

Postal strategies for a digital age

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The traditional postal value chain

Collection

- Post offices
- Franchised counters
- Letter boxes

Processing

- Sorting centers
- Vehicles, trains

Delivery

- Mailmen / carriers
- Fixed routes (letter mail)
- Variable routes (parcels)

Universal service obligation

- Density / proximity of the post office network
- Delivery frequency and location
- Product range; price uniformity

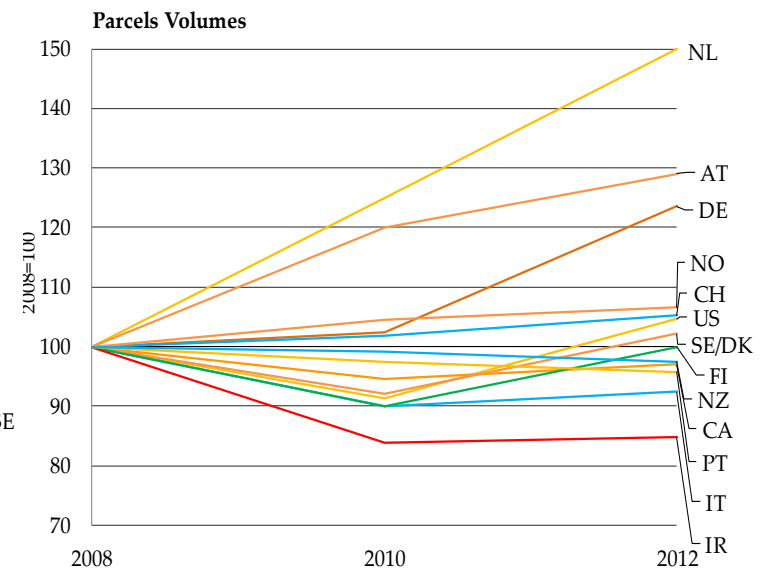
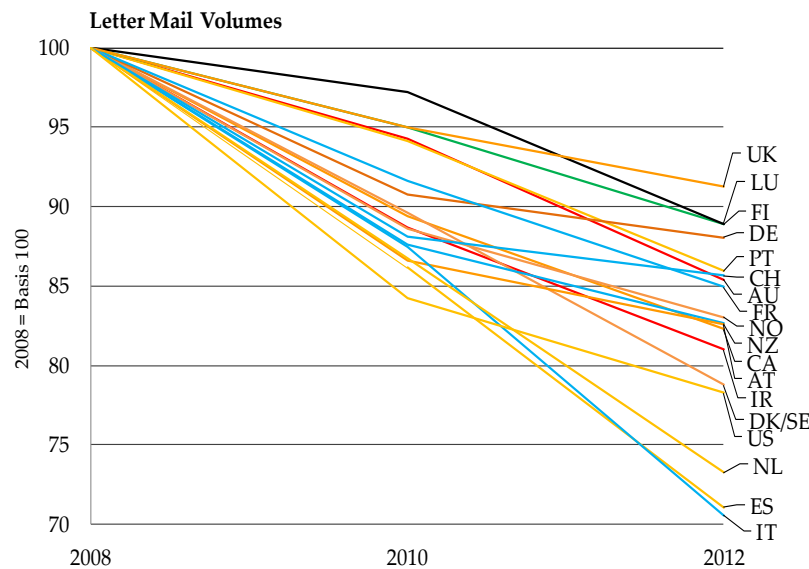
Competition

- End-to-end and access based (depending on regulation)
- Often selective entry (customers, products, location)

Background and objective

Digitalization as a challenge and opportunity for postal operators

- E-Substitution decreases letter mail volumes
- E-Commerce allows parcel volumes to grow



→ What are generic strategies for incumbent operators under regulatory constraints?

Selected measures by postal incumbent operators

- **Related to letter mail**
 - Reorganize processes, increase automation (sorting centers, hybrid mail)
 - Manage labor costs, e.g. through outsourcing
 - Exhaust / relax USO constraints in collection and delivery
 - Increase prices
 - Expand range of carrier services (e.g. services for elderly)
- **Related to parcels**
 - Offer faster delivery times
 - Increase automation (sorting centers, parcel lockers)
 - Improve sender and recipient services
 - Expand towards logistics (e.g. all-in-one solutions, warehousing)
- **Related to post offices**
 - Reduce density of network
 - Replace post offices by agencies / franchised counters
 - Expand into new markets (e.g. financial services, insurance services)

Patterns in incumbent operators' measures

- Set of measures chosen differs substantially among postal incumbents
 → Revenue compositions differ, too

Revenue Composition	AT	AU	BE	CA	CH	DE	ES	FI	FR	IN	IR	IT	JP	LU	NL	NO	NZ	PT	RU	S-D	UK	US
Mail	0.58	0.36	0.76	0.56	0.33	0.18	0.91	0.49	0.38	0.36	0.75	0.12	0.11	0.25	0.85	0.41	0.48	0.74	0.40	0.56	0.49	0.81
Parcels & express	0.36	0.50	0.11	0.38	0.15	0.31	0.08	0.12	0.23			0.02			0.15	0.59	0.16	0.18	0.13		0.51	0.19
Logistics & freight				0.02		0.51		0.28												0.38		
Postal retail	0.06	0.14		0.04	0.14				0.16	0.09	0.25		0.07						0.12			
Financial services			0.09		0.31				0.22	0.55		0.85	0.82	0.03			0.36	0.08	0.35			
Information services			0.04		0.07		0.01	0.11	0.02											0.06		
Telecommunications							0.00					0.01		0.72								
Classification	P	R	M	P	F	L	M	I	F	F	R	F	F	T	M	P	F	M	F	L	P	M

- Yellow: Important role of letter mail, e.g. USPS
- Orange/brown: Important role of parcels / logistics, e.g. DP DHL
- Blue: Important role of financial/insurance services, e.g. Poste Italiane
- Red: Important role of retail services, e.g. Australia Post
- Green/black: Important role of ICT services

Regulation and postal innovation

Typical regulatory environment

- Strong USO (density of post offices; daily nationwide delivery)
 - High quality, low price; high cost (mostly fixed)
- State ownership
 - Legal foundation is needed for all activities

Challenges for new business cases

- Low demand
- Little cost savings
- Legal uncertainty

Examples

- Hybrid delivery
- Parcel lockers

Case studies – framework and structure

Framework and case study structure

- Optimal strategies are path-dependent and result from the regulatory framework
- Strategies induce specific types of innovations
- Innovations determine performance

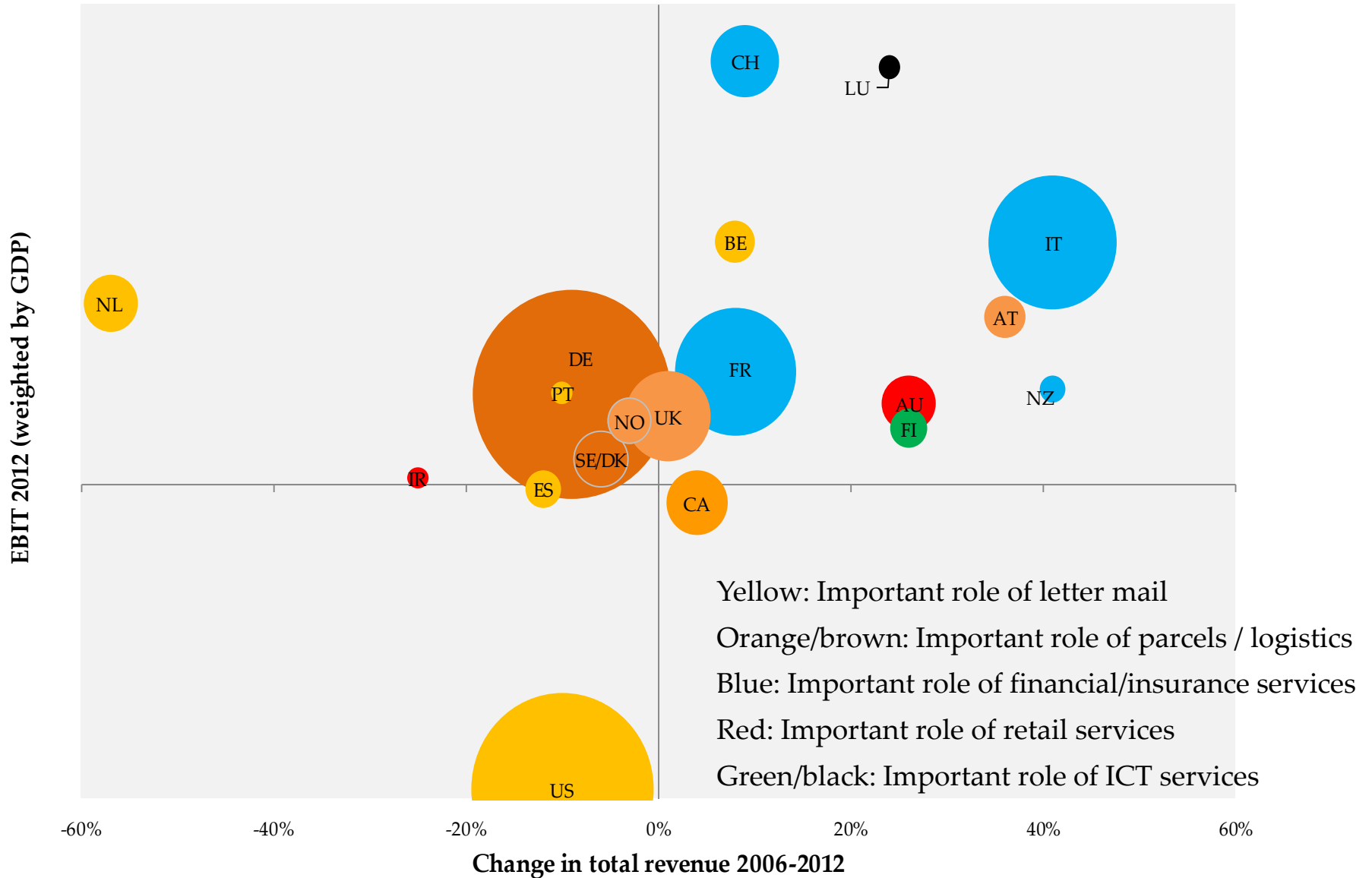


Case studies - results



	Regulation	Strategy	Innovation	Performance
AU	Maintain 4000 retail outlets, including 2500 in rural/remote areas	Bring value to post office network by providing 3 rd party services, e.g. banks	IT platform facilitating high value retailing with 3 rd parties	Strong growth and profitable post office network
NZ	Provide 880 retail outlets, thereof 240 post offices	Bring value to remaining post offices	Launch of KiwiBank	Strong growth and profitability of bank
UK	Full market opening, separation of post office network	Compete for letters and parcels	Process innovations	Limited growth and EBIT margin
CH	Minimum accessibility, financial transactions in USO	Develop all business divisions and in particular PostFinance	Process and product innovations	Solid growth, strong development of PostFinance
US	Post office requirements, no diversification allowed	Develop mail and parcels business	Process innovations	Substantially negative margins
IT	Full market opening, post offices for 96% of municipalities +	Diversify	Launch of BancoPosta, PosteAssicure, PosteVita, and more	Strong growth of new services

Performance overview



Three generic strategies



Regulation	Strategy	Innovation	Performance
No infrastructure requirements	Exploit synergies Increase efficiency Focus	Process innovation	Cost efficiency
Financial transactions in USO	Exploit synergies Increase efficiency Diversify into banking services	Process innovation Product innovation	Cost efficiency USP in retail banking
Infrastructure requirements, diversification opportunities	Exploit synergies Increase efficiency Diversify / bring value into network)	Process innovation (limited) Product innovation	Cost efficiency (limited) USP in community services / high value retailing

Conclusion

- Many postal operators have significantly and successfully moved away from their traditional core businesses
- In particular operators with banking services achieve growth and above average margins
- Regulation is relevant for understanding business strategies
- Regulation supporting diversification is important
 - Give legal foundation for new business
 - Allow for substitution in regulated services
 - Reduce cross-subsidization
- There are three successful generic strategies. It is important that national regulations allow to pursue one of these generic strategies
- For example, regulations that prescribe a minimum number of Post offices need to go along with corresponding diversification opportunities

Thank you!

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