

## 2.1 Logistics costs management in Germany

There is no doubt that Germany is the leading economy of the European Union, and it is interesting to analyse logistics management in this country in terms of logistics costs. The sector of logistics in Germany is characterized by innovative and diversified methods implemented by various companies in addition to the country's good location factors. The overall turnover of logistics grew by 4.6% per year between 2003 and 2008, but from 2009 and 2014 the growth rate dropped to 3.4% and it is expected to remain at the level of 2-3% in the following years. The structurally weaker world trade and the slow recovery of economy in Europe show signs of reluctance among investors in Germany. These are the main causes that suggest slower logistics business growth in the future. The typical feature of the logistics sector in Germany is stiff competition due to the country's location at the centre of Europe. Foreign transport companies have 40% shares in the freight market conveyed via toll roads in the country. Logistics costs in Germany are expected to rise due to the policymakers' intentions to limit the pollutant and CO<sub>2</sub> emission in reference to all types of transport. Innovative strategies implemented by German companies try to deal with this issue, as well as reduce the competitive pressure by providing sophisticated, customised services to their clients such as contract logistics or value-added services. Due to being more integrated in the customer's value chain, logistics companies acquire higher earning margins and growth potential. However, it is obvious that not all companies have access to financial resources that enable the implementation of the most innovative solutions, and a greater qualitative differentiation between those companies is likely to occur in the near future<sup>1</sup>.

The logistics sector by itself is not so clearly defined like other service sectors such as retailing or traditional areas of manufacturing. However, the sector of transportation and storage can be viewed as one that encompasses all activities of logistics such as transport, transshipment, and storage. In 2014, the turnover of the transportation and storage sector reached 290 billion euro, and it provided employment for around 2 million employees<sup>2</sup>.

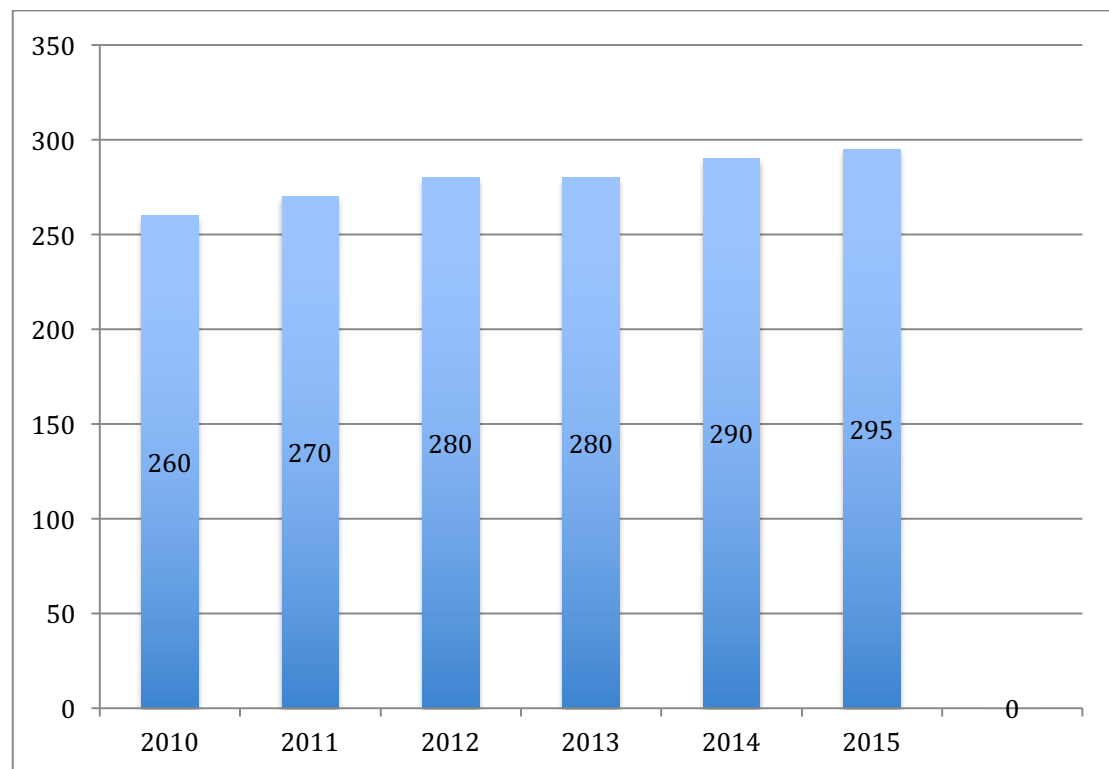
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<sup>1</sup> Heymann E., *Logistics In Germany: Only Modest growth in the near term*, November 26, 2015, Deutsche Bank Research, p. 1. [Accessed on: 04.07.2016]

<sup>2</sup> Ibidem, p. 2.

To show the difference, the automotive industry generated turnover of 270 billion euro while employing around 740,00 people. The biggest segment of logistics in Germany is “warehousing and support activities for companies”, followed by land transport with freight paths that generate the largest shares of the turnover<sup>3</sup>.

Chart 1. Logistics turnover between 2010 and 2015



Source: Heymann E., *Logistics In Germany: Only Modest growth in the near term*, November 26, 2015, Deutsche Bank Research, p. 2.

According to the data shown on the above chart it is evident that the logistics turnover in Germany has been steadily growing since 2010. However, the growth has been minimal since 2012 and the increase in turnover was only around 1,5% per year. The main reasons for this slower growth are listed below<sup>4</sup>:

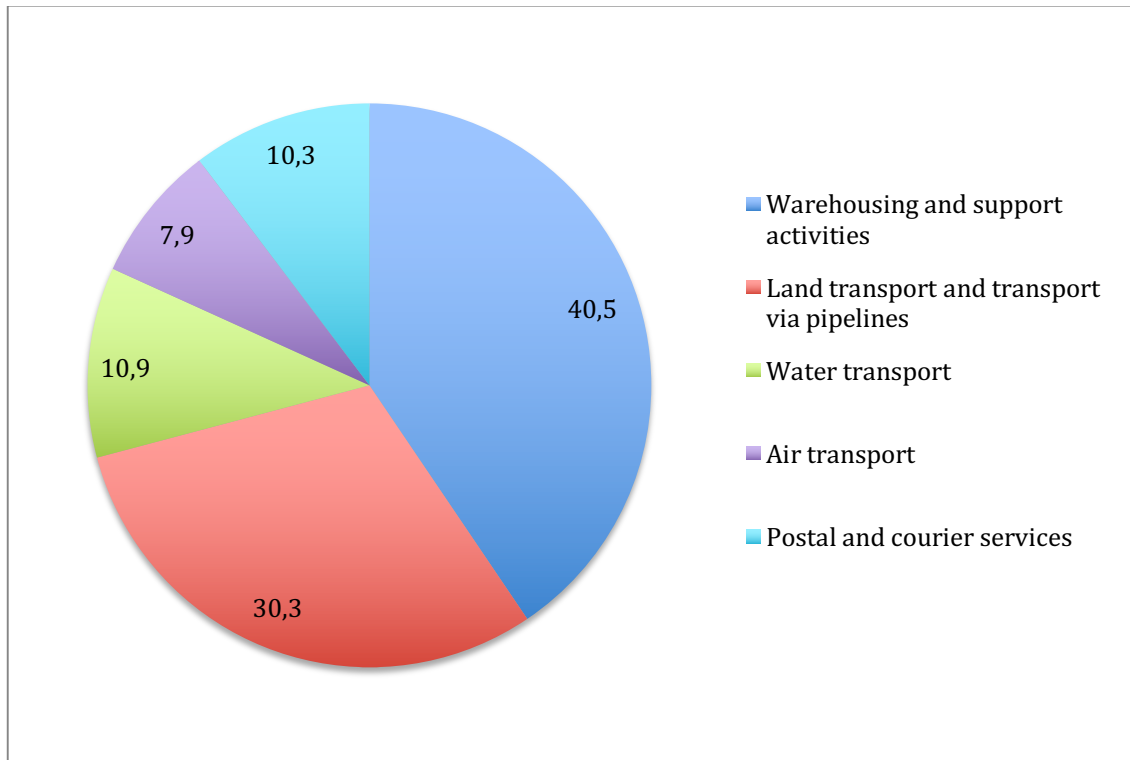
- Slight increase of domestic industrial output,
- Additional pressure from domestic investment activity (investments in plants and machinery)
- Slight rise of the external trade of the country

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<sup>3</sup> Heymann E., *op cit.*, p. 2.

<sup>4</sup> Ibidem, p. 2

Chart 2. Turnover split in the sector of transportation and storage in 2013.



Source: Heymann E., *Logistics In Germany: Only Modest growth in the near term*, November 26, 2015, Deutsche Bank Research, p. 2.

Chart 2. presents the turnover split in the most important sector of logistics for the German logistics system, transportation and storage. The worst performing segment is water transport services, which includes sea and coastal transport. The turnover of this type of logistics fell especially in 2012 by around 10%, and that contributed to higher logistics management costs of this sector. Despite costs incurred for maintaining and managing intermodal transport this type is still characterized by overcapacities and low freight and charter rates due to the impact of global trade growth, which has been low in the last few years<sup>5</sup>.

Costs of logistics management in German logistics sector are mainly connected with the use of resources such as fuel, where the price of diesel plays a key role in the expenses of logistics companies, especially ones dealing in road freight<sup>6</sup>.

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<sup>5</sup> Heymann E., *op cit.*, p. 2.

<sup>6</sup> Ibidem, p. 4.