

Postal demand structure and customer needs in Japan:

- Achievements of the postal reform -

11th WIK Königswinter seminar

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Outline

◆ Regulations in Japan's postal market

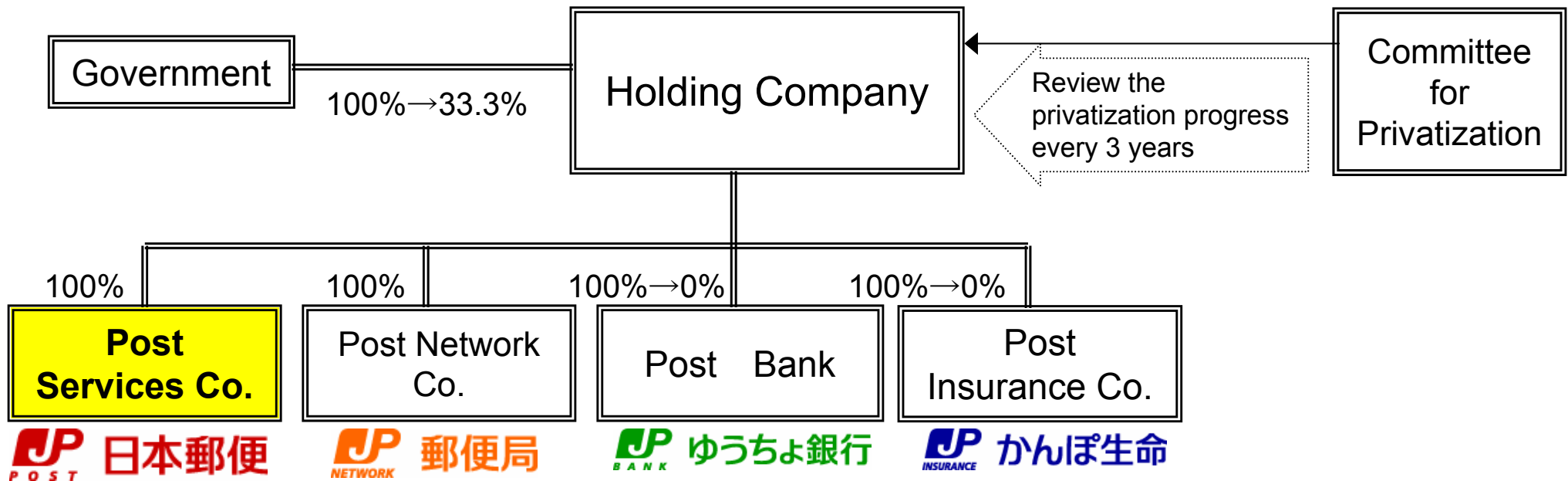
◆ Overviews: Japan's postal market

◆ Demand structure of Japan's postal market

◆ Customer satisfactions after the reform

Profile of Japan Post Group

● Group structure of Japan Post (2007.10~2017.9)





● Profile of Japan Post as a USP

- Japan Post Service Co.: postal and logistics service provider of Japan Post Group.
- Management philosophy: to maintain postal universal service and to provide reliable and secure logistics service.

Postal USO in Japan

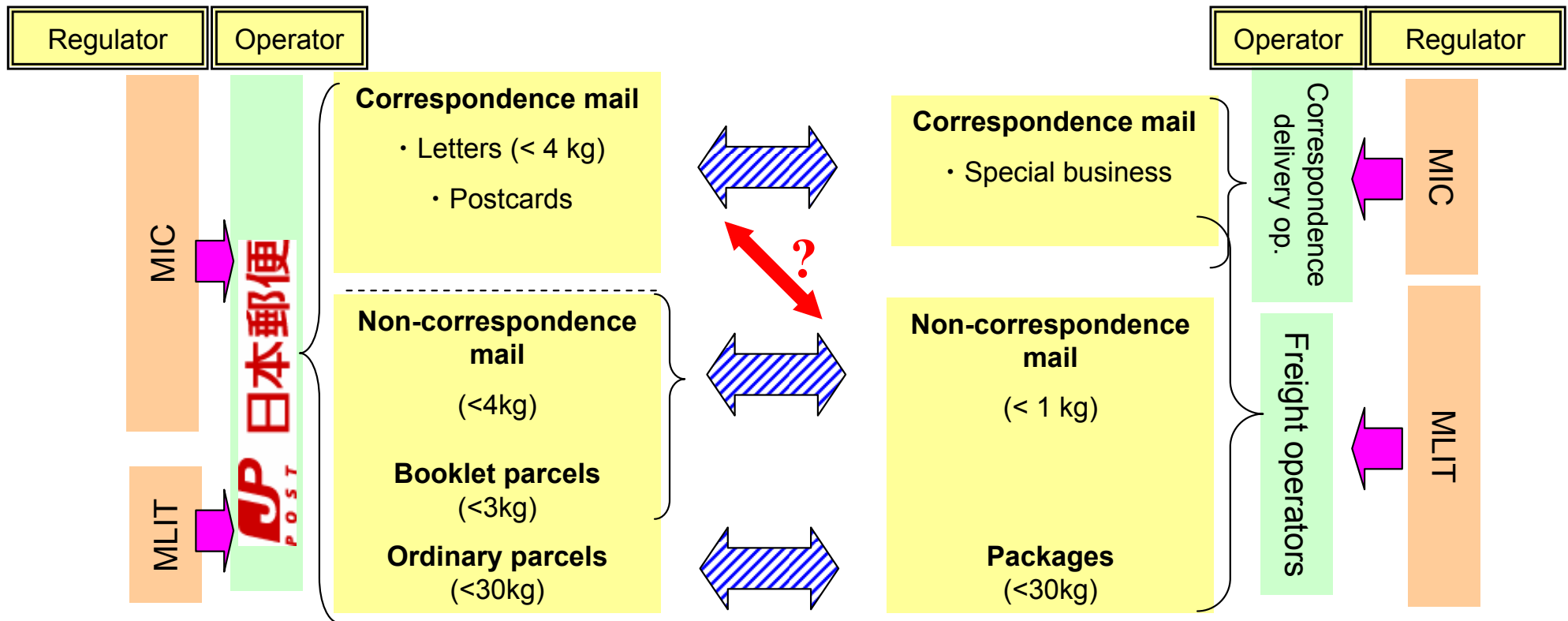
● USO components before and after the postal reform

Operator	Japan Post Corporation 	Japan Post Service Co., Ltd. 
Management style	Public corporation	Stock Company (Japan Post HD 100%)
Period	April 1, 2003 – September 30, 2007	October 1, 2007 –
Coverage	- Postal items (1 st , 2 nd , 3 rd , 4 th class, international, domestic parcel) - Special delivery (e.g. registered)	- Postal items (1 st , 2 nd , 3 rd , 4 th class, international) - Special delivery (e.g. registered)
Quality of Service	- Nationwide network of post offices, collection boxes - 6 days a week, once a day delivery - Delivery within 3 days	- Nationwide network of collection boxes - 6 days a week, once a day delivery - Delivery within 3 days
Rate Regulation	- Approval for ordinary, special and international postal items - Notification for parcel postal items	- Notification for postal and parcel items - Approval for 3 rd and 4 th class

- USO redesign : (1) parcel services, (2) post office network, (3) postal rate regulations
- Postal USO for Japan Post ‘Group’ in a practical sense.

Regulators in Japan's mail and parcel market

● Postal, correspondence, package operators and regulatory authority



- Two regulatory authorities; MIC: mail and MLIT: parcel and logistics
- Unclear distinction between correspondence and non-correspondence

Entry regulations in Japan's postal market

● **Entry regulations in the correspondence market**

- General correspondence delivery business; nationwide
- Special correspondence delivery business; specific area delivery
- Current entry status: no entry for general category, 260 entries for special category
- MIC study group proposal: relaxing the weight thresholds for special category, network access to postal or other operators by correspondence operators.

● **Entry regulations in the non-correspondence market**

- Non-correspondences regarded as 'freight' (not postal items)
- Significant entries from small package delivery operators for these ten years

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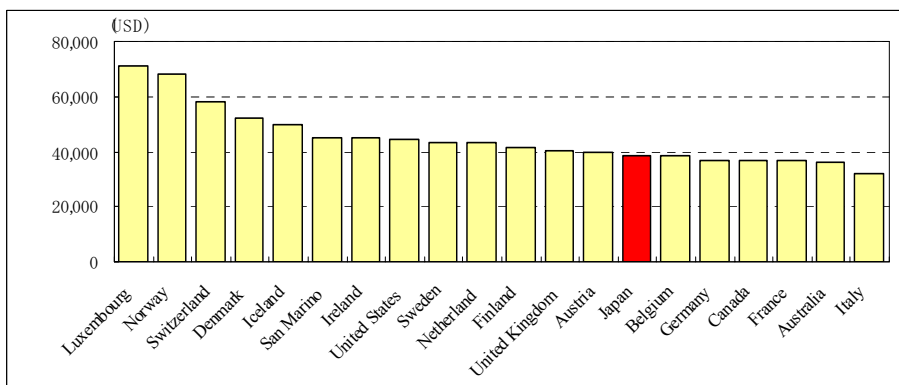
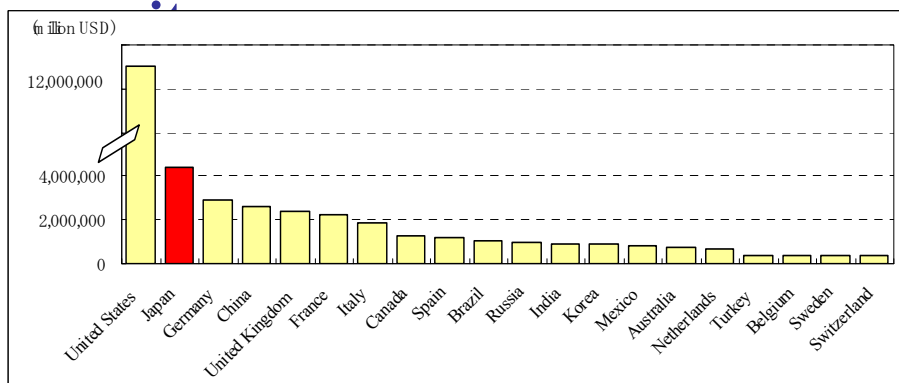
◆ **Overviews: Japan's postal market**

◆ Demand structure of Japan's postal market

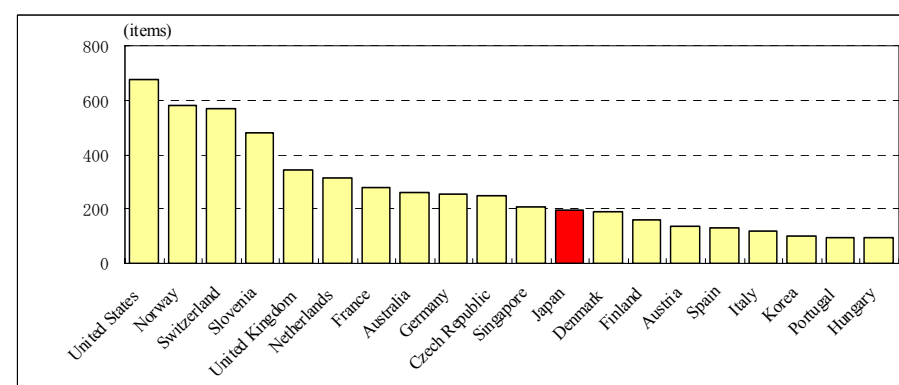
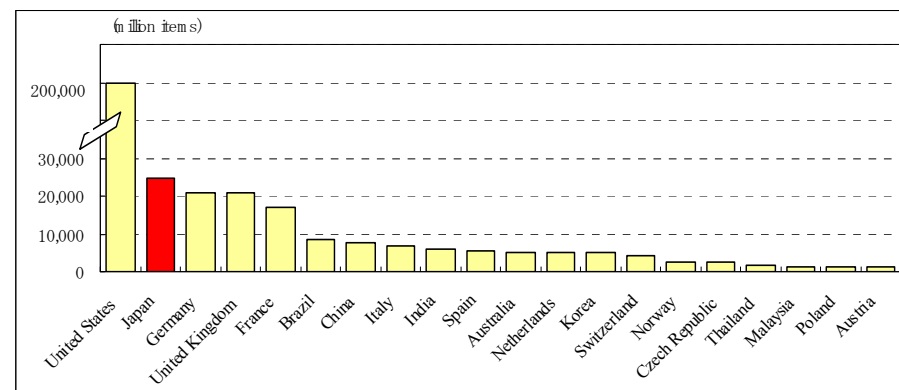
◆ Customer satisfactions after the reform

Characteristics in Japan's postal market

Economic scale, GDP per capita



Postal market, volume per

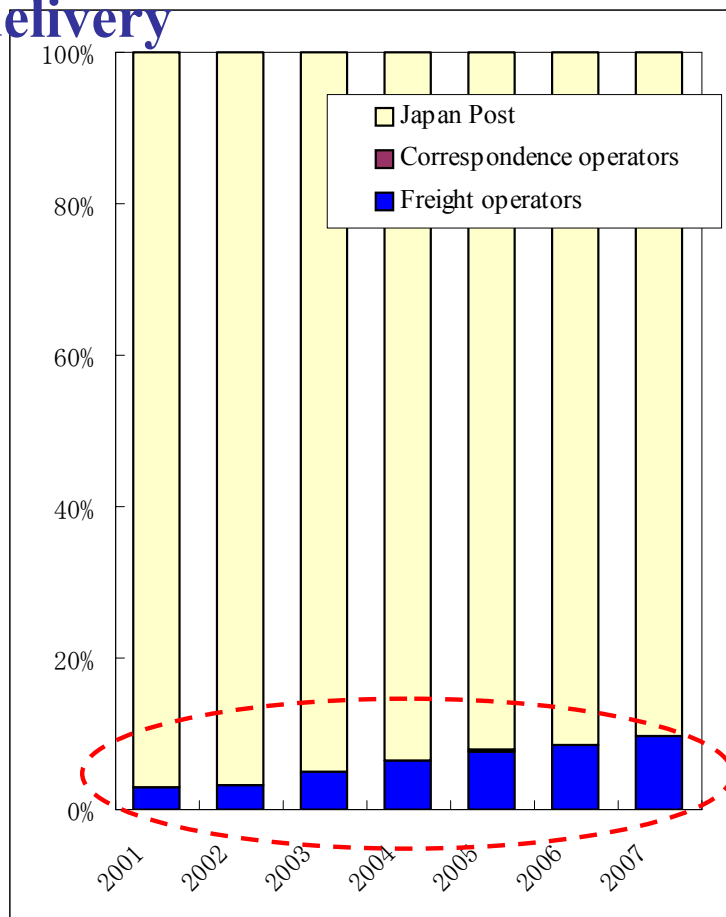


- Japan: No.2 after the US in terms of economic outputs and postal volume, but
- The effects of increasing in postal volume per capita due to economy of scales characterizing postal business.

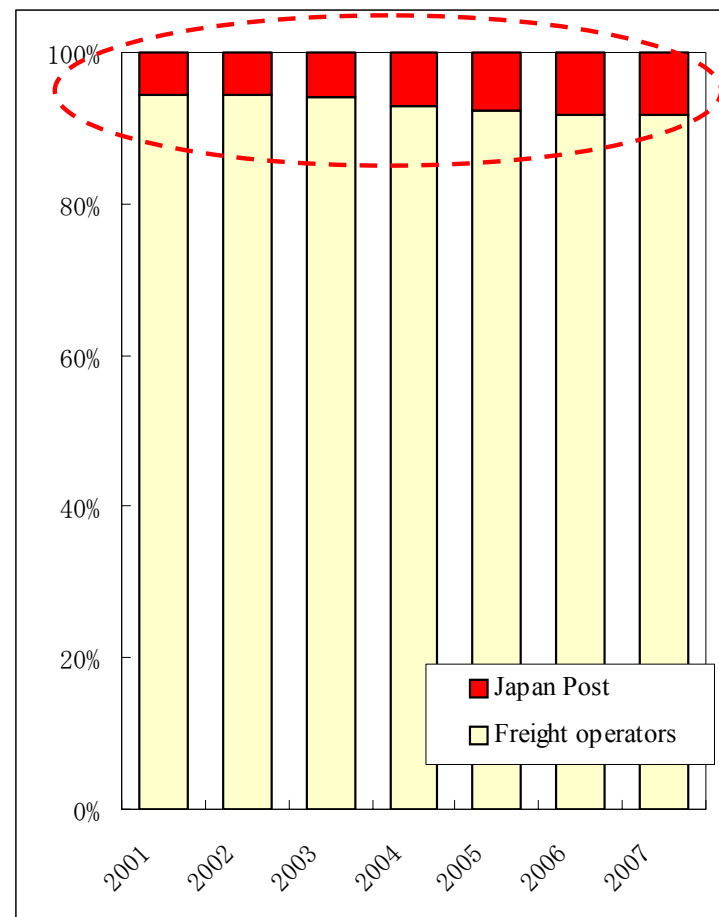
Market share trends in mails and parcels

● Market share in mail delivery

delivery



● Market share in parcel



- Symmetric competition structure in mail and parcel markets
- Continuous share increase in mail market for competitive operators

Outline

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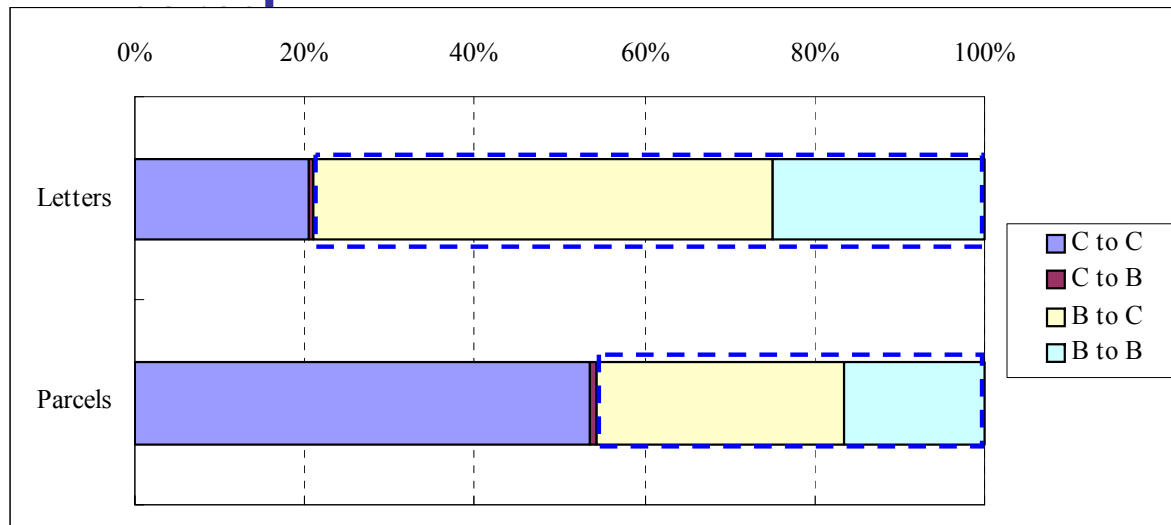
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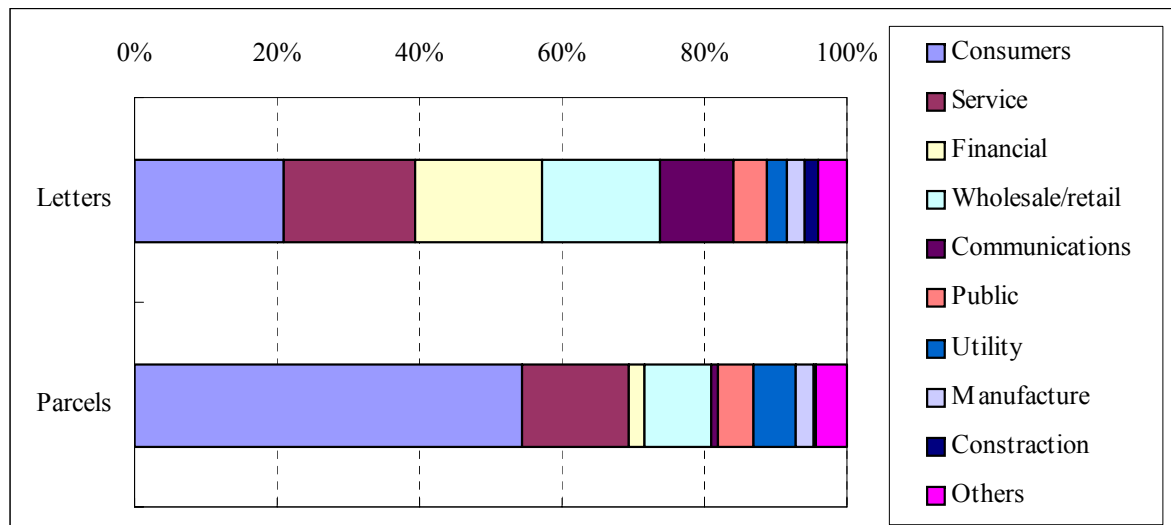
◆ Customer satisfactions after the reform

Postal demand structure 1

● Communication structures and major customers in mails and



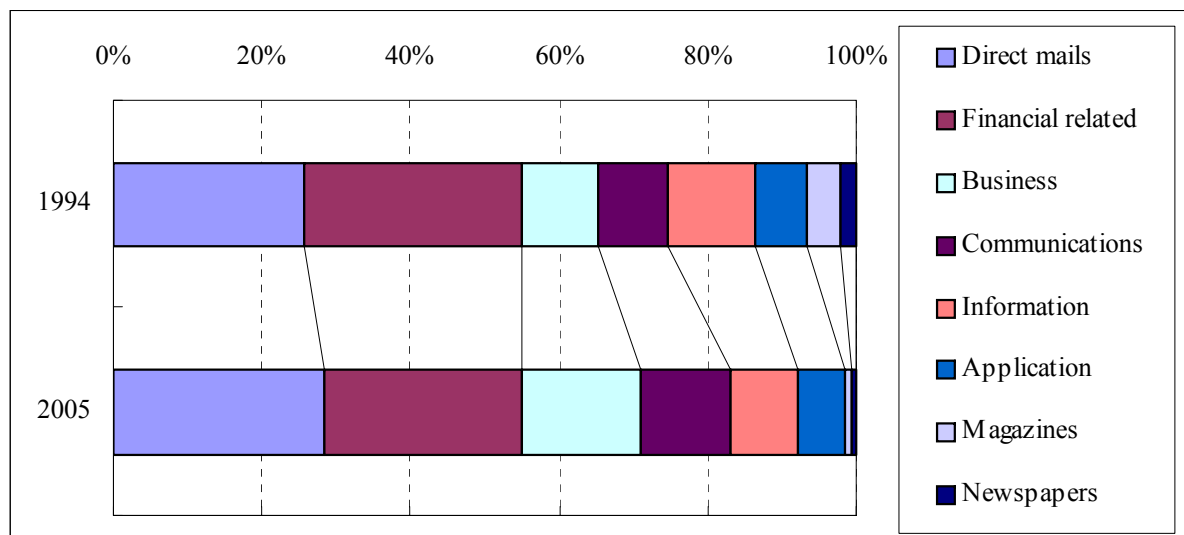
- Dispatch component of mails: 80% (business) and 20% (households)
- Dispatch component of parcels: 50% (households)



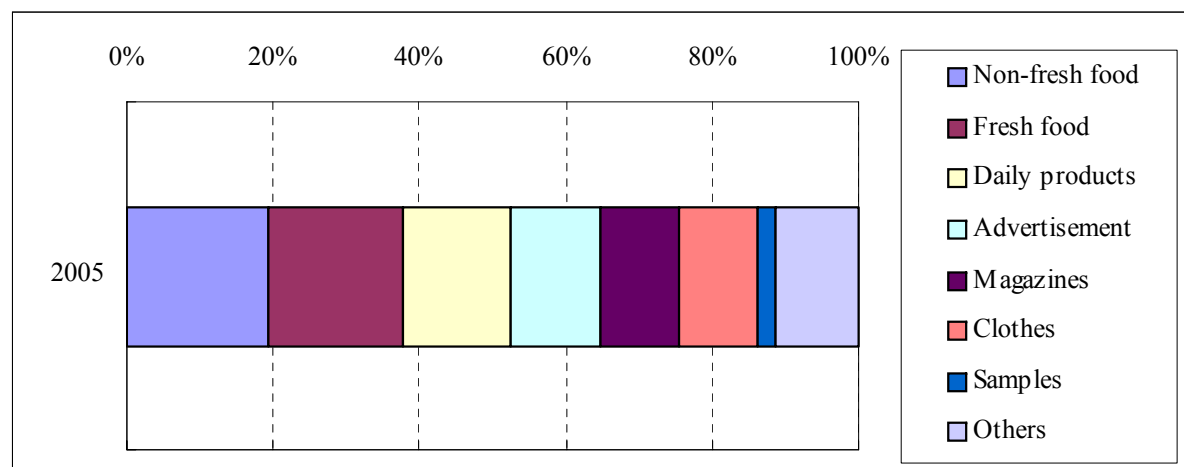
- Service industry, financial and wholesale/ retail sectors for mails.
- Service industry and wholesale/ retail business for postal parcels.

Postal demand structure 2

● Contents of ordinary mails and parcels



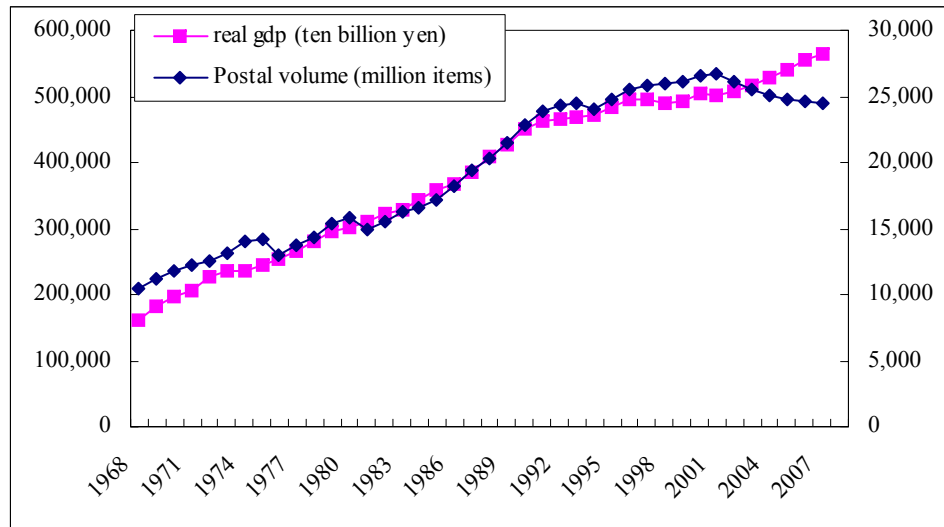
- Direct mails and financial related mails
- Small-piece mails such as information and application related mails



- Fresh or non-fresh foods for postal parcels.
- More dispatches of daily necessities, magazines/ books, and clothes.

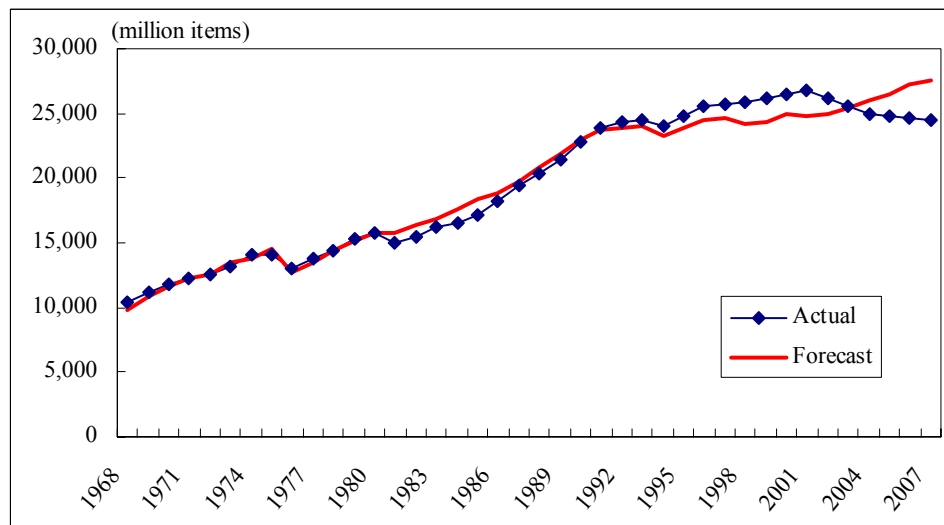
Postal demand model 1

Postal volume and real GDP



- Differences widened especially after late 1990s within 40 years' trend.
- Correlation coefficients between 1968 and 1988: 0.98; between 1989 and 2007: 0.51.
- Not explained by macroeconomic factors for current volume declines.

Postal volume estimation: real GDP and real postal rate



- Postal volume; real GDP and real postal rate (a basic rate for a minimum weight deflated by CPI).
- 96% of fluctuations explained by two variables; but not suitable especially after late 1990s.

Postal demand model 2

● **Outlines of estimation procedures**

Data:

- Source: postal demand structure survey (conducted once in three years).
- Moving averages, smoothing methods; continuous time-series data by mail categories from 1980 to 2005.

Dependent variables:

- Direct mail volume, financial related mail volume (statements, bills)
- Small package volume: packages provided by Japan Post and other competitive operators.

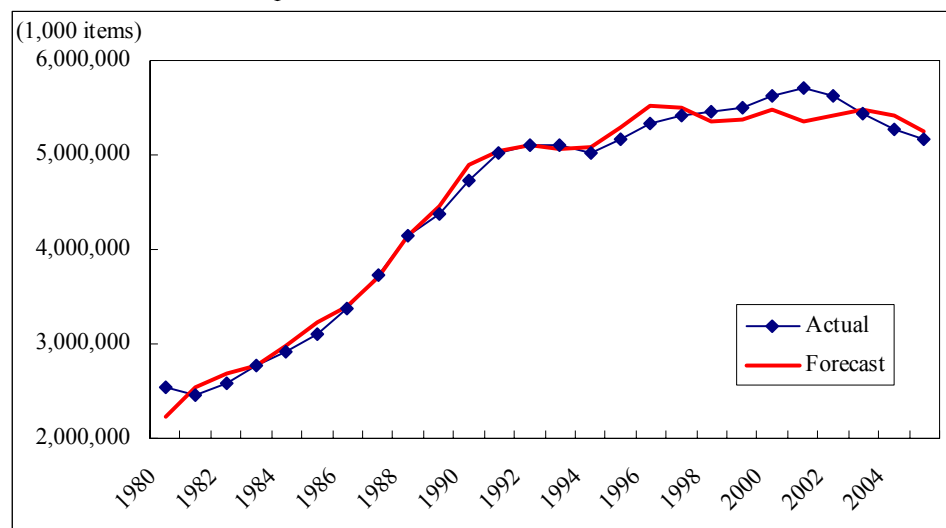
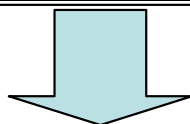
Independent variables:

- Traditional volume drivers: population/ households, real GDP, real postal rate
- Recent specific volume drivers: internet (internet advertisements, internet penetrations), competition progress (non-correspondence delivery by competitive operators)

Demand structure of direct mails

Direct mail demand estimation

Variable	Coefficient	Variable	Coefficient
C	-3649435 ***	C	-3727817 ***
REALGDP	16.73201 ***	REALGDP	16.70595 ***
PR_DR	12267.09	PR_DR	13817.5 *
NET_AD	-367.194 ***	COMPTN	-0.41783 ***
R^2	0.985125	R^2	0.980619
Adj R^2	0.983097	Adj R^2	0.977976

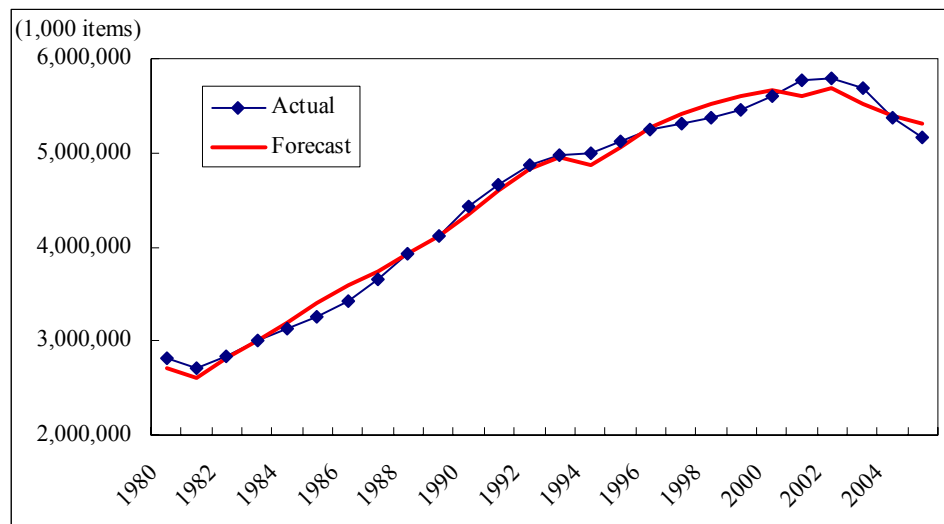
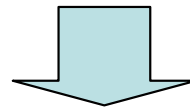


- Factors: real GDP, real postal rate, internet advertisement or competition
- Negative effects for both internet ad and competitive DM delivery.
- Advertisement expenditures by businesses: ¥7 trillion. DM examined with comparison with other ad means.
- DM comprises 6-7% of all ad expenses. Expense for Internet ad surpassed those in DM in 2006 for the first time.

Demand structure of financials-related mails

Financial mail demand estimation

Variable	Coefficient	Variable	Coefficient
C	-8494040 ***	C	-8303718 ***
HOUSE	328.9634 ***	HOUSE	332.3882 ***
PR_FN	-15307.2	PR_FN	-20845.3 **
NET_PEN	-159.586 ***	COMPTN	-0.82867 ***
R^2	0.966603	R^2	0.990174
Adj R^2	0.962049	Adj R^2	0.988834



- Factors: the number of households, real postal rate, internet users or competition
- Negative effects for both internet and competitive delivery.
- Payment through automatic bank transactions for public utilities expensed; popular in Japan.
- Credit-card and mobile phone companies: incentives to switch from delivery of statements to checking them on the website to save mailing costs.

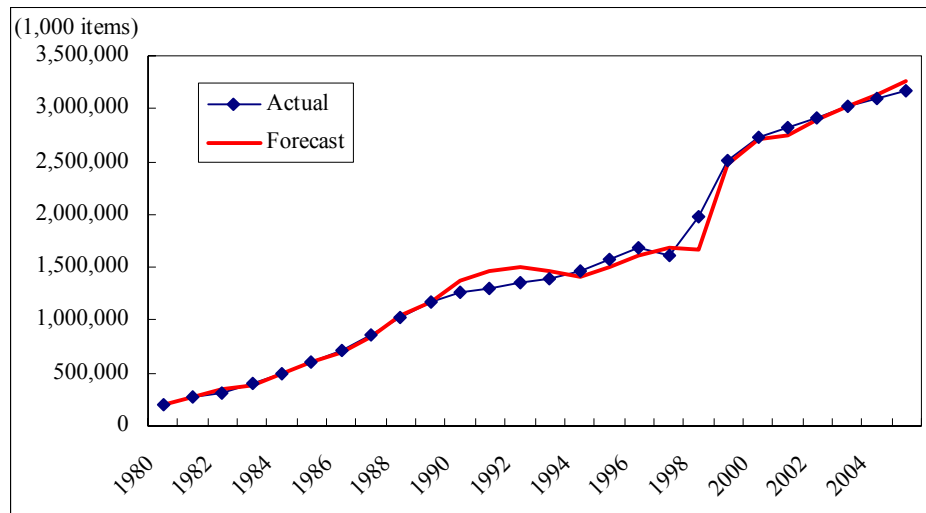
Demand structure of small packages

● Small package* demand estimation

Variable	Coefficient
C	-2207635 ***
REALGDP	7.671003 ***
NET_PEN	72.78962 **
SAGAWA	703560.7 ***
<hr/>	
R^2	0.990418
Adj R^2	0.989049

* Small packages:
Total sum of
package handlings
by postal and other
operators.

- Factors: real GDP, internet users (expected positive effects on demand), entry by a major operator (1999 and later).
- Positive effects for the internet variable compared to negative ones in mail demand. More small package delivered with the progress of electronic commerce.
- Mail-order by Individual customers benefit from the widespread penetrations of broad band (BB) services.



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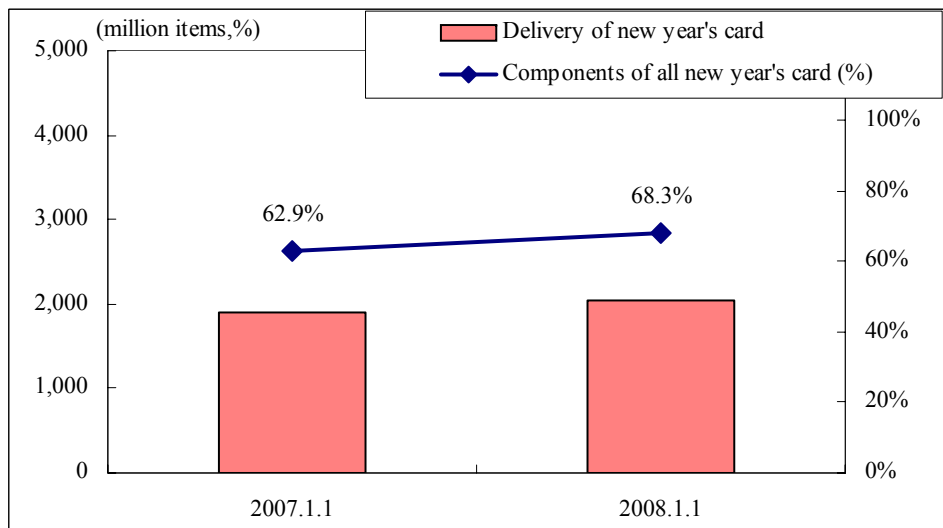
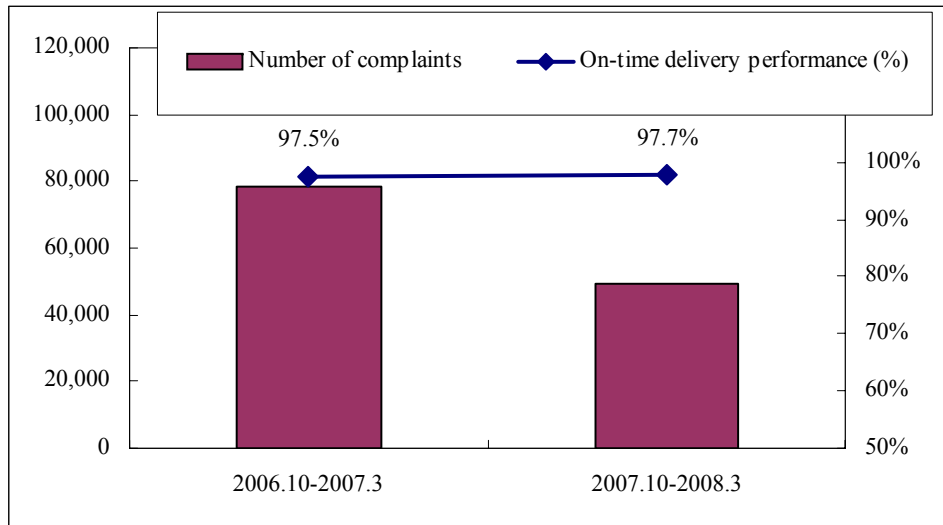
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Achievements of service quality improvement

● Improvements of service qualities



● New service and operation

- Mail transfer via e-mail application

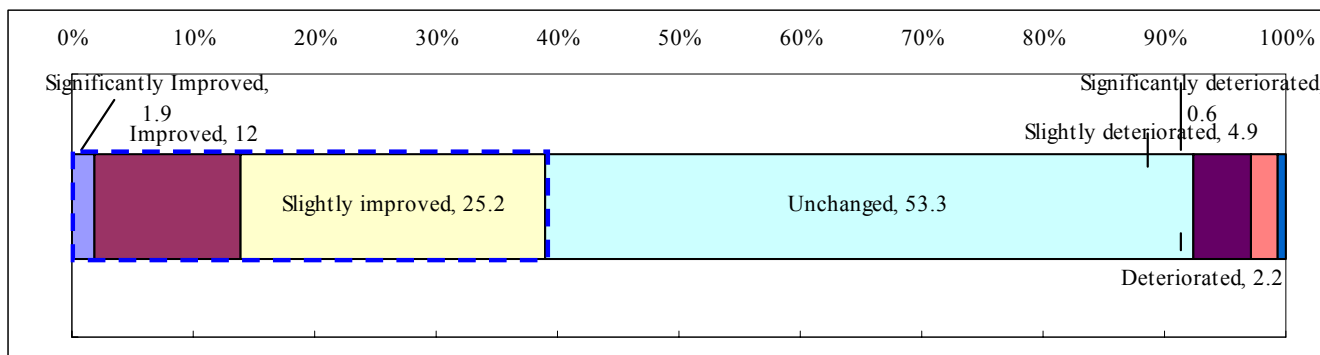
- Acceptance of address change via internet with free of charge.
- Mails will be transferred with no expenses for customers within a year.

- Automated acceptance machines for small packages

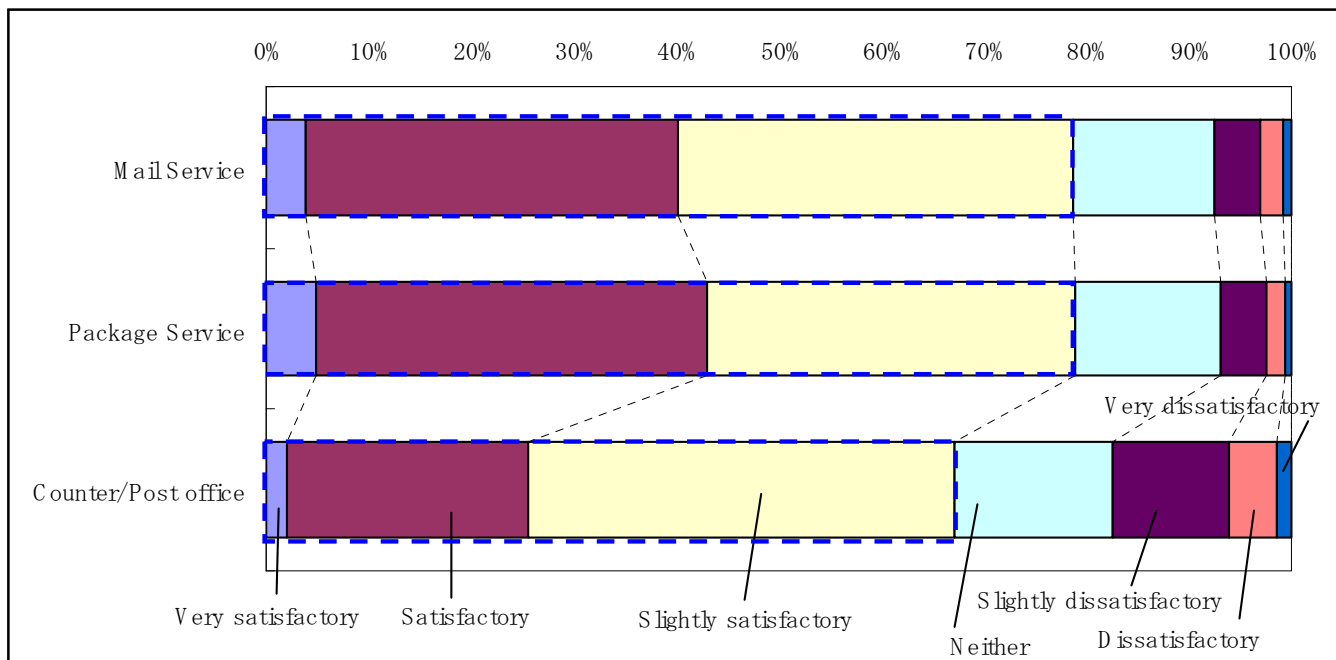
- Automated machines for accepting small packages; to be picked up by delivery staff.
- Expected contributions; to reduce congestions at counter of POs during overcrowded and night time.

Postal reform and customer satisfaction

Overall evaluation of counter business after the 2007 reform



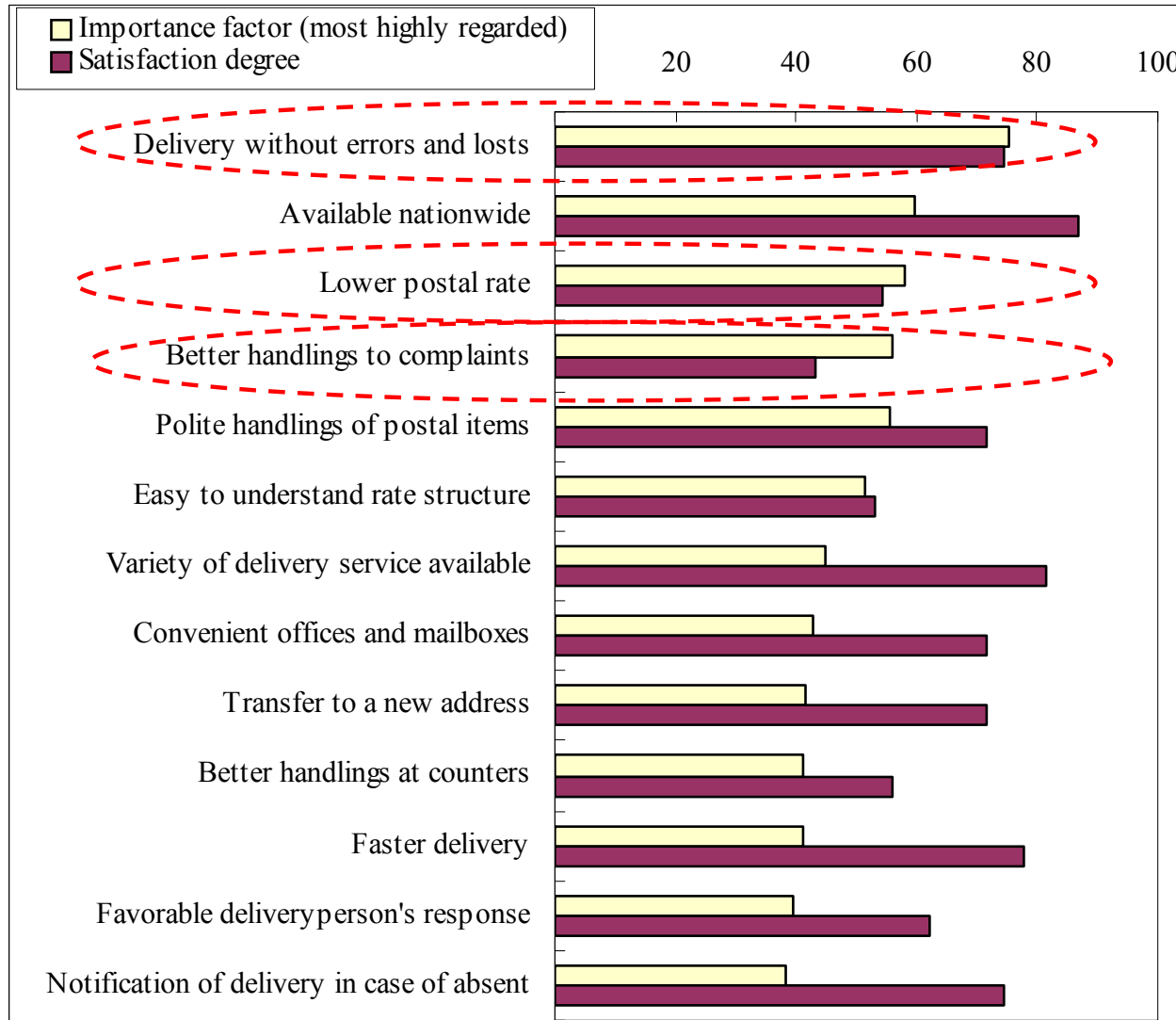
Degree of satisfaction for mail, package and counter services



* Survey outline; conducted in May 2008. Targeted for individuals ages of 20-60 nationwide. Answered 4,307 (reception 69%) by internet.

Customer satisfaction in mail service

● Degree of importance and satisfaction for mail service



- Favorable evaluation to mail delivery service with the average of satisfaction degree of 70%.

- Highly regarded to the factors of universal service to be easily accessed.

- Delivery errors, postal rates, handling of complaints: major factors that satisfaction levels should be improved.

Conclusions

- Japan Post obliged significant burdens to provide universal postal service as a sole USP in Japan.
- The postal USO in Japan; a relatively restrictive entry policy into correspondence market.
- Internet penetrations and competitive non-correspondence delivery by entrants: recent characteristic factors for the recent postal volume declines.
- Volume decline: large piece mails from early 2000 due to internet and competition factors; positive internet effects on package volume.
- High priority of customer service improvements: from a regulation-governed public organization to a CS-driven commercial company.
- Favorable evaluations after the 2007 postal reform. Still the gap between the service factors to be needed by customers and those to be actually served.



Thank you for your attention...

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