

Intangible Benefits Related to Universal Postal Service

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1. Role of Benefits for Postal USO Net Costs

- Directive 2008/6/EC establishes a terminology
 - “Net cost” of providing the service
 - “Market benefits” [or commercial benefits] which accrue to a USP
 - “Intangible benefits” which accrue to a USP
- The directive’s concept for USO net costs reflects “profitability cost approach” – Net cost of the USO is the difference between
 - Profits when US is provided (with USO), and
 - Profits without USO (counterfactual scenario)
- Under the directive, net cost calculations shall take into account “any intangible and market benefits”

2. How to Classify USO Benefits?

All benefits are commercial
(‘market benefits’) – tangible in the long term

What are ‘benefits related to the USO’?

- Related to USO if caused by the additional level of service that is provided only because of the USO (e.g. fewer deliveries, fewer post offices)
- May be related to or justified by the USO by law

What are ‘intangible benefits’?

- Benefit ‘intangible’ if a USP's accounts, and USO net cost calculation, do not fully reflect the benefit's impact on revenues and cost
- Tangible benefits can directly be observed from accounts and/or USP's net cost calculation

(1)

**Intangible benefits
of the USO**

(3)

**Other commercial
benefits**

(2)

**Tangible benefits
of the USO**

(4)

**Not a relevant
benefit**

3. Intangible Benefits in the Postal Sector (1)

(1) Intangible benefits of the USO

- Economies of scale/scope
- Enhancement of corporate reputation/brand value
- Enhanced advertising effect
- Better bargaining position
- Privileged access to philately market
- VAT exemption
- Exemptions from customs and excise regulations
- Exemption from transport licence

(3) Other commercial benefits

- e.g. dominant position
- e.g. detailed knowledge of the market
- e.g. ownership of postal infrastructure

(2) Tangible benefits of the USO

- e.g. demand complementarities in post offices
- e.g. subsidies from state

(4) Not a relevant benefit

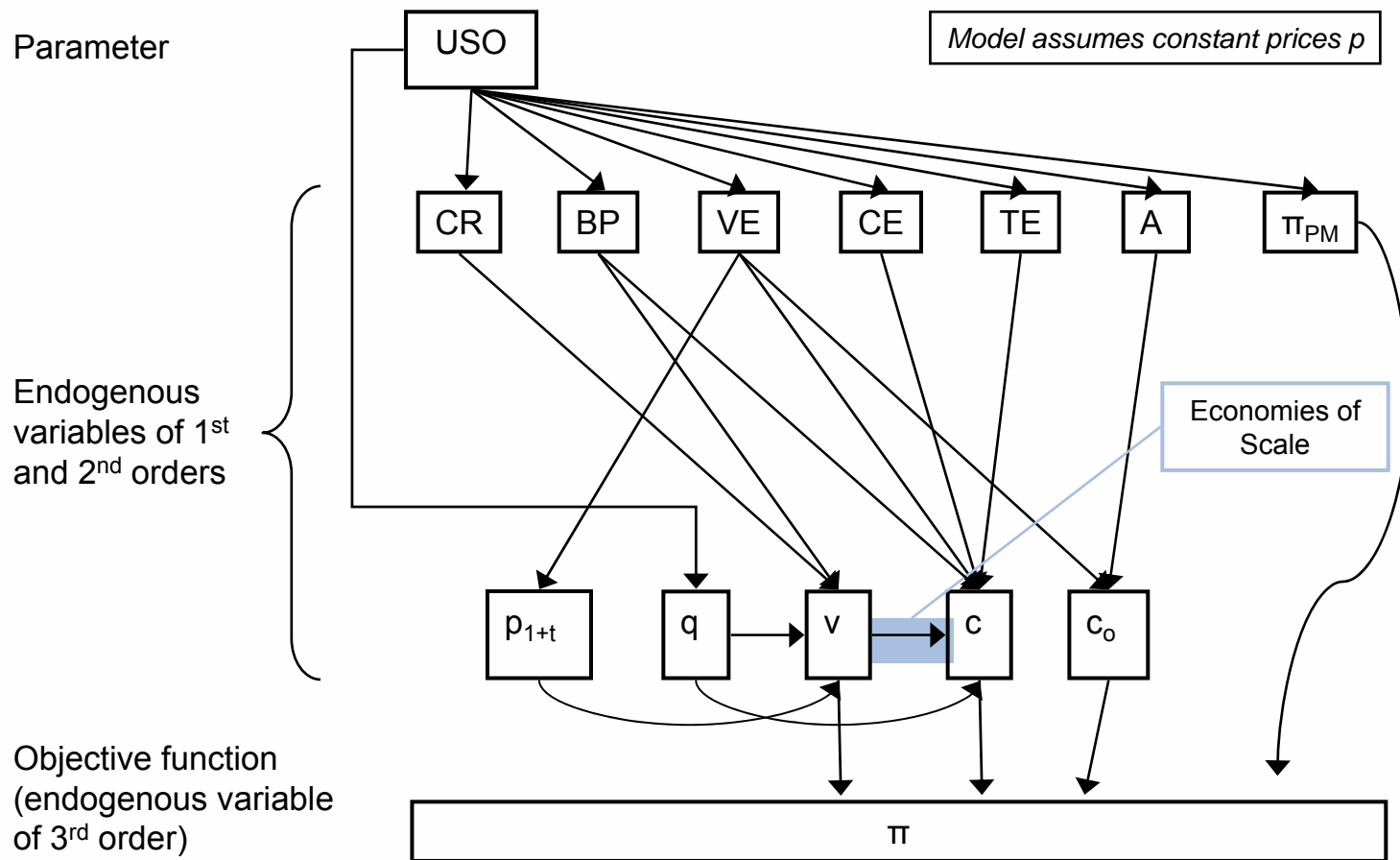
- e.g. low transaction cost from uniform tariffs
- e.g. ubiquity

3. Intangible Benefits in the Postal Sector (2)

| Benefit | Var. | Description/argument |
|---|------------|--|
| Economies of scale | - | USO leads to higher volumes. Higher volumes lead to greater economies of scale in all processes. Some EoS may be included in USP's calculations. |
| Enhanced corporate reputation/brand value | CR | USO enhances brand value and corporate reputation. Customers perceiving this extra quality buy more postal services from USP. Like advertising effect. |
| Better bargaining position (regulator/politicians/work force) | BP | USP usually has a direct channel to regulator, and various parts of government, including local, and can lobby more easily and less costly than other firms. Exact influence of USO on BP difficult to separate. |
| VAT exemption | VE | USP exempt from VAT has a price advantage over competitors for customers that cannot reclaim VAT. In France, VAT exemption is counterbalanced by wage tax on VAT-exempt firms. Total effect unclear. |
| Exemptions from customs and excise legislation | CE | Many USPs are exempt from customs and excise regulations. USP with two cost advantages: 1) simplified customs clearance, 2) exempted from liability for incorrect customs declarations |
| Exemption from transport licence | TE | USO in France is exempted from transport licence. Other transport firms must deposit (small) financial guarantee per vehicle. |
| Privileged access to the philately market | π_{PM} | Many USPs have exclusive rights to issue stamps with the nations' name. This may increase value to collectors. Effect of national symbols difficult to separate. |
| Enhanced advertising effect | A | Some "additional USO services" have advertising effect. E.g. USP logos on outlets, vehicles, postmen. |

4. How to Measure Intangible USO Benefits?

Ordering of Parameters/Variables and Interrelationships



4. How to Measure Intangible USO Benefits?

Manageable Approaches Needed for Quantification

- Benefits of USO can only be assessed once a “counterfactual scenario” is determined by USP, and approved by NRA
- Interrelations among different benefits must be studied to avoid double counting. Similarly, avoid double counting of effects that are included in USP’s counterfactual already
- Once interrelations are understood, pragmatic methods can be used for evaluation, e.g.
 - Surveys
 - Benchmarks from other markets
 - Econometric modeling
 - Etc.

5. Conclusions

- EU Postal Directive requires that net cost calculations take account of benefits – intangible and market benefits of the USO
- USP enjoy various benefits, but only benefits should be included that
 - either result from “extra level” of services provided because of USO
 - or are justified by the USO in law
- No clear meaning of “intangible” – Definition is largely a practical matter – all USO benefits should be considered that the USP’s calculation do not specifically include
- Benefits must be studied based on a specific USP net cost calculation received from USP.
- At the outset, three benefits appear particularly important:
 - Better bargaining position because of USO
 - Enhanced corporate reputation and brand value
 - Additional economies of scale

6. Intangible Benefits in the Telecom Sector

Context

- In France, in the telecom sector, the intangible benefits that should be taken into account for calculating the net cost of the universal service are specified by law (article R. 20-37-1 of the CPCE).
 - Task is more straightforward than in the postal sector: regulator does not have to make a list of what the potential intangible benefits may be.
- The benefits listed in the French law are:
 - Brand image;
 - Ubiquity;
 - Life cycle;
 - Access to telephone usage data.
- ARCEP has calculated the value of intangible benefits since 1998. In particular, a methodology was designed in 1999 for the brand image and was updated in 2006.

6. Intangible Benefits in the Telecom Sector

Brand Image / Ubiquity

Brand image

- An operator that provides services to all persons requesting it (eg telephone services and public payphones even in sparsely populated zones improves its brand image with the public.
- Assessing this advantage is tied to the additional price that the customer is willing to pay to keep with this universal service operator, which is evaluated through a customer survey.
- The study noted a sharp decrease in that advantage. This can be attributed to increased competition in electronic communications markets, which leads to a drop in the additional price that consumers are willing to pay the operator in charge of universal service.

Ubiquity

- Nevertheless, a customer that moves from an unprofitable area to a profitable area may contract more easily with the USP as one may be sure that this operator will provide services. This benefit was valued 4,878 Euro as very few customers move from unprofitable area to profitable areas.

6. Intangible Benefits in the Telecom Sector

Life cycle / Access to Usage Data

Life cycle

- This is the advantage derived from the improvement over time of the economic status of subscribers benefiting from universal service. Some subscribers who are not profitable when they first connect to the phone service can become profitable later on thereby creating new revenues for the operator.
- Regarding geographical coverage, this is quantified by analyzing the global costs and turnovers over a 5-year period in the areas that are unprofitable now but may become profitable in the future.
- It has been considered that no area that is unprofitable in 2008 would become profitable in a 5-year period. This benefit is then 0.

Access to telephone usage data

- This is the advantage derived from the use of subscriber data to improve market knowledge.
- This benefit can only be taken account of in unprofitable areas since these are the ones where the USP would not provide services if there were no USO. The value of this benefit has decreased as the number of customers in unprofitable areas has decreased.

6. Intangible Benefits in the Telecom Sector

Calculation of Intangible Benefits in France

| | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|--------------------------------|--------|-------|--------|-------|--------|-------|--------|-------|--------|-------|---------|-------|
| | M Euro | % | M Euro | % | M Euro | % | M Euro | % | M Euro | % | M Euros | % |
| Ubiquity | 0.123 | 0.15 | 0.112 | 0.14 | 0.076 | 0.32 | 0.01 | 0.05 | 0.006 | 0.03 | 0.005 | 0.03 |
| Life cycle | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0.00 |
| Access to telephone usage data | 0.349 | 0.42 | 0.202 | 0.25 | 0.065 | 0.28 | 0.066 | 0.30 | 0.024 | 0.11 | 0.029 | 0.16 |
| Brand image | 83.535 | 99.44 | 81.664 | 99.62 | 23.316 | 99.40 | 22.141 | 99.66 | 21.051 | 99.85 | 18.309 | 99.81 |
| Total | 84.007 | 100 | 81.978 | 100 | 23.457 | 100 | 22.217 | 100 | 21.082 | 100 | 18.343 | 100 |

- The results are broadly consistent with the findings of this article, regarding intangible benefits in the postal sector.
 - The largest component of the intangible benefits is brand image; but it is worth noting that the value decreases over time as competition emerges.
 - Nevertheless, some specific aspects of the postal sector do not have any match in the telecom case such as VAT, philately or the use of national symbols.

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