

Impact of Market Opening Strategies on Development of Market Structure

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Liberalized Postal Markets – Need for Regulation?

1 Development of competition

1.1 Degree of competition

1.2 Market structure

1.2.1 What structure ought to be expected?

1.2.2 Which structure do we observe?

1.2.3 Expectations and observations

2 Market opening strategies as an explaining factor for differences

3 Concluding remarks

This presentation includes some ideas of a study currently in progress (“Regulatorische Marktzutrittsbedingungen und ihre Auswirkungen auf den Wettbewerb: Erfahrungen aus ausgewählten Briefmärkten Europas”).

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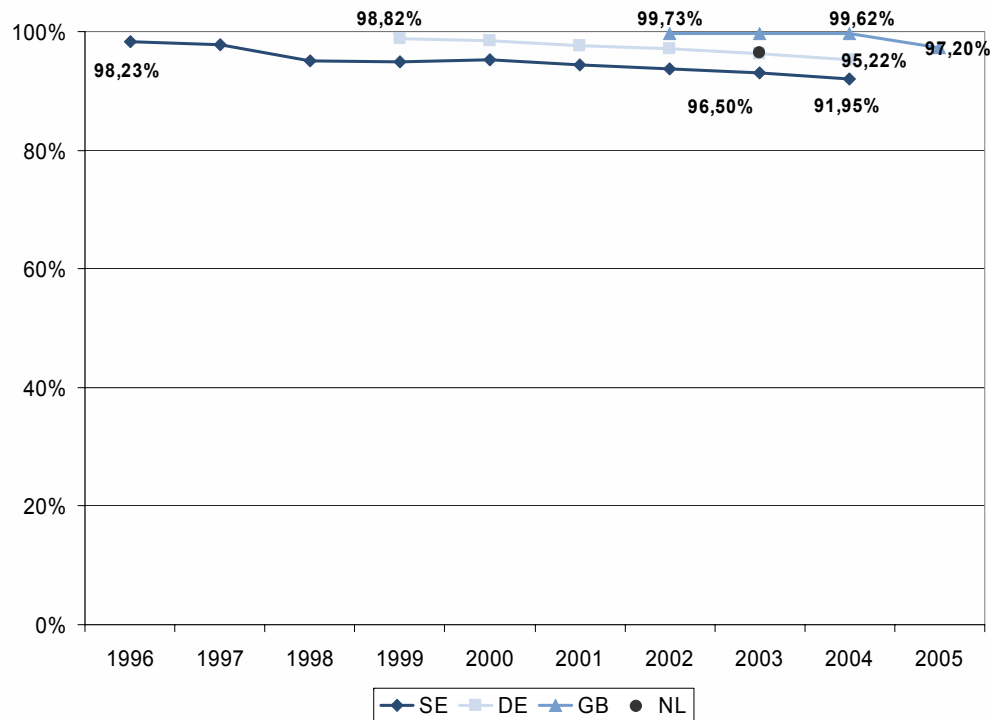
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Degree of Competition

Letter post market share of liberalized USPs



WIK-Consult (2004), Main developments; RegTP (2005), Achter Marktbeobachtungsbericht; PostComm (2005), Competitive market review – proposals ...; PTS (2005), Service och konkurrens 2004; Ministerie van Economische Zaken (2004), Postal Memorandum

Degree of Competition

- Market share generally > 90 %.
- Germany and Sweden - Slow, continuous decrease of USPs' market shares.
- NL: entrance of Sandd (2000) and Selekt Mail (2002) of major importance.
- UK: decrease of market share in past year (Access Volumes in Sept. 2005 twenty times higher than one year before).
- Current USPs remain market dominant players in the future
 - Royal Mail expects to have nearly 90% of the market in 2010.
 - TNT is more pessimistic.

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What structure ought to be expected?

Attractiveness of segments for market entry:

- Bulk mail is more attractive than individual mail; B2X more attractive than C2X.
- Computer-generated, standardized mail is more attractive than mixed mail.
- Value added services are more attractive than standard services.
- Mail that is not time sensitive is more attractive than mail requiring next day delivery.
- Delivery less than five times per week is more attractive than daily delivery.
- P.O.Box delivery is more attractive than street delivery.
- Delivery to densely populated areas is more attractive than nation wide coverage.

What structure ought to be expected?

Attractiveness of countries for market entry:

The lower the unit costs of delivery in a country, the more attractive the country is for market entry.

Criteria for attractiveness of countries (Ecorys, 2005):

- total addressed mail volumes
- per capita addressed mail volumes
- potential for growth in direct mail volumes
- degree of urbanisation
- population density

Germany, Netherlands and UK very attractive; Sweden less attractive.

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Which structure do we observe?

	Germany	Netherlands	Sweden	UK
Number of competitors	1.116 active operators	> 5 (incl. Publishers)	27	14 (2005)
Main competitors	i.a. PIN AG (subsidiary Springer & Holzbrinck) EP Europost (TNT)	Sandd Selekt Mail (DPWN, Wegener)	City Mail (Norway Post majority)	UK Mail (i.a. Fed Ex aff.) Speedmail (DPWN) TNT, Express ..
Relative importance of main competitors	PIN AG < 0,5% (turnover of total)	> 90% of adressed mail volumes	> 90% of total comp. market share	No dominance of certain competitor

Which structure do we observe?

	Germany	Netherlands	Sweden	UK
Segments, where competitors are active	50% of turnover in D-licence (value added services) End-to-end	Adressed mail (mainly direct mail) End-to-end	Adressed mail (transaction, direct mail) End-to-end	Adressed mail (direct mail) Accesss 2/3; end-to end 1/3
National coverage of competitors' activities	Many small companies, mainly locally active	Nationwide	Local, but large areas	Mainly local coverage
Reaction of Incumbent	Legal action Price and quality competition	Direct Mail - prices down 30% by expansion VSP-network	Price and quality competition in 1990s	Probably abolishment of uniform tariffs

Which structure do we observe?

Stylized Facts:

	Germany	Netherlands	Sweden	UK
Number of competitors	Very high	Few	Few	Few
Relative Importance of major Competitors	Medium	Very high	Very high	High
Coverage	Mainly local	Nationwide	Densely populated areas	Densely populated areas
Regulated access	yes	no	no	yes

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Expectations and observations

Do we observe the market structure we expected?

- Market entrants are focussing on B2X mail.
- Computer-generated, standardized mail particularly interesting.
- Where end-to-end competition, delivery mostly less than five days a week.
- In most countries densely populated areas are more attractive than sparsely populated areas. Situation in Germany is mixed.
- Nationwide delivery in the Netherlands, but not in Sweden.
- German, Dutch and British letter markets are more interesting for DPWN and TNT to enter than the Swedish one.
- BUT: Differences in both number and size of competitors and in the business models of competitors.

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Market Opening Strategies as an Explaining Factor

Hypothesis: Differences in both number and size of competitors as well as some differences in business models of competitors can be explained by market opening strategies laid down in legal frameworks.

Method: Analysing different elements of national legal frameworks
..... how they might effect the size of market entrants,
..... how they might determine business strategies.

Market Opening Strategies as an Explaining Factor

	Germany	Netherlands	Sweden	UK
Reserved area	Small companies	No effect	No effect	Large companies
Licensing	Small companies Market shaping	No effect	No effect	Large companies Danger of Market shaping

Market Opening Strategies as an Explaining Factor

	Germany	Netherlands	Sweden	UK
Promoting access	Yes => Small companies too	No => Larger companies	No => Larger companies	Yes => Small companies too
Access to address databases	No effect	Large companies	No effect	Large companies
Regulatory certainty (=> investments)	Smaller companies	Smaller companies	Smaller companies	Larger companies

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Concluding Remarks

- Various barriers to entry do exist on letter markets.
- Economic barriers to entry lead to certain strategies for competitors to enter the market. Economic barriers differ from country to country.
- Expected strategies are broadly similar to observed strategies.
- Anyhow: Important deviations which can only be explained by the legal framework/the specific market opening strategy.
- Focus on effects on market structure.
 - Germany:
 - Many, small, local companies result from market opening strategy.
 - Main reasons: reserved area and its exemptions via licensing.

Concluding Remarks

- Sweden, Netherlands, UK: Less but larger companies; look similar at first sight
 - Sweden, Netherlands:
 - no distorting effects from reserved area and licensing system.
 - smaller companies might be attracted to enter by promoting access.
 - UK:
 - According to most criteria relatively larger companies should enter market.
 - promoting access produces countervailing effect.

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