

How to regulate declining mail markets: trends and challenges in Europe

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Who is WIK?

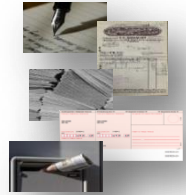
- **WIK** ('Scientific institute for infrastructure and communication services')
 - Independent research institute, owned by the German government
 - ~ 40 consultants/researchers
 - 35 years of experience with economic regulation and sector policies
 - Telecommunications, postal, transportation, digital economy

- **WIK-Consult** is a 100% subsidiary of WIK
 - Consultancy specialised in regulated industries, founded in 2001

Postal practice

- Regular scientific research on postal policy since 35 years
- Many postal studies for the European Commission since 2002
- Studies, advice, and research for regulators in many European countries, the USA, Middle East, and Australia
- Research, studies, advice and expert opinions for postal operators in many European countries
- Postal statistics for operators, regulators, associations

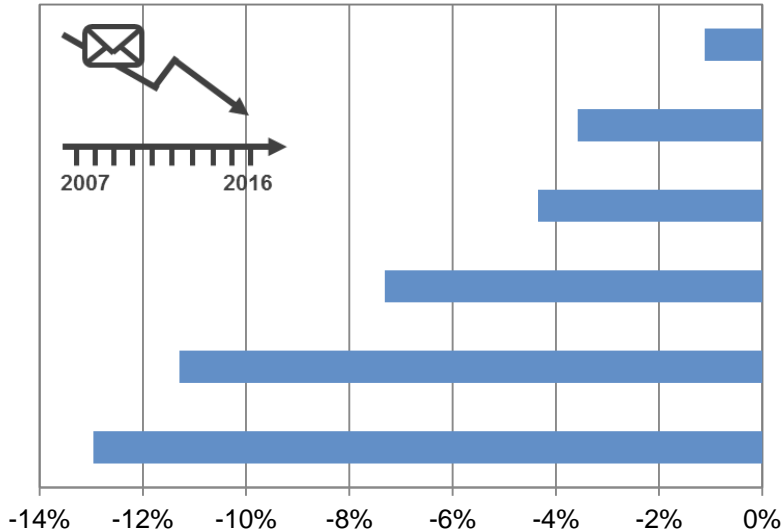
Letter volumes decline across Europe



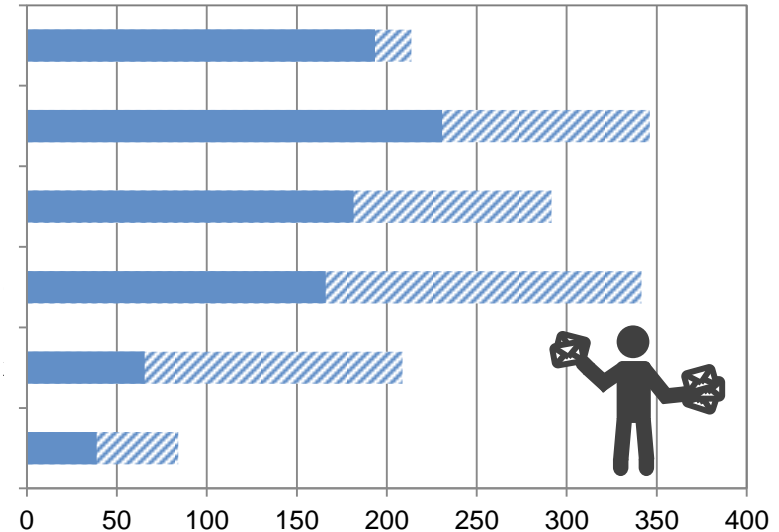
Changing communication patterns



Addressed letter volume, market, CAGR 2007-2016

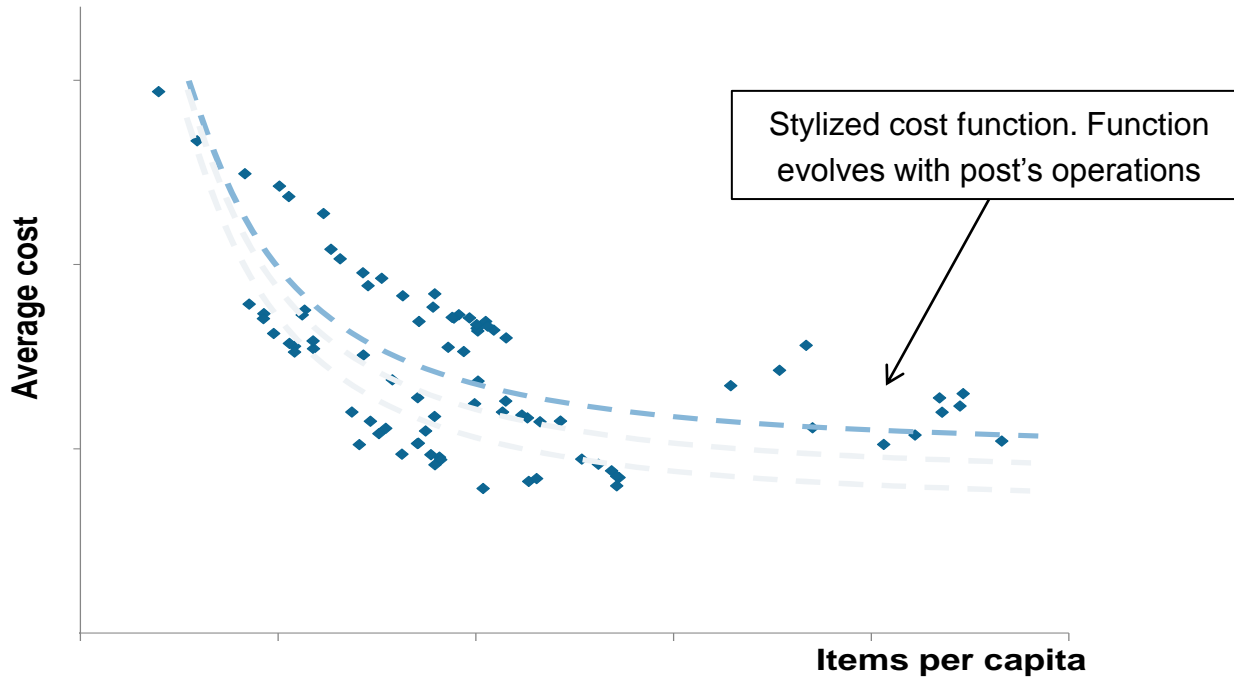


Letters per capita 2016 (2007)

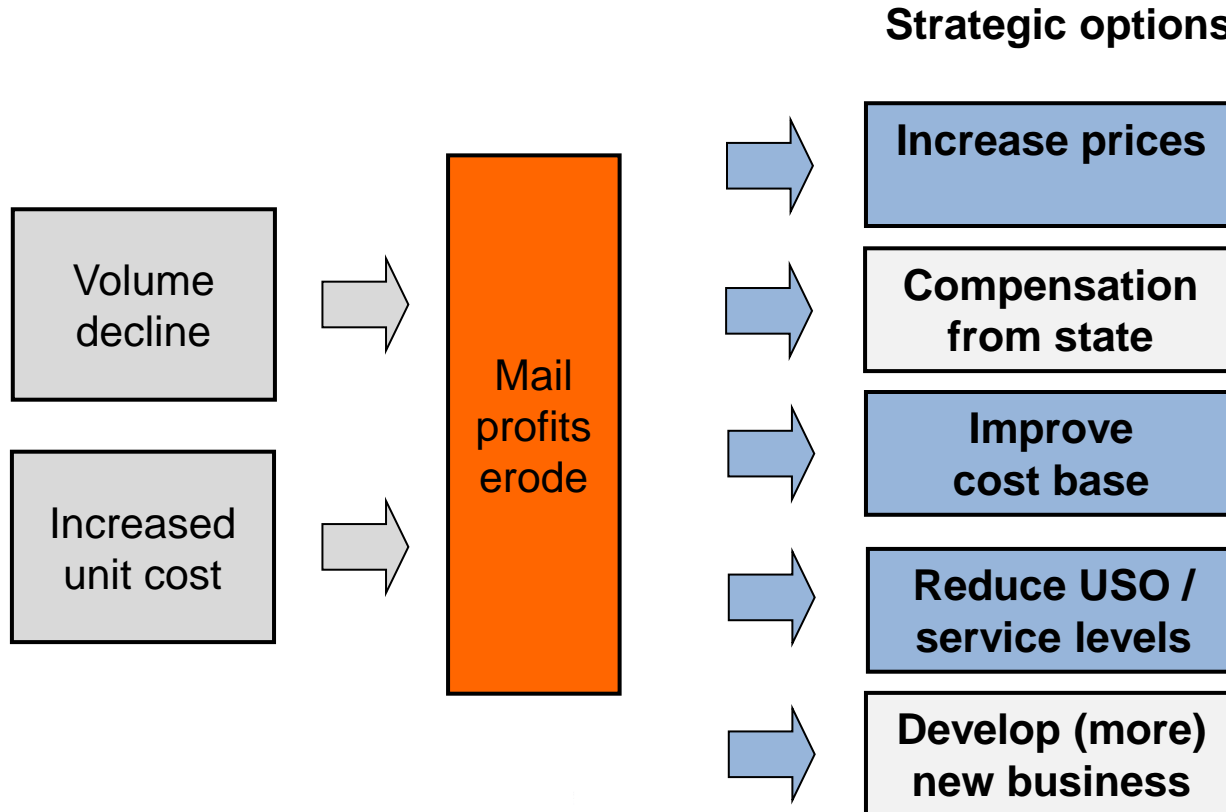


Average cost of delivering letters increase

Average cost increase with volume decline

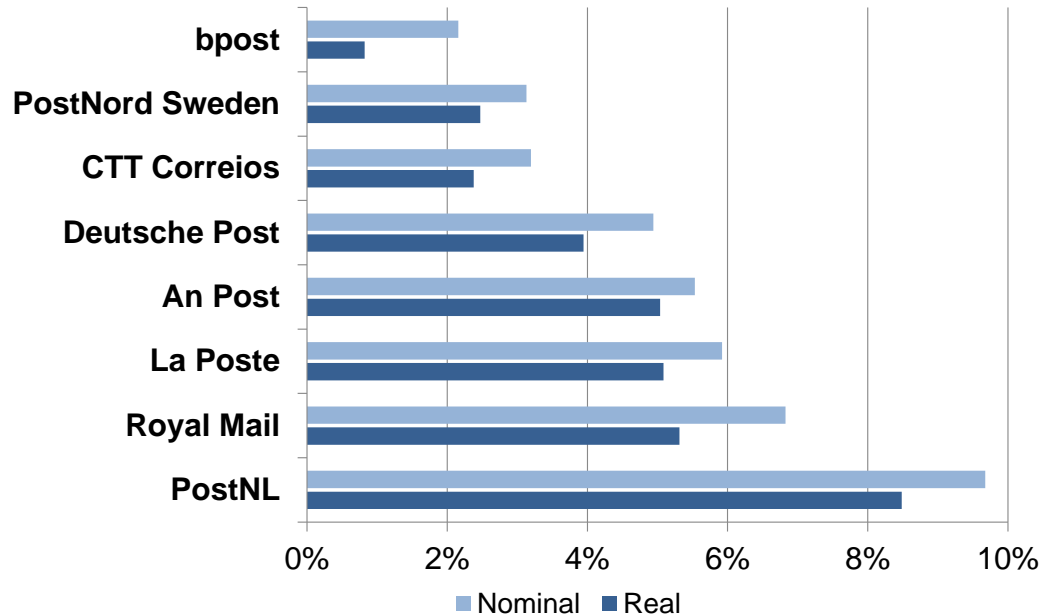


Challenges for postal operations



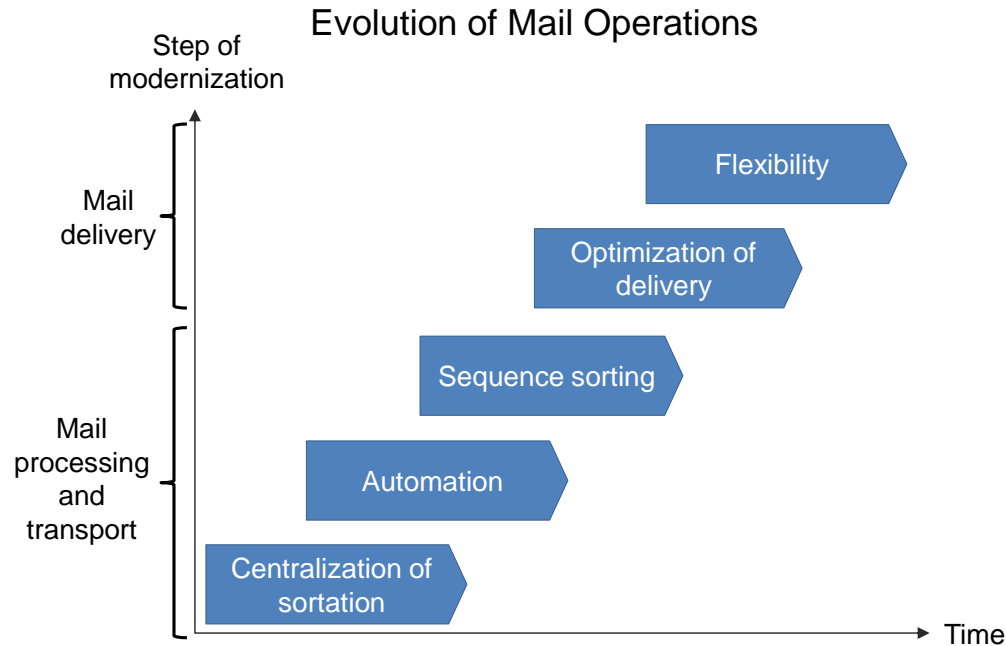
Prices hikes sought by posts, OK'd by regulators

Average annual tariff increase
(20g D+1 letters, 2011-2016)



- National posts across Europe see need to increase prices
- Cost-based price control in place, many regulators approve increases
- Many regulators have limited scope of price control (only single piece, once 1st or 2nd class)
- Some regulators apply ‚z-factors‘ linking price to volume trends
- Sky is the limit???

Constant efforts to control cost



- Key remaining potentials in delivery
- Effect on service levels/USO, need to involve customers and regulators
- Match lower service levels for letters with expectations from e-retailers
 - Merchandise in the mail stream
 - Joint delivery of letters and parcels

Posts seek, regulators approve flexible USOs

- Delivery to private households every second day
- Business receivers can get (and pay for) more deliveries

DK



- No standard delivery on Mondays
- Non-priority delivered 3 days a week

NL



- Delivery frequency reduced to 5 days/week
- Direct mail removed from USO
- In rural areas (~30%), only three deliveries a week

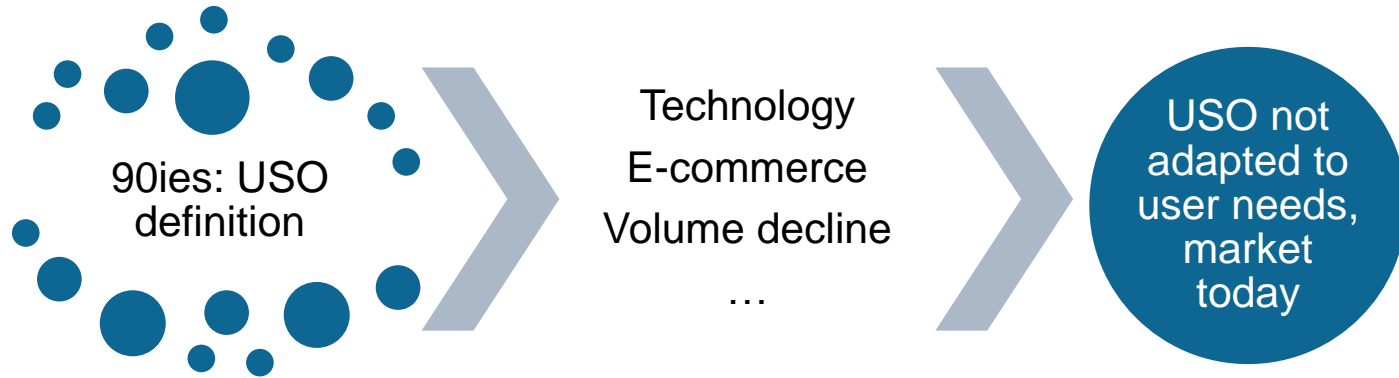
IT



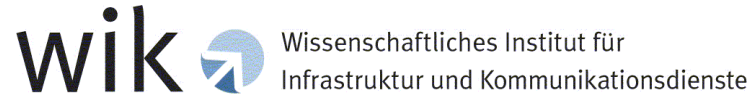
In many EU countries, the standard (USO) product is now D+2 rather than D+1. E.g. UK, all Nordics

- Apparently, current legislation (Postal Service Directive, national laws) already offers substantial flexibility to reduce service levels
- Posts mindful of creating/maintaining D+1 delivery for e-commerce

Change for USO ahead?



- Discussion about new Postal Services Directive may begin 2019/2020 (after arrival of new Commission)
- Speed/Timing?



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