



Presentation at WIK Seminar

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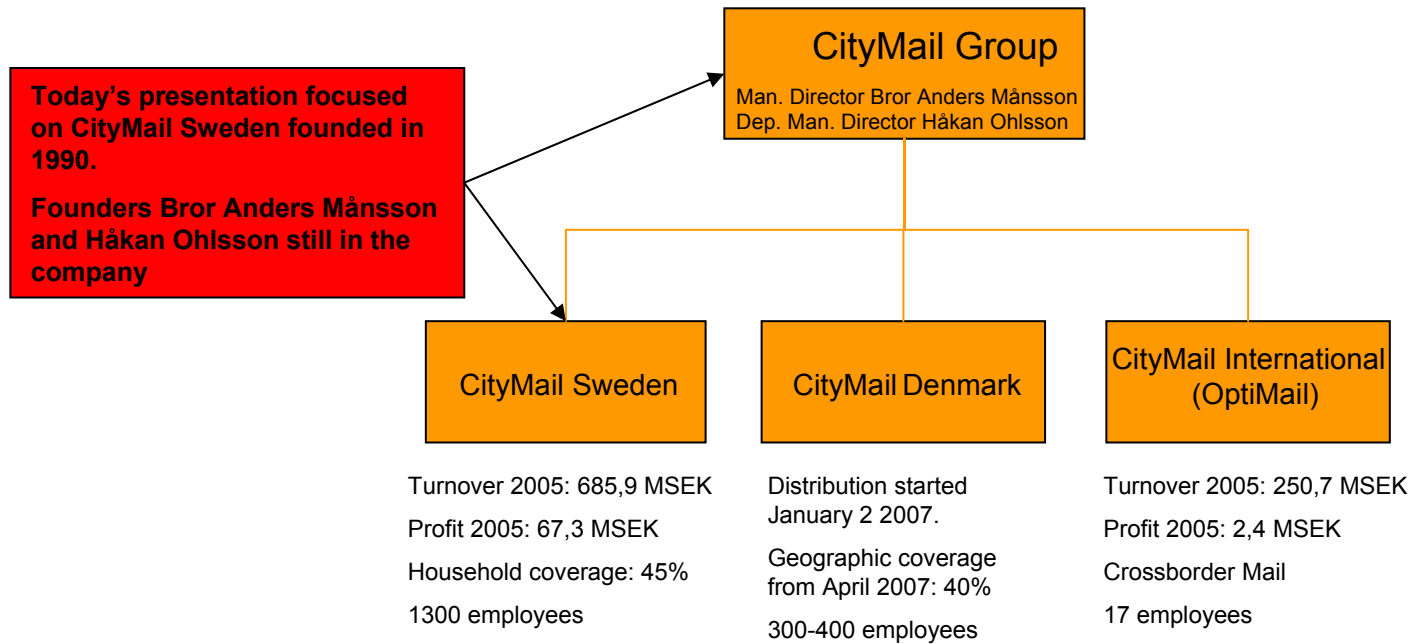
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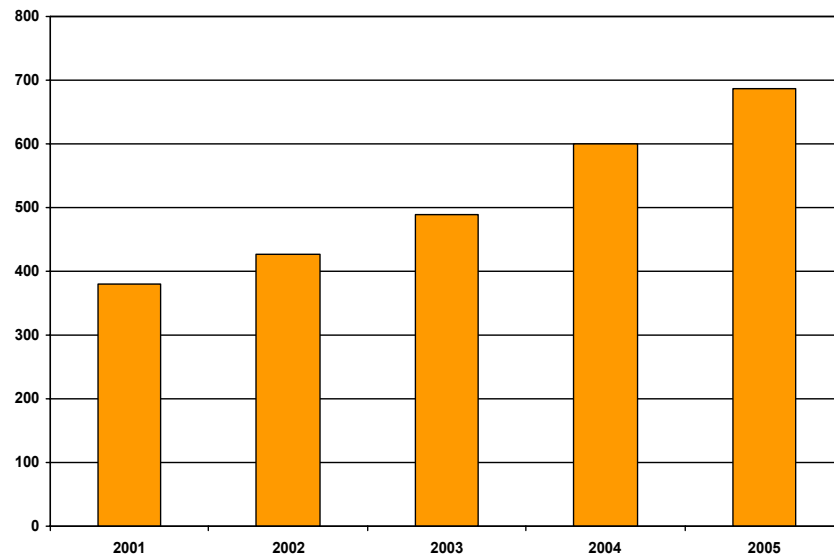
1. CityMail in short
 2. Background and the CityMail concept
 3. The development on the Swedish market after CityMails entrance
 4. Lessons learned
 5. Effects on the Swedish market
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Facts about CityMail

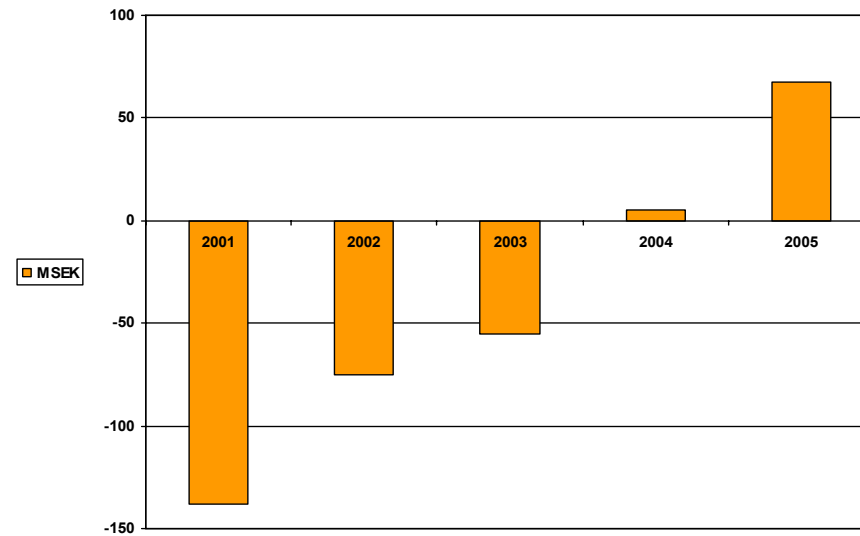


Turnover and EBIT current business CityMail Sweden 2001-2005

Turnover



EBIT



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Why did we start CityMail in 1990?

The letterbox is and will remain an important information- and media channel.

The Business concept is created:

*“ CityMail helps businesses to communicate with their clients – and to find new ones.
With the help of our services we turn the letterbox into an even more effective and
important communication channel”*

Why did we start CityMail in 1990?

- The development in IT will lead to fundamental changes in the market-, logistic- and work model



"Industrial mail"
-Paradigm shift -

- **A new customer offer**
 - guaranteed delivery days
 - address services



"No sorting machines"

- **Electronic pre-sorting in computers (by customer or print shop)**



"From service structure to industrial structure"

- **Process thinking**
- **To measure is to know – what's measured, is done**
- **Profit centres**
- **Full time employees**

Industrial mail

(periodicals, post order catalogues, bank statements, invoices, addressed direct marketing)

Pre-planned mail

- The items are produced in large facilities, with production planning

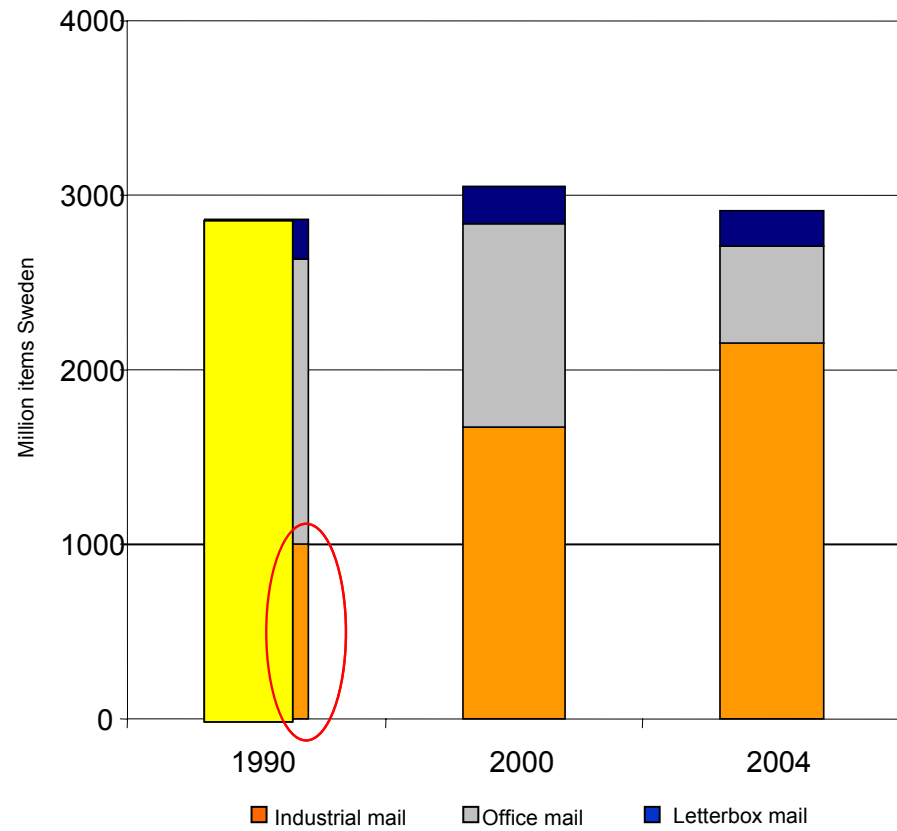
Pre-sorted mail

- The addresses are stored in databases which enables post code sorting, street sorting etc before physical production.

Guaranteed delivery days

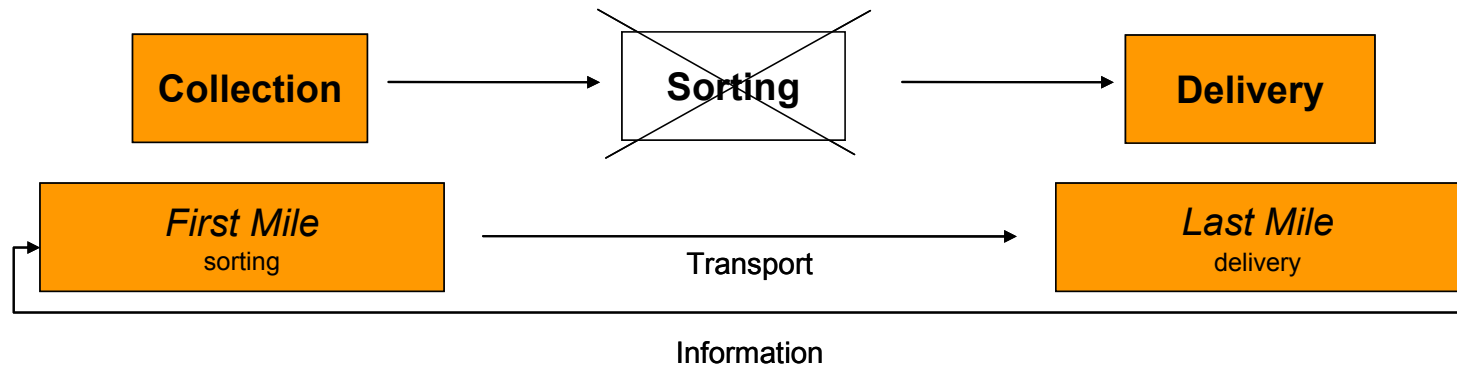
- Important that the recipient gets the item on a specific day decided in advance

New definition – Industrial mail



The logistic model – We believe in electronic pre-sorting instead of mechanical sorting machines

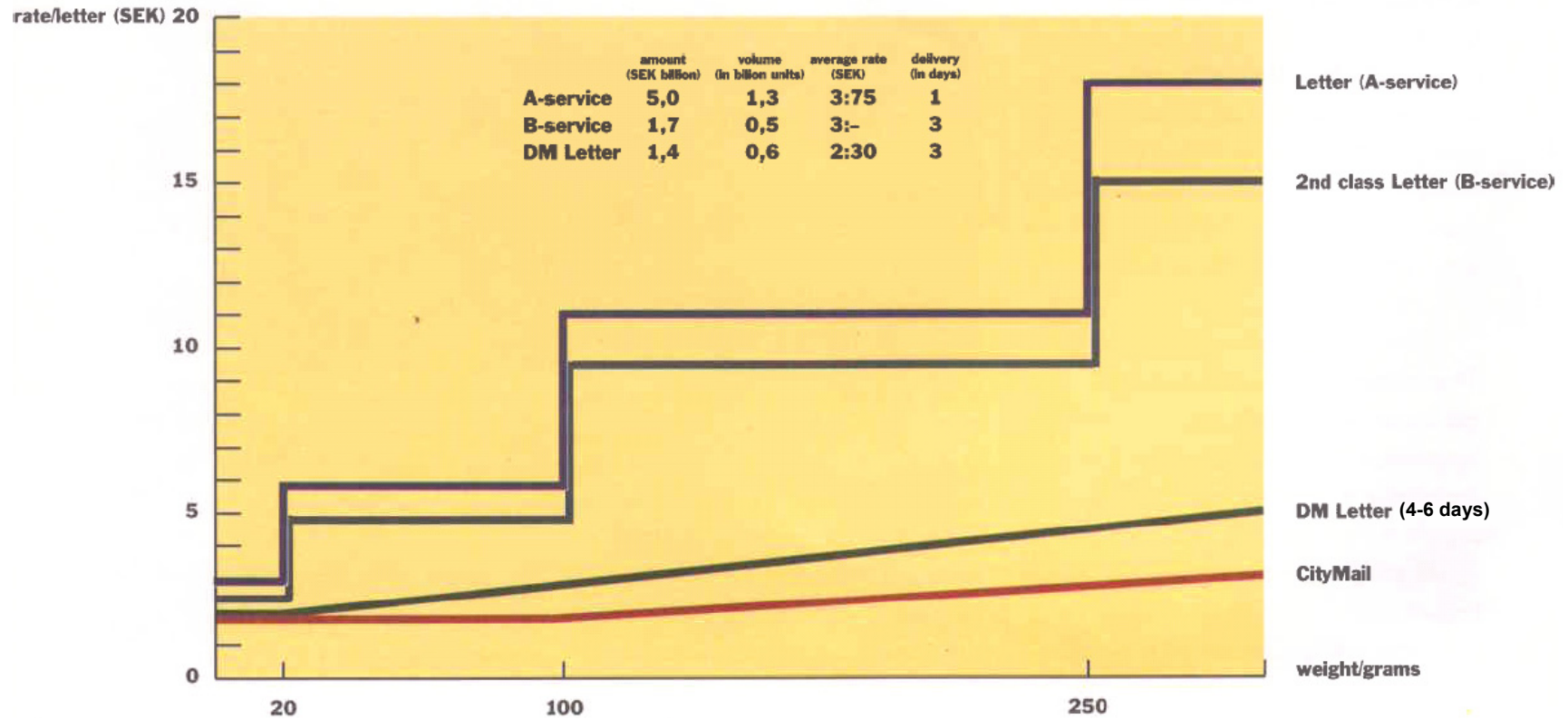
- Mail that has already been sorted, do not need to be sorted a second time.
- Furthermore, the market growth takes place within the direct marketing segment where freedom of choice when it comes to colour, shape and appearance are very important
- In order to defend / increase volumes , the communicative value of physical letters has to be strengthened.



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Once upon a time....



CityMails original service offering

- Not First class mail, not Second class mail - PRECISION
- A letter is a letter – NO DIFFERENTIATION BASED ON CONTENT
- Not twice the price at 21 grams – FLOATING POSTAGE SCALE

Posten förändringar av produktutbudet

1991

- Abolishing the DM-letter (4-6 days) - customers forced to use B-service letter instead (0-3 days)
- Printshops no longer allowed to be customers to Sweden Post – only for senders
- Exclusivity clauses for specific key customers

1992

- Introduction of B-service letter with DM-discount
- Competition Authority forbids exclusivity clauses

1994

- Reintroducing a DM-letter (0-3 days)
- Introduction of floating tariffs for large shipments A-service letters and B-service letters
- Introduction of "cream scimming clause"

1994/1995

- Competition Authority forbids "cream scimming clause"
- Introduction of Stockholm prices

1996

- Stockholm prices expanded to zone pricing (greater cities) in 3 steps

1996/1997

- Zone prices forbidden – Sweden Post appeals

1997

- Introduction of regional prices with "work sharing discounts"
- Differentiation on content abolished again

1998

- Highest court accepts 4-zone pricelist with restrictions
- Regional prices abolished – zone prices reintroduced

Difficult to follow?

So did the customers think.....

In summary...

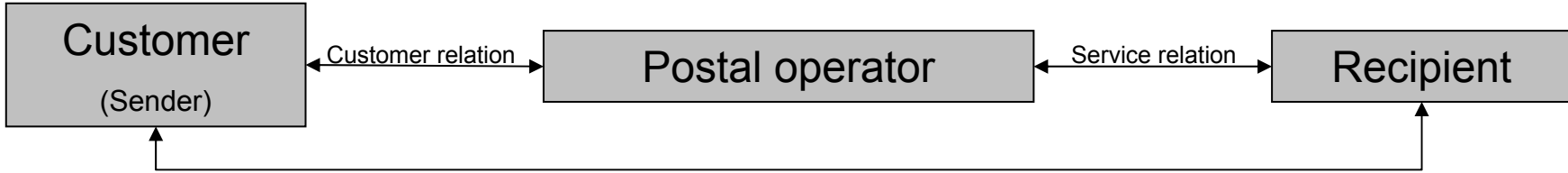
- Several rulings by the Competition Authority 1992-1998 (i.e. exclusivity clauses, cream skimming clauses, geographical price differentiation)
- Floating tariffs for large mailings (all kinds of mail)
- No / or very small price differentiation on content in letters

Infrastructural barriers

- Post code system
- Address changes and redirection
- Post office boxes

Negotiated solutions from 1994 (eg shared address changes)

Remaining problems finally solved with legislation in 1999



Customer relation or a potential customer relation

Full competition

Infrastructure

Cooperation



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Post services in customers perspectives were turned in direction of commodities

- Competition only med with price differentiation on volume
- Price differentiated on geographic coverage

No quality parameters was used to meet competition

Regulatory lessons learned according to CityMail

- Sweden was the first country in the world with full liberalisation. No other examples to learn from.
 - CityMail started before new postal legislation was in place
 - Sweden did not have a competition law according to EU-standards until 1994
 - Swedish government acted as a weak owner
 - Initially, and for too long time, infrastructural issues were left to market solutions
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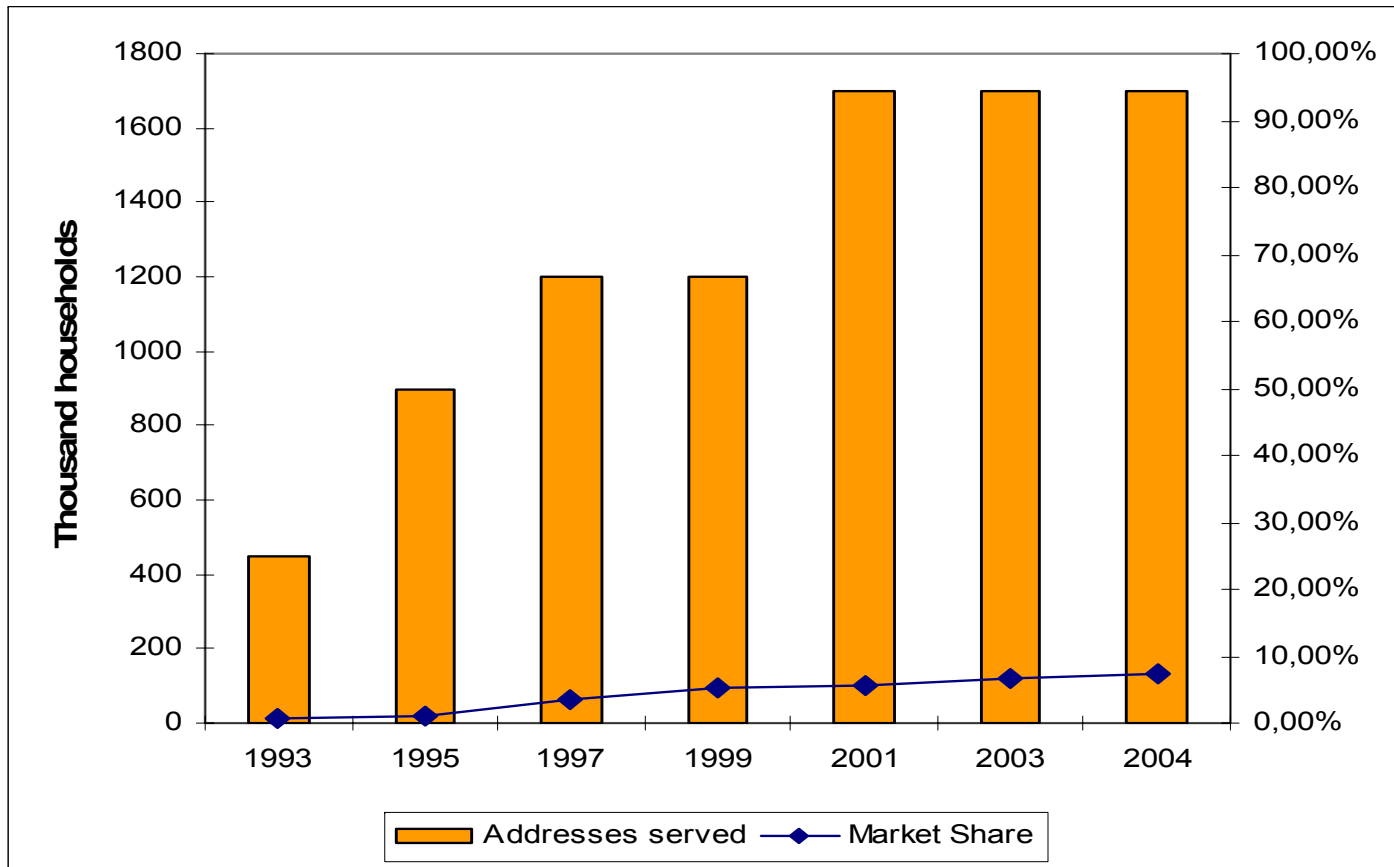
Regulatory lessons learned according to CityMail

The most interesting thing with the Swedish market example is not what happened until now. **It is the situation today and the development in the future.**

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Volume, Market share and number of addresses served by CityMail



CityMail is profitable with less than 8% of the total market

Overall market effects

- Large price decrease in real terms on large mailings.
- Large price increase in real terms on single piece items. However lower price development on single piece items than in neighbouring countries, i.e Norway.
- Prices on large mailings 37-40 % less than single piece items. Key customers receive an additional discount of 7-30% on negotiated basis
- Better quality for distribution products.
- More customer adapted products and value added services (eg. adress changes)

Sweden Post is in better shape than ever

- The best financial result ever. 8,2 percent EBIT –margin. (half year report 2006)
- Income from administrative letters increased by 2 per cent. Half of it from increased volume. (half year report 2006)
- Improved quality compared to 1990

“Liberalization was the best thing that has happened to Sweden Post”

Sture Wallander, Sweden Post from a report by PTS and US Postal Rate Commission
