Hermes Group announces solid growth figures despite challenging market conditions

Despite challenging market conditions, the Hermes Group has recorded solid growth in the 2018 financial year, successfully building on its No. 2 position in Europe’s largest CEP markets. On a comparable basis, the Hamburg-based retail and logistics services provider increased its revenue by around 6.0% to EUR 3.20 billion (after adjustment for currency translation effects). Overall volumes have grown with Hermes handling a total of 817 million parcels in Europe during 2018 (+6.7%). The company achieved significant growth in France (Mondial Relay) with a 38.8% volume increase, and cross-border business within the EU was up by 35%, both outperforming the market. In addition, Hermes has reinforced its market leadership in two-man delivery in Germany and France. The company has continued to invest heavily in its infrastructure, digitisation, customer-focused services, payroll and last-mile staff, as well as a sustainable vehicle fleet.

“The Hermes Group has shown very strong growth over the past six years – with sales up on average by 10% per annum. This past financial year we have faced challenging market conditions, especially in Germany, along with increases in costs, including ongoing investments and driver pay increases. Nevertheless, we have continued to deliver strong growth across all areas. Our dedicated B2C and C2C parcel network now covers 80% of the key European markets, using proven cooperation models for other markets. We also operate the largest parcelshop network – with approximately 40,000 ParcelShops in total in Europe’s key markets”, says Carole Walker, CEO of Hermes Europe. “To me, it is particularly important that we have succeeded in laying the foundations for a continued successful future with additional growth capacity, progressive expansion of digital services for our customers and ongoing development of our cross-border parcel business through the founding of the Hermes International business unit. The long-term growth projections for e-commerce are that volumes will reach up to 70% of retail sales over the next two decades and we believe we are in a strong position to benefit from this market growth.”

1 In 2017/18 FY Hermes Otto International (HOI) and Hermes Hansecontrol (HAC) have been included in the key performance indicators (Hermes Services). In 2018/19 FY the Hermes Group is reported (excluding HOI and HAC) on a comparable basis
2 B2C and C2C
Investments in capacity and digitisation

To ensure the group maintains a well-positioned logistics network, able to provide fast, flexible and eco-friendly delivery solutions, it has continued to invest in its state-of-the-art infrastructure, spending EUR 162 million across all parcel companies.

This includes expansion in its core markets Germany, France and the UK – new hubs in Lyon (Mondial Relay) and Mer (Agediss) will be completed in 2019; logistics centres have recently been opened in Hamburg and Kabelsketal/Leipzig (Hermes Germany), as has a new depot in Hemel Hempstead (Hermes UK). In addition, construction was started in the autumn 2018 on a new logistics centre for bulky goods (Hermes Fulfilment and Hermes Einrichtungs Service) in Ansbach, Bavaria with a total investment volume of around EUR 90 million. Commissioning is planned for 2020.

With its high-performance infrastructure, Hermes continues to be well placed to maximise opportunities within the booming e-commerce market with retail and e-tail customers. In fact, in the UK and Germany, customers are already benefiting from later injection times into the logistics-networks. Hermes Germany’s newly established ‘ultra-network’ enables customers to inject parcels until midnight, with Hermes ensuring nationwide Next Day delivery to end customers. Hermes UK recorded a plus of 44 percent in Next Day delivery by adjusting its entire logistics network to later injection times.

In order to meet the increasing delivery demands of consumers, the Hermes parcel companies have made significant investment in digital solutions. This includes giving customers the ability to choose a number of delivery options, receive regular communication about their parcel’s journey and make returns online or through a mobile app. Hermes has also introduced a number of digital tools to support its couriers, including intelligent and dynamic route planning software solutions in France, Germany and the UK, which help to reduce emissions and increase productivity.

“For us, investment in digital solutions for the last mile is the key to satisfying increased retailer and customer demand for richer products, real time delivery information and a wider range of delivery solutions. We believe the delivery of a parcel is an extension of the overall brand experience and we are continually looking at technology to help achieve a great customer journey,” says Carole Walker.
In the 2019 financial year, the Hermes Group will continue to make significant investments at a constantly high level. This will include gradual wage increases for couriers – with EUR 100 million earmarked for this in Germany alone over the next five years.

**Growing distribution volumes in core markets**

In the past financial year, the Hermes parcel companies transported 817 million shipments to end customers, up 6.7% versus 2017. The same-day specialist Liefery also recorded a noticeable growth in volume (+22%). In France, Hermes was exceptionally successful with a 38.8% volume increase (Mondial Relay). With an overall sales growth of 6%, the Hermes Group remains the most successful fully privately managed 2C parcel service in the European core markets of Germany, the UK and France. With roundabout 70% market share in Germany (Hermes Einrichtungs Service) Hermes remains the undisputed market leader in the bulky goods segment. And also in France, Hermes continues to lead the two-man handling market (Agediss).

**Highly competitive market environment in Germany**

Germany was the most challenging market in the 2018 financial year. A high volume of consignments as well as substantial bottlenecks in the labour market led to considerable increases in labour costs, especially in the last mile in metropolitan areas. Price adjustments in the B2C and C2C businesses have been invested to a large extent in cushioning the labour cost trend, but this measure will not fully compensate for the wage increases. The two-man handling business has experienced similar challenges with regard to staff and costs. For this reason, it is important to develop viable alternative sustainable delivery concepts, especially in the area of city centre logistics, which has the added challenges of traffic and lack of space.

Hermes is the only player in the market in 2018 that continued to invest in an external audit system to review its service partners, as it acknowledges that compliance with legal requirements and social standards is vital to guarantee quality service.

**Focus on alternative delivery points**
Further development of digital services for all Hermes companies and the expansion of nationwide networks of alternative delivery points such as ParcelShops, parcel lockers and safe places are central components in making the last mile efficient and customer-friendly. Hermes currently has around 40,000 ParcelShops and provides the largest parcel shop network in its European core markets. Hermes Germany pushed ahead with the expansion of its ParcelShop network in 2018. It now has 15,800 ParcelShops (up by approximately 5.3%), representing a valuable addition to the conventional front door delivery, particularly in metropolitan areas. This provides Hermes customers with the second-largest parcelshop network in this industry in Germany, increasing its appeal as an alternative delivery address, especially in view of the pricing: for a “Shop2Shop” shipment of their packages, private customers benefit from the most competitive parcel price in the market (from EUR 3.70 up).

In the United Kingdom, Hermes has added 1,000 new pick-up points to its network as part of a cooperation agreement with the parcel locker provider InPost, announced in early 2019. This makes it the first parcel delivery service in the UK to offer door-to-door, ParcelShop as well as parcel locker delivery. With an additional 250 pick-up points for furniture and white goods, the French parcel company Mondial Relay positioned itself even closer to end customers in 2018, while the French two-man handling specialist Agediss expanded its Sunday delivery significantly in 2018.

With the company Liefery, in which Hermes Germany is the majority shareholder, the logistics group is also continuing to roll out its same-day delivery service in Germany and Austria. In addition, Hermes uses the ideal start-up conditions to test innovative delivery solutions, like “vampire delivery” trials to see how the combination of smart lock technologies and parcel delivery can be an alternative for the last mile. On request, couriers can be given digital access to a building’s main entrance, enabling them to leave parcels directly in front of an apartment door. This means, customers are guaranteed direct delivery at the first attempt.

Digital services: customers can individualise parcel delivery

Technology plays an important role in achieving an increasingly personal, transparent and reliable delivery process. For example, intelligent navigation software not only optimises delivery routes, but will also enable the recipient in 2019 to reroute parcels at very short notice to a parcel shop, safe place,
neighbours or to select a different delivery day. Hermes has also significantly increased its digital communication with parcel recipients in Germany and made delivery even more transparent and plannable via parcel notifications and measures such as a comprehensive update of the “desired delivery service” (WunschZustellung). All in all, the usage of alternative delivery options such as ParcelShops, parcel boxes and safe places by German customers rose 67% in 2018.

In the United Kingdom, Hermes combines its digital initiatives in the “Digital Futures” programme, which aims to establish a range of industry-leading services that will deliver critical value to retail customers and further enhance the delivery experience for consumers. This includes tracking a parcel that has been delivered to a safe place within ten metres – known as geo-fencing – which, when combined with a photograph of the parcel at the safe place, makes communication with the customer as transparent as possible. “My Place”, which enables customers to upload a photo of a desired safe place and pin it on a map, ensures reliable delivery, especially for hard-to-find and large rural properties. In addition, Hermes UK further expanded its customer service by integrating a chat service named “Holly”. The digital assistant is available 24/7 for customer requests. Chat service tests in the German customer service have recently been launched. One of the most important innovations to be implemented in 2019 within “Digital Futures+” is the option to redirect a parcel to a ParcelShop, locker box or an alternative delivery address up to the time of delivery. The introduction of immediate notifications, for example in the event of delays in delivery due to congestion, is also planned for 2019.

**Alternative and resource-saving delivery solutions**

In 2018, Hermes set new standards in the area of sustainability. In the United Kingdom, it was the first transport company to integrate 30 trucks powered by compressed natural gas (CNG) and another 32 electric vans into its vehicle fleet, which received the Green Fleet Award. The first production vehicles of the eVito and eSprinter models were handed over to Hermes Germany at the end of February as part of the group’s strategic partnership with Mercedes Benz Vans. In future, these vehicles will help contribute to emission-free delivery in the inner-city areas of Hamburg. Trials with cargo bicycles in Berlin, Rostock, Cottbus and Hamburg, partly in combination with micro-depots, represent another building block on the way to realising the “Urban Blue” programme, which has the objective of zero-emission deliveries in Germany’s 80 largest cities by 2025.
Tapping into the growth area of cross-border e-commerce

With the founding of Hermes International in 2018, Hermes laid the basis for successfully exploiting the enormous growth potential of cross-border e-commerce. The company expects the global cross-border e-commerce market to grow at an annual rate of 16% between 2015 and 2025 (from EUR 94 billion to EUR 405 billion). The intensive further development of the “China to Europe” trade lane was one of the highlight projects of the new business unit which bundles together the international activities of the Hermes Group. Overall, Hermes International recorded double-digit volume growth in 2018. Through a strategic partnership with the horizontally positioned multi-channel logistics company SEKO Global Logistics, which includes taking over the German SEKO locations in Frankfurt and Bremen, Hermes has joined a strong international network that offers further growth potential for the entire Hermes Group – especially in markets outside Europe, such as the US and China.

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About Hermes:

Hermes is an international trade and logistics services provider based in Hamburg and part of the Otto Group. The company is a leading specialist for retail-related services and a partner of numerous distance sellers, multi-channel retailers and
online retailers in Germany and abroad. The range of services offered by the companies operating under the Hermes brand covers the entire retail value chain: sourcing, quality assurance, transport, fulfilment, home deliveries, two-man handling and global e-commerce services. In the 2018 financial year, the Hermes Group increased its total revenue to 3.20 billion euros. Hermes is present in the most important European e-commerce markets with its own parcel companies. Further information: newsroom.hermesworld.com.