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Deutsche Post: The World's Postman

Europe's express-delivery king is going after the U.S. market

Deutsche Post World Net CEO Klaus Zumwinkel likes to point out to visitors that he can see no fewer than three ancient castles from his office atop the company's ultramodern new headquarters in Bonn. But when it comes to reach and influence, the old German barons had nothing on Zumwinkel.

Other German business titans, such as Ron Sommer of Deutsche Telekom or Henning Schulte-Noelle of insurer Allianz, were ousted after their grand strategies went awry. Zumwinkel is still unassailable after 13 years at the top of Deutsche Post, the German postal service. The company is still majority owned by the government and still delivers the mail, but under Zumwinkel, it also has become a profitable, publicly listed multinational with annual sales of $46 billion and the largest express-delivery business in Europe and Asia. "We want to be the leading logistics company in the world," declares Zumwinkel, who also sits on the supervisory boards of Deutsche Telekom and Lufthansa, and who counts German Chancellor Gerhard Schröder among his friends.

There is one summit that this mountain-climbing enthusiast has yet to conquer: the U.S. market, where Deutsche Post's DHL express-delivery unit plays David to Goliaths FedEx Corp. and United Parcel Service Inc. Zumwinkel is determined to change that. On Aug. 15, Deutsche Post completed the acquisition of U.S.-based Airborne Inc., the nation's No. 3 express service. With the $1.1 billion deal, Zumwinkel is positioning his company as one of a handful shaping the future of the rapidly consolidating express-and-logistics business.

Cracking the FedEx-UPS duopoly in the U.S. won't be easy, though. DHL has a minuscule 1% share of the $50 billion domestic-parcel market and has been haemorrhaging an estimated $200 million a year in the U.S.

But worldwide, DHL has managed to lock up 18% of the express traffic between the U.S. and foreign destinations, on a par with UPS, thanks to its large Asian and European footprints. Zumwinkel's goal is to build similar clout within U.S. borders by combining DHL's operations with Airborne, which has 13% of the domestic market, compared with 44% for FedEx and 34% for UPS. By merging delivery and sales forces to cut costs, DHL/Airborne could be profitable as early as next year, analysts figure.

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But stealing U.S. market share from the Big Two is another question. "It' s going to be difficult for DHL and Airborne to break out of that niche position," says analyst Nils Machemehl of private bank M.M. Warburg in Hamburg.

FedEx and UPS are determined to turn back the barbarians at the gate. They have repeatedly challenged Deutsche Post' s moves in the U.S. on regulatory grounds, most recently petitioning the U.S. Transportation Dept. to ground DHL' s airline, which was spun off earlier this year but continues to transport DHL' s cargo. The Big Two claim Deutsche Post still has de facto control of the carrier, now known as ASTAR Air Cargo Inc. That' s a no-no under U.S. rules, which ban a foreign company from controlling an American airline.

Yet plenty of people in the U.S. wouldn' t mind seeing another strong player in the market. "Who cares if the Germans control DHL?" says Satish Jindel, a transportation consultant in Pittsburgh. "What really counts is that DHL makes parcel delivery competitive." A negative ruling on ASTAR wouldn' t force DHL from the U.S. market, but it would require the outfit to contract with other carriers on less favourable terms, putting DHL at a crippling cost disadvantage. A decision is expected in December.

A big American setback would be a new experience for Zumwinkel. Since taking over the state-owned Deutsche Bundespost in 1990, the 59-year-old former McKinsey & Co. consultant has cleared a series of hurdles. Immediately after taking office in the wake of German reunification, Zumwinkel had to absorb the nearly bankrupt East German postal service. Today, the merged mail division is a cash cow and the basis of the company' s financial clout. "I have a lot of respect for how quickly he recognized the growth opportunities," says Klaus Eierhoff, CEO of Luxembourg-based Thiel Logistik, which competes with Deutsche Post in providing shipping services to European companies.

Since 1998, the reorganized Deutsche Post, which went public in 2000, has been consistently profitable on an annual basis. While overall net earnings in the second quarter of 2003 were a meager $175 million on sales of $10.8 billion because of lower postal rates and the sluggish global economy, analysts are banking on a second-half recovery and predicting a full-year profit of $1.5 billion, double last year' s figure. Buoyed by the optimistic forecasts, Deutsche Post shares have climbed more than 50% since the beginning of the year.

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Zumwinkel realized early on that Germany alone wouldn' t drive profit growth. Over the past eight years, the Deutsche Post boss has spent $11 billion buying up logistics and delivery companies around the world, including $2.7 billion since 1998 to gradually build up its stake in DHL to 100%. And he' s not about to quit: "We would be bad businesspeople if we didn' t take advantage of good offers." Indeed, Zumwinkel hasn' t discouraged speculation that Deutsche Post will acquire stakes in other European postal services, such as Denmark' s, which is expected to go private in coming years.

Of course, Zumwinkel has his critics. Rivals gripe that Deutsche Post uses revenue from its monopoly on the letter-carrying business at home to finance its worldwide expansion. Last year, European authorities ordered the company to repay the German government $1 billion in allegedly illegal subsidies; a decision the company is appealing. It' s true that the mail division remains the core of the business, supplying 60% of operating profit last year, while the express and logistics division -- which has higher overall sales -- contributed only 17%. "The business results are mainly based on the mail monopoly," says Ralf Wojtek, chairman of the Association of International Express and Courier Services, which represents Deutsche Post competitors.

But friends and adversaries alike would not dare underestimate Zumwinkel' s drive. "He' s an incredibly disciplined person," says Hubert Burda, a Munich publisher and mountain-climbing buddy. Zumwinkel' s stamina is legendary. On one trip to New York City, he left a younger aide in the dust during an hour-and-a-half jog through Central Park. Zumwinkel will need that kind of staying power as he tries to conquer the U.S.

~ **Jack Ewing**
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