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STRATEGIES FOR MULTI-CHANNEL RETAILING

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DHL cutbacks signal changes for online retailers

The cutbacks announced this week by delivery service DHL will force online retailers to update their shipping software and likely will mean changes in shipping labels, say executives at shipping software vendor Kewill Americas. And larger e-retailers that ship in bulk directly to DHL hubs may have to revise their operations, they say.

DHL announced Wednesday a $2 billion restructuring of its U.S. Express delivery service, which DHL says will lose $1.3 billion this year. The plan includes closing 34% of the company's stations in the U.S., outsourcing air transport within the U.S. to UPS and having the U.S. Postal Service take over delivery of shipments in rural areas that represent about 4% of DHL's U.S. delivery volume.

"With this announcement, it becomes a little more complex for retailers to select which provider they should use when and for what," says Brian Hodgson, vice president of marketing and business development for Kewill Americas, a subsidiary of UK-based Kewill Systems Plc. "They have to remain fairly nimble to take advantage of these changes."

Among the changes retailers will have to make is to update the software they use to determine the most cost-effective way to deliver each package, says Pete Starvaski, director of product management at Kewill. DHL may not support certain routes, or its prices may change as a result of the cutbacks. Labels also may change, especially when the U.S. Postal Service is handling the delivery to the consumer's door, as USPS requires certain information on package labels, Starvaski says.

The cutbacks could affect larger retailers that save money by using their own shippers to move large quantities of parcels to a DHL hub, taking advantage of DHL's "hub induction" program that charges for delivery from the hub that receives the bulk shipment, and not from the original location, Starvaski says. For instance, a retailer based in Montana with many customers in Southern California can hire a truck to bring a load of parcels to a DHL center in Los Angeles and be charged by DHL only for delivery of each package from Los Angeles, not from Montana. "With a 34% reduction in infrastructure, the number of stations where you can bring DHL packages in bulk is decreasing," he says.

Starvaski says more changes could be ahead as other carriers, including market leaders UPS and FedEx, seek to combat rising fuel costs its. For instance, he thinks UPS and FedEx might look to reduce expenses by following DHL's lead in outsourcing delivery to lightly populated areas to the U.S. Postal Service that has to go to rural areas to deliver mail.

The chief of DHL's parent company called the changes "a realistic and pragmatic approach" that will allow DHL to continue to compete in the U.S. market that accounts for nearly half of the company's volume. "We are focusing our strength and expertise on what our customers really want," Frank Appel, CEO of Deutsche Post World Net, said Wednesday in announcing the changes. "They need us where they have the lion share of their business, namely in large U.S. cities and cross border."

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DHL has struggled to catch up with UPS and FedEx since buying air transport service Airborne Express in 2003 for $1.05 billion, and is not believed to have hit its goal of exceeding 10% market share in the U.S. by now. But the company has no plans to abandon the U.S. market, Appel said.

“We will continue to be a competitive choice for customers and there is certainly room for a third player in that market,” he said. Asked what he would do if this plan does not work, he replied, “We aren’t thinking in terms of alternatives at this point, this one will work.”

Rival UPS will gain a substantial new revenue stream, as DHL says it expects to pay UPS $1 billion a year to fly packages for it around the U.S. DHL says the companies are negotiating a 10-year contract.