

Can Parcel Growth Support the Sustainability of the US0?



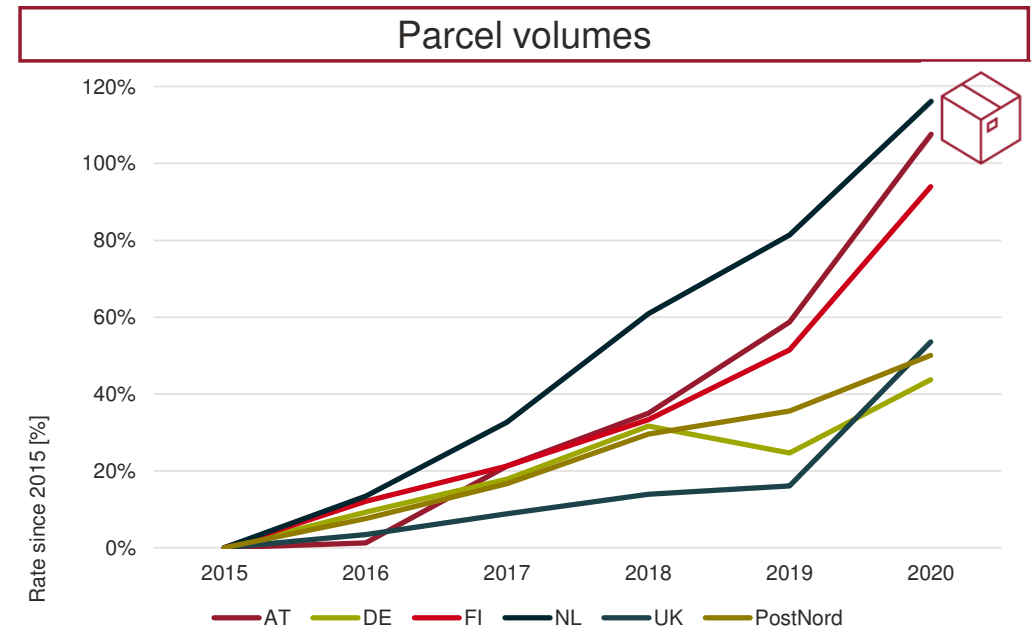
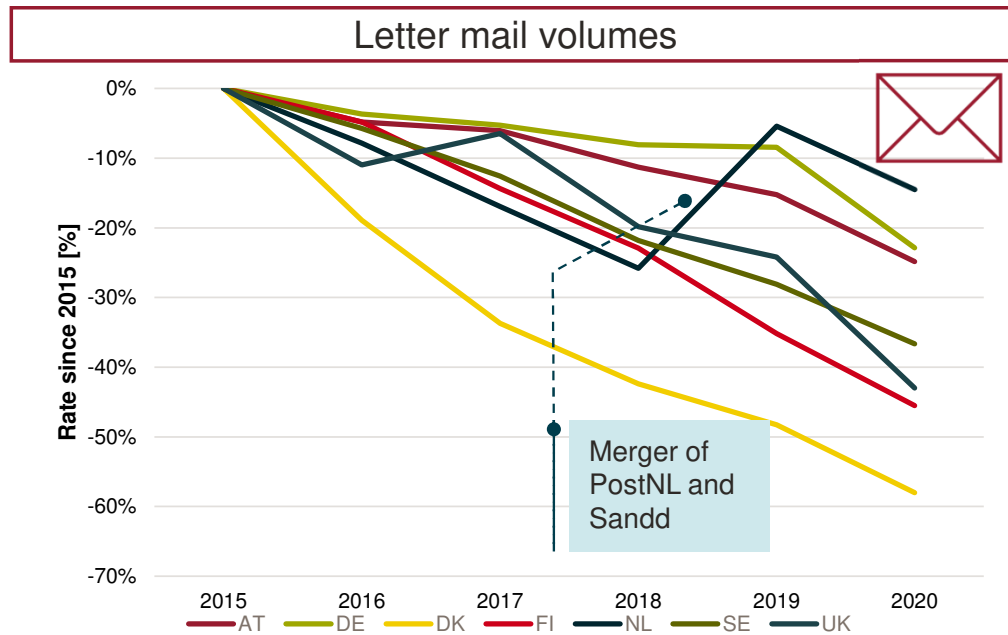
Christian Strobel, Lisa Brouer, Fabian Götzens, George Houpis, José María Rodríguez Ovejero

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George Houpis

USP Letter mail volumes declined ↘, while USP parcel volumes constantly increased ↗ across many countries since 2015



Source: PostNL data + own research

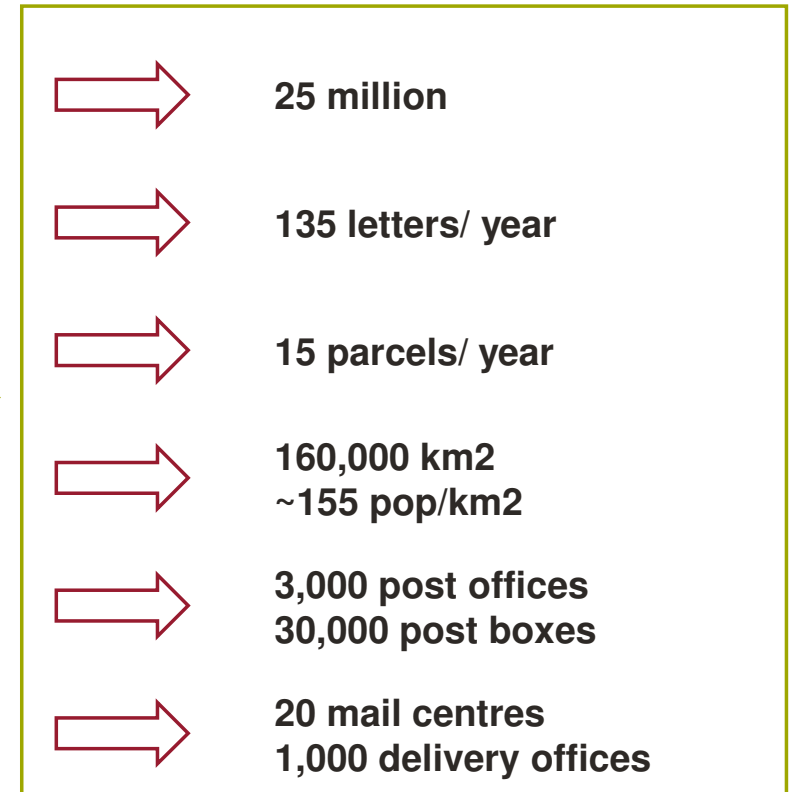
Motivation of our analysis: The rates of changes in parcel and letter mail varies greatly and so does the mix of change across countries. We assess how different rates of change can impact on the profitability of a USP to test if the growth in parcel volumes can sustain the USO.

We developed a 'hypothetical' USP to investigate how these trends can affect USPs' financial position

Inputs



Our simulation uses characteristics roughly representative of USPs in the EU:



We used a bottom-up model to investigate how these trends can affect the profitability of USPs

Model simulation



Bottom-up model using inputs from range of European countries / USPs

Reflecting broadly average country / USP

Country specific results are likely to vary



Outputs



Costs

■ Fixed costs:

- Access
- Collection
- Delivery

■ Variable costs:

- Collection feeders
- Sorting
- Transport



Price assumptions based on costs and margin (5%) in base case

- letter price : parcel price = 1 : 5

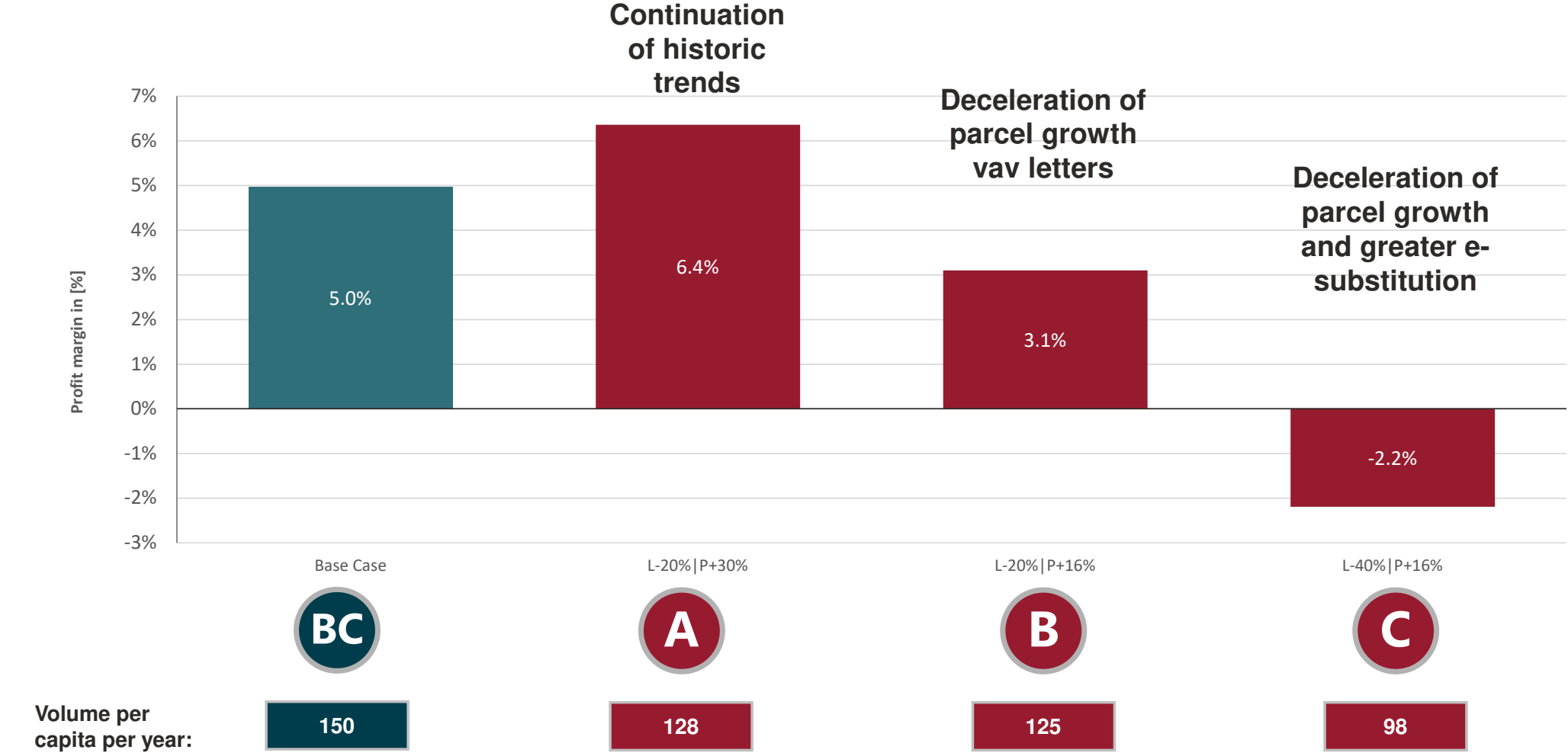


Scenario analysis – Margin

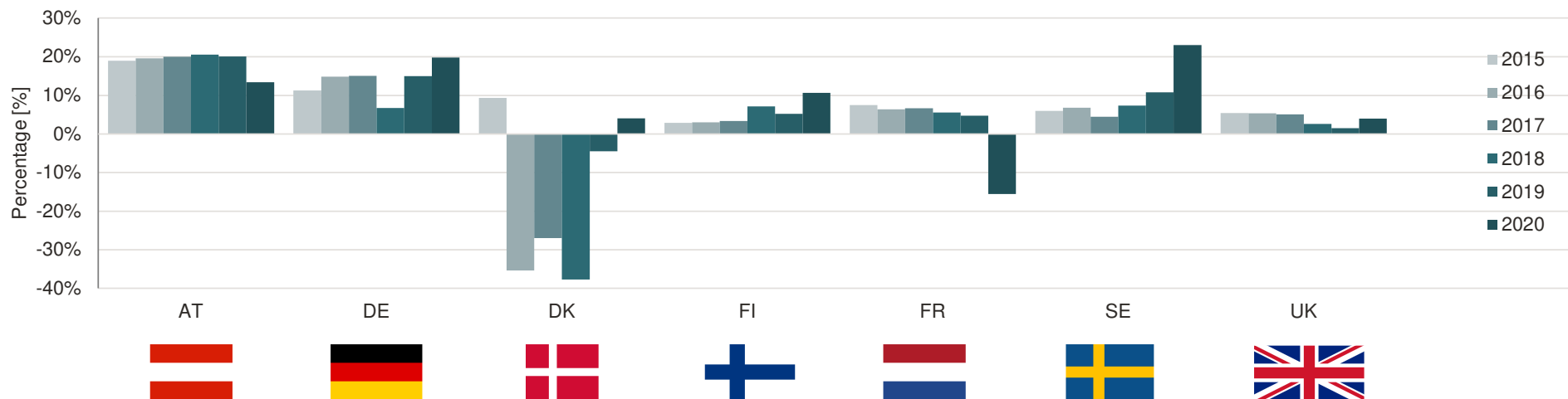
- Adjust volumes
- Estimate costs
- Keep prices constant

* Based on market research

Impact on future USP profitability



Gross margins of USPs in reality show a mixed picture across Europe



Source: PostNL data + own research

Different influencing factors

- Ongoing digitalization in recent years
- Impact of Covid-19 in 2020
- Structural changes in the postal market (such as mergers)



- No one-fits-all conclusion
- Set of different options that can be taken by regulators and/or USPs

Conclusions



USPs ability to maintain their profitability can critically depend on their success in the parcel market. Current trends suggest that average parcel growth may be sufficient. But increasing volumes could imply that margins erode as prices fall given competitiveness in the sector.



USPs margins seem to be reasonably stable. This may be down to success in parcel markets but also seems to be driven by other factors.

Implications for USPs



Parcels: USPs may continue to benefit from global e-commerce trends while continue to face declines in letter mails. USPs may further benefit from increasing demand / improved parcel offer in areas where they have competitive advantage – rural areas / quality of service.



Letters: Further price increases in letter mail can also compensate the loss but effectiveness depends on price elasticities

Implications for Regulators

The sustainability of the USO is likely to remain an issue and expect developments in the parcels market will have an increasingly significant impact.



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