

OPERATIONS AND DELIVERY SYSTEMS AS A SHORT TERM RESPONSE TO UNIVERSAL SERVICE DEMANDS

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New Postal Services Act – scope of universal service obligation

Scope of universal service obligation unchanged:

- Delivery six days a week as today
- Letters up to 2 kg
- Parcels up to 20 kg
- Literature for the blind up to 7 kg
- Provisions for the network of postal service outlets unchanged
- Provisions for quality of service unchanged
 - Minimum quality standard of 93 %

New Postal Services Act – pricing

- Only regulation and uniform tariff for single-piece non-priority mail (B) franked by postage stamps
- Abolition of size-based pricing of letters franked by postage stamps
- Non-priority mail (B) may be posted in the red letter-boxes
- Price adjustment based on cost calculations to allow for volume decline
- Differential prices depending on franking method
 - Stamped
 - Metered
 - PP



New Postal Services Act – conditions for parcels

- Postal Parcels (CtX) and BtC Parcels are still with a universal service obligation
- Only uniform tariff for Postal Parcels (CtX)
- Two parcel products – one with delivery and one without delivery – decided by the sender
- Price of parcels with delivery approx. 20 per cent more expensive than the price of parcels without delivery

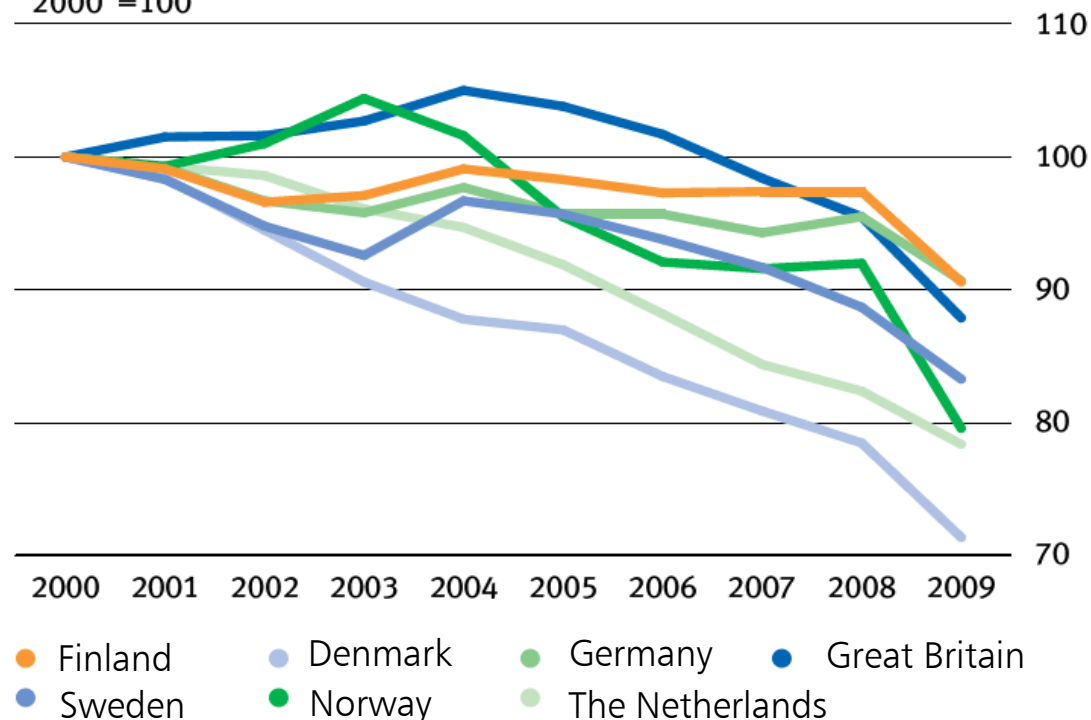


Volume development

- Transition from physical mail to electronic mail sharpest in the Danish market

Delivery volumes of addressed letters

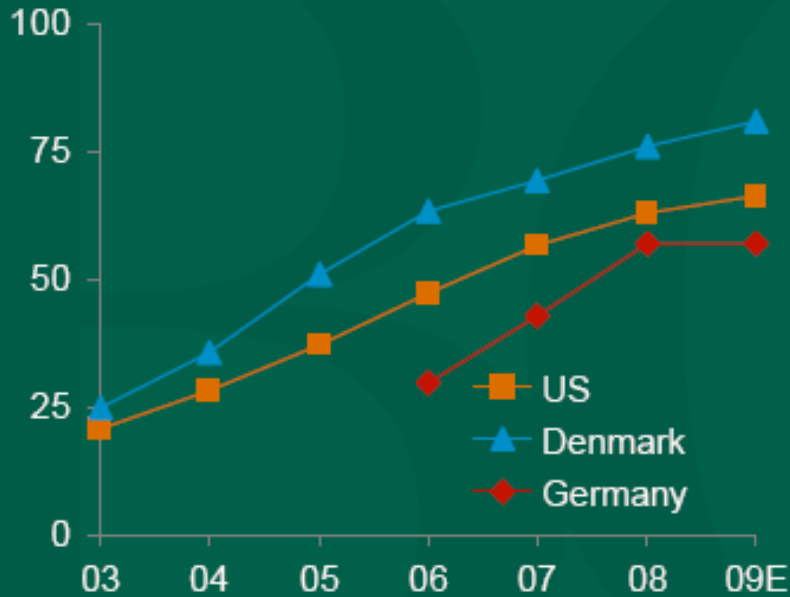
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...Reflecting broadband penetration and e-government

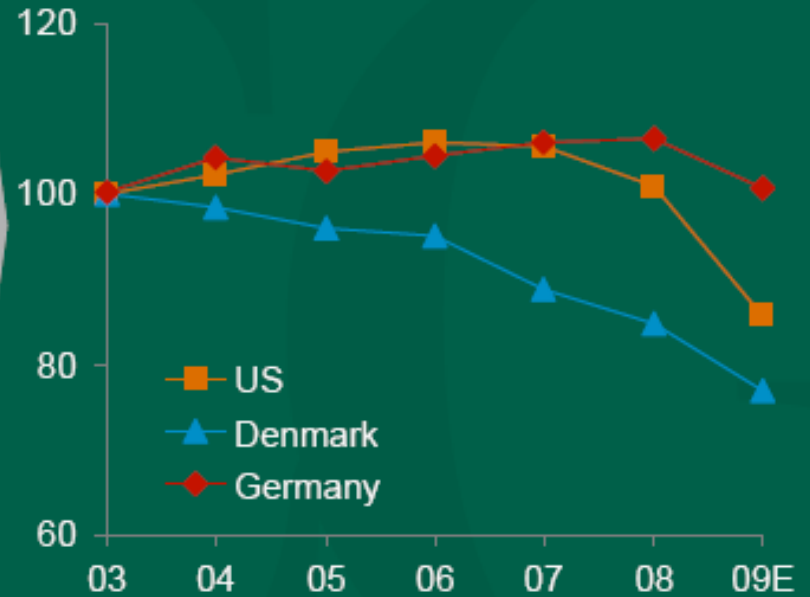
Varying levels of broadband penetration...

Broadband household penetration (in % of all households)



... defining a range in terms of mail volume erosion

Postal volume (% of reference year '03)



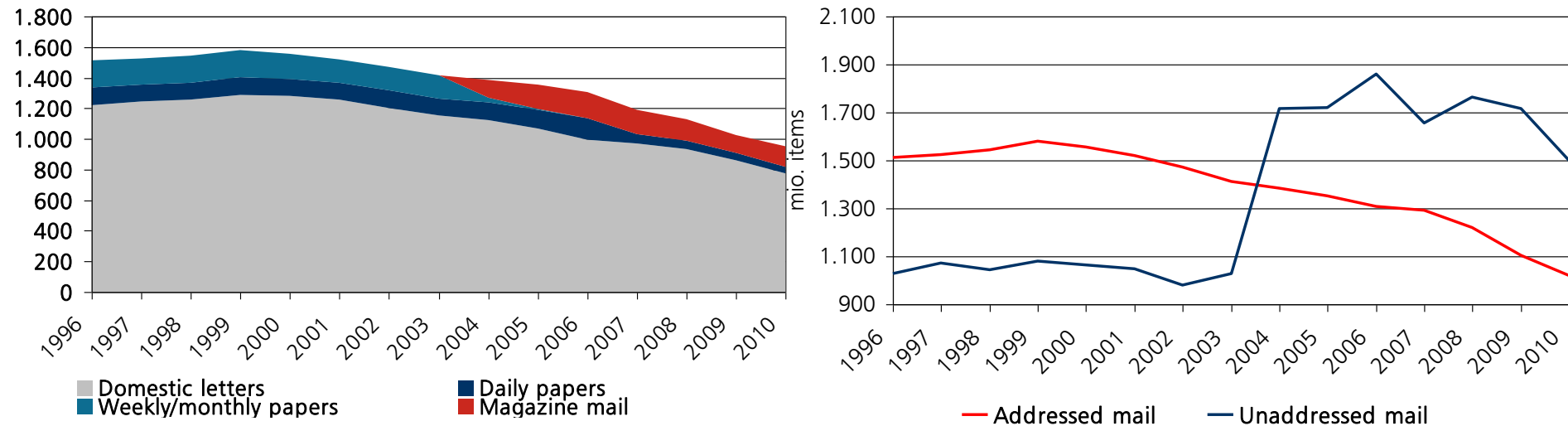
Findings reinforced by about a dozen internet-enabled countries in sample

Source: OECD; Annual reports and interim reports local posts; Universal Postal Union; 2008–2013 Forrester estimates; TIA 2009 ITC Market review and Forecast

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Post Danmark: Declining letter volumes constitute the most important strategic challenge

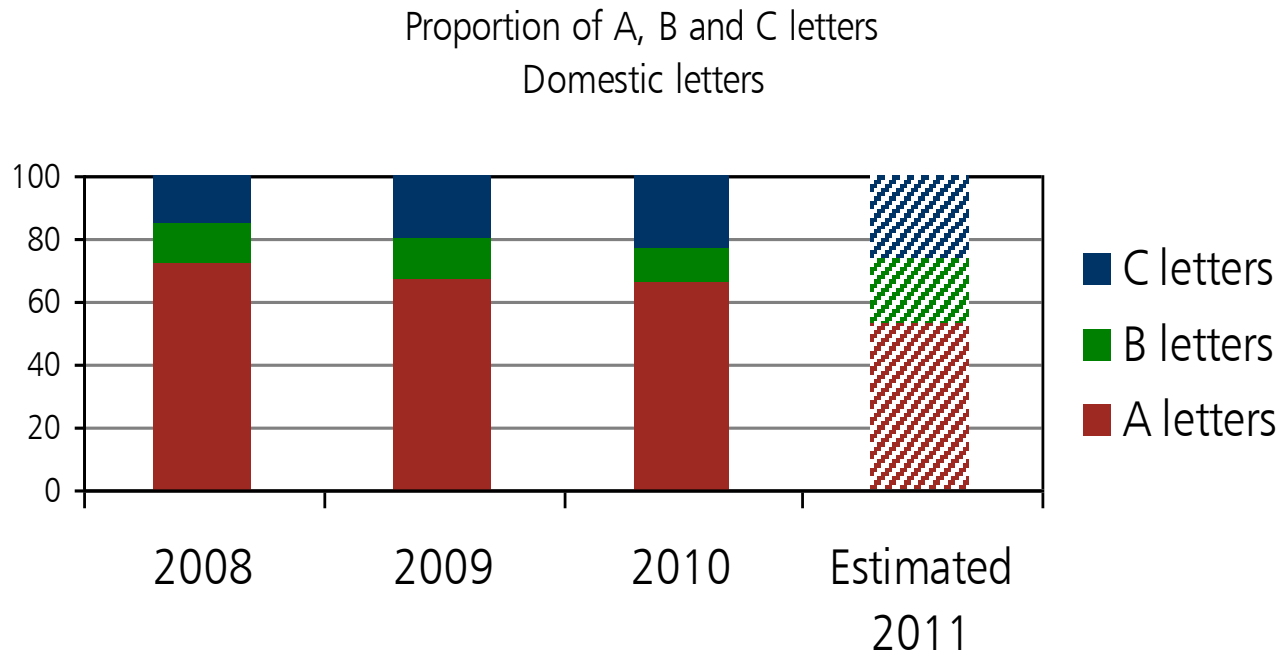
- 1999 – 2010: 40 per cent of the market was lost as a result of digitisation and other substitution



- Decreasing volume of profitable addressed mail – Increasing volume of less profitable unaddressed mail
- The decline in letter volumes will continue in the coming years - Maintain competitive profitability in a declining market for distribution of physical mail

Impact of new Postal Services Act:

Move from the choice for A (priority) letters to the choice for slower distribution at lower prices of B (non-priority) and C (business) letters



- Fulfilment of requirement as to the universal service obligation
- Services according to customers demand – alternatives for both large and small business customers
- Compliance with competition law
- Opportunity for more efficient planning of operations

Post Danmark strategy: Proportion of automated letters ~ 100 %

To reduce cost

To be able to introduce Value Added Services (VAS)

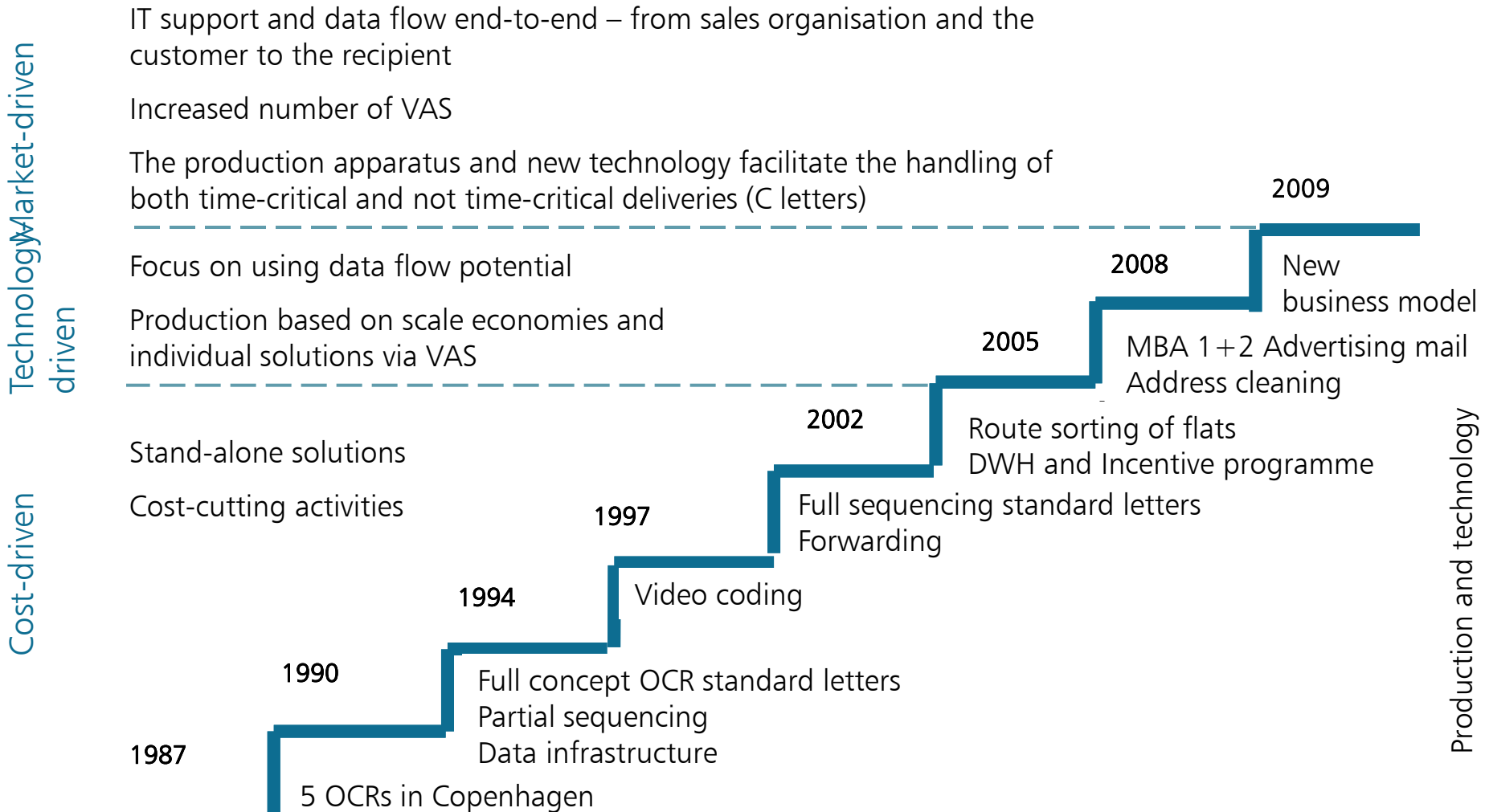
To make forwarding of mail "on the fly" (day-to-day)

The core is the Address Database (MOD, VAP, FKB)

- Individual solutions and services in accordance with customer demands and expectations



Advanced technology implemented in the past 10-15 years – increasing focus on customers

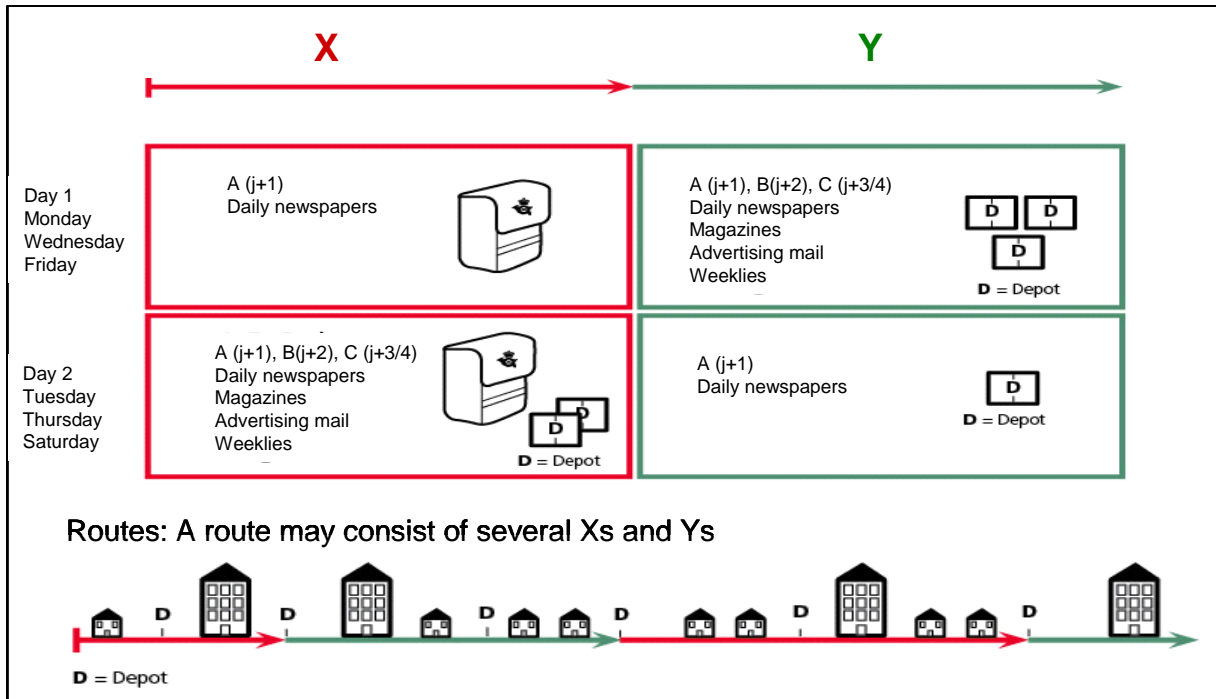


Preconditions for Post Danmark's distribution model

- Obligation to fulfil six-days-a-week deliveries established by the universal service obligation
- A legal framework allowing Post Danmark to split-up mail for distribution within respectively J+1 and J+2/3
- Priority letters (A) and parcels to be distributed within J+1
- Non-priority letters (B), business letters (C), unaddressed mail and local weekly newspapers to be distributed within J+2/3
- Unaddressed mail to be suited for inclusion in an addressed wrapper allowing for mechanical packing
- Cashless products in delivery services - COD parcels are paid for at the time of its collection from a post office or post shop

Post Danmark's distribution model: Time-critical and not time-critical mail in the same distribution setup

- By using the data flow, Post Danmark has created an X / Y distribution model (Jan. 08)
- Improved earnings capacity by focus on drop economy, frequency of delivery and the relationship between time spent in and time spent out
- Today, J+1 and J+2/3 are handled in the same distribution setup



X / Y split-up of routes

"Thin" part of route "Thick" part of route



Conclusive remarks for discussion

- X / Y in itself is not a permanent solution to ensure fulfilment of USO
- X / Y to be effective needs
 - Right pricing possibilities
 - Right product profiles
 - State of the art technology
 - No downstream access (superfluous)