Volume Trends in EU Postal Markets

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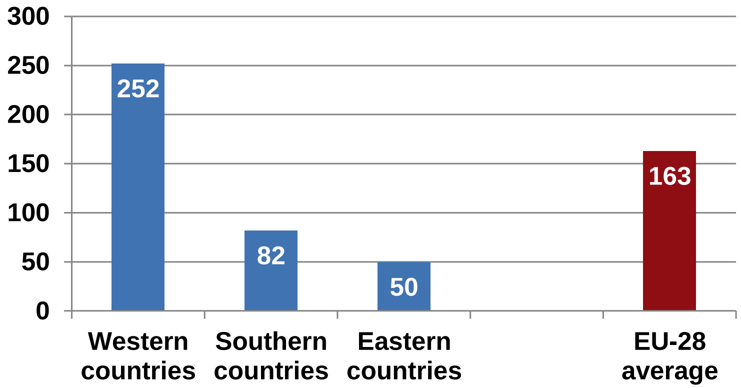
Wissenschaftliches Institut für
Infrastruktur und Kommunikationsdienste

Agenda

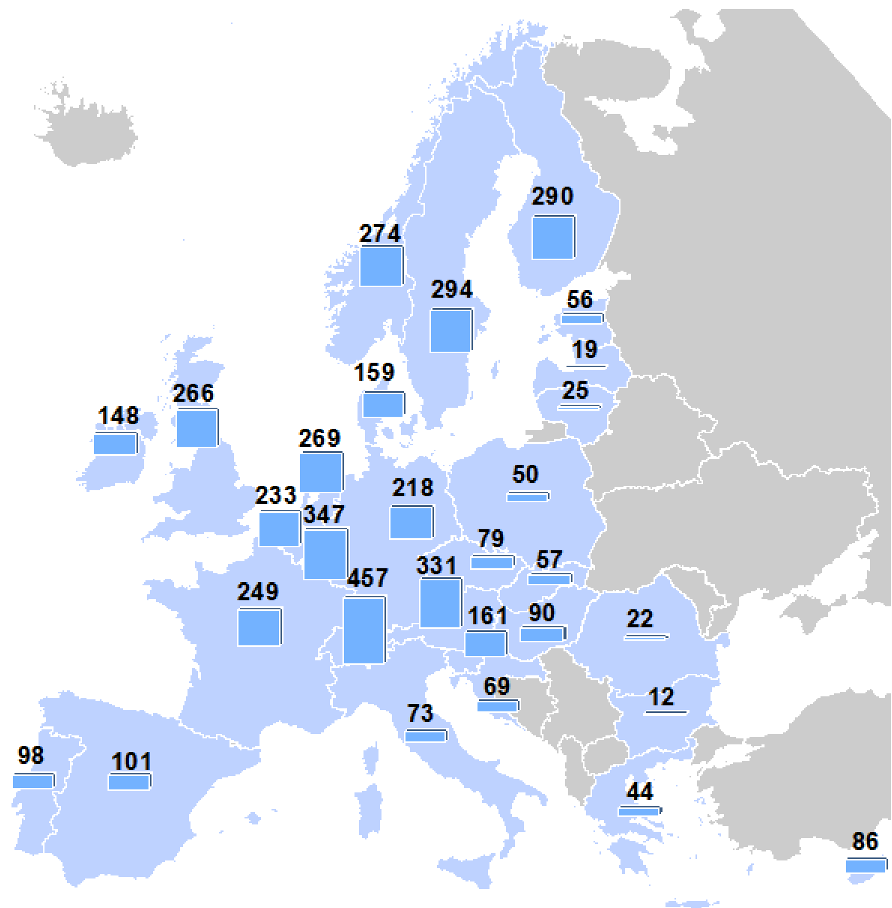
1. Today: Differences in mail demand
2. Yesterday: Past developments in mail volumes
3. Tomorrow: Future of mail demand
4. How respond to volume decline?

Today

Letter post items per capita (2011)



Source: WIK-Consult (2013)



Source: WIK-Consult (2013), TÜV Rheinland

- Different levels of mail per capita among European countries
- Eastern and Southern countries:
  - Lower GDP per capita
  - Less use of addressed advertising (direct mail)

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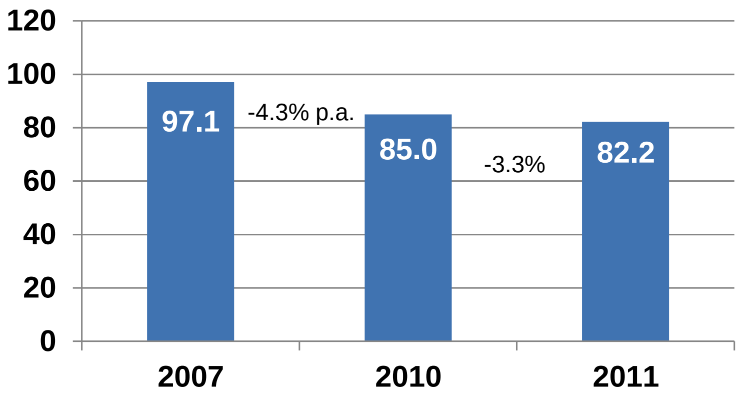
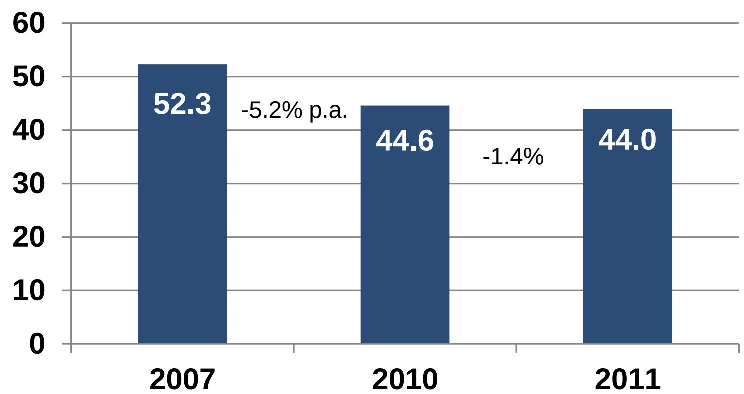
Yesterday (1)

Letter post volume (billion items)

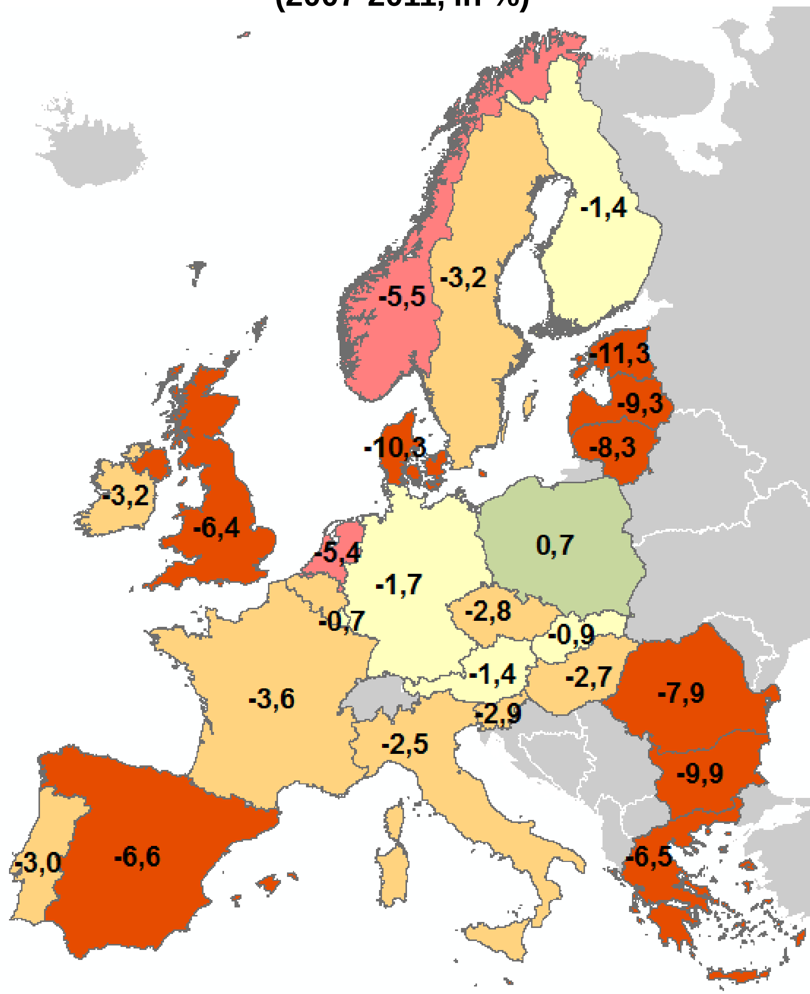


Letter post revenue (billion EUR)



Source: WIK-Consult (2013)

Average change of letter post volume per year (2007-2011, in %)



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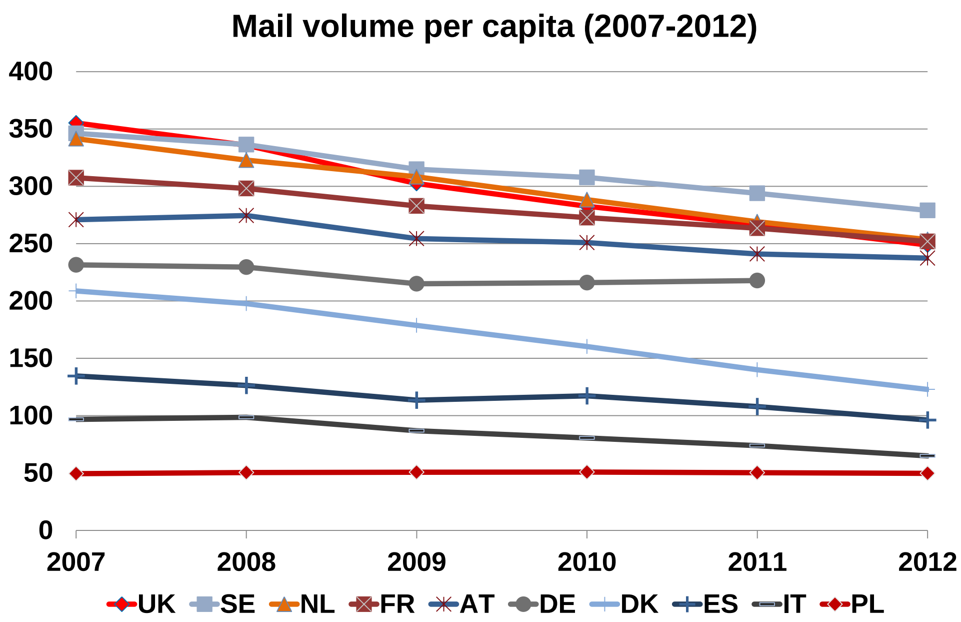
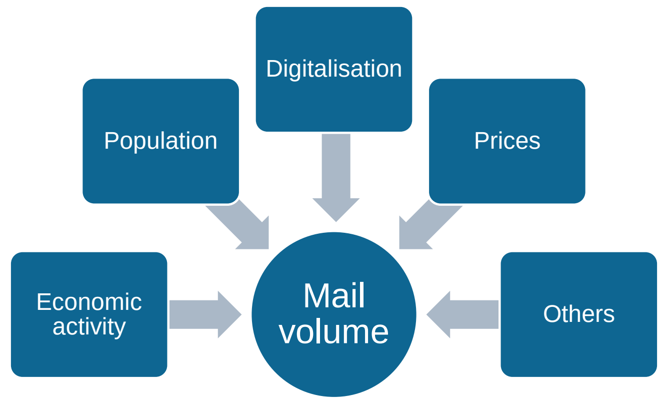
Yesterday (2)



Source: WIK-Consult

- Mail revenues and volumes in Europe declined by 15% in total compared to the pre-crisis level
- But: Some countries are less affected than others
- Even before the declines started, mail volumes per capita and composition sent varied widely
- Austria, Germany and Poland appear less affected by volume decline
- What are the reasons for different developments?

Tomorrow
Demand drivers



Economic activity

- Economy growth
- Industrial structure
- Number of businesses

Population

- Population growth
- Number of households
- Age structure

Digitalisation

- Availability of different communications channels (SMS, e-mail, social networks)
- Propensity to use digital communication
- Convenience
- Proportion of “digital natives”
- Mail content digitizable?

Prices

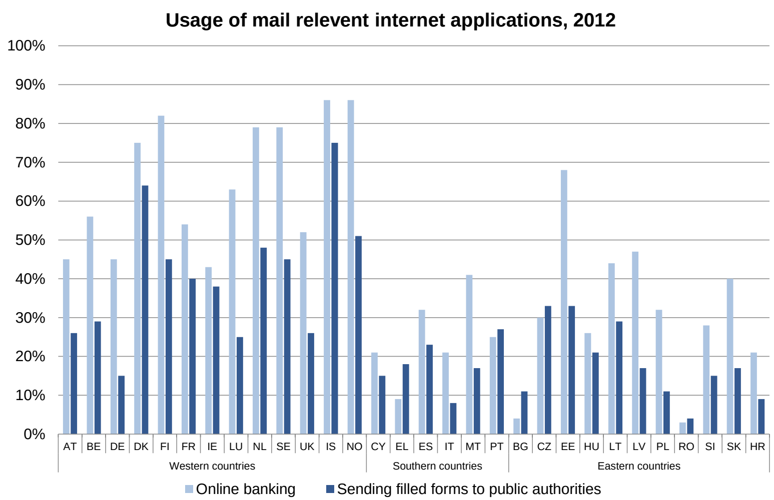
- Development of postal prices depends on regulation, cost base and competition
- Price sensitiveness of user groups
- Costs of using non-postal channels

Others

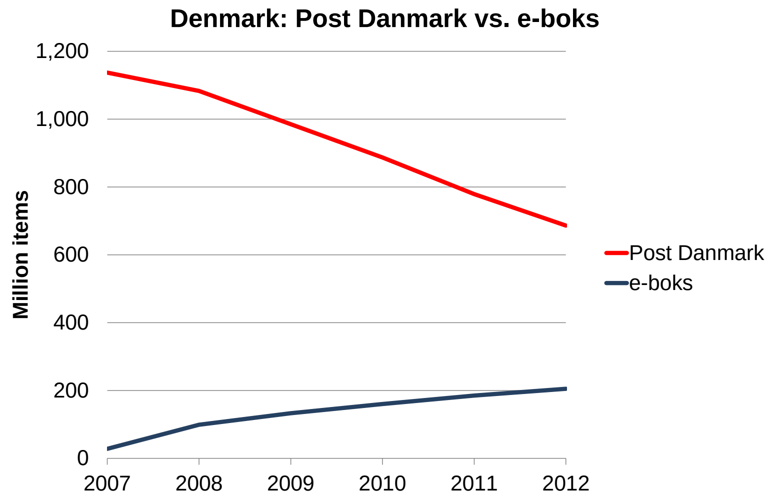
- Cultural differences
- Level of education
- Income level and structure

Tomorrow
Varying levels of digitalisation among EU countries

- Internet usage highest in the Netherlands and the Nordic countries
- Online banking and e-government activities: Nordic countries and the Netherlands are ahead
- Denmark: Most affected by e-substitution in Europe driven by successful e-government initiative



Source: Eurostat



Sources: PostNord, e-boks

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Tomorrow
Mail segments

- Demand drivers differently affect mail segments
- Key mail segments:
  - Social mail: Correspondence sent between individuals and from individuals to private and public institutions
  - Transactional mail (B2B, B2C): Correspondence sent between private/public institutions and between institutions and individuals
  - Direct mail: Addressed advertising mail
  - Publications: Newspapers, magazines (weeklies, monthlies), club magazines, newsletters
  - Fulfillment: Small packages, tickets etc. sent by letter post

Tomorrow
Social mail

Economic activity

- Low impact

Population

- Growth in number of households increases social mail

Digitalisation

- Depends on acceptance of social networks and e-mail (age structure)
- C2C: Limited substitution because greeting cards are considered as something special
- C2B: Use of electronic channels more likely (e.g. job applications, e-government initiatives)

Prices

- Less price-sensitive (low expenses per month)

Others

- High-income households send and receive more mail than low-income households

Tomorrow
Transactional mail (B2B)

Economic activity

- High impact (economic growth, industry structure, number of businesses etc.)

Population

- No impact

Digitalisation

- Depends on legal framework (e.g. acceptance of electronic invoices by tax authorities)
- High potential for electronic substitution in medium-sized and large companies e.g. to reduce costs for processing invoices

Prices

- Less price-sensitive than B2C

Tomorrow
Transactional mail (B2C)

Economic activity

- Low impact

Population

- Population growth and more households increases transactions between public/private institutions and individuals

Digitalisation

- Businesses depend on the consumers‘ propensity to accept electronic delivery
- Convenience and security aspects matter
- Many businesses offer physical and digital communication channels and let their customers decide
- But: some mail contents not digitizable for physical (e.g. credit cards) or legal reasons

Prices

- Price-sensitive
- Additional measures to reduce volume/costs (e.g. switch to other postal operators, switch to cheaper second class services, reduce mailing frequency)

Tomorrow
Direct mail

Economic activity

- High impact on marketing budgets (e.g. drop in marketing budgets in the financial crisis)

Population

- High impact (particularly number of households)

Digitalisation

- Direct mail competes with other advertising media ("dialogue marketing") including online marketing (response rates matter)
- Online marketing has been becoming more important in the dialogue marketing mix (e.g. in Germany)

Prices

- Highly price-sensitive
- Other alternatives than online marketing (e.g. unaddressed advertising, inserts in newspapers etc.)

Others

- Income level and structure: High-income households receive more direct mail than low-income households (more attractive for retailers)
- Comprehensive address databases
- Legal restrictions (that limits use of address data for advertising purposes)
- e-commerce promotes direct mail (combined marketing campaigns)

Tomorrow Publications

Economic activity

- Low impact

Population

- High impact (particularly number of households and age structure)

Digitalisation

- Newspapers more affected by digitalisation than weeklies and monthlies.
- Newsletters (particularly B2B) increasingly sent by e-mail because of cost-effectiveness

Prices

- Highly price-sensitive
- Other alternatives than postal delivery (publishers often use separate delivery organizations)

Others

- Cultural aspects/traditions influence the demand for subscriped publications

Economic activity

- Low impact (e-commerce has been growing despite of economic recession)

Population

- High impact (particularly number of households)

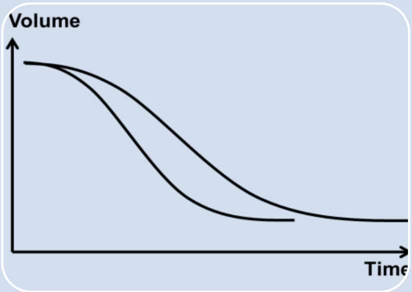
Digitalisation

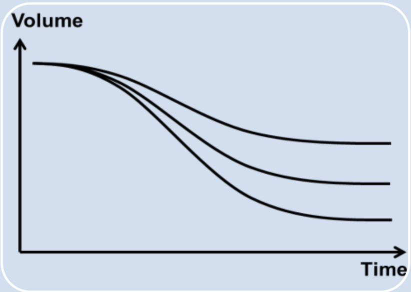
- Positive: Digital sales channels leads to more letters/packets
- Negative: Digital substitution of merchandise (e.g. tickets, books, software, games, music, etc.) leads to lower volumes

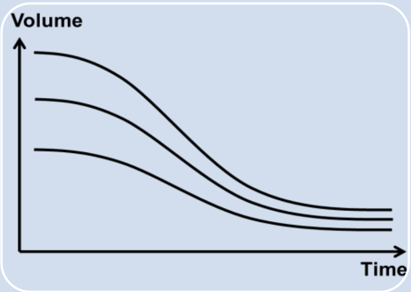
Prices

- Price-sensitive
- Letter post often cheaper than parcel products (particularly for small mailers and individuals)

Tomorrow
How will volume develop?







Decline how fast?

Decline how much?

Does loss depend on starting level?

Tomorrow Forecasts

WIK

- Forecast German mail market: 2010-2020 (p.a.) -1.8% to -4%
- Higher loss rates after 2015 expected

WIK

- Forecast Dutch mail market
- 2010-2020 (p.a.) -3% to -6.2%
- Lower loss rates after 2015 expected

PwC

- Forecast UK mail market
- Letters (p.a.): 2013-2018: -4.9% 2018-2023: -3.8%

PostNL

- Outlook 2013:
- -9 to -11%
- Outlook 2013-2015: -8 to -10%

LA POSTE

La Poste

- La Poste expects a 30% decrease in total mail volume between 2008 and 2016

postnord

PostNord

- Outlook Post Danmark
- 2013: -12%
- Outlook Posten
- 2013: -6%

How respond to volume decline?

Today's challenges

- Structural changes, e-substitution
- Competition
- General economic trends

Impact

- Pressure on prices
- Mail volumes decline

Mail profits erode

Strategic options for postal operators

- Develop new business
- Improve cost base
- Increase prices

How respond to volume decline?
Improve cost base

Reduce employment and labour cost

PostNL replaces full-time postmen by part-time mail deliverers

Introduction of flexible worktime models

Austrian Post and Deutsche Post reduced payment for new employees

Optimize mail processing

Downsizing mail processing (Post Danmark, Posten)

Centralization of sequence sorting

Sequence sorting of flats by machines

Investment in new, more efficient sorting machines

More flexible delivery networks

PostNL and Post Danmark reduce weekly deliveries to three for non-priority products

Itella delivers letters and newspapers early in the morning in rural areas

Distribution of unaddressed advertising on fixed days per week (Post Danmark and Posten)

Challenge for regulation:

Assess effect on traditional USO?

Flexibilize USO?

Restructure branch networks

Deutsche Post and PostNL converted all post offices to agencies

Reduce weekly deliveries

Plans in the Netherlands and Denmark to introduce 5 day delivery per week (no Monday delivery)

How respond to volume decline? Develop new business

Expand to international markets

DHL in express & logistics

PostNL in mail and parcels

La Poste and Royal Mail in parcels

Itella in document management

Austrian Post in parcels, mail and logistics

Nordic posts in logistics

Extend parcel pick up / promote e-commerce

Deutsche Post: massive roll-out of pick up stations (20,000 outlets)

Deutsche Post, La Poste and PostNL: to grow in cross-border e-commerce

La Poste/DPD: to grow in B2C delivery

Deutsche Post: Support small retailers to go online

Extend portfolio of financial services

Poste Italiane: Strong market position in financial and insurance services

La Poste: La Banque Postale

Develop products for secure electronic communication

Itella: NetPosti

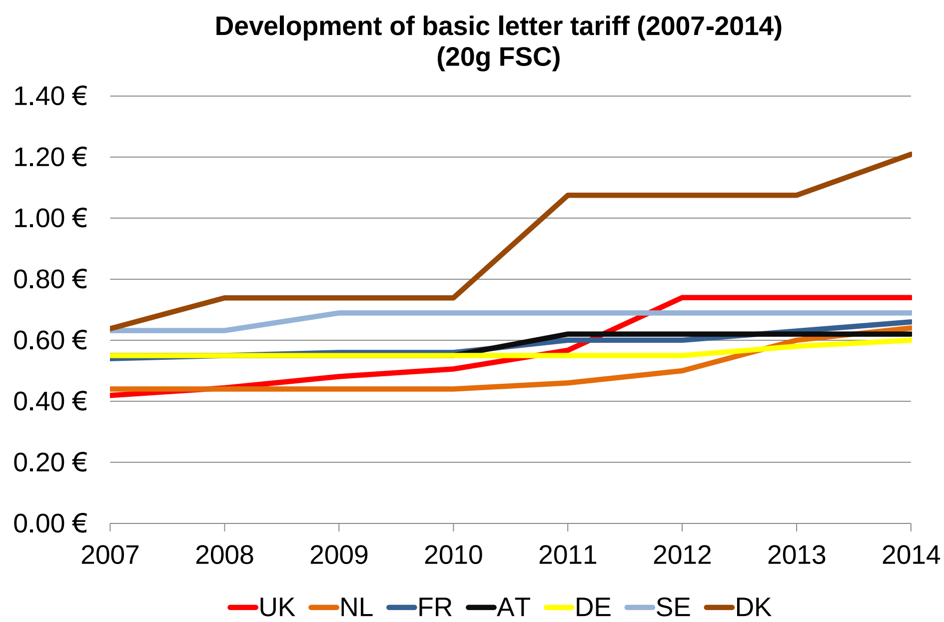
Deutsche Post: ‘E-Postbrief’

Post Danmark: E-Boks

Improve competitiveness of direct mail

Support customers in direct mail campaign

How respond to volume decline?
Increase prices



Source: WIK-Consult (2012 exchange rates)

- Substantial increase in public tariffs, particularly in Denmark, the Netherlands and UK
- In some countries fairly stable tariffs (Germany and Sweden)

- Bulk tariffs likely increased less
  - More competition for large senders – other media & mail competition
  - Difficult for postal operators to enforce price increases to large senders
- Public tariffs generally controlled by regulators
- UK and Denmark: Regulation of the second class letter

Challenge for regulation:
Will affordability be an issue?

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