



Post Office Network Realignments and their Impact on Innovation

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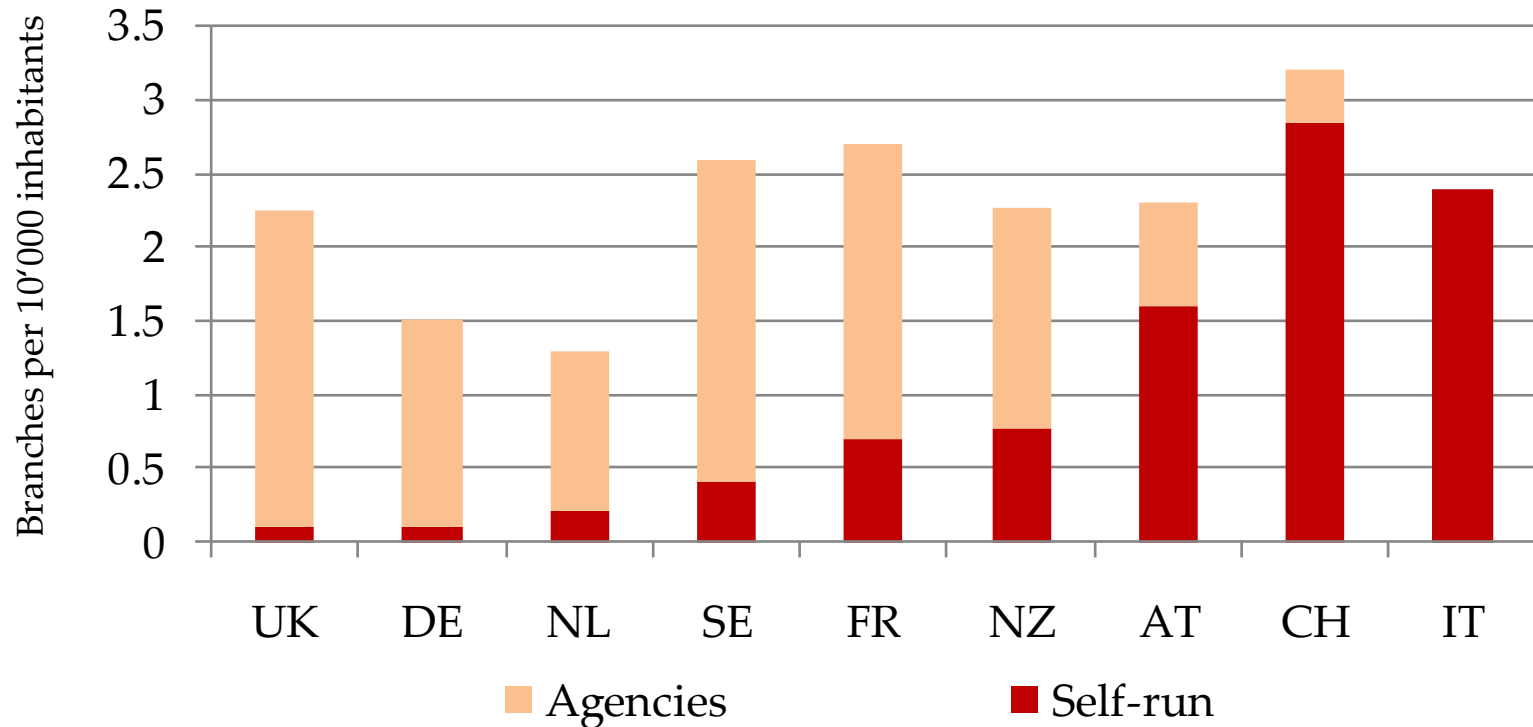
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Agenda

- Introduction
- Post office network development in selected countries
 - New Zealand vs. Sweden
 - Swiss Case: Impact of post office closures on mail volumes
 - Australian Case: High value retail network
- Stylized network models and their impact on innovation
- Conclusion

Introduction



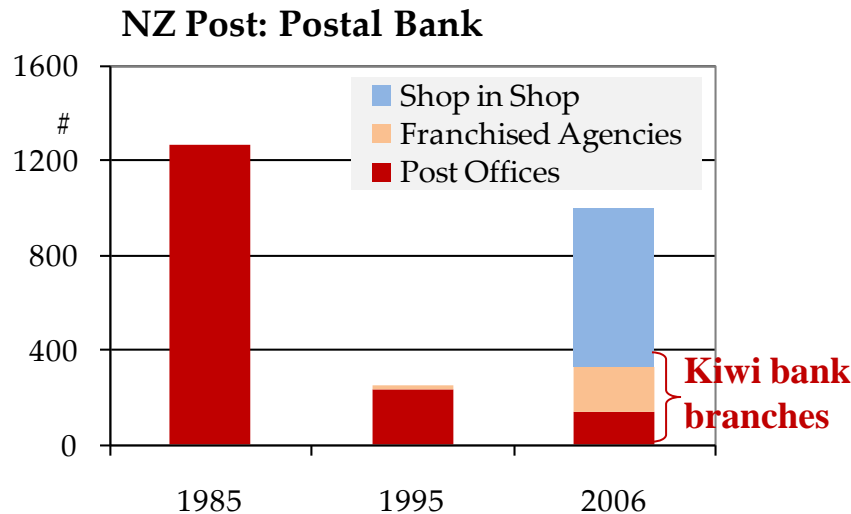
Worldwide, incumbent post office networks vary considerably

- Why different strategies?
- Impact on innovation?

New Zealand vs. Posten AB (Sweden)

New Zealand (FMO 1998)

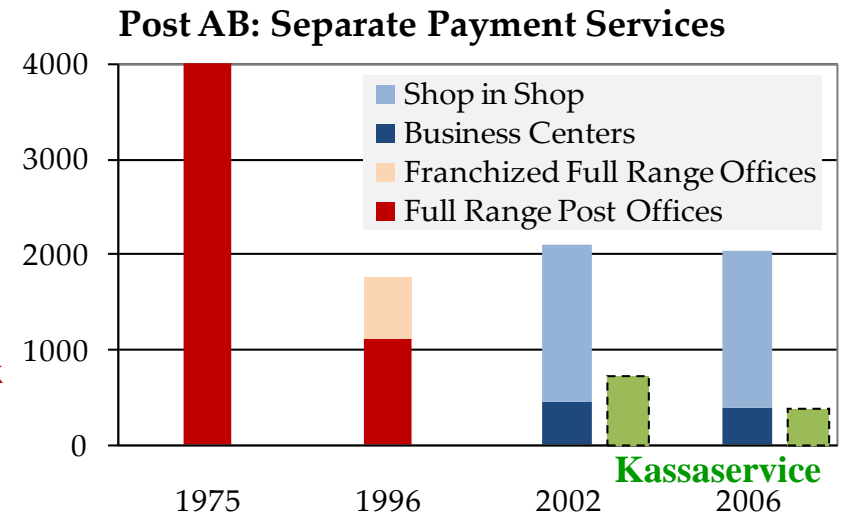
“Provide 880 retail outlets, thereof 240 post offices” (now: 953 outlets, thereof 326 post offices)



- Postshops: Economies of scope between postal and financial services
- Postcenters: Economies of scope with 3rd party suppliers
- **Successful development of Kiwi bank**

Sweden (FMO 1993)

„ Provide nationwide financial transaction services“ (until 2008)



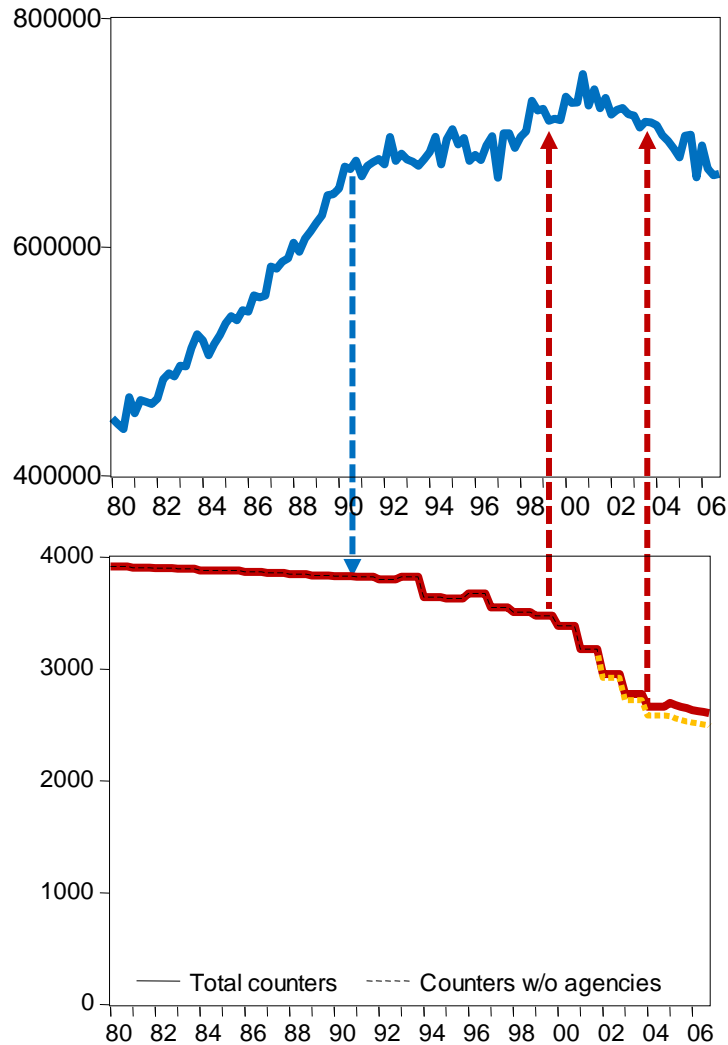
- Business Centers / Kassaservice: **Stand alone**
- Shops: Economies of Scope with 3rd party suppliers
- **Kassaservice closed as of 31.12.2008**

Success story New Zealand Post based on banking

- **Mission:** The New Zealand Post Group offers services to help New Zealand run. We connect people, businesses and communities.
- **Kiwi Bank:** “We're in more than 300 PostShops, which means we can stay open longer than other banks, even on weekends in many places.”
 - New Zealand's Most Trusted Bank three years in a row
 - First to introduce real time mobile phone banking, beating the world's biggest banks to win the international 2007 Financial Innovation Award
 - 13% EBIT-margin
 - Contributed to about **3/4 of group profit in 2009**
- **Success of Kiwi bank based on**
Accessibility, Trust, Service (opening hours), Economies of Scope

Swiss Case

Impact of post office closures on mail demand



Development of
Swiss quarterly mail volumes

Development of
Swiss post office network

➤ Drops in mail volumes because of
post office realignment?

Estimation Results

Mail volume decline...

$$\ln(q) = \beta_0 + trend(t) + \beta_1 \ln(gdp) + \beta_2 \ln(p) + \beta_3 \ln(s) + \beta_4(eproxy) + \beta_5(office).$$

... due to
...economy
...pricing
...internet
...post office realignments?

Results from static regression and dynamic VEC model*:

- Economic activity (GDP) and prices still important
- E-Proxies are very relevant reflecting “E-Substitution” (very significant)
- **Network realignments appear to have no impact on mail volumes (not significant)**

Results are not really surprising:

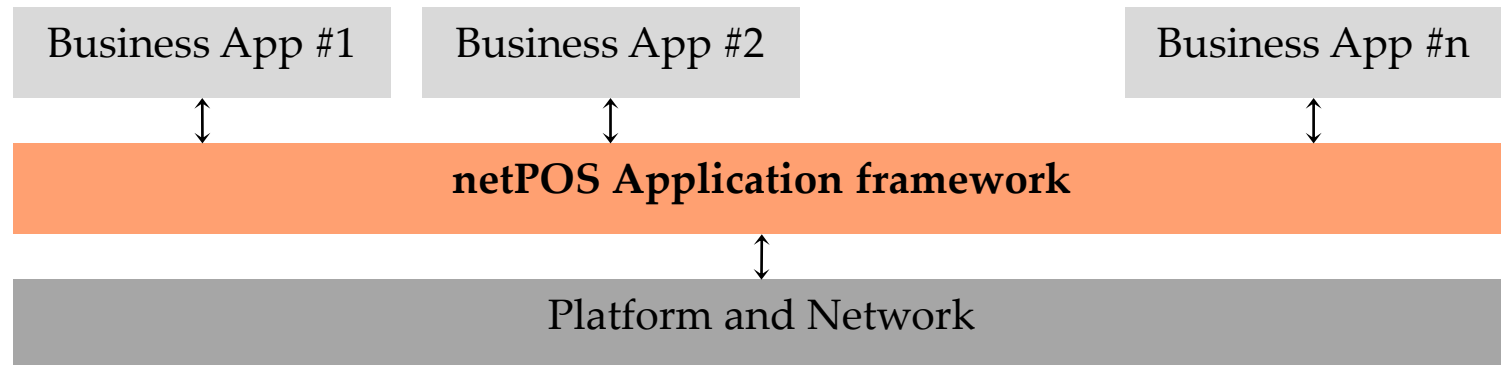
- Post offices mainly serve private customers (only 15% of the market)
- Letter boxes are valuable and very accessible alternatives to post offices
- Transforming post offices into agencies makes sense from a **pure cost point of view**
- Why do many postal incumbents still rely on post offices?

Case Australian Post: Successful Retail Services!?

- Australian Postal Corporation Act 1989:
 - Reserved area up to 250 grams
 - “Maintain a minimum of 4000 retail outlets, including 2500 in rural and remote areas.”
 - As of 2009: 4433 retail outlets, including 2541 in rural and remote Australia (=> i.e. more than necessary!).
- Retail outlets (post offices) are organized in business segment “Agency Services & retail merchandize”. Solid and positive financial development:
 - 2008: 86 M \$, EBIT-Margin 12%
 - 2009: 95 M \$, EBIT-Margin 13%
- Strategy: Leverage point-of-sale multi-channel capabilities

Innovation crucial for success

Development of IT platform netPOS



- Rollout of netPOS in 2001
- Web browser-based network infrastructure, based on open standards
- Integration with systems outside Australian Post
- Instant two-way communications with 3rd party business clients
- **Interactive, online business opportunities at postal counters**
- **Allowed to use any post office as a „front counter“ of business partners**
- **Today: Little implementation costs of new services, little training effort of staff in retail outlets**

Today, retail outlets offer broad range of services

Extensive complementary services to letters and parcels

- **Agency services** for more than **750 businesses and government bodies**:
 - Identity and verification services (+30% transactions, +18% revenue in 2009)
 - Identification services for 39 financial institutions incl. anti-money laundering check
 - Various other identity services for 48 businesses and government bodies. Customers.: Australian and British passport authority, Western Aus. Police
 - Financial services:
 - Banking services which provide access to more than 70 financial institutions, e.g. deposits and withdrawals with Bank@Post. Business banking for 10 financial institutions
 - Money transfer services (distributor of Western Union and Government)
- **Retail merchandise**
 - Mobile phones, gifts, greeting cards, office products, books
 - Philatelic program
 - Packaging

Three stylized models of post office networks

	“Postal Network”	“Universal Network”	“Postal Bank Network”
Leading example	Sweden	Australia	New Zealand
Required authorizations		Extensive Retailing	Banking license
Offered Products	Postal Services - -	Postal Services Financial Transactions Agency Services	Postal Services Financial Transactions Banking Services
Agency types	- Business Centers Agencies	Full range offices Postal business centers	Full range offices Postal business centers Agencies
Franchising	Precondition	If wanted	Precondition/if wanted
Financing Need	No	?	No
Impact on innovation	Limited possibilities (costs are outsourced)	Large (product and process innovation)	Medium (focus banking part)
Unique selling proposition?	No	Yes	Yes (banking)

Summary

<u>Regulation</u> →	<u>Strategy</u> →	<u>Innovation</u> →	<u>Result</u> →
FMO + no infrastructure requirements	Save costs	Process Innovation	Cost efficiency
FMO + financial trancsactions	Save costs	Process Innovation	Cost efficiency
	Diversify / provide banking services	Product Innovation	USP in banking
FMO? + Infrastructure requirements	Diversify/ bring value into network	Product Innovation	USP in „high value retailing“

Thank you.

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