

Postal Regulation and Business Model Transformation

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Agenda

Direct Competition

Intermodal Competition



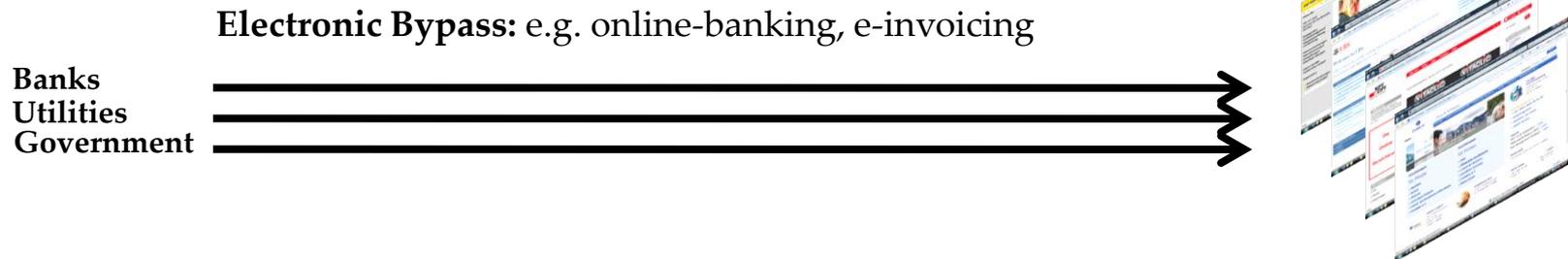
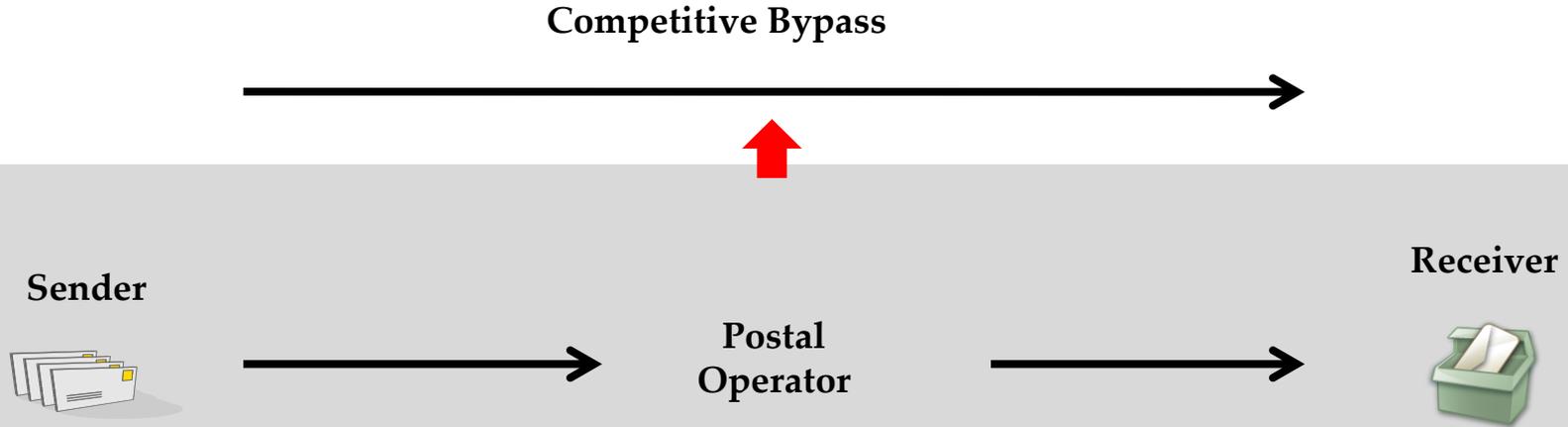
Business Model Transformation

Regulatory Transformation

Addressed Mail

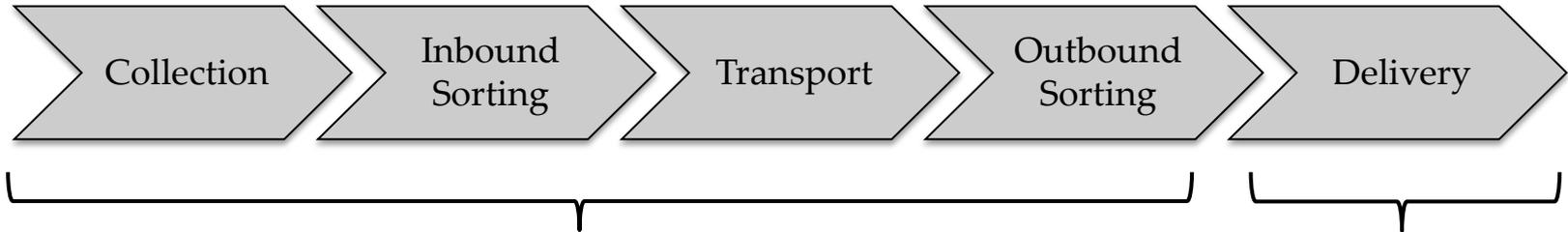
Modes of Competition

Traditional Postal Channel



Addressed Mail

Economics of the Traditional Value Chain



High cost elasticity

Relatively low economics of scale / density

- High efficiency gains through competition
- Major innovations:
 - Optimization software
 - Digital Stamp
 - Sorting automation with OCR

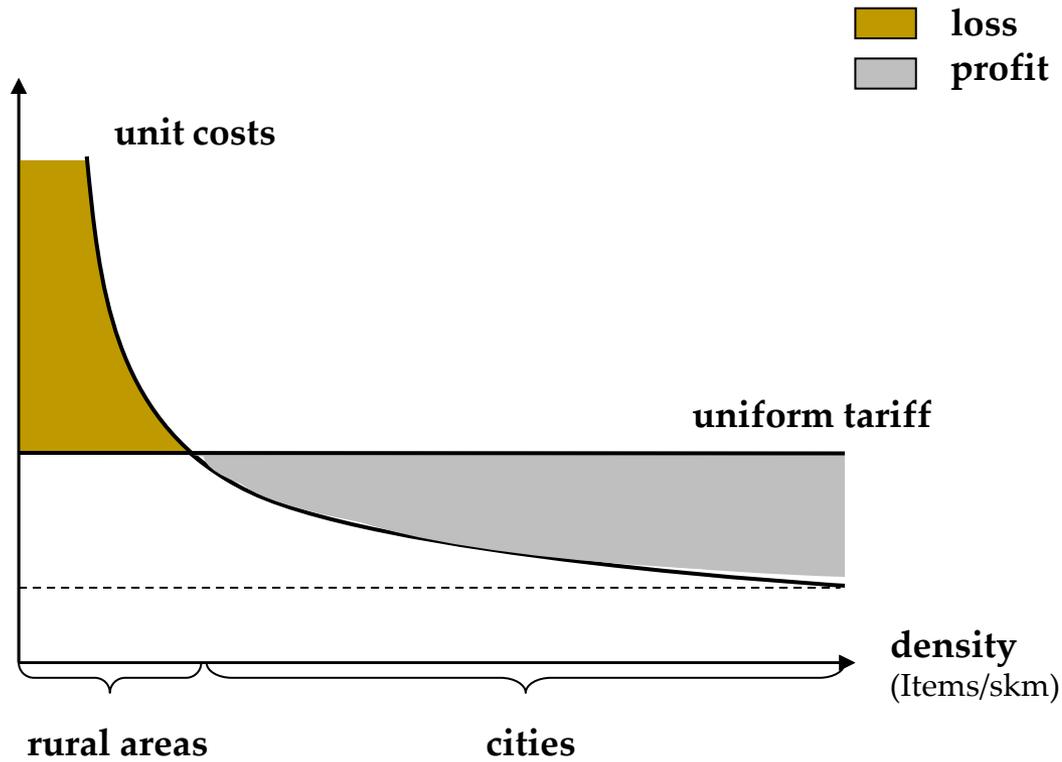
Low cost elasticity

Large economics of scale/ density

- Low efficiency gains through competition (natural monopoly)
- Delivery is labor-intensive
- Alternative delivery channels?

Addressed Mail

Cost / Price Structure



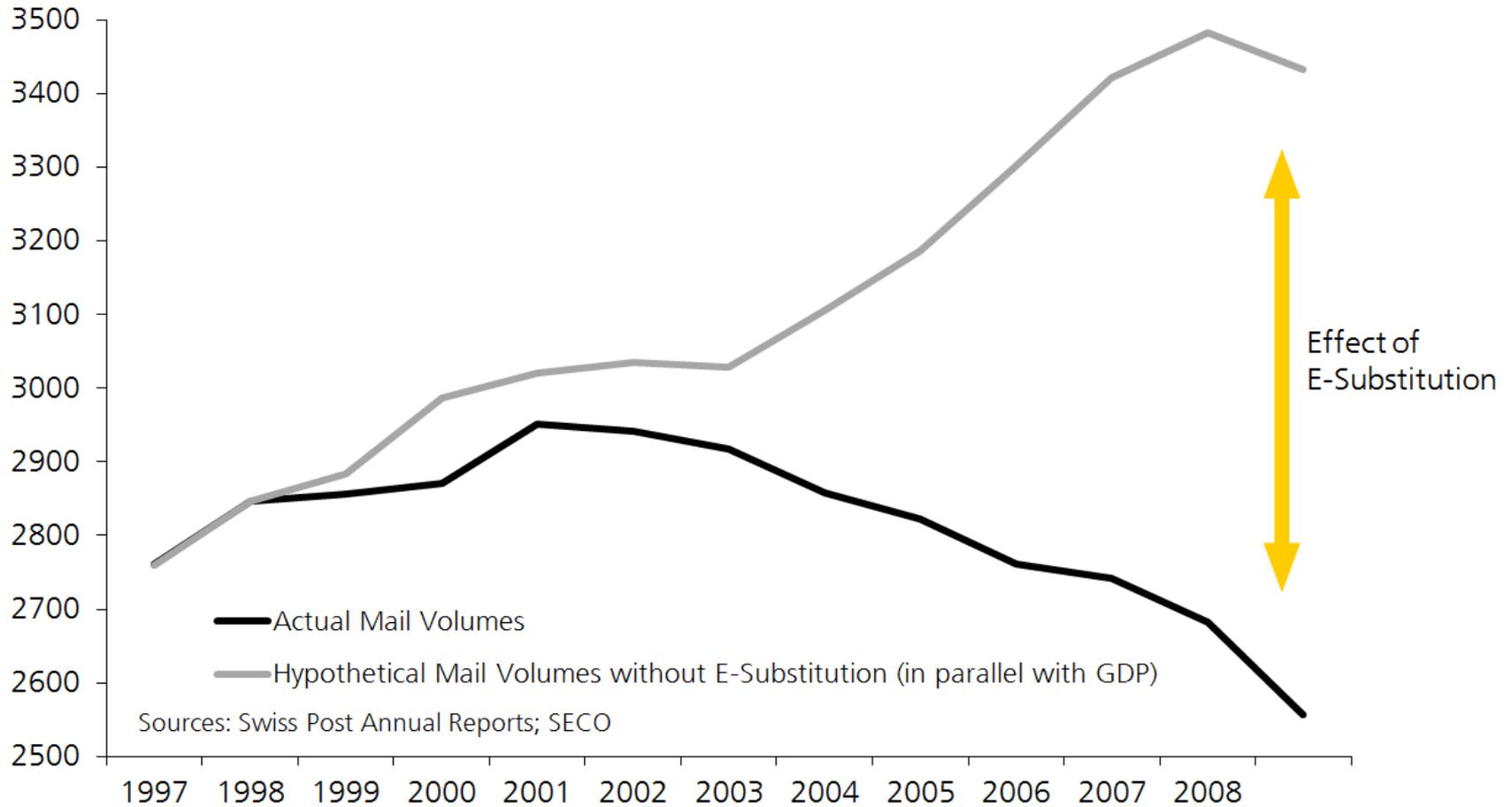
Addressed Mail

Specific Characteristics

- Labor-intensive instead of capital-intensive
- Fixed instead of flexible routes
- USO
 - Geographical scope
 - Frequency
 - Uniform tariff
- Increasing platform competition – E-substitution

Addressed Mail Volumes in Switzerland

Addressed mail items (m)



Sources: Swiss Post Annual Reports; SECO

Direct Competition

Intermodal Competition



Business Model Transformation

Regulatory Transformation

How Can Postal Operators React?

- Downsizing?
- Defense of core business?
 - Product and price differentiation
 - Value-added services
- Modification/transformation of business model?
 - Vertical integration – extend the value chain
 - Geographical expansion
 - Horizontal expansion – new products and services

Which way to go?

Internal View

What Posts are Especially Good at

Resources and Capabilities

- Delivery know how
- Post office network
- Access to every household
- Brand reputation
- Trust

How can these resources be leveraged?

Internal View

What Mail is Especially Good at

The Value of Direct Mail

Mail and E-Media

Personalization: Targeted at specific market segments.

Low cost per response: Compared to less targeted approaches, e.g. telephone direct marketing.

Measurability: Tracking of response rates and the return on investment on each campaign.

Confidentiality: Communication of messages to specific customers without letting other customers and competitors know.

Mail only

The personal touch

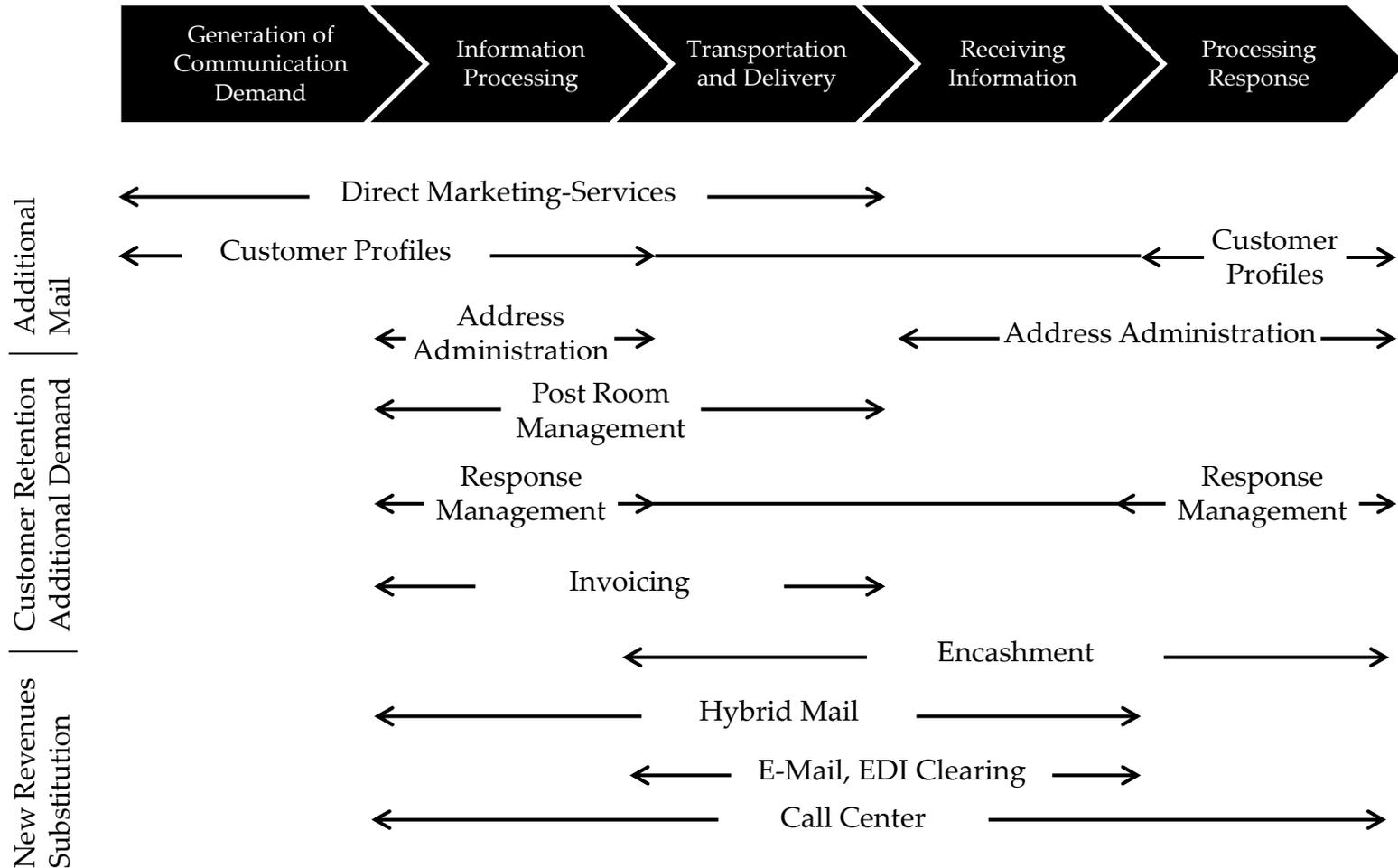
Tactile experience

Less intrusion

How can these values be leveraged?

Business Transformation

Step 1: Add Value to Services



Business Transformation

Step 2: Redefine the Role of Postal Services

- **Traditional role: Economic enabler**
Universal postal services enable other parts of the economy by reducing transaction costs and overcoming distances between buyers and sellers.
- **New role: „Transformer of last resort“**
Posts are “bridges” between the physical and the digital worlds and take the role of a “transformer of last resort”.

External View

Postal Services as Economic Enabler

Basic steps in commercial activities and the role of postal services

Process	Role of Postal Services
(1) Advertisement	Addressed an unaddressed mail
(2) Closing a deal	Letters, registered mail
(3) Delivering	Parcels, periodicals & newspapers
(4) Billing	Invoices, reminders, registered mail, writs
(5) Payment	Checks, postal counters, online solutions
(6) Cancellation (of subscriptions)	Letters, registered mail

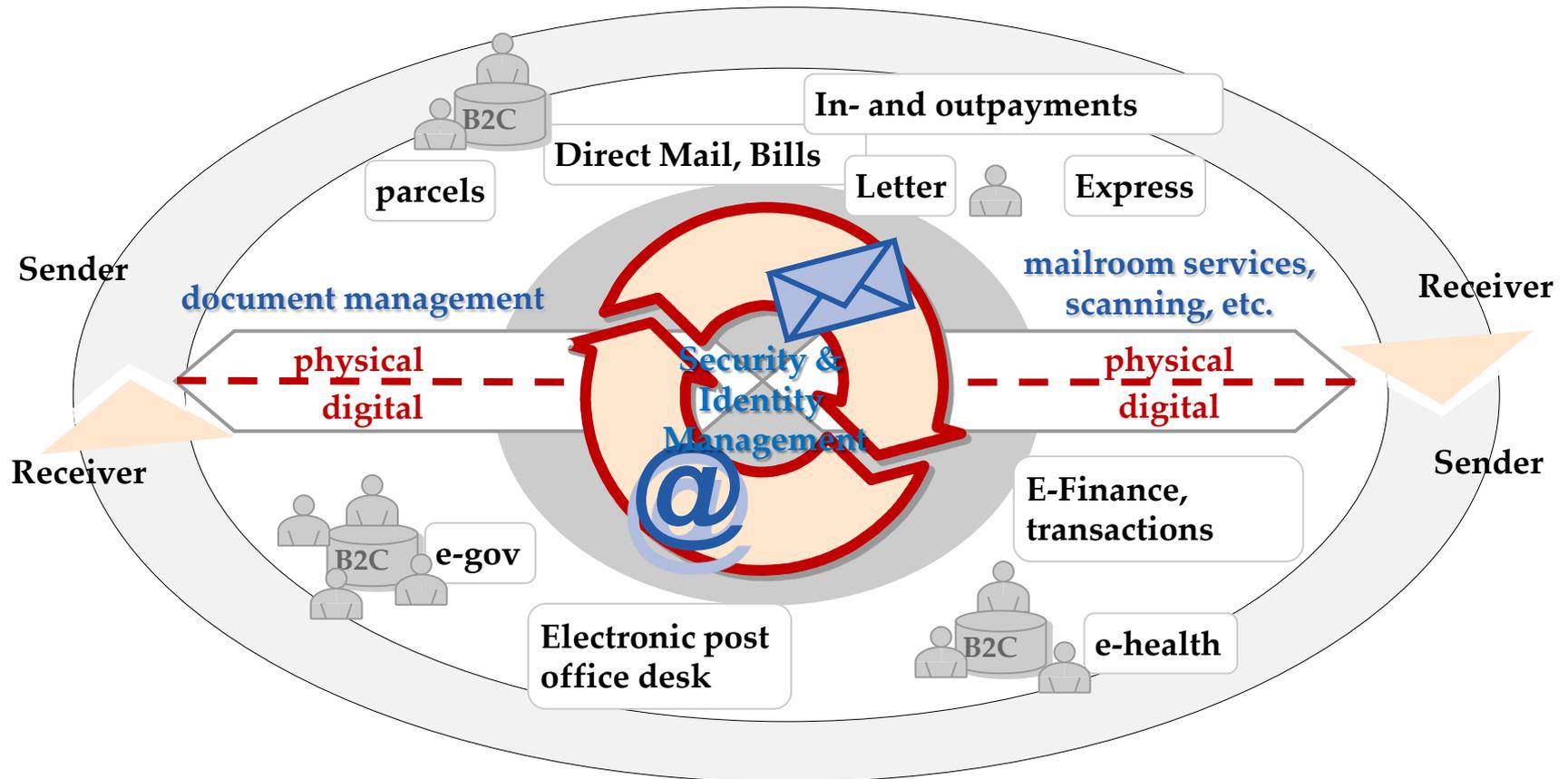
Economic view: Posts...

- play an important role in enforcing contracts
- reduce transaction costs
- provide positive externalities

But: This role is increasingly contested by other communication platforms

External View

Postal Services as Transformer of Last Resort



Posts offer a “physical insurance” for the digital world and thereby complement digital alternatives. Cf. national banks as “lender of last resort”.

Direct Competition

Intermodal Competition



Business Model Transformation

Regulatory Transformation

Regulatory Transformation

Access and Universal Services

Two aspects of regulation strongly affect competition in the postal sector:

- **Access regime**
Do competitors have access to the incumbent's infrastructures and processes at regulated rates?
- **Universal service obligation**
What are the minimum requirements for the service offer of at least one postal operator?

Regulatory Transformation

End-to-end Competition vs. Worksharing with Bypass

– End-to-End Competition

Free market entry

Duplication of delivery fixed costs; possibly destructive competition

Prohibitively high delivery fixed costs may prevent entry

→ Either too much or too little competitive pressure

– Worksharing with Bypass

Free market entry

(Downstream) cherry picking option

→ Cross-subsidization between rural and urban areas is impossible

→ What about the USO?

Regulatory Transformation

Universal Service Obligations

USO Dimensions:

- Area Coverage (Access Points, Delivery)
- Uniform Prices
- Delivery Frequency
- Product Range

Rationale: Underprovision? Distributional concerns?

Adapting the USO: Towards Electronic Delivery?

Printing The NYT Costs Twice As Much As Sending Every Subscriber A Free Kindle

Nicholas Carlson | Jan. 30, 2009, 4:35 PM | 121

Print

Tags: Media, Media, New York Times, Newspapers

Not that it's anything we think the New York Times Company should do, but we thought it was worth pointing out that it costs the Times about twice as much money to print and deliver the newspaper over a year as it would cost to send each of its subscribers a brand new Amazon Kindle instead.

Here's how we did the math:

According to the Times's Q308 10-Q, the company spends \$63 million per quarter on raw materials and \$148 million on wages and benefits. We've heard the wages and benefits for just the newsroom are about \$200 million per year.

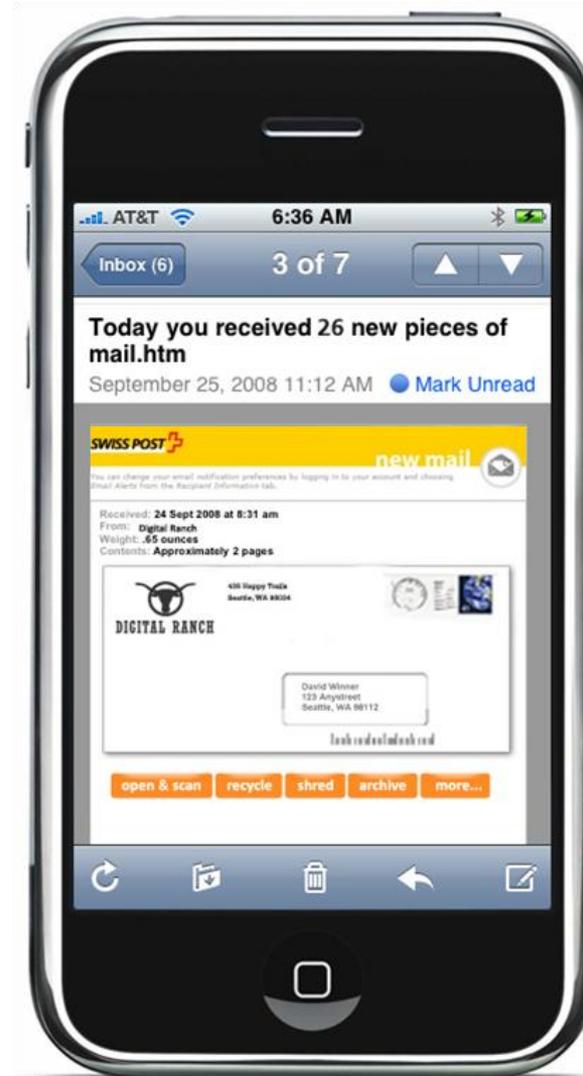
After multiplying the quarterly costs by four and subtracting that \$200 million out, a rough estimate for the *Times's* delivery costs would be \$644 million per year.



Source: businessinsider.com

Adapting the USO

E.g. Electronic Delivery?



Conclusions

- Direct and intermodal competition increasingly challenge traditional postal business models.
- The role of postal services must be reconsidered.
- Postal operators have various options for business transformation. (Do they?)
- Regulated access may accelerate direct competition in the postal sector. (Is this still an issue?)
- Universal service obligations can and should be adjusted to the new competitive environment and technologies.

Thank you very much!

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