users of their services, partners, investors, banks, analysts, consultants and other parties with interests in the sector

## What are the sources and methodology?

- This report is based on
  - Financial analysis of the accounts of companies in the industry
  - Interviews with senior-level contacts in the market
  - In-depth analysis of the macroeconomic environment and relevant market drivers
  - Our own experience of advising both companies and investors in the express parcels industry
- Information from these sources has been synthesised and presented clearly and concisely with extensive use of charts and tables to illuminate points and support conclusions

# Executive Summary

## Indicative market segmentation



Source: Company accounts, interviews, Apex Insight analysis

## Market growth and drivers

- The UK express parcels market has grown slowly in recent years to reach £5.4bn in 2011. Market size has fluctuated in response to the economy. Widespread evidence suggests that parcel volumes suffered during the 2009 economic downturn and that price pressure continued into 2010 with conditions only improving slightly in 2011.
- We believe that there are two main factors which drive UK express parcels market volumes:
  - The overall level of economic activity, because parcels carriers serve such a wide variety of customers across so many different sectors of the economy: this stalled during 2008-09
  - The growth of home shopping, which has been the main driver of growth in the business to consumer sector right through the last decade, and depends on both customers' shopping habits and household penetration of enablers such as PCs and broadband access.

## Segmentation

- In the past, business-to-business (B2B) parcels was considered to be a separate market from business-to-consumer (B2C). However, there has been convergence as home shopping growth has made B2C an increasingly attractive segment, drawing B2B carriers to enter the area where they think they can make money. At the same time, B2C carriers have increasingly invested in tracking and tracing systems and, in some cases, sought B2B customers

## Key industry issues

- As a service business, the largest cost item for a typical parcels operator is labour cost. Capital intensity is relatively low hence returns on capital are generally high.
- While greater scale has not generally resulted in higher profitability amongst UK parcels operators, one area where scale economies are important is in increasing route density. Reducing the time spent travelling between customer sites (both for collection and delivery) should lead directly to lower cost and greater profits.
- Customer retention has traditionally been a challenge in the industry with interviews suggesting that churn rates of over 20% were not unusual. Several people we have interviewed have recognised it to be a common scenario for

## Outlook

- As we enter 2012, the parcels industry faces an uncertain outlook. Economic recovery appears weaker than when the OBR issued its forecasts last autumn with most economists now regarding a double-dip UK recession as probable. The possibility of intensification of the Eurozone crisis is a further risk. Continued internet shopping growth continues to brighten the picture although pressure on household disposable incomes – and continued retail bankruptcies – suggest that retail sales growth could slow in 2012.

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## About us

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- Apex Insight is a leading independent provider of research and analysis covering business services sectors.
  - Our expertise is based on many years experience of both managing service businesses and providing professional advice to companies and investors in these sectors.
  - Our objective is to support managers, investors and advisers to the sector in making better business decisions.
  - Where required, our consulting services are able to provide more specific and / or customised information and insights
- Our reputation relies on the quality of our work which involves:
  - Focusing on business services because that is where we ourselves have worked and which we know best
  - Evaluating and explaining what specific factors drive profitability and hence success in a given market
  - Combining depth of qualitative and quantitative research with the sophistication of analysis and commercial insight which our strategy consulting background enables us to provide
- In the parcels industry, Apex Insight team members have worked for clients including UPS, FedEx, DHL and DX Group and advised on transactions involving Nightfreight, Tuffnells and ANC