



Competition in Regulated Mail Markets

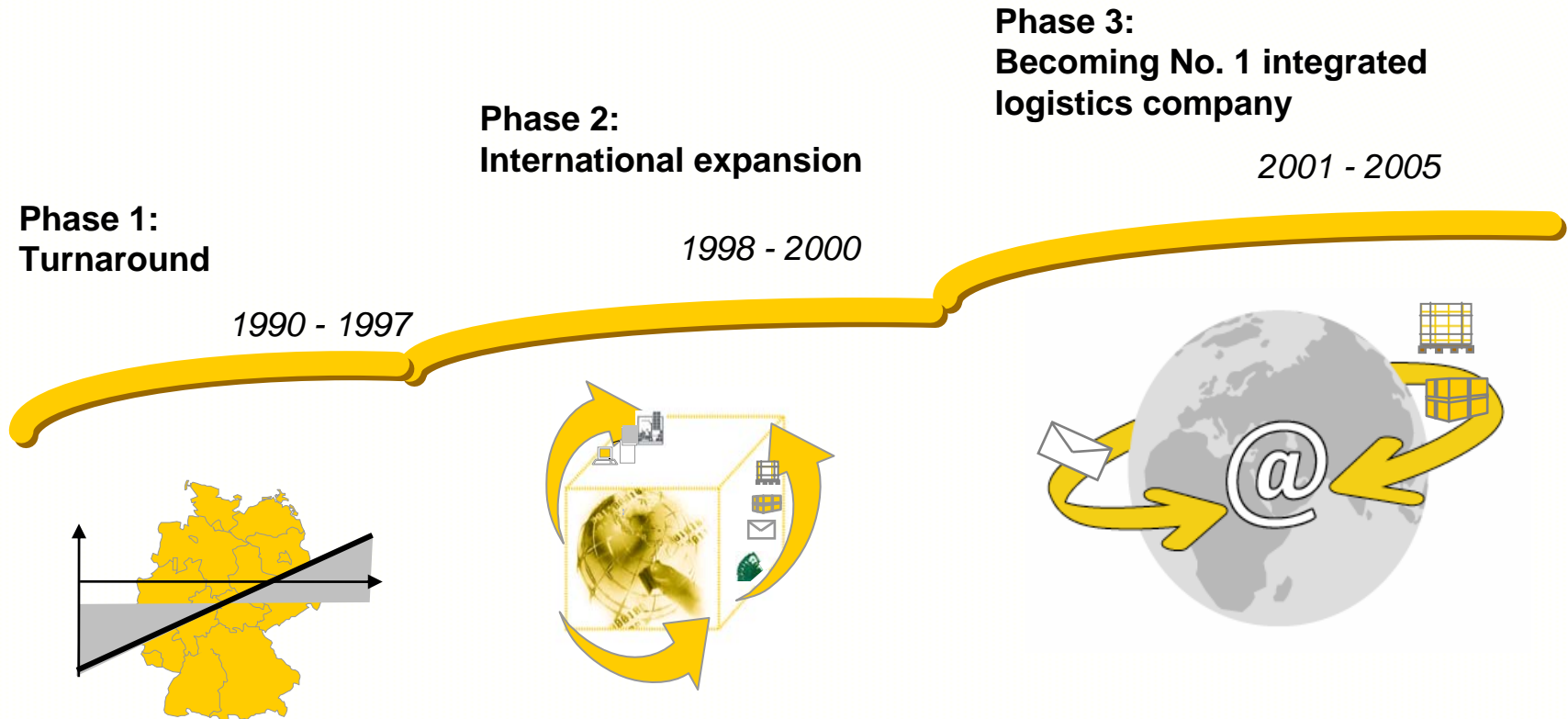
First experiences and conclusions

Wolfgang Pickavé • Königswinter • 13 February 2007

- The Strategy of DPWN
- DPWN's International Mail Activities
- Some Generic Considerations
- Experiences and Observations
- Conclusions regarding the 3rd Postal Directive

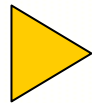
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DPWN has successfully completed its three phase strategy; the new goals: to increase customer satisfaction and to realize organic growth



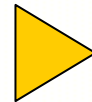
While the continuing liberalisation of the mail markets is posing a challenge in Germany, internationally it is seen as an opportunity

DPWN's goal



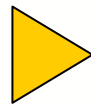
... to offset impending losses of market share in the national mail market by gaining market share in other markets

Three approaches



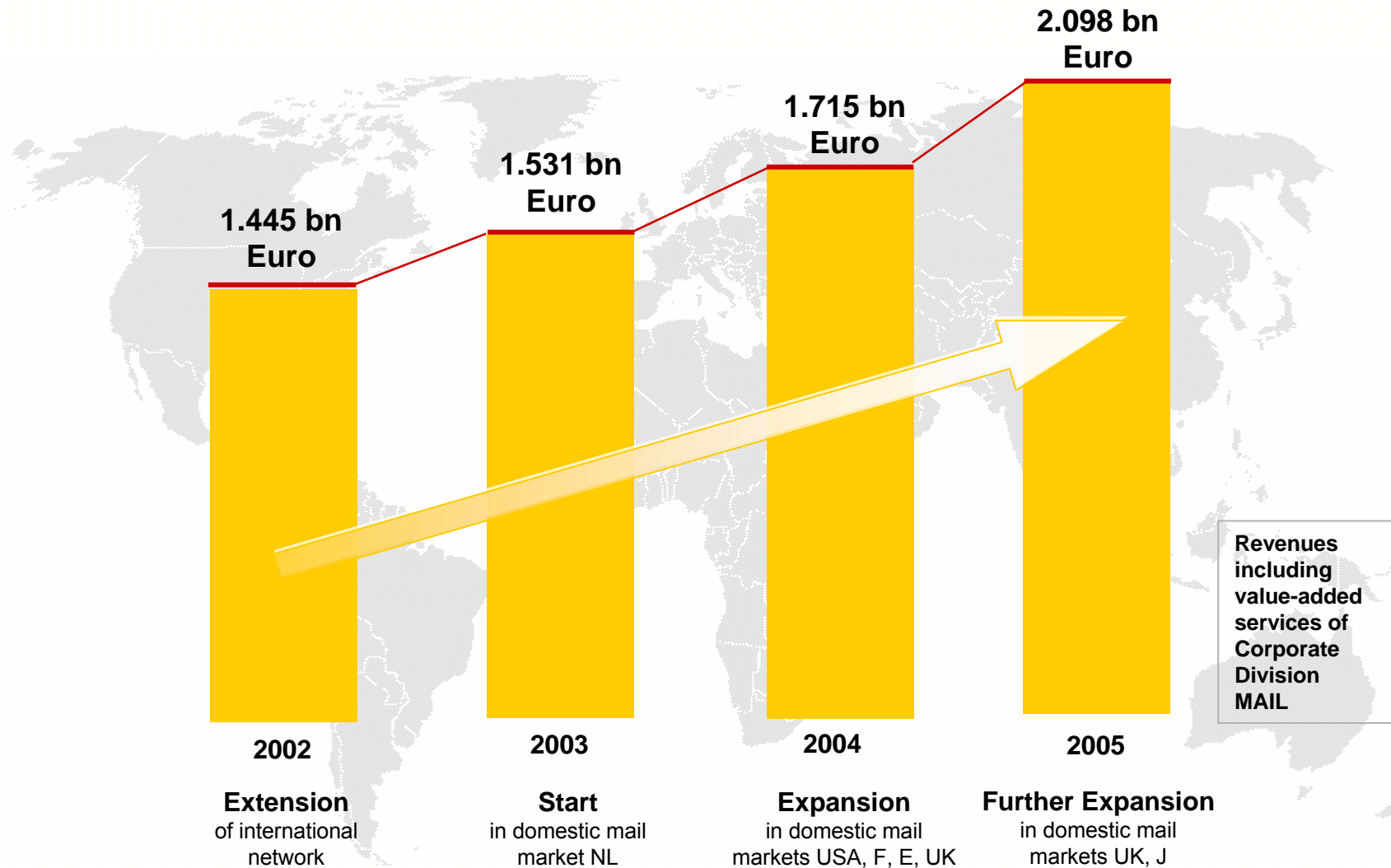
... to expand our service offering for business customers
... to increase our presence abroad
... to continually optimize the costs of our transport and delivery network and to make it more flexible

Three entry strategies



... acquisitions
... co-operations
... development of our own networks

Revenues of DPWN Mail International



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DPWN's International Mail Activities

DPWN's international mail business is covering activities along and beyond the traditional postal value chain

**Cross Border
Services**



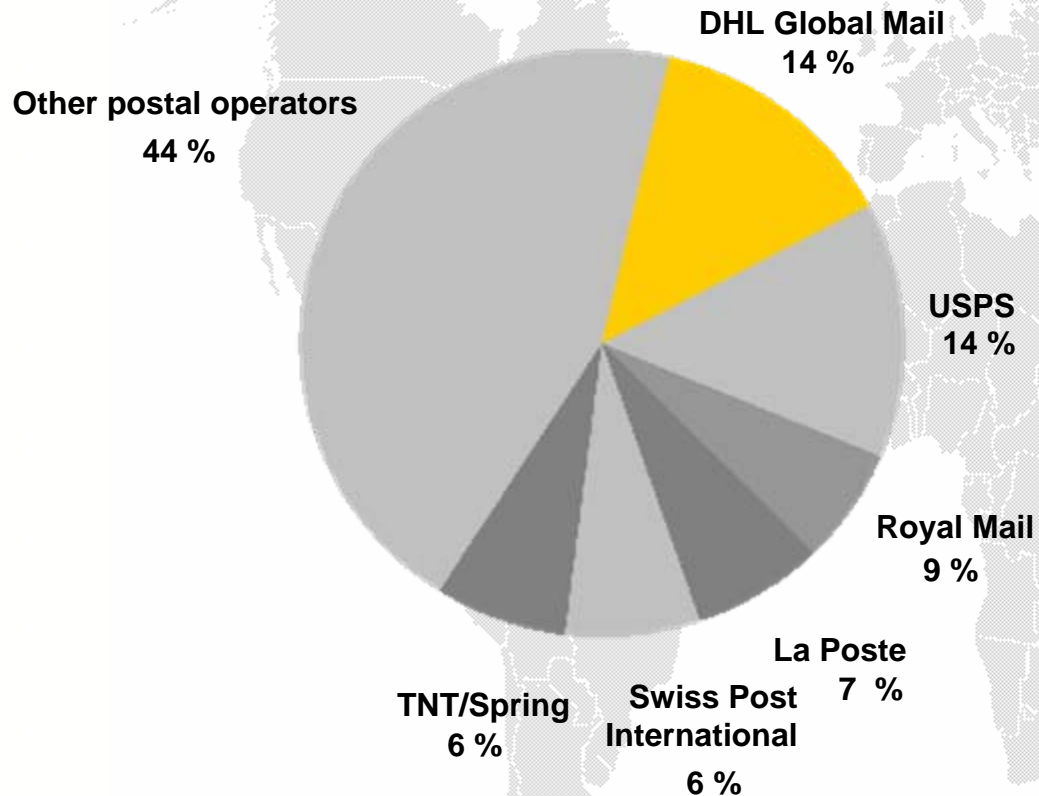
**Domestic
Services**



**Value Added
Services**



Cross-border mail: Global market share (2005)



Total value: ~ €10 bn

With a market share of 14% Deutsche Post is among the two largest suppliers in worldwide cross-border mail

Source: UPU Statistics, Annual Reports

Cross-border mail: DHL Global Mail's business

GLOBAL MAIL BUSINESS	GLOBAL MAIL DIRECT	GLOBAL MAIL PUBLICATION	GLOBAL MAIL PARCEL
Solutions for international business mail	Solutions for international direct marketing	Solutions for international publication distribution	Solutions for international parcel post

Service levels	Priority Service: 3-8 days
	Standard Service: 8-14 days
	Economy Service: 14 days+ (overseas)

Standard Features

- Basic consulting on international DM
- Pick-up (based on minimum volume)
- Invoice itemized by zone
- Customs clearance
- Sorting, franking (not for DIRECT)

Value added services

- International address management
- Comprehensive DM consulting
- Database management (for DM)
- Registered mail
- Sorting, franking, lettershop services (for DIRECT)

DPWN's domestic mail services

- Approx. 50 processing centers
- Approx. 35 sales offices
- Approx. 4,000 employees



Domestic mail services in the Netherlands

Dutch mail market characteristics

- One of the most de-regulated markets in Europe (~50% of market accessible)
- Direct Mail and outgoing cross-border mail fully liberalised, letter mail above 50g liberalised
- Full market opening expected 2008 (new postal act pending)
- Highly competitive environment

Deutsche Post track record in the Netherlands

- **1999:** Creation of DHL Global Mail Netherlands (cross border mail)
- **2002:** Acquisition of unaddressed distributor Interlanden
- **2002:** Merging the addressed mail operations of Interlanden and Selektvracht resulted in the birth of Selekt Mail Netherlands (JV Deutsche Post 51% and Wegener 49%)
- **2003:** Purchase of 20% share in PO Box deliverer MailMerge (increased to 100% in 2006)

Domestic mail services in the Netherlands provided by SelektMail: Nation-wide delivery of addressed mail items, focus on non-prio segment

	DIRECT MAIL	MAGAZINES	INBOUND
	Domestic direct mail distribution	Domestic magazine distribution	Solutions for the delivery of inbound non-priority mail (outside reserved area)
Service levels	Tuesday - Wednesday delivery cycle		Economy service: 4 - 6 days
	Thursday - Friday delivery cycle		

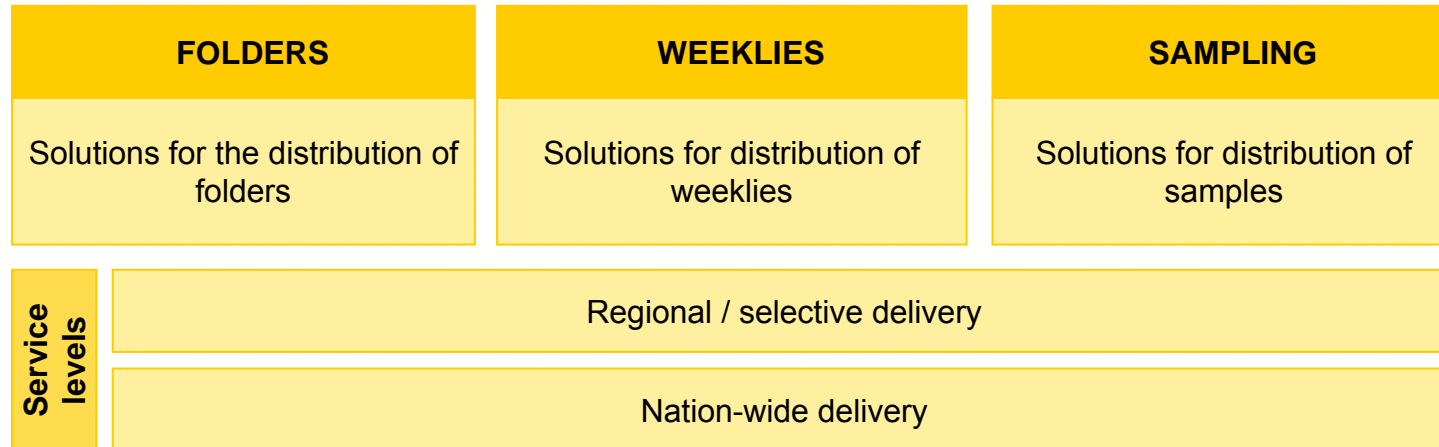
MARKET

- Moderate volume decrease: -0,7% p.a. until 2009
- Limited impact of electronic substitution

SELEKT MAIL

- Nation-wide delivery capability of addressed mail items with a focus on Non-Prio segment
- Selekt Mail revenues more than tripled between 2003 and 2005
- Growing well above the market

Domestic mail services in The Netherlands provided by Interlanden: Distribution of unaddressed items



MARKET

- Stable volume development, approx. 2 to 4% p.a. until 2009
- Strong position of Direct Mail in the Netherlands

INTERLANDEN

- One of the market leaders in unaddressed distribution in business since 1969
- Largest market player together with TNT Post / VSP

Domestic mail services in Spain

Spanish mail market characteristics

- Direct Mail and Intra City Mail fully liberalised
- Cross-border and domestic mail up to 50g reserved to Correos
- Mandatory Downstream Access
- Highly competitive environment
- VAT exemption for Correos only for reserved services

Deutsche Post track record in Spain

- 1972 first company within Unipost founded
- 2001 Unipost founded as a company
- 2004 legal restructuring
- 2005 DPWN bought 38% stake

Domestic mail services in Spain provided by Unipost: Distribution of addressed items

BUSINESS MAIL	DIRECT MAIL	PUBLICATIONS	SERVICES
<ul style="list-style-type: none"> • Distribution of intra-city mail • Distribution of inter-city mail >50g • Registered mail • Franking and inserting of inter-city mail <50g into Correos network 	<ul style="list-style-type: none"> • Distribution of direct mail • Irregular formats handling • Flexible delivery date • Information service and feedback to DM campaign 	<ul style="list-style-type: none"> • Distribution of magazines/publications • Distribution of catalogues • Distribution of samples 	<ul style="list-style-type: none"> • Pick-up service • Planning and realisation of Direct Marketing campaigns • Returns management

MARKET

- Rather low mail density (90 items per person)
- Rather low population density (87 inhabitants per km²)
- Market highly fragmented
- Government decided that Correos has to open its network for private operators at the same conditions as for mass mailers

Unipost

- Leading private mail provider with 30 years experience in mail business
- Network covers 70% of the Spanish market with presence in all major cities
- 15,000 customers, 2 m items per day
- 185 service centres
- 2,000 employees at Unipost and 2,000 employees at franchise companies

Domestic mail services in the UK

British mail market characteristics

- Fully liberalised mail market since 2006
- Mandatory Downstream Access
- Royal Mail is fully VAT exempt for all postal services
- Strict regulatory regime
- Big mailing volumes start to switch to private operators
- No alternative end-to-end network so far

Deutsche Post track record in the UK

- 1997: Creation of Deutsche Post Global Mail UK Ltd.
- 2004: Acquisition of Speedmail International
- 2004: Deutsche Post Global Mail concludes access agreement with Royal Mail
- 2004: Deutsche Post Global Mail receives long term licence

Domestic mail services in the UK provided by DHL Global Mail UK: Distribution of addressed mail

DIRECT MAIL	PUBLICATION	SORTING/FRANKING
<ul style="list-style-type: none">• Delivery service for certain postcodes areas in London• Downstream Access with final mile delivery by Royal Mail	<ul style="list-style-type: none">• Delivery service for certain postcode areas in London	<ul style="list-style-type: none">• Offer to take all mail (domestic and international) from mail room and insert into appropriate network, residuals to Royal Mail• Service to sort mail for customer for DSA access (Suresort)

MARKET

- Fully liberalised mail market since 2006
- Besides Royal Mail four big mail providers: BX (incl. SMS), TNT, UKMail and DHL Global Mail
- Royal Mail lost some big accounts like BT and DWP to competition
- The total regulated UK addressed mail market was worth £4.65 billion in 2005/06

DHL Global Mail UK

- Own B2B delivery network in defined London postcodes
- Unsorted and sorted DSA offering
- Constantly growth of revenue

Value added services provided by Williams Lea: Corporate Information Solutions

OFFICE DOCUMENT SOLUTIONS	MARKETING SOLUTIONS	CUSTOMER CORRESPONDENCE MANAGEMENT
<ul style="list-style-type: none">• Word processing/presentation services• Records and information management• Multi Functional Devices/copier or printer management• Mail and messenger management/digital mailroom• Fax / Courier management• Operational print management• Litigation support	<ul style="list-style-type: none">• Design• Multimedia/intranet/internet development• Enterprise content management• Print and campaign management• Warehousing, stock management and logistics• Fulfilment and distribution	<ul style="list-style-type: none">• Scanning, indexing and data capture• Mailroom management/digital mailroom• Micrographics• Document composition• Statement/variable data printing• Warehousing, stock management and logistics• Fulfilment and distribution

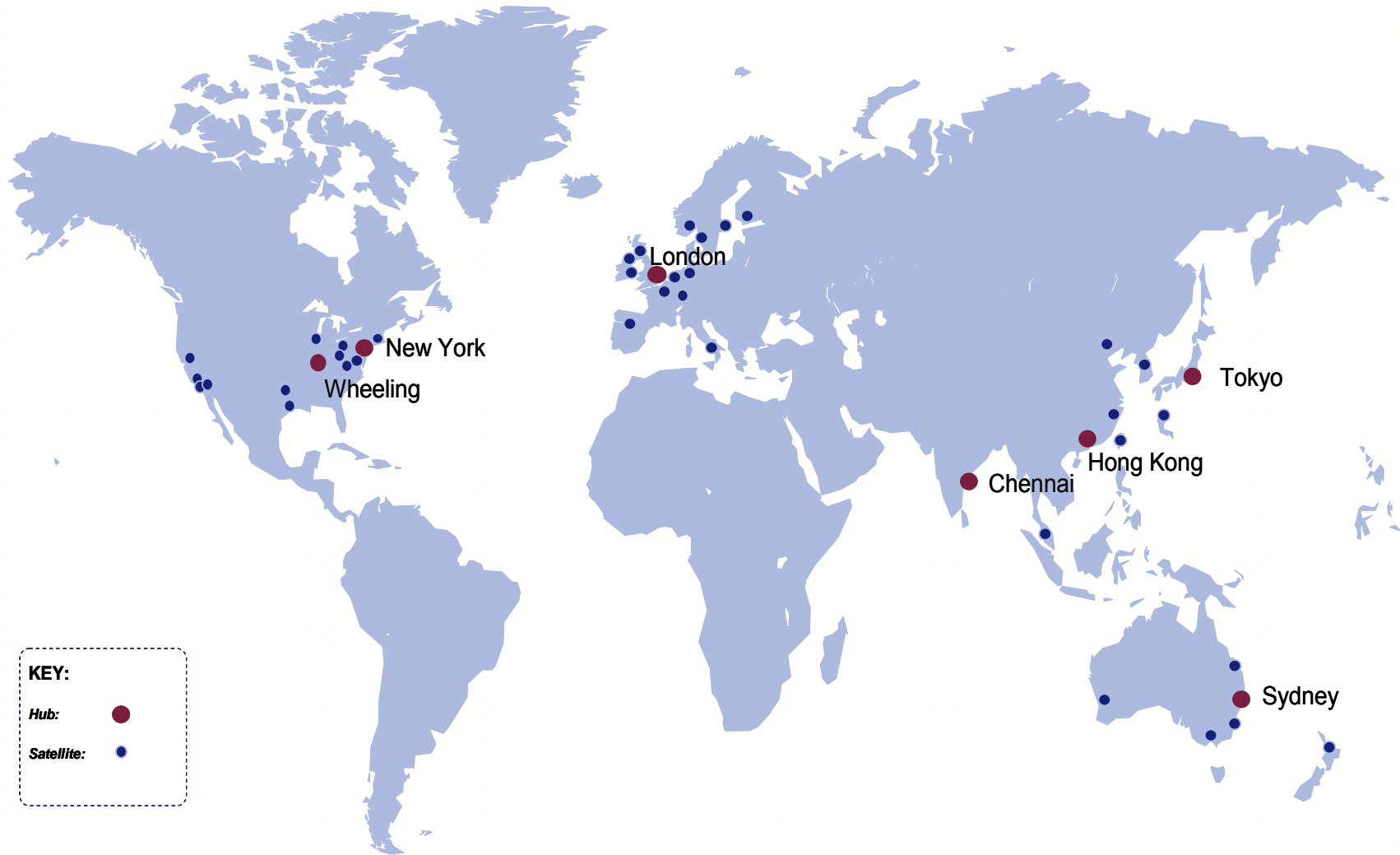
MARKET

- Increasing trend for document management outsourcing
- Only few players in the sophisticated correspondence management market
- Big international corporations have strong need for service providers with global reach and sufficient financial strength to fulfill increasingly large deals

Williams Lea

- Global leader in Corporate Information Solutions
- 2006 revenue 780 m€
- 8,000 staff worldwide
- DPWN currently holds 66 %

Williams Lea Network



KEY:

- Hub: 
- Satellite: 

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- DPWN's International Mail Activities

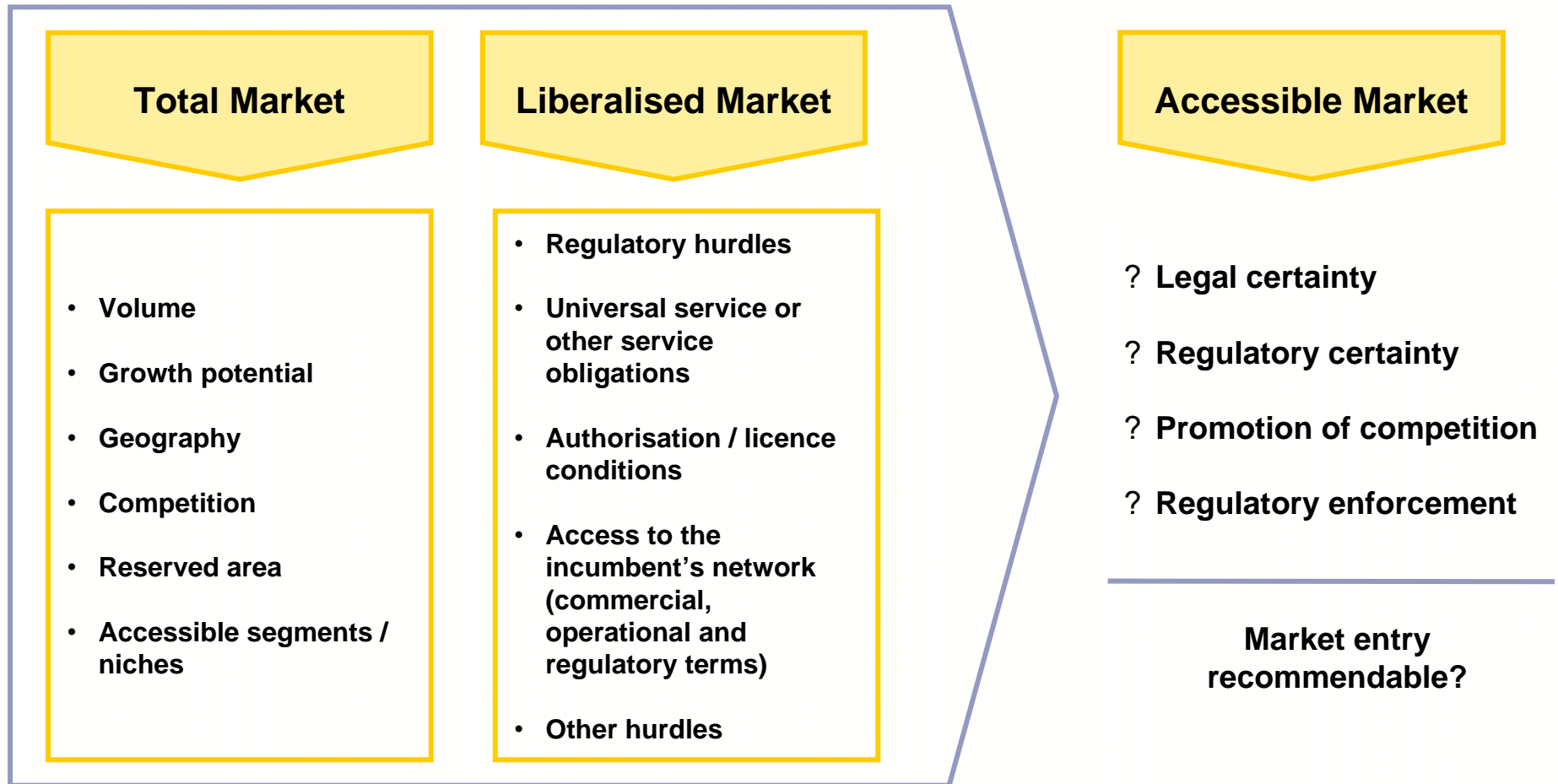
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Some generic considerations

New entrants to the postal market have to undertake a thorough market analysis and an assessment of the regulatory framework



New entrants to the postal market have to choose a business model ensuring differentiation from the incumbent

CHALLENGES:

Economies of scale

Geographical coverage

Personnel

POSSIBLE ANSWERS:

Lower frequency of delivery

Geographical cherry picking

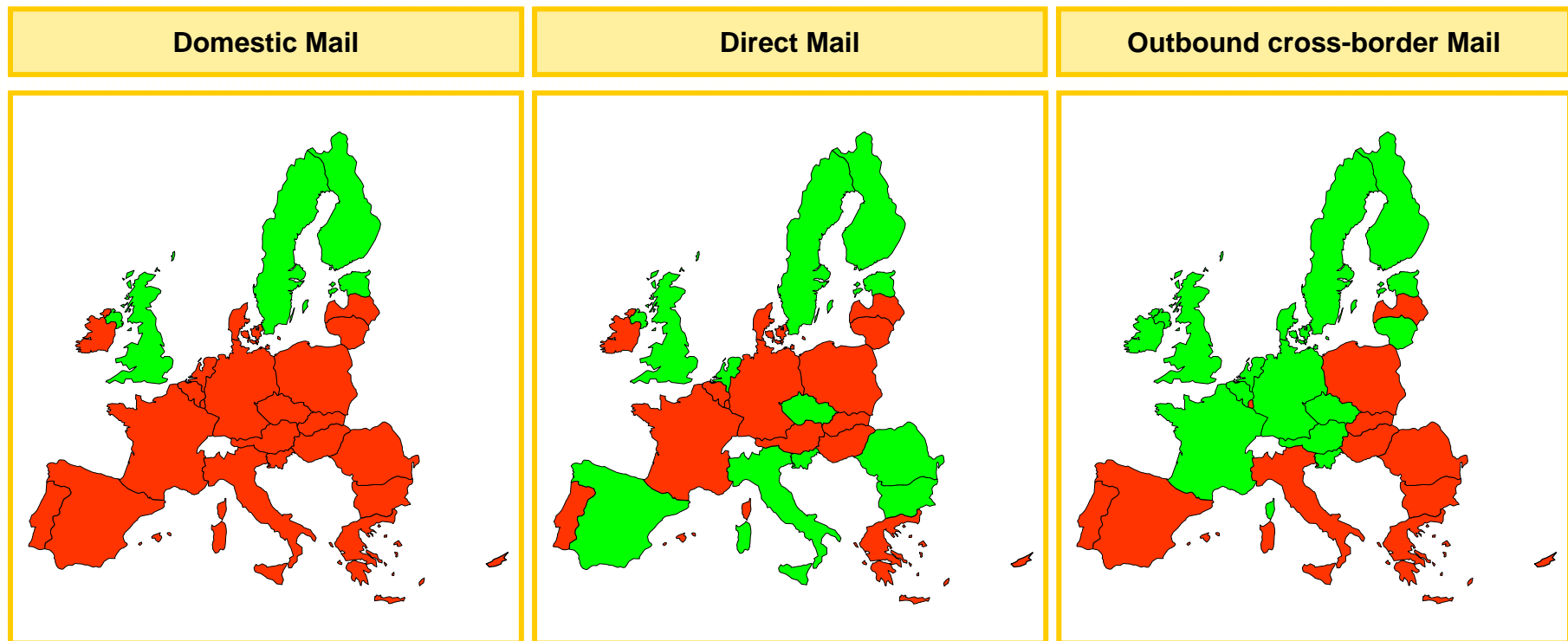
Part time, item based

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Some observations regarding the regulatory framework and other conditions impacting market attractiveness and development of competition

1. Status of liberalisation in European Member States and the various market segments varies
2. Regulatory framework causes market entry barriers in markets or segments that are already formally open to competition
3. VAT issue is still waiting for a solution at European level
4. Obstacles beyond the pure regulatory framework are negatively impacting the development of competition

1. Status of liberalisation in the European Member States



- Spain: - Intra-city mail fully liberalised
- Germany: - Competition even <50g (“D-type licenses”)
- Full market opening in 2008
- Netherlands: - Full market opening in 2008 expected

Monopoly <50g

Fully liberalised

2. Licensing conditions representing market entry barriers

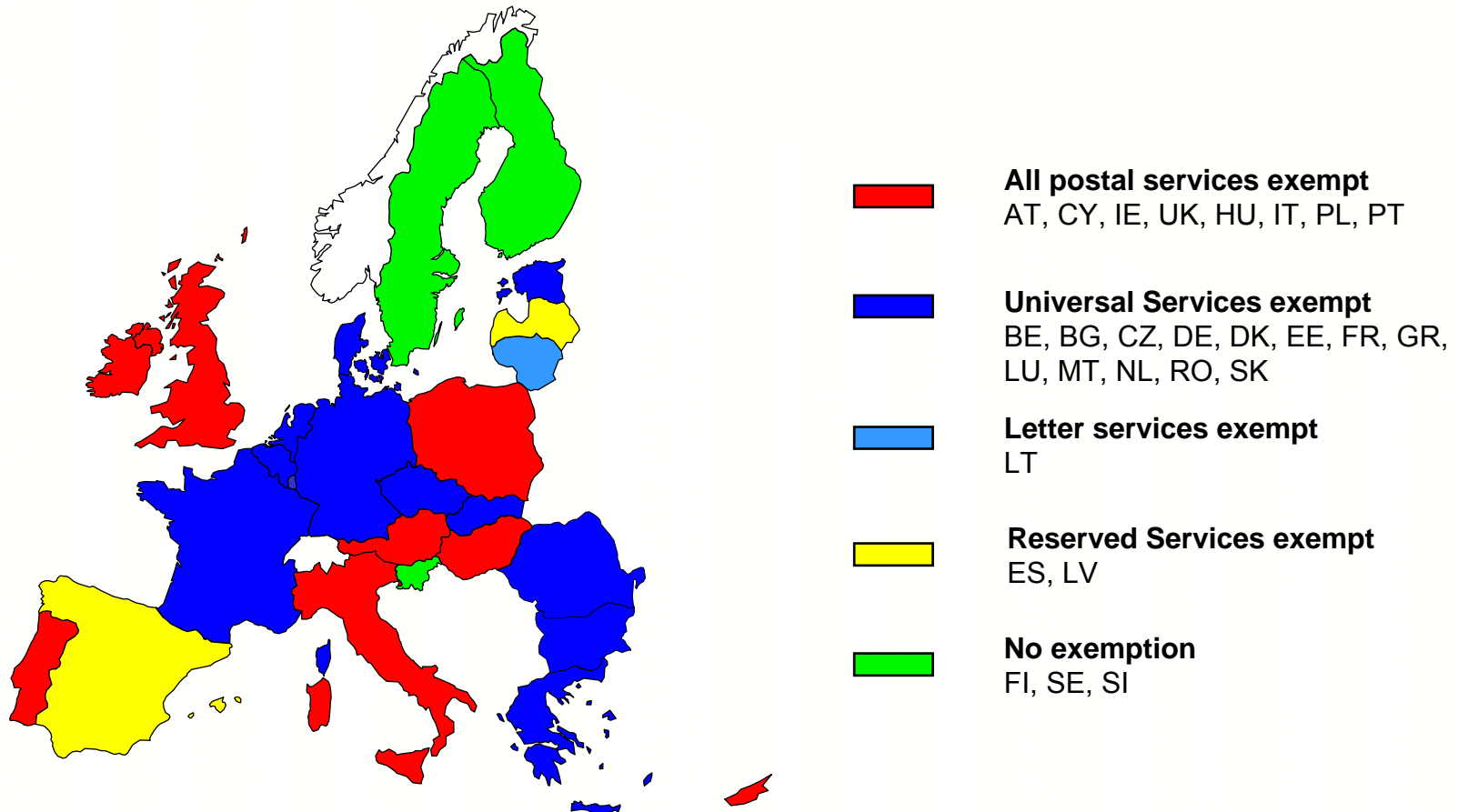
■ Example Finland:

- Licensed operators have to comply with service obligations similar to USO:
 - Daily delivery
 - Transit time 85 % (D + 1)
- Licensed operators have to financially contribute to the state budget unless the population density of the served region is below 250 inhabitants per km²
- Financial contribution is not used to compensate USO burden

■ Example Hungary:

- Licensed operators have to comply with
 - same services standards as USP (registered and insured items, network of contact points, transit time standards)
 - minimum requirements concerning service capability, working conditions, reliability
 - coverage either country-wide or at least one entire district; in case of Budapest: at least two additional districts

3. VAT solution not yet available at European level (1)



3. VAT solution not yet available at European level (2)

- Commission's initiative of 2003 / 2004 to abolish VAT exemption failed due to missing unanimity in the Council
- Commission launched infringement procedures against UK (all postal service exempted), Sweden (no exemption at all) and Germany (universal services exempted)
- Commission's objectives:
 - To get clarification regarding the right scope of exemption in line with the European VAT Directive by ruling of the ECJ
 - To put pressure on the Member States to resume Council activities
- Commission's argument in the case of Germany:
 - Only services provided under USO offered to the general public under terms and conditions (price and quality) available to everybody can and have to be exempted

4. Obstacles beyond the pure regulatory framework

■ Example: Austria

- In Austria many letter boxes in apartment blocks are not equipped with slots to insert letters. They need to be opened with a key, which is in the hands of the incumbent's delivery men.
- Private operators are therefore excluded from delivery to these addresses.
- Due to a High Court decision the obligation to replace the respective mailboxes by 2006 has been postponed to 2009. The problem who has to pay for the replacement is still unsolved.

■ Example: France

- In most big cities in France letter boxes in apartment blocks are often located behind the main entrance door. The door is usually secured by a PIN code.
- Private operators have problems to get access to these codes while delivery men of La Poste usually know them.

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The provisions of the Commission's proposal can be misused to set up entry barriers (1)

Ensuring Universal Service

MS have to ensure, that universal service is guaranteed

Art. 4

- to notify the Commission of steps taken

MS may choose one or more **USP** (designation)

- to determine obligations and rights
- conditions: objective, non-discriminatory, proportionate, least market distortion, limited in time
- to notify the identity of the designated USP(s) to the Commission

MS may decide to let the market provide the universal service

Financing of Universal Service

MS may introduce mechanism to compensate **USP**

Art. 7

- if USO entails net cost representing unfair financial burden
- compensation by public funds or
- sharing mechanism

MS may make authorisations / licences subject to obligation

- either to make financial contribution to compensation fund
- or to comply with universal service obligations

Authorisation Procedures

MS may grant authorisations to **service providers**

Art. 9, 2

- to the extent necessary to safeguard the universal service

MS may make authorisations subject to USO

- where appropriate

MS may impose requirements

- if necessary
- quality, availability, performance of the relevant services

MS may impose obligation to make financial contribution to fund

- where appropriate

MS may **not** for the same quality, availability and performance impose USO on a service provider and the same time financial contributions

The provisions of the Commission's proposal can be misused to set up entry barriers (2)



- Universal Service Obligation
- Obligation to financially contribute



Licensed service providers can be subject to obligations but are not entitled to receive financial compensation

- Possibility of either universal service obligation or financial contribution
- Possibility of service obligations

Experiences and observations gained so far lead at least to the following conclusions:

- A reliable European regulatory framework is required in order to enable effective competition in the Member States instead of creating market distortions
- Full market opening should be confirmed to take place in 2009
- Market entry barriers need to be avoided
 - No overlap of obligations when designating universal service providers
 - No universal service requirements or similar service requirements on market entrants
- In order to ensure efficiency financial compensation should only be granted to service providers selected under application of a public procurement procedure