

# Pricing trends in the postal sector

15th Königswinter Postal Seminar on Postal Economics

Postal regulation and delivery markets in transition

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# Purpose of this presentation

## Postal markets change

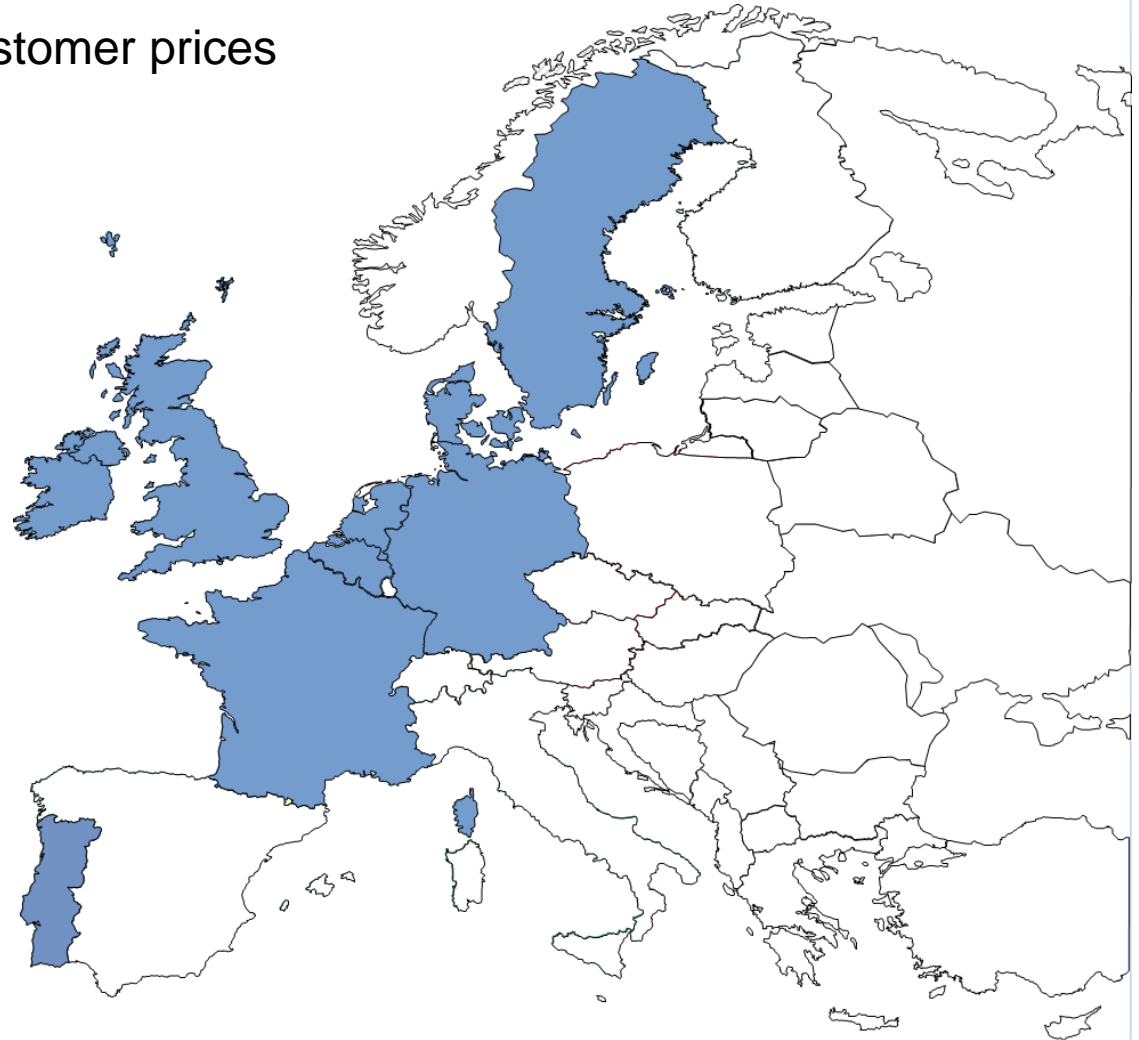
→ Price trends

→ Trends in price regulation

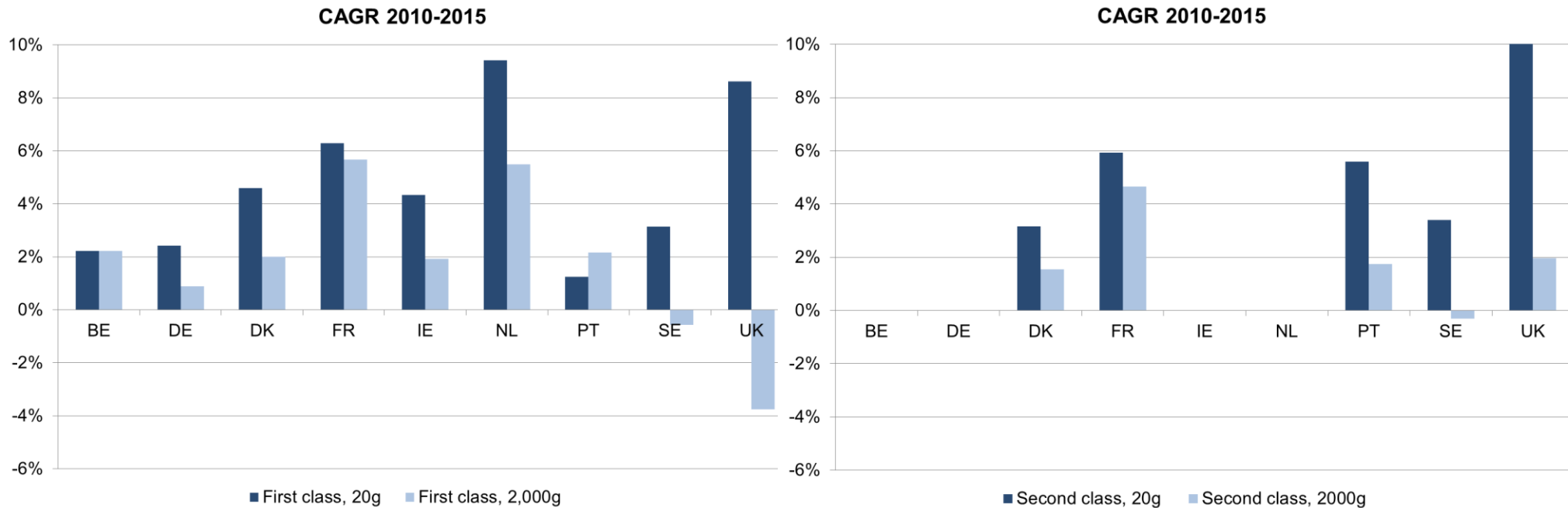
→ Main challenges for price regulation

- Single piece and business customer prices in nine countries

- Belgium
- Denmark
- France
- Germany
- Ireland
- the Netherlands
- Portugal
- Sweden
- UK








# Price trend #1 / Prices for heavy items increased less than light-weight items



## ■ Possible reasons:

- Competitive pressure from parcel and express service providers limits range for price increases for heavy letter products
- Increased demand for heavy letters (e-commerce) leads to reductions in average costs for these products

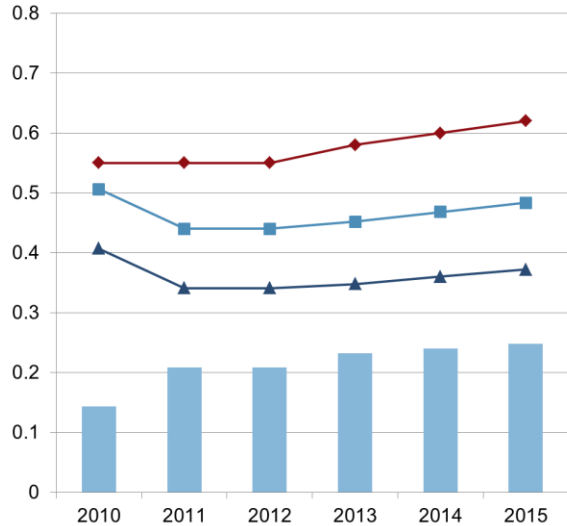
## Price trend #2 / New products for e-retailers

-  Second class for items >1kg introduced
-  Letters can be up to 3 cm thick (instead of 2) in FR
-  Discounts for sending merchandise ('Warensendung') in DE
-  Brievenbuspakje in NL: small package that fits into letterbox
-  Varubrev for B2C-delivery of items up to 2 kg

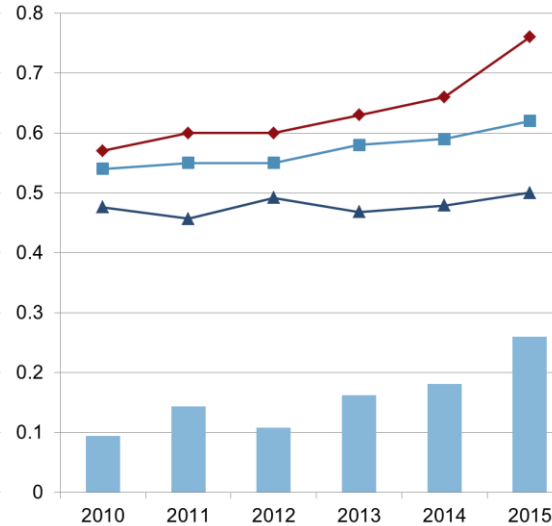
- Possible reasons:
  - Postal operators benefit from increasing demand from e-retailers and diversify their product range
  - Postal operators respond to competition from parcel and express operators by offering product and discount diversifications for e-retailers' needs

# Price trend #3 / Public tariffs increased stronger than business customer prices

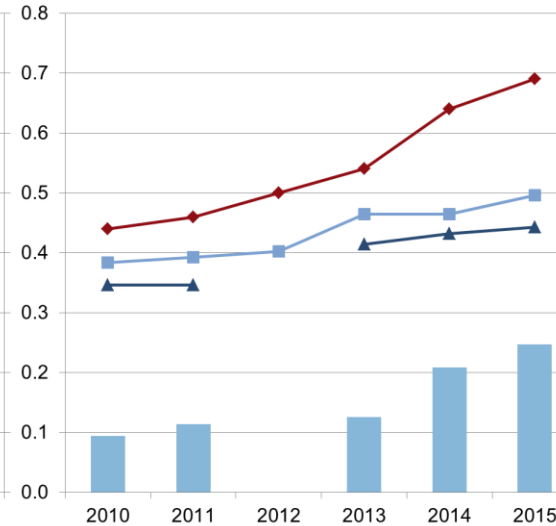
Deutsche Post



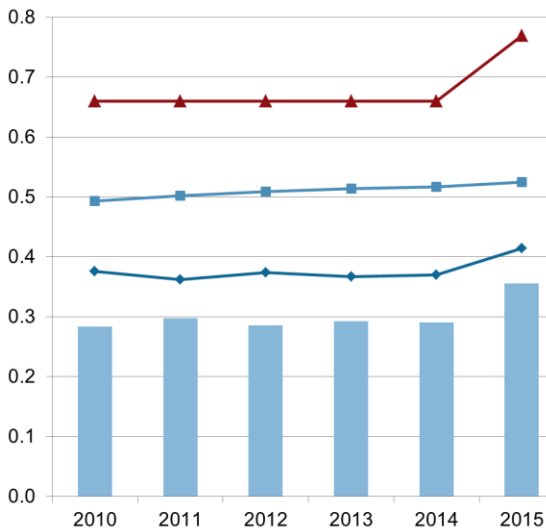
La Poste



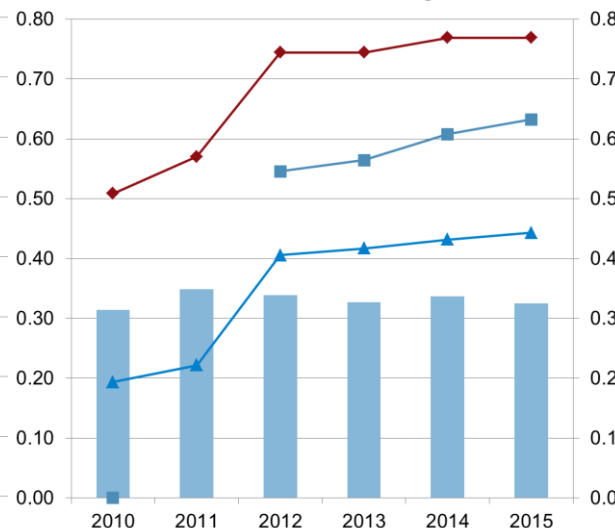
PostNL



Posten



Royal Mail



- Possible reasons:
- Postal operators set prices according to price elasticity (Ramsey-pricing)
  - Volumes decline: do average costs of single piece items increase more/less than average costs of bulk mail?

# Price trend #4 / Transparency for bulk tariffs increased

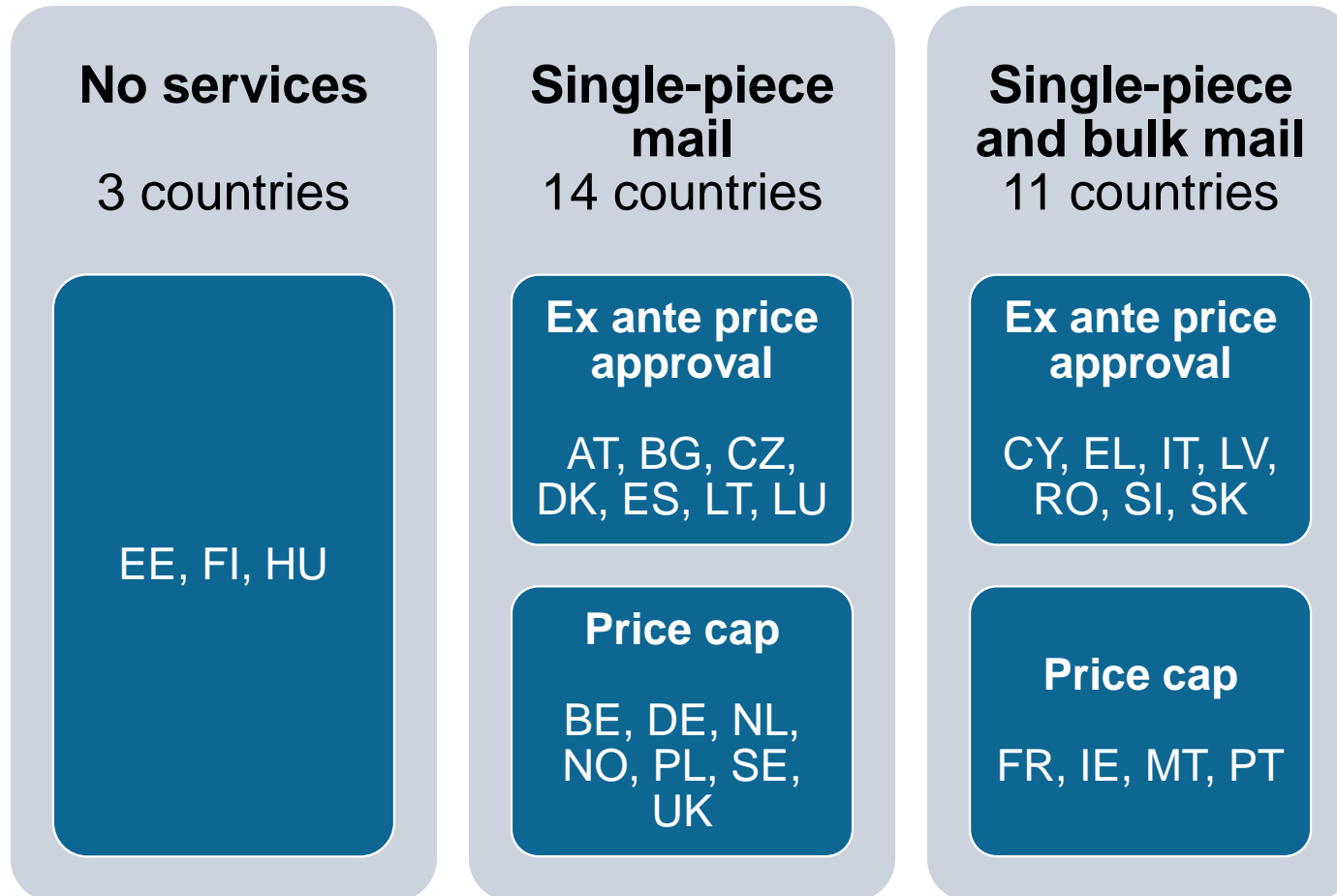
Country	Min no.		Requirements
	Basic business tariff	Lowest available business tariff	
Belgium	500	25,000	Sorted, specified address quality, Mail ID
Denmark	10,000	700,000	Barcoded, sorted to sorting centre, handed over at sorting centre
France	1,000	1,000	Machinable letters, barcoded, specified address quality, handed over at sorting centre
Germany	5,000	25,000	Sorted, handed over at inbound sorting centre
Ireland	200		Sorted, handed over before noon at Mail Centre, items for automated processing, D+3
Netherlands		100,000	Sorted to region, barcoded, handed over at business point XL/sorting centre, pre-alert of shipment
Poland (SSC)	?	2,500,000	Barcoded, machine-readable, minimum turnover 1.5 million € per month
Sweden	500	>2,500,000	Sorted
UK	1	>120,000	Sorted, machine-readable, barcoded with Mailmark

**Number of items, sorting and other requirements vary a lot**

- Possible reasons:
  - Business customer tariffs are transparent (publicly available) to varying degrees
  - Business customer tariffs have become more transparent in the course of time

# Regulation trend #1 / Ex ante regulation increasingly limited to single-piece letter products

## Scope of ex ante price regulation



No information: HR

Based on Copenhagen Economics (2012), WIK-Consult (2013), ERGP (2014)



# Regulation trend #2 / Bulk mail tariffs are increasingly subject to ex post control

- Effective ex post control can prevent abuse of market-dominant positions
- Mixed evidence how and by whom ex post control is organized

- Regular check (NRA)
- Case-by-case (NRA/NCA)

## Selected countries without ex ante control for bulk mail

- General competition law applied by NRA

UK



- Bulk mail tariffs are outside the USO → under competition law

NL



- No ex post control of bulk mail tariffs by NRA

FI



- NCA responsible

DK



- Ex post price control for bulk mail:
  - Within universal service: by NRA
  - Outside universal service: NCA

SE



- Bulk mail tariffs are subject to regular ex post control by NRA
- Parallel ex post control by NCA

DE

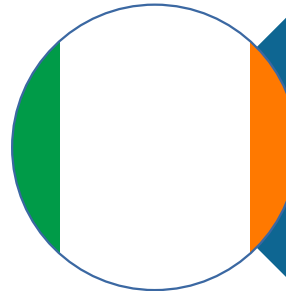


# Regulation trend #3 / Many regulators approve substantial price increases (1)

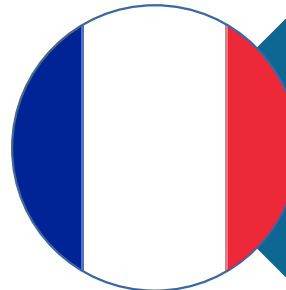
- ERGP: 12 regulators apply volume forecasts for price regulation
- Recent price cap decisions provide (substantial) leeway to USPs for tariff increases due to expected mail volume decline: IE, FR, PT



2012: Ofcom allowed Royal Mail a 53% increase of non-priority mail services



2014: ComReg approved a price jump of 13% for single-piece mail



2015: ARCEP allowed La Poste to increase tariff level by 7%

# Regulation trend #3 / Many regulators approve substantial price increases (2)

Country	Volume forecast (annual, basket volume)	Price cap formula	Adjustment if real volume deviate from forecast?
Belgium	No forecast	$\Delta$ CPI + Quality Bonus	Not applicable
France	-6.3%	$\Delta$ CPI + 3.5%	Yes
Germany	Confidential	$\Delta$ CPI - 0.2%	No
Ireland	Letters: - 4.2% Flats: -13.3% Packets: 3.6%	2014/15: $\Delta$ CPI +14.98% Other years: $\Delta$ CPI +1.35%	No
Portugal	2015: -4.6% 2016: -4.1% 2017: -3.7%	$\Delta$ CPI + 1.6%	Yes
Sweden	No forecast	$\Delta$ CPI	Not applicable
UK	No forecast	$\Delta$ CPI	Not applicable

Source: ERGP (2014) and NRAs' decision documents

# Challenges for price regulation (1)

Regulation trend #1: Ex ante regulation increasingly limited to single-piece mail services.  
Which services should be subject to ex ante price regulation?

- Major purpose of ex ante price regulation: to prevent excessive pricing
- Key criterion to decide which services should be subject to ex ante regulation: Degree of competition
  - by postal alternatives
  - by non-postal alternatives (e.g. e-substitution)

# Challenges for price regulation (2)

Regulation trend #2: Bulk mail tariffs are increasingly subject to ex post control.

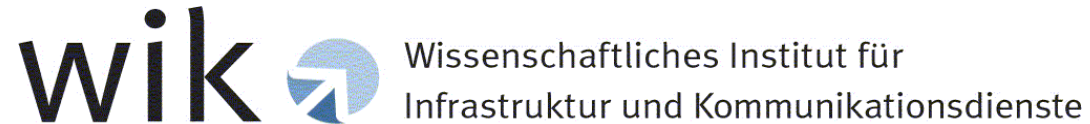
Which institution is better placed to deal with ex post control: the NRA or the NCA?

- Major purpose of ex post control: to prevent predatory pricing and discrimination
- More sector-specific knowledge at NRAs
- NCAs have clearer powers and more experienced in enforcement of penalties
- NCAs less likely to suffer from regulatory capture
- Options:
  - Ex post control by NRA only
  - Authorities cooperate
  - Authorities merge

# Challenges for price regulation (3)

Regulation trend #3: Many regulators approve substantial price increases  
Should volume developments be taken into account in ex ante price regulation?

- Pro:
  - Volume decline increases average costs of letter services
- Contra:
  - Volume adjustments weaken efficiency incentives
  - Volume decline in price cap models usually refer to the basket volume
  - Migration to non-regulated services may affect the cost base in the basket
  - Complexity increases
- Further challenges when volume decline is taken into account
  - How to ensure efficiency incentives?
  - How to forecast cost effects?
  - How to deal with migration effects?



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