Lessons from Other Network Industries: Should Posts Seek to Collaborate More in the Last Mile?

Adam Houck
IBM Strategy and Analytics
Academy of Technology Member

Bernhard Bukovc
Chairman
Postal Innovation Platform

‘May you (continue to) live in interesting times…’

- Ancient Chinese Curse

Agenda

- Guiding principles
  - **How** the world keeps changing
  - **Key Questions** to be addressed
- A deeper look
  - **Differences** between letter and parcel networks
  - **Other Factors** influencing the future
- Exploring collaboration and potential for posts
- To regulate or not to regulate
- Summary

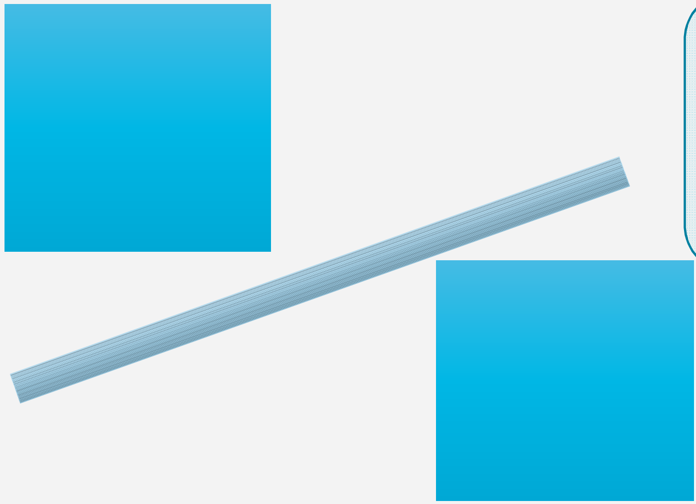
The game is afoot…

- Race to acquire and build last mile capabilities reshaping e-commerce and the digital world
  - **Target acquires Shipt for $550M,** a grocery and same day delivery platform
  - **Walmart acquires Parcel and Jet.com** to drive innovation access to Millennials
  - **Amazon purchases Whole Foods for $13.7B** for warehousing locations and access to densely populated markets

- Myriad factors making the world larger and smaller, simultaneously

'Larger'

- Re-urbanization
- Changing Demographics
- New Fulfillment Models
- Evolving Customer Expectations
- Growing Infrastructures



'Smaller'

- Technology Inclusion and Enablement
- Growth of Intermediaries
- Uber Parcel Delivery
- Infrastructure Sharing
- Strategic Partnerships

Letter versus parcel networks

- Letter networks exhibit classic attributes of network industries
  - **MPE / Infrastructure / Vehicles** create fixed costs that drive economies of scale
  - **Creates incentives** for partnering to avoid network duplication

- Parcel networks are quite different
  - **Transportation leg** behaves like a traditional network industry, but first and last mile different
  - **No USO** for express and other ‘higher value / innovative’ parcels
  - **Fierce competition** rather than monopoly protection
  - **New entry** classifies the landscape

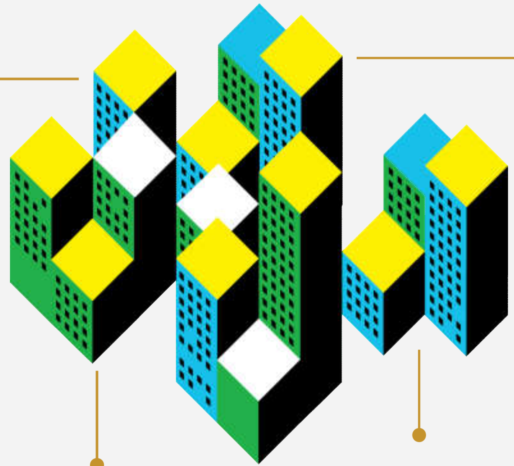
- Therefore the differences are significant
  - **Less fear** of network duplication in last mile
  - **Several layers of intermediaries** added each year through competition and entry
  - **Anyone with a vehicle** can serve as a delivery agent
  - **Must be careful** applying lessons from other network industries

Key Questions must be addressed

- Should asset heavy incumbents partner to increase delivery density?
- Are POs positioned to capitalize on opportunities in last mile ecosystem?
- Do new intermediaries innovate too quickly for POs to be good partners?
- Can lessons be applied from cooperative models in other network industries?

We continue to ride the wave of disruption

Customer and citizen expectations
demand speed, flexibility, transparency, trust, environmental sensitivity; brand savviness is a premium



Urbanization and demographics
are increasing population, wealth, and purchasing power density in urban areas; aging population segments are driving responses from governments and businesses

Brand and Trust
are no longer reserved for POs in delivery; instead, new entrants and intermediaries are immediately creating and transferring trust to new delivery services

Parcel Volumes
continue to grow and show no signs of slowing; of key significance is the growth of single items purchased

Other Environmental Challenges
such as traffic volume and vehicle congestion are exacerbating the last mile delivery challenges and pushing city leaders to find innovative solutions

Exploring collaboration and potential for posts

- Clear incentives for incumbents to increase volume and density
  - **Economies of scale** in delivery production costs
  - **Incentives** even for firms who own no assets

- No single provider possesses requirements to meet all market demands
  - Network design
  - Ability to scale in real-time
  - Intra-day network flexibility

- World Economic Forum construct (2018) is quite interesting

- What does this mean for posts
  - **Difficult to estimate** total excess delivery capacity in urban areas
  - **Static routes** do not deliver flexibility required for today’s innovative delivery models
  - **Many posts** do not operate separate letter and parcel networks
  - **Therefore**, partnering and collaboration emerge as viable means to meet demands

To regulate or not to regulate

Options exist for shaping the demand for collaboration in the future…

SCENARIO 1: REGULATION

SCENARIO 2: NO REGULATION

Likely that explicit regulation not required to solve most challenges

- Much has changed in even the last 5 years
- Posts no longer hold a monopoly on trust
- Regulation already proceeding to address traffic/congestion concerns
- Cooperative models can develop once local restrictions are enacted
- Pricing implications are significant
- Posts well positioned to build platforms to deliver security and transparency

…and we **must not underestimate** the significance of choosing the proper regulatory approach

In closing

- Lessons from other network industries cannot be directly applied to last mile parcel delivery
  - **Incentives** that shape partnering in telco, electricity, even letters, etc., are different for parcels
  - **Service levels and profitability**, rather than network-driven effects, will shape the actions of firms
- Likely no single provider possesses all capabilities required to meet current needs and expectations
- Clear environmental and political pressure will push demand for greater collaboration, especially concerning **traffic and congestion**
- Regulators must exercise significant caution
  - **What are the goals** we seek to obtain
  - **How to create structure** that allows innovation to continue
- Posts are faced with significant questions, and can respond by playing a significant role
  - **Lead from the front**, seek greater collaboration
  - **Possess** competitive advantages and assets that must contribute to overall solution
  - **Less about** increasing density, more about increasing role to play in digital world

Adam Houck
Senior Manager, Strategy and Analytics, U.S. Public Sector
IBM Academy of Technology Member
ahouck@us.ibm.com
703.629.5934