

What future for the Post Office network?

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Abstract

Incumbent postal operators are particularly challenged by rapid technological developments and especially by digitalization which substitutes their letter mail, yet generally boosts parcel volumes. As a consequence, they have to rethink their strategy, especially for their post office network. The paper presents potential strategies and discusses the main trends in postal network evolution among incumbent postal operators, focusing in particular on the examples of Australia, New Zealand, Switzerland, the United Kingdom, Italy and the United States, and assesses these strategies against a set of key performance and development indicators.

1. Introduction

Incumbent postal operators (POs) face major challenges and opportunities, especially in light of technological progress.¹ Electronic communications, indeed, impact all POs' businesses. Traditional letter mail can be and is being substituted by various electronic means. At the same time, POs benefit from growing e-commerce and see their parcels volumes rising despite the economic crisis in 2009. According to IPC (2013), parcels may globally increase by up to 69% until 2020. POs have reacted differently to those changes in both the letter and the parcels segments of their business as well as in the development of their postal networks.

Many POs have improved end-to-end transit times, e.g. by improving delivery times (Saturday delivery, Sunday delivery, evening delivery, selectable time slots) and (faster) delivery speed. Similarly, sender and recipient services have been improved as well (track & trace, collection at home, flexible delivery points, parcel lockers, returns, etc.). Furthermore, POs have developed their post office networks into different directions. Traditional post offices have often been replaced by agencies where basic postal services are provided in third-party retail outlets, notably grocery stores. Other measures include outsourcing or franchising of post offices to third parties and leveraging their post office infrastructure to enter new markets, e.g. financial services, insurance services, or high value retailing.

Incumbent POs have chosen different combinations of the measures mentioned above. Consequently, they are developing into different directions. For example, Poste Italiane has become a much diversified group with postal services accounting for less than 15% of revenues, whereas the USPS focusses on its traditional mail and parcels business. Those different developments and solutions are not the least attributable to differences in regulatory frameworks among countries.

This article explores the different options for a future post office network and qualitatively assesses the opportunities for these options. It is structured as follows: Section 2 provides a brief literature review of incumbent's strategies. Section 3 summarizes the current status and trends. Section 4 gives an overview of options for network development and general strategic orientations. Section 5 discusses the options chosen and the situation in different countries by focusing on the regulatory framework as well as on the specific strategies pursued by postal incumbents in light of their specific regulatory background. Section 7 concludes.

¹ For general trends in the postal sector see Jaag (2014, 2015).

2. Previous research

Several authors have studied the strategies of incumbent POs before substitution, generally in the context of their liberalization. Petrovic (2005) recognizes the role of the state in influencing the strategies of incumbent POs by setting the regulatory framework in which they must operate. Buser et al. (2008) discuss the role of the post office in the marketplace and aims to contribute to a better understanding of post office network optimization and to identify key strategic issues in light of the regulatory framework. Bailly et al. (2011) conclude that in, view of the decline of the traditional core business of incumbent POs, diversification is the best way forward to find new sources of revenue and guarantee their sustainable economic development. Greening et al. (2013) analyze the options of POs to enter the area of Telecommunications as a natural complement to the traditional postal business, and briefly compare the strategies of different POs in this field.

In 2013, the International Post Corporation (IPC) and the Boston Consulting Group published a report on the future perspectives of the postal sector, indicating that building a new compelling position for incumbent POs requires many fundamental changes, and that POs need to move from an evolutionary to a revolutionary transformation in order to face up to revenue decline resulting from increased substitution, and to seize the window of opportunity in e-commerce.

More recently, the Universal Postal Union (2014) published a book on development strategies for the postal sector in which it considers specific features of postal markets in developing countries and traces the emergence of new legislative and regulatory frameworks in Sub-Saharan Africa. The book also presents the role and strategies of post offices in the delivery of basic financial services to all citizens. Additionally, the authors state, quite optimistically in our view, that exploring and making growing use of big postal data, particularly at the international level, will empower postal stakeholders, enabling them to take control of the future of the postal sector, unleash untapped potential and reinvent postal services for the 21st century.

Borsenberger (2014) argues that accessibility and proximity in connection with the postal universal service obligations (USO) should also contain a 'virtual' dimension regarding progresses in information and communication technologies. Online services which complement and extend physical postal services might be a solution to reduce the economic and social costs of the USO.

Jaag et al. (2016) explore various approaches to network development by means of selected case studies as well as by an overview of performance indicators. Such indicators reveal particularly successful strategies, namely the ones that leverage infrastructure, reputation and competencies. Based on these results, generic strategies are derived. Special attention is paid to the legal and regulatory environment which critically affects the POs' abilities to adopt successful business strategies.

Overall, however, the literature is sketchy and especially weak when it comes to incumbent POs' strategies vis-à-vis their post office network.

3. Current status and trends in post office development

To recall, the post office network performs various functions: besides serving as a physical infrastructure, it is also a means to collect and deliver mail items (letters and parcels) as well as the main tool for cash transactions. Additionally, it is the Posts' main

sales channel and the POs' most important customer interface. The post office network is complemented by a broad range of other access points such as mailboxes, unattended parcel machines, delivery services as well as websites and social media.

Originally, the post office network was set up to handle physical postal services. Is it still up to this task and, more importantly, is it still necessary for doing so? Indeed, there are already today more cost efficient alternatives for the collection and the delivery of mail items, even in case these items are registered. The main rationale for traditional postal offices is therefore cash transactions. Borsenberger (2014) reports that changes in postal services usage have induced a decline in over-the-counter activities. In 2000, around 28 million British customers visited postal branches each week. By 2006, this number has fallen to 25 million and by 2013 it stood at just under 20 million. Likewise, customer visits to USPS bricks-and-mortar locations are decreasing rapidly: Whereas there were 1,26 billion customer visits at USPS points of sale in 2003 this number fell to 986.2 million in 2012. In Switzerland, the mail volume handled over counters in the postal retail network has declined by 65% between 2000 and 2016. During the same period, the over-the-counter parcel volume has declined by 46% and cash transactions by 40%.²

Consequently, POs have strongly transformed their networks and will continue to do so. If we take Swiss Post as an example, changes can be forecasted as follows: from 2016 to 2020, the total number of access points is assumed to increase from 3'700 up to 4'000 (Swiss Post, 2016). Not only will the total number of access points change, but so will also their composition. Whereas points that are accessible 24 hours a day (offers such as myPost24) and business customer points are expected to nearly double, the number of traditional post offices is expected to decrease from 1'400 to around 800 by 2020. A general trend in post office development is the substitution of traditional post offices by postal agencies. Considering the Swiss example, it can be noticed, that, even though the number of traditional post offices might decline, the overall network is expected to grow. This evolution supports the idea that the post office network will be transformed rather than replaced or abolished altogether.

This transformation of the traditional post offices into agencies is implemented either by franchising or by outsourcing. As a consequence, the incumbent no longer owns them. The advantage of such agencies is that they are much closer to customer needs than the traditional post offices, notably in terms of location (closer to the customers, whereas traditional post offices' locations date from the period even before the 2nd World War) and opening hours. The pace and the very nature of this evolution is in essence determined by the regulatory environment, namely the degree of commercial freedom that is given to the incumbent POs.

Not only is the organizational form part of this profound transformational process, but so is the product range. Typically, the product range offered at the post office is being expanded to non-postal products (financial, telecom, government). But again, the nature of the products offered is chiefly determined by the regulatory environment or the degree of commercial freedom of the incumbent, respectively.

In terms of the financial burden of operating a dense network, there exists a big variety among incumbents, owing mainly to the incumbent's commercial freedom which is determined by the institutional framework (especially ownership and regulation).

² Swiss Post (2017).

Overall, the challenges are different for the incumbents having full commercial freedom and the ones who do not (ownership and regulatory constraints). Business models of incumbent POs are strongly affected by their regulatory framework (see Petrovic, 2005). For the ones having full commercial freedom, challenges mainly pertain to optimal network design as a combined function of customer access and network cost. For the ones not having full commercial freedom in matters of numbers and ownership of access points as well as product range offered at these points, challenges are primarily political and regulatory in nature. We will focus exclusively on the latter ones in this article.

4. Options for general strategic orientation and network development

POs have three options to cope with changes in demand for their core products:

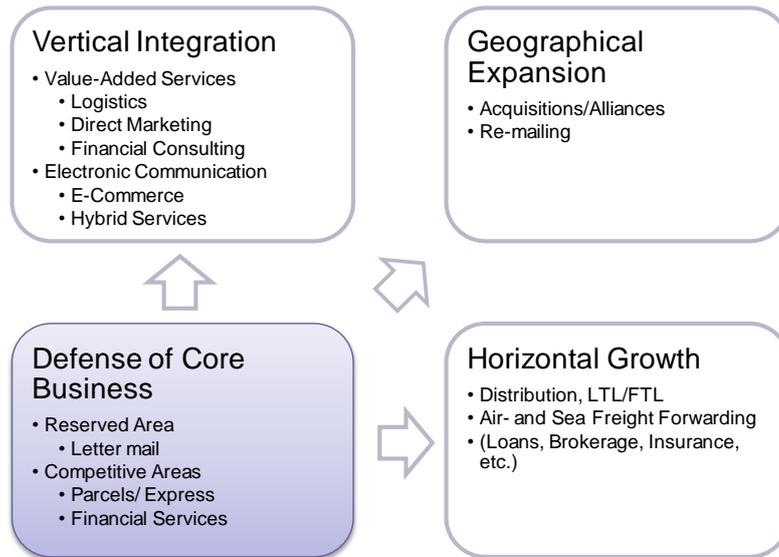
- Downsize their operations;
- Defend their core business through product and price differentiation as well as value-added services;
- Modify or even transform their business model and thereby react more aggressively.

Given the importance of network effects and the cost structure of POs (high fixed costs, low marginal costs), the first of the above options is not economically viable and may result in a vicious circle. The second option of defending the core business, consists of extending the existing value chain. This improves customer retention, spurs demand and thereby creates additional revenues.

For a more aggressive transformation strategy, there are basically three directions starting from the core business, as indicated in Figure 2. Operators can expand vertically, horizontally and/or geographically. According to the resource-based view of strategic management, a PO's strategy has to take the existing resources and capabilities into account. These comprise (besides access to every household, brand reputation, trust, and delivery know-how) especially the postal network. How can POs leverage and develop these resources and capabilities?

Figure 1: Business model transformation³

³ Adapted from Waller, (2002). See also Jaag and Dietl (2011).



In section 5, we will present the concrete evolutions and strategies of six important incumbent POs. All their broad strategic orientations constitute different ways to react to digitalization. Theoretically, at least, three such broad strategic orientations can be distinguished, namely providing the physical infrastructure, serving as a hybrid intermediary or providing exclusively digital services.

- **Post as Physical Infrastructure Provider:** As a physical infrastructure provider, the PO can sell access to its network to various types of services providers, both postal and others. As such, the incumbent PO typically enjoys a strong market position (monopoly). Furthermore, the PO benefits from a solid reputation and trust, generally thanks to its local presence. However, the PO limits itself to defending its core business.
- **Post as a Hybrid Intermediary:** As a hybrid intermediary, the PO manages the discontinuity between the physical and the digital world. Access to digital services might be provided through physical infrastructure, building again on its geographical presence and customer interfaces. This strategic orientation is an example for vertical integration.
- **Post as a pure Digital Services Provider:** As a digital services provider, the PO might transform its business to become entirely digital, e.g., by providing eGovernment services such as eVoting or eHealth, etc. As such the PO builds on the reputation acquired thanks to its physical infrastructure and geographical presence, but gradually abandons its physical postal network and substitutes it with a digital one. This strategic orientation is an example of horizontal growth or transformation.

These broad strategic orientations are closely related to the way and to the degree to which the incumbent PO is able to transform its post office network, which in turn depends upon its political and regulatory constraints. There are basically four strategic options for an incumbent to develop its postal network under regulatory constraints.

1. **Network development:** The first option consists of pursuing (to the extent possible) the same path as the incumbents which enjoy commercial freedom, i.e.,

to replace post offices with agencies or other access points and extend the product range. This implies that their infrastructure needs to be developed. Under this option, the aim is to gradually reduce the cost of the post office network to the point it becomes fully aligned with the commercial business of the firm.

2. **Network as a commercial service:** The second option implies using the existing infrastructure to offer other commercial (non-postal) products and services. Following this strategy means to develop these services that can be best provided on the basis of the existing network infrastructure.
3. **Network as a government service:** The third option follows the idea of transforming the post office network into a network for government services and other government related activities. This strategic option means that government is ready to subsidize or otherwise support the incumbent PO's post office network so as to make it (somewhat) financially viable.
4. **Handover to government:** A fourth option consists of isolating the post office network from the rest of the firm (full unbundling) and hand it over to government both in terms of ownership and operations.

The common prerequisite for each of these four options is government support, which of course varies from country to country.

5. Selected country studies

This section presents illustrative examples from the following six countries Australia, New Zealand, Italy, UK, Switzerland and the USA. Each of these countries have chosen a somewhat different regulatory framework for postal strategy development. As a result, these country studies represent the full range of possible network development approaches. The key performance and development indicators concern the size and composition of the network of physical access points, the development of the POs' core business (letter and parcel mail) relative to their entire business and their profitability.

Australia Post

Australia Post is the incumbent POs in Australia and is a Government Business Enterprise, fully owned by the Commonwealth of Australia. As prescribed by the Australian Postal Corporation Act, Australia Post must provide a universal letter service at a single uniform rate (uniform tariff) on an equitable basis. Moreover, the USP is required to maintain a minimum of 4'000 outlets, of which at least 50% but not fewer than 2'500 must be in rural or remote areas. Moreover, the Australia Post is to maintain a network of at least 10'00 letter boxes and provide a mail collection point at each retail outlet.

To offset the strict regulatory framework in which the Australian Post operates, it is given a monopoly in the carriage and the delivery of letters, as well as an exclusive right to issue postage stamps.

The strategy for the "Postal Services" segment is to implement changes that secure the sustainability of the regulated mail services business, such as increasing the basic postage rate or continue increasing the number of providers that sign to use the Digital

Mailbox.⁴ The strategy for the “Parcel Service” segment is to create a world-class multi-channel parcels and freight business to harness the growth in online shopping and e-commerce, by e.g. integrating Australia Post and StarTrack⁵ to create a logistics provider that serves both business and consumer markets with a broader range of delivery services (Annual Report 2015). In this co-branded form, Australia Post benefits both from the trust related to its brand and from the B2B success of the StarTrack brand. The creation of more such co-brandings is stated as an aim by Australia Post (Annual report 2015).

Besides the co-branding-strategy, the focus is on technological development. For consumers, it is possible to perform many tasks online, such as paying bills, ordering foreign currency and managing place and time of parcel collection (Annual Report 2015). This business strategy is to be further reinforced.

Australia Post is still profitable. According to the financial report (2016), the profit before taxes was always positive, but in the fiscal year 2015 / 2016, the amount was only 41 million dollars (compared to the period 2011 / 2012, where it was at 366.7 million dollars). This caused a negative impact on average operating assets of -8.2%. The loss is due to the accelerated decline in the letter business. The total number of access points was slightly reduced between 2006 and 2016. However, there was a clear shift from corporate offices to community postal agents. While corporate offices offer xxx Licensed Post Offices may be run solely as a Post Office or in conjunction with another business, such as a news agency or convenience store. LPOs must offer a range of Australia Post products and services, including mail acceptance and processing, postage stamps, money orders, bill payment and banking. They may also offer additional products and services including mail processing and delivery, philatelic items, packaging products, stationery, gifts and Post Office Boxes. Community postal agencies can offer varying mail and postage services. At a minimum, they offer basic postage assessment, stamp sales and over-the-counter mail acceptance and delivery. They do not offer agency services such bill payment and banking. Table 1 gives an overview of Australia Post.

Table 1: Overview Australia Post

Organizational form	Fully state-owned
Access regulation	Min. 4'000 outlets
Other key regulatory provisions	Universal service at uniform price Balance commercial objectives & obligatory delivering services
General strategy⁶	Make online shopping and services safe, easy and personal for consumers Help small businesses to go online, grow and export Power eCommerce for our business customers Power the digitization of corporations and government

⁴ The Digital Mailbox is an online platform that gives businesses and government agencies a secure way to connect to their customers, who can use it as a mobile payment and storage solution to receive and pay bills, as well as for archive important documents.

⁵ In October 2012, Australia Post acquired Qantas' 50% interest in StarTrack, making Australia Post the sole shareholder in StarTrack.

⁶ https://auspost.com.au/content/dam/auspost_corp/media/documents/Statement-of-Corporate-Intent-2016-17-to-2019-20.pdf

Network strategy⁷	Secure the sustainability of the network Equip front teams with the tools they need to resolve customer issues on the spot
Services offered in the postal network	Core postal products and services Payments services, insurance, gift cards Passports, drivers' license renewal

Table 2 shows that Australia Post's has been able to grow at an average yearly rate of 4% between 2006 and 2016. However, its EBIT margin has decreased from 12% to 5% during that period of time.

Table 2: Key performance and development indicators Australia Post

	2006	2016	CAGR
Post offices	857	722	-2%
Licensed post offices	2975	2886	0%
Community postal agents	630	784	2%
Total outlets	4462	4392	0%
Mail volume (m items)	5224	4023	-3%
Parcel volume (m items)	97	149	4%
Company revenue (AUDm)	4499	6562	4%
Revenue fraction of core business	41%	n/a	
Company EBIT (AUDm)	541	338	-5%
Company EBIT margin (AUDm)	12%	5%	

With its broad range of services offered and an almost constant number of postal outlets, Australia Post is an example for the strategy "Network as a commercial service".

New Zealand Post

Since 1986, New Zealand Post is a fully state-owned enterprise that is held by the Minister of Finance and the Minister for State-owned Enterprises and acts as USP. However, it is not the only player on the market. Competition on the postal market is permitted since 1998. By now, about 25 providers take part in the market and there is rather fierce competition. The USO in New Zealand is defined in the Deed of Understanding between New Zealand Post and the Minister of Communications and Information Technology.⁸ New Zealand Post must operate a minimum of 880 collection points of which at least 240 must provide personal assistance.

In November 2013, New Zealand Postal Group published a five-year-strategy. Similar to Australia Post, one of the strategies pursued by New Zealand Post is in the utilization of the existing capacities. Similar to Australian Post, New Zealand Post aims at

⁷ https://auspost.com.au/content/dam/auspost_corp/media/documents/Statement-of-Corporate-Intent-2016-17-to-2019-20.pdf

⁸ <https://www.nzpost.co.nz/sites/default/files/uploads/shared/deedofunderstanding.pdf>

strengthening its position in financial services. New Zealand Post service offerings are increasingly co-located within a host business. This promises both greater convenience and longer opening hours (New Zealand Post Group 2013).

Table 3 and Table 4 give an overview over New Zealand Post's development and performance. The number of retail outlets has been reduced by only about 1% per year. New Zealand Post's strategy is a mix between benefiting from the existing postal Network and yet transforming it in light of technological change. For example, it furnished 3'200 post offices with free Wi-Fi, the introduced a new queue management system in more than 1'700 offices and established 23 multi-language counters (New Zealand Post Group Company Profile 2016). In addition, New Zealand Post has established new parcel points to benefit from increasing e-commerce. Hence, New Zealand Post pursues the strategy "Network development". This resulted in a strong increase in parcel volumes which compensated for the decline in mail volumes.

Table 3: Overview New Zealand Post

Organizational form	Fully state-owned since 1986
Access regulation	Min. 880 collection points
Other key regulatory provisions	Competitive market since 1998
General strategy	Move over from a product-oriented business to a services business more attuned to its customers Grow the parcel and logistics business; innovate and serve by utilizing technology to allow customers to interact with NZ Post and reduce operating costs across the business ⁹
Network strategy	Continue to follow a strategy of lower expenditure, more efficient service delivery and increased parcel volumes and e-commerce ¹⁰
Services offered in the postal network	Prezzy cards and gifts besides core postal products and services ¹¹

Between 2006 and 2016 the fraction of revenues from its letter and parcels business decreased from 88% to 65% while the company's EBIT margin increased from 9% to 11%.

Table 4: Key performance and development indicators New Zealand Post

	2006	2016	CAGR
Retail outlets	992 ¹²	882 ¹⁴	-1%
Parcel points	0 ¹³	180 ¹⁵	

⁹ <http://www.irc-institute.com/library/intercultural-management/delivering-future-new-zealand-posts-journey-digital-age/>

¹⁰ Half-year report 2016

¹¹ <https://www.nzpost.co.nz/shop>

¹² Annual Report 2006

¹³ <http://www.progressive.co.nz/our-company/news--media-releases/collect-nz-post-parcels-from-countdown>

¹⁴ <https://www.nzx.com/files/attachments/246946.pdf>

¹⁵ <https://www.nzpost.co.nz/personal/receiving-mail-parcels/receiving-your-parcels/parcel-collect>

Mail volume (m items)	1636 ¹⁶	578 ¹⁸	-10%
Parcel volume (m items)	13 ¹⁷	65 ¹⁹	17%
Company revenue (m NZD)	1114 ²⁰	1485 ²²	3%
Revenue fraction of core business	88% ²¹	65% ²³	
Company EBIT (m NZD)	95 ²⁴	170 ²⁵	6%
Company EBIT margin	9%	11%	

Overall, New Zealand Post's business and network strategy have so far been a success in coping with declining mail volumes. New Zealand Post follows the strategy "Network development" in our framework.

Poste Italiane

Poste Italiane is a limited public company, divided into four operating segments (Postal and Business Services, Financial Services, Insurance Services and Other Services). Until 2015, it was a fully state-owned company. At the end of 2015, 35% of assets were sold to private investors (Reuters 2016). Poste Italiane is still Italy's designated USP. It must ensure that 92.5% of the population has an access point at a distance of less than 5 kilometers from its residence. It is obligated to deliver within a five-days-a-week frequency (with some exemptions for barely inhabited areas).

The mission of Poste Italiane is to consolidate its role as a global operator, drive the development of communications, payment and logistics solutions, improve services, and create opportunities for Italy. One of the strategic objectives of Poste Italiane in the "Postal and Business Services" market is to position itself as a provider of high quality business mail services, providing new shipping and delivery solutions. For letters, however, Poste Italiane tries to achieve relaxations regarding the numbers of delivery days.

In 2000 Poste Italiane set up new value-added services, integrating its clients' business processes with its own postal and financial services to move into the role as a government service provider.²⁶ The main new services provided to Italian citizens through Poste Italiane include: Integrated notification services managing the entire government official communications process, the management of immigration permission requests. On behalf of government agencies and third-party utility companies, the post office also became a single point of contact for citizens to manage administrative issues (e.g., passport requests/renewal).

¹⁶ Annual Report 2006

¹⁷ Annual Report 2006

¹⁸ <https://www.nzx.com/files/attachments/246946.pdf>

¹⁹ <https://www.nzx.com/files/attachments/246946.pdf>

²⁰

<https://www.nzpost.co.nz/sites/default/files/uploads/shared/annual%20reports/financialstatements2006.pdf>

²¹ Financial Statements 2016

²² Financial report 2016

²³ Financial Statements 2016

²⁴ Financial Statements 2006

²⁵ Financial report 2016

²⁶ See Del Callo (2014).

Poste Italiane aims to further diversify its product range, its position in the account and payment systems market, as well as its position in the insurance market. The business unit “Poste Vita”, dedicated to insurance services, has developed very successfully and accounted for over 60% of group revenues in 2013 (Poste Italiane Annual Report 2014).²⁷

Table 5 and

Between 2006 and 2016 the number of post offices and branch offices has been reduced only slightly. Poste Italiane was able to strongly increase its revenue through diversification: While the fraction of its core letter and parcel business accounted for one third of its total revenue in 2006, this fraction declined to one tenth in 2016. As a result of this diversification and due to a strong decline in mail volumes, the company’s profit margin decreased from 9% in 2006 to only 3% in 2016.

Table 6 give an overview over Poste Italiane’s development and performance. Compared to other countries, there is a very strict mandate to operate a dense postal network. The postal network currently includes 12’845 post offices and 141’246 employees (Poste Italiane Company Profile 2016). In accordance with its Business Strategy, Poste Italiane is undertaking investments of three billion euros. The investment is targeted to enforce infrastructure and digital platforms as well as training hours, the aim being to foster the convergence between mail, financial and logistical platforms (Serafini 2014). There was further investment in the development of advanced solutions relating to the Public System for Digital Identity Management and in implementing the full acquiring service for all the main debit and credit cards. However, the actual company profile states clearly that mail, parcels, logistics and courier services are an important part of Poste Italiane’s identity. Therefore, Poste Italiane strives at optimizing core services by complementing them and offering them on both physical and electronic platforms (Poste Italiane Company Profile 2016).

Table 5: Overview Poste Italiane

Organizational form	Limited company; partly privatized in 2015
Access regulation	At least 1 access point with a maximum distance of 3 km to the residences of 75% of the population; At least 1 access point with a maximum distance of 5 km to the residences of 92.5% of the population, and At least 1 access point with a maximum distance of 6 km to the residences of 97.5% of the population.
Other key regulatory provisions	Designated USP Market fully liberalized

²⁷ The case of Poste Vita is of special interest, since in only 10 years since its creation in 1999, it became the first insurance company of the country in terms of premiums. The focus of Poste Vita is to manage the “new welfare” model that has emerged after the economic crisis. The «new welfare» model is driven by a growing demand to cut public expenditures. Since often, these cuts let parts of the society «unprotected» in terms of health-, self-sufficiency-, savings- and asset-protection, Postevita focuses on these segments to fulfil their needs and explode this market niche.

General strategy²⁸	Transforming mail products and services and pursuing growth in the parcels segment Consolidating the profitability of financial services Pursuing growth in asset management and insurance services
Network strategy²⁹	Reorganization of the entire office, creating different job spaces, enhancing automated transaction capabilities to save time and resources New post office model, based mostly on new automated solutions
Services offered in the postal network	Provide financial, insurance and mobile telecommunications services alongside the traditional postal services ³⁰ Nearly 6000 post offices have a “SportelloAmico” counter, which is a particular type of post office counter where customers can, among other things, pay social security contributions, obtain land registry documents and renew residence permits ³¹

Between 2006 and 2016 the number of post offices and branch offices has been reduced only slightly. Poste Italiane was able to strongly increase its revenue through diversification: While the fraction of its core letter and parcel business accounted for one third of its total revenue in 2006, this fraction declined to one tenth in 2016. As a result of this diversification and due to a strong decline in mail volumes, the company’s profit margin decreased from 9% in 2006 to only 3% in 2016.

Table 6: Key performance and development indicators Poste Italiane³²

	2006	2016	CAGR
Post offices	13893	12845	-1%
Branch offices	140	132	-1%
Mail volume (m items)	6871	3506	-7%
Parcel volume (m items)	62	97	5%
Company revenue (m EUR)	15932	33112	8%
Revenue fraction of core business	34%	11%	
Company EBIT (m EUR)	1478	1041	-3%
Company EBIT margin	9%	3%	

In our classification framework, Poste Italiane is an example for both strategies “Network as a commercial service” and “Network as a government service”.

Royal Mail / Post Office

Royal Mail Group Ltd, is a limited company owned by the Government of the United Kingdom (30%), the company employees (minimum required by law of 10 percent) and

²⁸ <http://www.posteitaliane.post/en/investor-relations/strategy/index.shtml>

²⁹ <http://postandparcel.info/24453/in-depth/the-development-of-the-post-office-network-as-a-strategic-asset-of-poste-italiane/>

³⁰ <http://postandparcel.info/57046/directory/poste-italiane/>

³¹ http://www.posteitaliane.it/resources/editoriale/pdf/Company_profile_eng_maggio_20014.pdf

³² All information is taken from Poste Italiane’s annual reports.

private investors (60 percent free float). It is designated as the USP.³³ The UK Postal Services Act of 2011 defines the USO requirements for Royal Mail. Letters have to be collected at every access point and must be delivered on six weekdays, parcels on five weekdays. Public prices for a package service must be affordable and uniform. Moreover, Royal Mail must guarantee that at least 95% of users are located within five kilometers of an access point, capable of receiving the largest relevant postal packages and registered mail.

Royal Mail is bound to the regulatory requirements described, but has no reserved area. The postal market has been fully opened on January 1st, 2006. Royal Mail had to adapt its business strategy for being able to stay competitive. It admitted that during several decades, there had been an under-investment. The only possibility to catch up with their competitors had been seen in modernizing the equipment and educating the employees in a way that allowed them to work more efficiently (Royal Mail Holdings 2007). Since 2002, Royal Mail has increased the prices of first- and second-class stamps for regular letters (up to 100g) considerably.³⁴

The vision of Royal Mail is to be recognized as the best delivery company in the UK and across Europe, by sustaining the continued provision of the Universal Service in the UK and by generating sustainable shareholder value.

As part of the Postal Services Act 2011, Post Office Ltd became independent of Royal Mail Group on 1 April 2012. In 2016 nearly 80% of all citizens are at most one kilometer away from the next access point (Royal Mail plc. 2016). As of 2016 the network consists in 11'700 access points, out of which 10'500 are Post Office branches and around 1'200 Royal Mail Customer Service Points (Royal Mail plc 2016). 300 post office branches are directly managed by Post Office Ltd. The majority of other branches are either run by various franchise partners or local subpostmaster or operators, as "sub-postoffices". Within the whole UK, there are also 30'000 parcel drop off and pick-up locations (Royal Mail plc 2016). Even though it is strongly declining, the letter market still accounts for about 60% of the entire revenues (Royal Mail plc 2016).

The Post Office has a wide variety of services throughout the network of branches. Products and services available vary throughout the network; main post offices generally provide the full range of services. The services offered include postal items and payment on behalf of the two collection and delivery divisions of Royal Mail Group, Royal Mail and Parcelforce. Postage stamps are sold, while applications for redirection of mail are accepted on behalf of Royal Mail. The Post Office (acting as an appointed representative and credit broker) also provides credit cards, current accounts, insurance products and mortgages since 2015. Personal banking services are offered on behalf of a number of partner banks. These include cash withdrawals, paying in cash and checks, balance enquiries and check encashment. Some post offices also have cash machines. The Post Office also operates as a provider of a home landline telephone service and has recently added broadband internet to its portfolio. A passport check-and-send service is

³³ The facilities to fulfill the USO are provided and owned by Post Office Limited, as stated in a 10-year inter-business commercial agreement that allows Post Office Ltd. to continue issuing stamps and handling letters and parcels for Royal Mail. Post Office Limited and Royal Mail Group Ltd are sister companies, since both are part of Royal Mail Holdings Ltd.

³⁴ The price of a first-class stamp for a standard letter in 2002 was of 27 pennies, whereas by the year 2015 the same stamp would cost 63 pennies. A similar pattern is to be observed in the prices of the second-class stamp for standard letters that cost 19 pennies in 2002 and 53 pennies as of March 2015.

available for passport applications. Other services include lottery games and scratchcards, foreign currency exchange and sales of gift cards.

Table 7 and Table 8 give an overview over Royal Mail's development and performance. Since its privatization in 2013, Royal Mail has a strong commercial focus. Most of its access points are operated by the Post Office which is an independent company. While Royal Mail's mail volume has decreased by 6% on average between 2006 and 2016, its parcel volume has strongly increased by 15% per year. As a result, company revenue stayed about constant while EBIT has only slightly deteriorated.

Table 7: Overview Royal Mail Group

Organizational form	Public limited company; privatized since 2013
Access regulation	95% of population has access points at < 5 km
Other key regulatory provisions	Designated USP Market fully liberalized since January 1 st , 2006
General strategy	Being brilliant at the basics (punctual, etc.) Building a commercial future Building profitable growth ³⁵
Network strategy	Focusing on growth opportunities in parcels business Using existing network for advertising services ³⁶
Services offered in the postal network	The Post Office offers a broad range of postal, financial, telecommunications and government services

Table 8: Key performance and development indicators Royal Mail Group³⁷

	2006	2016	CAGR
Post Office branches (directly managed)	495	300	-5%
Post Office branches (others)	16881	10200	-3%
Royal Mail Customer Service Points		1200	
Parcel drop off and pick-up locations		30000	
Addressed mail volume (m items)	22011	11922	-6%
Parcel volume (m items)	300	1169	15%
Company revenue (m GBP)	9056	9251	0%
Revenue fraction of core business	76%	83%	
Company EBIT (m GBP)	355	335	-1%
Company EBIT margin	4%	4%	

³⁵ <http://www.royalmailgroup.com/about-us/strategy/our-strategy>

³⁶ <http://www.royalmailgroup.com/about-us/strategy/our-strategy>

³⁷ All information is taken from Royal Mail's annual reports.

With the separation of the Post Office network, Royal Mail is an example of the strategy “Handover to government”.

Swiss Post

Swiss Post is a public limited company under special law and acts as the designated USP. It is fully owned by the Swiss State. Revenues from the residual monopoly on domestic letters up to 50 grams are one pillar for Swiss Post’s financing of the universal service.

In Switzerland, the USO includes the daily conveyance of addressed letters and parcels, newspapers and magazines and outbound international letters as well as the provision of basic financial services such as bank accounts. Moreover, Swiss Post must ensure that its retail network can be reached by 90% of the population within 20 minutes by foot or by public transport.³⁸

The vision of Swiss Post is to be “simple yet systematic” and connect the physical and digital worlds, setting new standards with its products and integrated solutions, as well as making it easier for its customers to operate in today’s complex environment. Swiss Post is focusing on maintaining and increasing the value of the company and on achieving industry-standard returns in all markets (communication, logistics, financial services, passenger transport). It experiences a moderate decrease in income due to lower mail volumes and aims to further tailor its services to the needs of its retail customers.

Besides its core business, Swiss Post is a leader in the provision of secure electronic signatures, eHealth and eVoting services and business process outsourcing which is representative for the strategic orientation as a “Hybrid Intermediary”. In 2016, the Swiss postal network consisted of approximately 3’800 access points. It intends to increase this number up to 4’000 access points until 2020 (Swiss Post Annual Report 2016). The composition of the planed access points is as follows: between 800 and 900 of them are in-house operations (regular post offices) and between 1’200 and 1’300 post agencies that are run together with partners. The remaining 500 to 700 are complementary service points (Swiss Post Annual Report 2016). The main objective behind this network enlargement consists in personalizing and individualizing the postal services for being able to use the network optimally. The services offered in regular post offices include mail and parcels, cash transactions, mobile phone contracts, stationary, books, tickets, travel accessories and gift cards.

Table 9 and Table 10 give an overview over Swiss Post’s development and performance. As a result of regulation and political pressure, Swiss Post operates one of the densest postal networks. Over the years, it has diversified in a broad range of services offered and complemented its physical network by a large online store. Recently, it has started consolidating and better structuring its product range.

Table 9: Overview Swiss Post

Organizational form	Public limited company
Access regulation	Retail network reachable by 90% within < 20 minutes
Other key regulatory provisions	Designated USP Affordable & uniform price for single-piece letters & parcels

³⁸ See Jaag and Maegli (2015).

	70% of the letter market liberalized (items above 50 grams)
General strategy	Focus areas: e-commerce, mobility, digital financial services, digital trust, cross-channel communication, business process outsourcing, solutions ³⁹
Network strategy	Accelerated network transformation towards agencies and home services; overall increase in total number of access points ⁴⁰
Services offered in the postal network	Mail and parcels, cash transactions, mobile phone contracts, stationary, books, tickets, travel accessories and gift cards. ⁴¹ Typically, agencies only offer postal letter and parcel services

Thanks to its diversification and a moderate decline in mail volumes, Swiss Post was able to maintain its revenues while slightly reducing the fraction of its core mail and parcels services in total revenue. However, the company's profitability has decreased by 2% per year between 2006 and 2016.

Table 10: Key performance and development indicators Swiss Post⁴²

	2006	2016	CAGR
Post offices	2357	1323	-6%
Agencies	129	849	21%
Home services	1023	1319	3%
Addressed mail volume (m items)	2762	2089	-3%
Parcel volume (m items)	104	122	2%
Company revenue (m CHF)	7895	8188	0%
Revenue fraction of core business	58%	55%	
Company EBIT (m CHF)	823	704	-2%
Company EBIT margin	10%	9%	

Swiss Post follows the strategy "Network development" in our framework.

U.S. Postal Service

The U.S. Postal Service (USPS) is an independent establishment of the Executive Branch of the US Government. According to U.S. legislation (USPS) must provide prompt, reliable and efficient services in all the areas, render postal services to all communities and serve the entire population of the United States.

The corporate vision of the USPS, outlined in its Annual Report 2014, is to improve its services, products and capabilities so as to adapt to the changing needs of customers in the digital age. Table 11 and Table 12 give an overview over USPS' development and performance. The USPS operates a dense network with a very limited range of products. It has a defined business model imposed by Federal Laws that does not allow it to utilize its existing asset base to generate additional revenue to offset the recent large mail

³⁹ <https://www.post.ch/de/ueber-uns/themen/weiterentwicklung>

⁴⁰ Annual report 2016

⁴¹ <https://www.post.ch/de/privat/einkaufen/einkaufen-in-der-poststelle>

⁴² All information is taken from Swiss Post's annual reports.

declines (Crew and Geddes, 2014). Hence, the USPS is forced to restrict its activities to the traditional postal services, such as the delivery of first and second-class mail, which accounts for over two thirds of its annual operating revenue, and shipping and parcels, which accounts for the remaining operating revenue (Annual Report to Congress 2014). Besides its core postal services, the USPS also offers government services in its retail network: From distributing tax forms to taking passport photos and delivering ballots overseas, the US mail moves government services. USPS is the only delivery service that reaches every mailbox in the U.S., including PO Box addresses. Citizens can apply for their passport at many Post Offices and the USPS will forward the application to the State Department.

In its Five-Year Strategic Plan 2017-2021 (United States Postal Service 2016) the USPS announced the intention to further develop parcel services so as to compensate the strong decline in mail business. Thereby, the USPS considers a change in the regulatory framework as indispensable (United States Postal Service 2016). The USPS also aims at enhancing retail and Post Office Box services to leverage its retail stores.

Table 11: Overview U.S. Postal Service

Organizational form	Independent establishment of the Executive Branch of the USA
Access regulation	No specific number of post offices or letter boxes required
Other key regulatory provisions	Delivery monopoly for letters
General strategy	Provide more visibility and control of mail and package delivery services Transform the commercial mailer and shipper experience Improve Retail Experiences and Expand Digital and Alternative Access Enable a Seamless Cross-Border Experience for Customers Increase Customer Engagement Through Social Media ⁴³
Network strategy	Gain more efficiency Investments in kiosks to provide retail postal options in shopping malls and other high-traffic areas Introduction of the Village Post Office (VPO), providing customers with greater access to products and services because they are housed in businesses that have longer hours, weekend service and more convenient locations ⁴⁴
Services offered in the postal network	Core postal products and government services

With 88% and 65% of its revenues stemming from its mail business in 2006 and 2016, respectively, the USPS strongly depends on traditional postal services. Between 2006 and 2016 the company's EBIT has turned into a deficit which both due to declining demand and payments to its retiree health care fund which are not directly linked to its operational business.

⁴³ <https://about.usps.com/strategic-planning/five-year-strategic-plan-2017-2021.pdf>

⁴⁴ https://about.usps.com/publications/annual-report-comprehensive-statement-2011/html/ar2011_report_5_002.htm

Table 12: Key performance and development indicators U.S. Postal Service

	2006	2016	CAGR
Service-managed retail offices	37000 ⁴⁵	31585 ⁴⁶	-2%
Parcel lockers	0	1782 ⁴⁷	
Mail volume (b items)	213 ⁴⁸	154 ⁴⁹	-3%
Company revenue (\$m)	72650 ⁵⁰	71498 ⁵²	-0.2%
Revenue fraction of core business	88% ⁵¹	65% ⁵³	
Company EBIT (\$m)	966 ⁵⁴	-5401 ⁵⁵	
Company EBIT margin	1%	-8%	

In our classification framework, due to the regulatory restrictions to its commercial development, the USPS is an example for the strategy “Network as a government service”.

6. Analysis and Conclusion

The post office network is part of a greater infrastructure for postal and non-postal services. Its development is often politically driven such that the observed differences between POs can mostly be associated to the regulatory framework of the respective country. As discussed in section 3, there are four basic options for the future development of the post office network: network development, network as a commercial service, network as a government service and handover to government. Not all network development options are compatible with all potential strategic orientations of a PO. Table 2 gives an overview of mutual (in-) compatibilities and the chosen way forward by the incumbent POs discussed above: the use of the post office network as a strategic resource is not compatible with network development which mainly consists of outsourcing access points to third parties or handover to government as these strategic choices result in a loss both of customer contact in a PO’s own infrastructure and of the PO’s ability to develop the product range in its access points on its own.

The strategy of hybrid intermediary also requires a strong physical presence to complement core postal services with digital enhancements. However, it is not necessary for the access points to be operated by the PO itself. Hence, this strategy is also compatible with a handover of the network to government or a cooperation with partners to operate franchised counters.

⁴⁵ <https://smartystreets.com/archive/size-and-scope-of-usps>

⁴⁶ <https://about.usps.com/who-we-are/postal-facts/size-scope.htm>

⁴⁷ https://about.usps.com/who-we-are/financials/annual-reports/fy2016/annual_report2016_tech_047.htm

⁴⁸ <https://about.usps.com/who-we-are/postal-facts/postalfacts2016.pdf>

⁴⁹ <https://about.usps.com/who-we-are/postal-facts/decade-of-facts-and-figures.htm>

⁵⁰ Annual Report 2006

⁵¹ <https://about.usps.com/who-we-are/financials/annual-reports/fy2006.pdf>

⁵² Annual Report 2016

⁵³ <http://about.usps.com/who-we-are/financials/revenue-pieces-weight-reports/fy2016.pdf>

⁵⁴ <https://about.usps.com/who-we-are/financials/annual-reports/fy2006.pdf>

⁵⁵ Annual Report 2016

A strategy as digital services provider leverages the incumbent's strong reputation but does not require physical presence. Hence, it is compatible with network development and handover to government. However, if there is no postal network anymore, it cannot be used to offer commercial nor government services.

Table 13: Assessment of network development options

	(1) Network development	(2) Network as a commercial service	(3) Network as a government service	(4) Handover to government
Physical infrastructure (first and last mile)	--	+	+	--
Hybrid intermediary (digital physical)	+	+	+	+
Digital services provider (trusted layer)	+	--	--	+
Examples	New Zealand Post, Swiss Post	Australia Post, Poste Italiane	Poste Italiane USPS	Royal Mail

Among the incumbent POs covered in this article, Australia Post, Poste Italiane and the USPS put a strong emphasis on their physical infrastructure, both as a result of their regulatory framework and of their business strategy. They view it as a strategic asset to serve their customers better and use it to serve a broad range of non-postal products and services. New Zealand Post and Swiss Post focus on developing their networks. This is a consequence of their transformation into a hybrid intermediary with strong ambitions both in hybrid and digital services. Royal Mail is a particular case, as its clear separation from the Post Office (network) gives it more flexibility in focusing on its business development without having to deal with network development (which is often politically burdensome).

Considering the alternative options, our suggestion is that within the regulatory boundaries, the future of the postal network should be guided by the strategic orientation of the PO. Network development and downsizing is a strategic dead-end if there is no clear perspective to find new business areas that are independent of the network. Despite declining customer patronage, physical presence and proximity to customers may well prove to be a strategic asset in developing the postal business of the future.

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