Consequences of Substitution for the USO

Postal Markets between Monopoly and Competition

WIK

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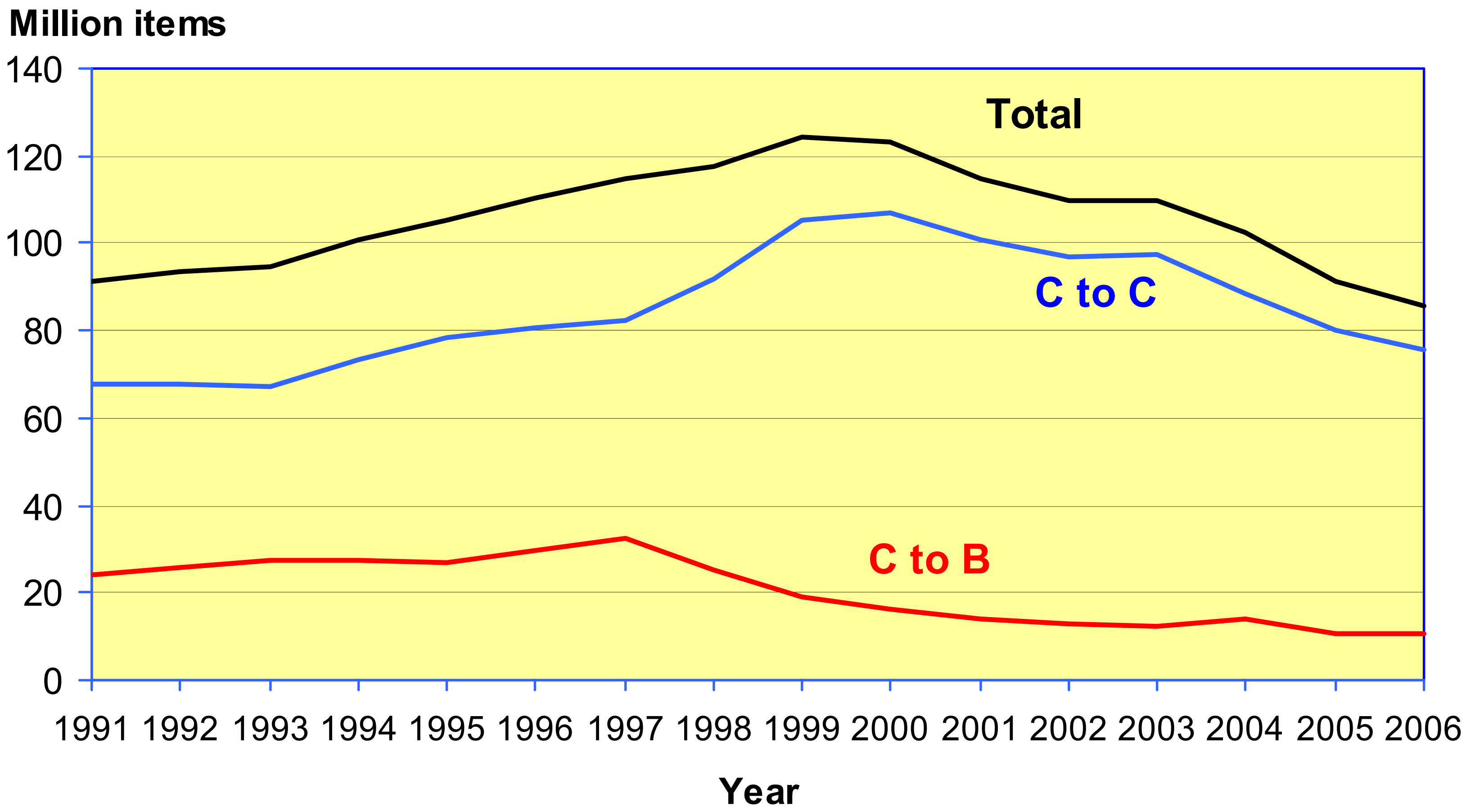
BACKGROUND

- proposal for third postal directive
- e-mail substitution has taken place
- what about invoices

Number of Letters Sent by Households in Finland 1991-2006

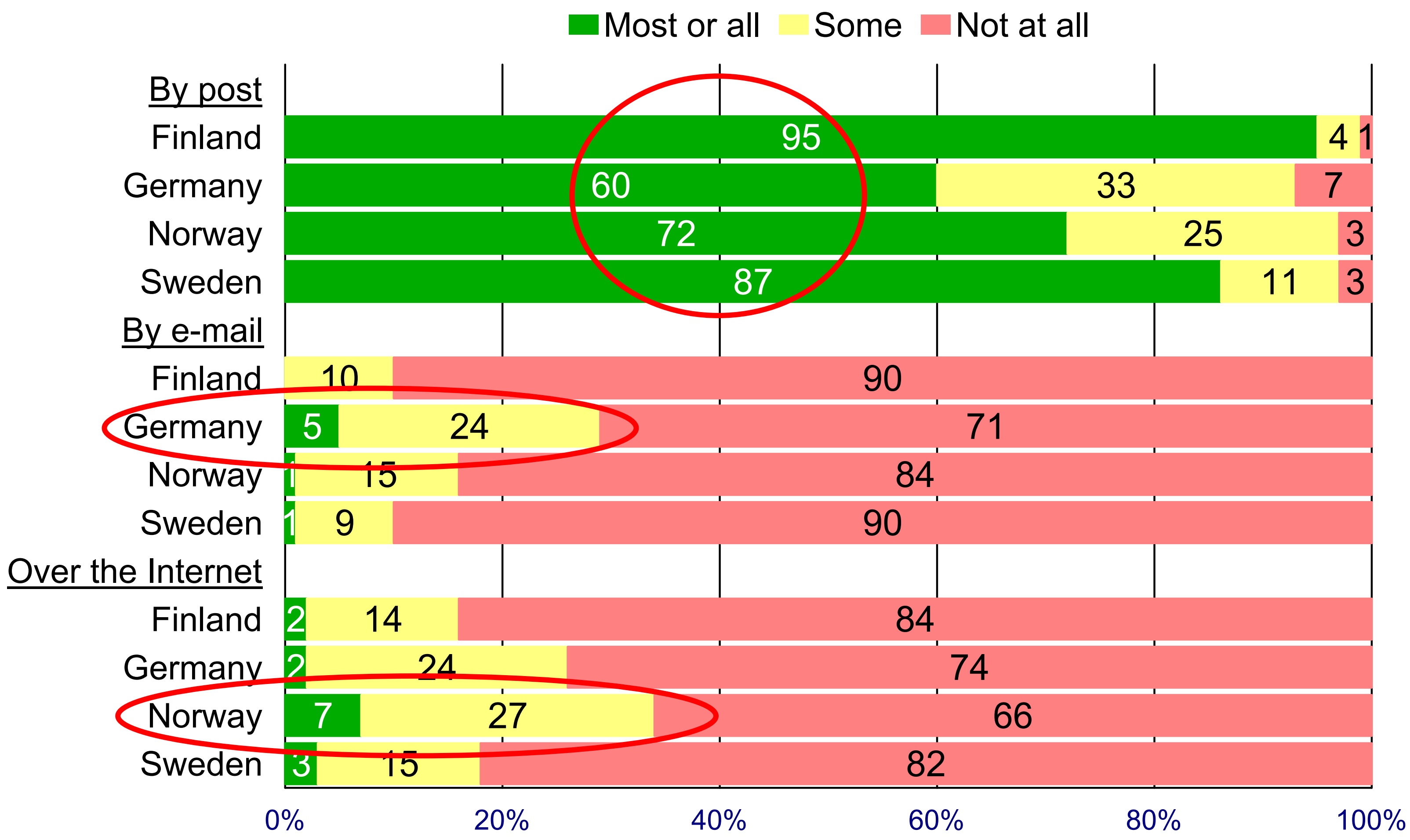


MAIN FORMS OF INVOICE PAYMENT IN FINLAND

- bank payment (HISTORY)
- auto paying machines in banks and shopping centers
  - banks' charges increased from 1 euro to 6 euros/invoice
- bank paying at home and work 66% (PRESENT)
- <u>NET INVOICE RECEPTION</u> will be adopted after net paying?

How bills are being received at present

Consumer results from four countries

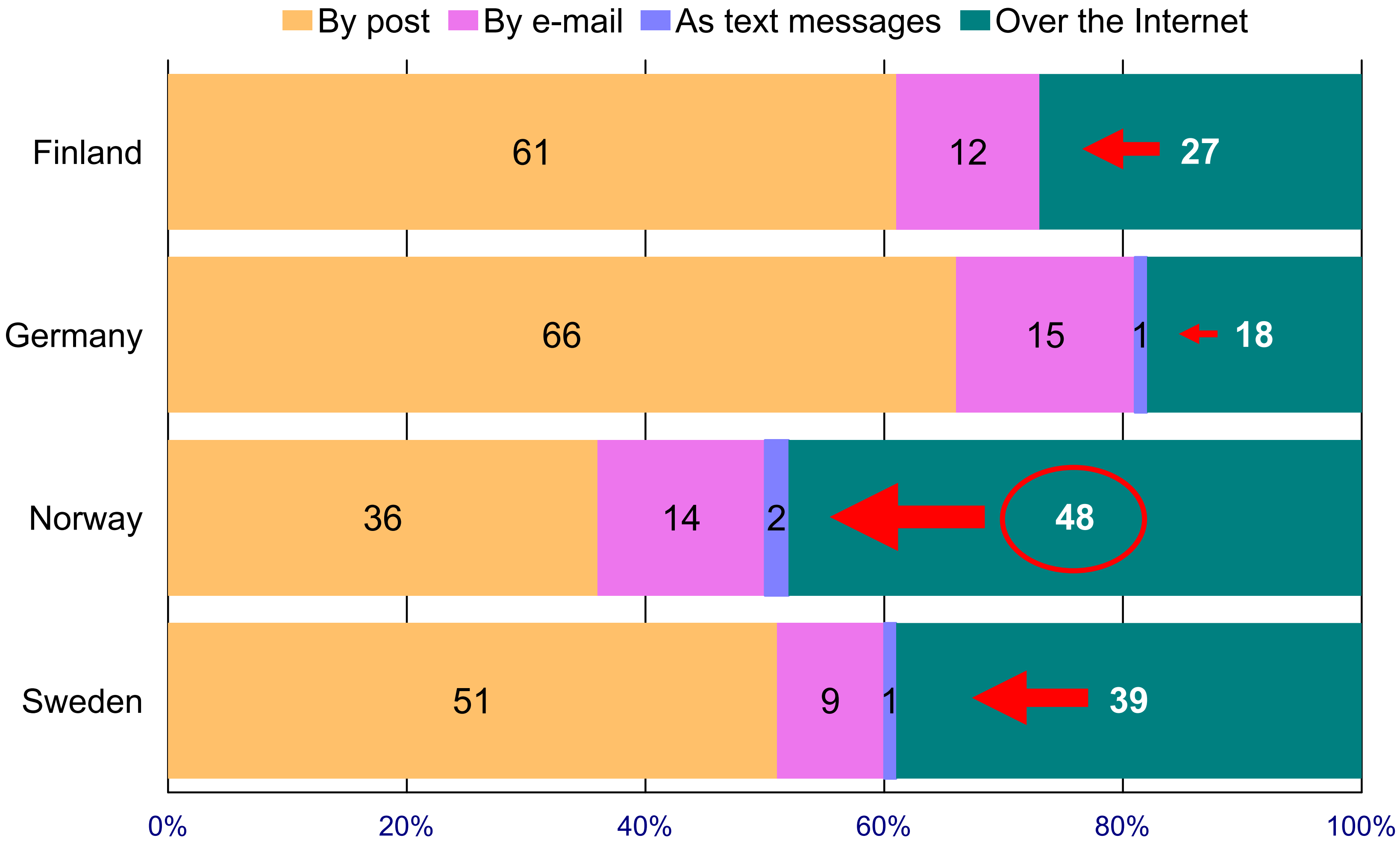


Finland Post Corp. Kari Elkelä 5.5.2006

Development of e-invoicing, May 2006

Preferred reception channel for bills in the future

Consumer choices from four countries

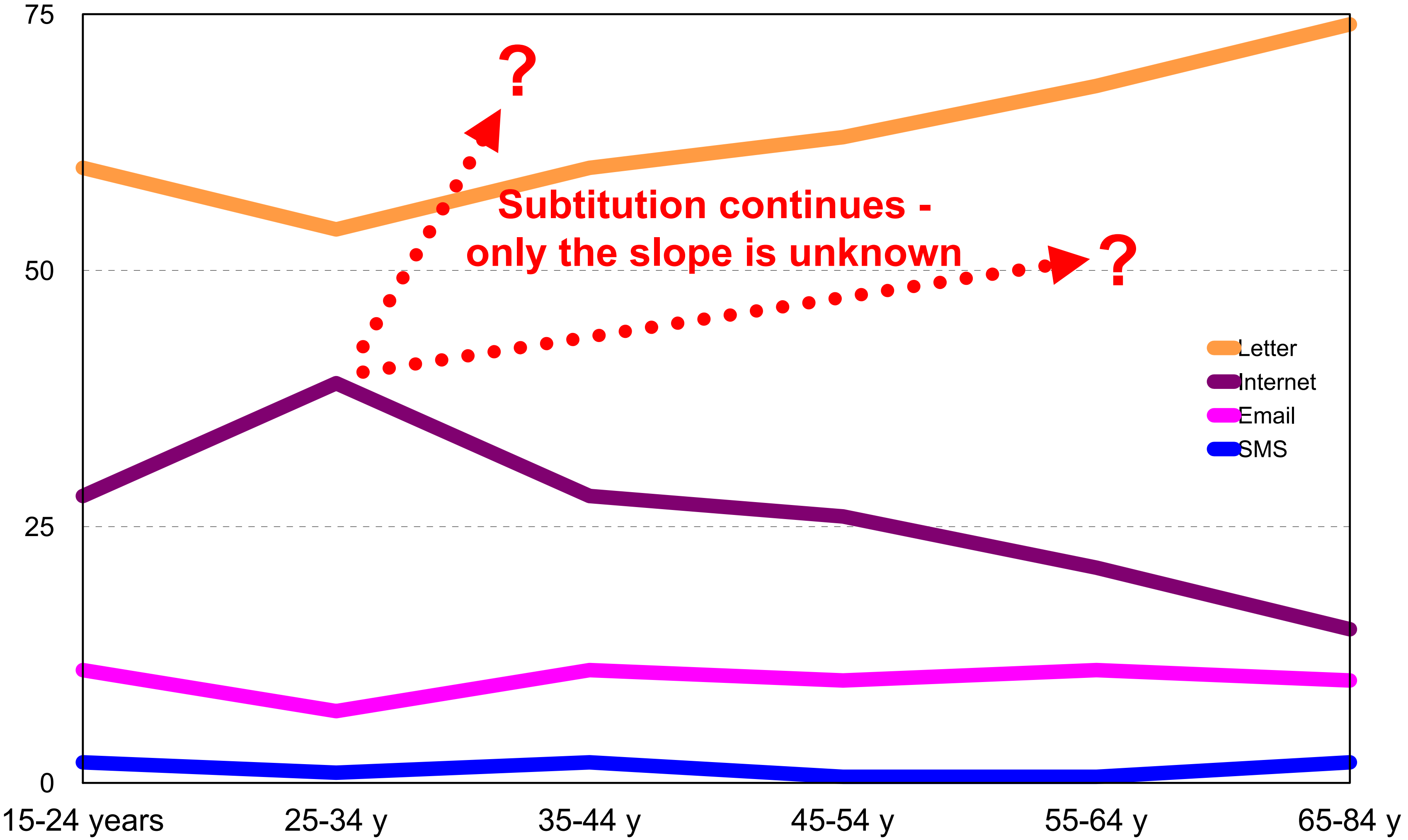


Finland Post Corp. Kari Elkelä 5.5.2006

Development of e-invoicing, May 2006

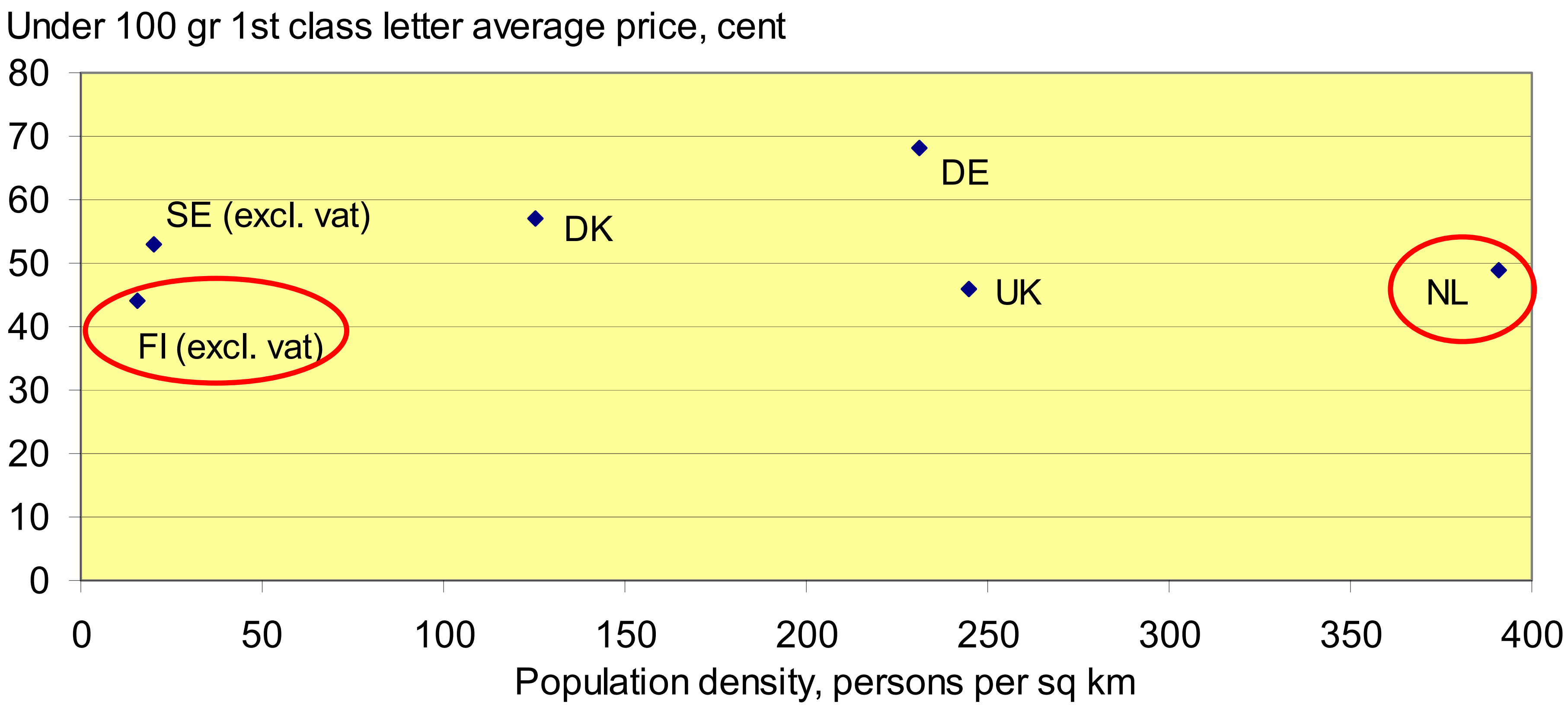
Preferred reception channels for invoices in the future

Favourite channels according to age, %



ACTIONS FOR EFFECIENCY NEEDED
Letter Price and Population Density 2006

(Price basket, weighted with traffic volumes, purchasing power parity adjusted)



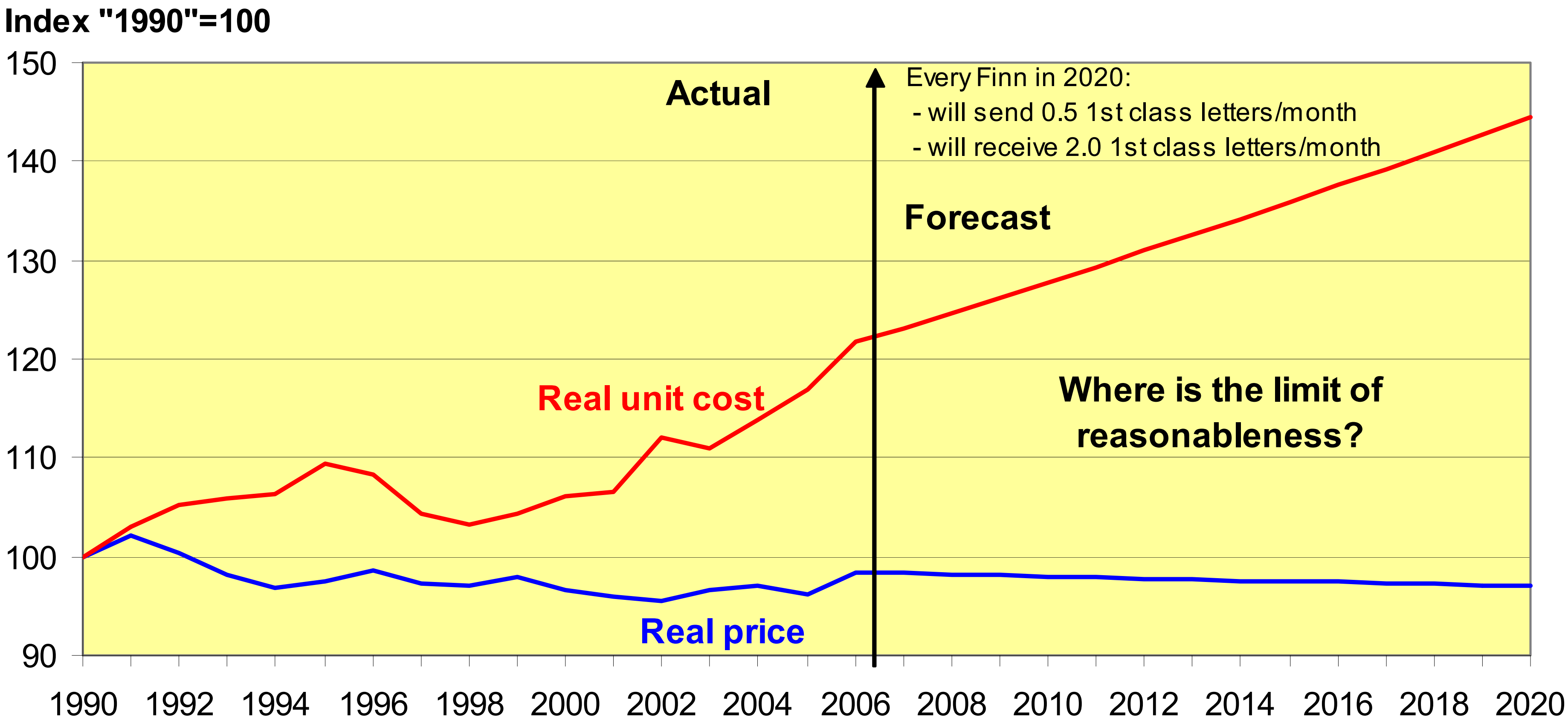
COUNTER-ACTION: INCREASE EFFICIENCY

- **developing efficiency in production => impact on personnel costs**
  - **service level changes in letter service**
  - **predicting demand based on volume**
    - **advance knowledge utilization in planning production and work shifts**
    - **full data on working time will improve transparency of operations and accuracy of planning**
- **newest technology into use**
  - **upgrading processes**
  - **high level in optical reading**
  - **ID-marking identifying the items, robotics into use**
- **centralizing letter sorting**

CONSEQUENCES OF SUBSTITUTION

- fixed costs will remain substantial even after all efficiency actions taken, if USO scope unchanged
- <u>cost per USO item will increase</u>
- what is affordable price? Court cases more likely
- cross-subsidation between USO and other services is not a practical mechanism – hard competition in other services (not possible, competition law)

Impact of USO on 1st class letter unit cost compared with price in Finland 1990-2006, forecast 2020



OPEN QUESTIONS

- should the different phases of the development of postal markets be noted better in the directive – more flexible definition of USO?
- still possible to amend the scope of USO in the directive proposal – better to reflect the customer needs?
- what are the next postal services to be substituted?

HOW WILL POSTAL OPERATORS SURVIVE IN THE FUTURE?

The floor is open for your suggestions