

DB Schenker Rail restores the balance

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After a wave of expansion, Europe's largest railfreight operator DB Schenker Rail is now in a process of consolidation and streamlining in the face of the economic crisis. CEO Dr Alexander Hedderich explains the strategy behind its continued ambitions for growth to IRJ regional editor Anitra Green.

At the beginning of this year, German Rail's (DB) railfreight arm DB Schenker Rail increased its 49% stake in Italian railfreight operator NordCargo, which it only acquired a year ago, to 60%, and is amalgamating it with its Italian operation, DB Schenker Rail Italia. This followed hot on the heels of the acquisition of two companies in Poland, PCC Logistics and PTK.

DB already had subsidiaries in several other countries, having bought EWS in Britain and Transfesa in Spain, on top of its initial acquisitions of national railfreight operations in Denmark and the Netherlands. DB Schenker Rail is also present in Switzerland through a 45% stake in BLS Cargo.

There is a clear strategy behind these acquisitions, as Dr Alexander Hedderich (right), CEO of DB Schenker Rail, points out. "Our goal is to create a comprehensive European railfreight network. We want to have the ability to service our customers nationally as well as internationally. Although we decided to have our own operations in Poland, France, Britain and Italy, we do not actually want to own companies - all we want is to have a network. But our international market share in Europe is insufficient; two-thirds of our business is generated in Germany and only one-third in other countries."

Part of the solution to this problem lies in forming partnerships, and Hedderich says most of DB Schenker Rail's business is done with partners. A case in point is the recently signed Xrail alliance on intra-European wagonload traffic, in which DB Schenker Rail collaborates with six other railfreight operators. "Wagonload traffic is the backbone of our railfreight business," he says. In Europe as a whole it accounts for about half of the total railfreight business.

"We are building on existing services and aim to improve them," says Hedderich. "The alliance does not cover all of Europe yet. There is a risk because of the lack of a clear commitment from other companies, but the volume at risk is bigger in wagonload traffic than in other sectors, for example in France and Italy, where the level of commitment is unknown. This is a chance to create a better, more reliable and committed service. The importance of wagonload traffic does not need emphasising; the real issue is to be competitive as a system in the face of competition from road. By joining Xrail we expect to see growth in our wagonload traffic."

Last year DB's railfreight activities showed a drop of 26% in both revenue and volumes in the first half, and the whole year was expected to show a loss despite a slight improvement in the economic situation. The final results were due to be announced at the end of March. Volumes are expected to recover this year, according to a study commissioned by the German Ministry of Transport.

At present DB Schenker Rail is in a phase of consolidation. The company streamlined its management structure at the beginning of this year, with simplified structures at business unit level and a new head of operations. "The current economic situation requires a lean organisation with shorter decision-making processes," Hedderich explains. "We must restore operational and economic balance, especially in Germany. Our company's numerous activities in Europe have to be linked together to form a real network to generate benefits for our customers and foster business success."

Hedderich sees DB Schenker Rail as essentially a European operator, albeit with a strong footprint in Germany. He freely accedes this involves a change of mind-set, but it is evident that the description is already borne out by the growing scale of the company's European operations.

As for the future, DB's overall ambition is to become the world's leading passenger and logistics company. It is already the biggest player in Europe, being number one in railfreight, intermodal and overland traffic. Does this indicate that DB Schenker Rail may expand further afield? Hedderich makes it quite clear that the answer is no: "We have no ambitions to expand outside Europe, period."

And how does Hedderich see the future? Does he expect to see something like the US model developing in Europe, with short lines feeding into just a few major players? "I hope so," he responds. "Rail transport over long distances in Europe has to be international, and the market needs it."