

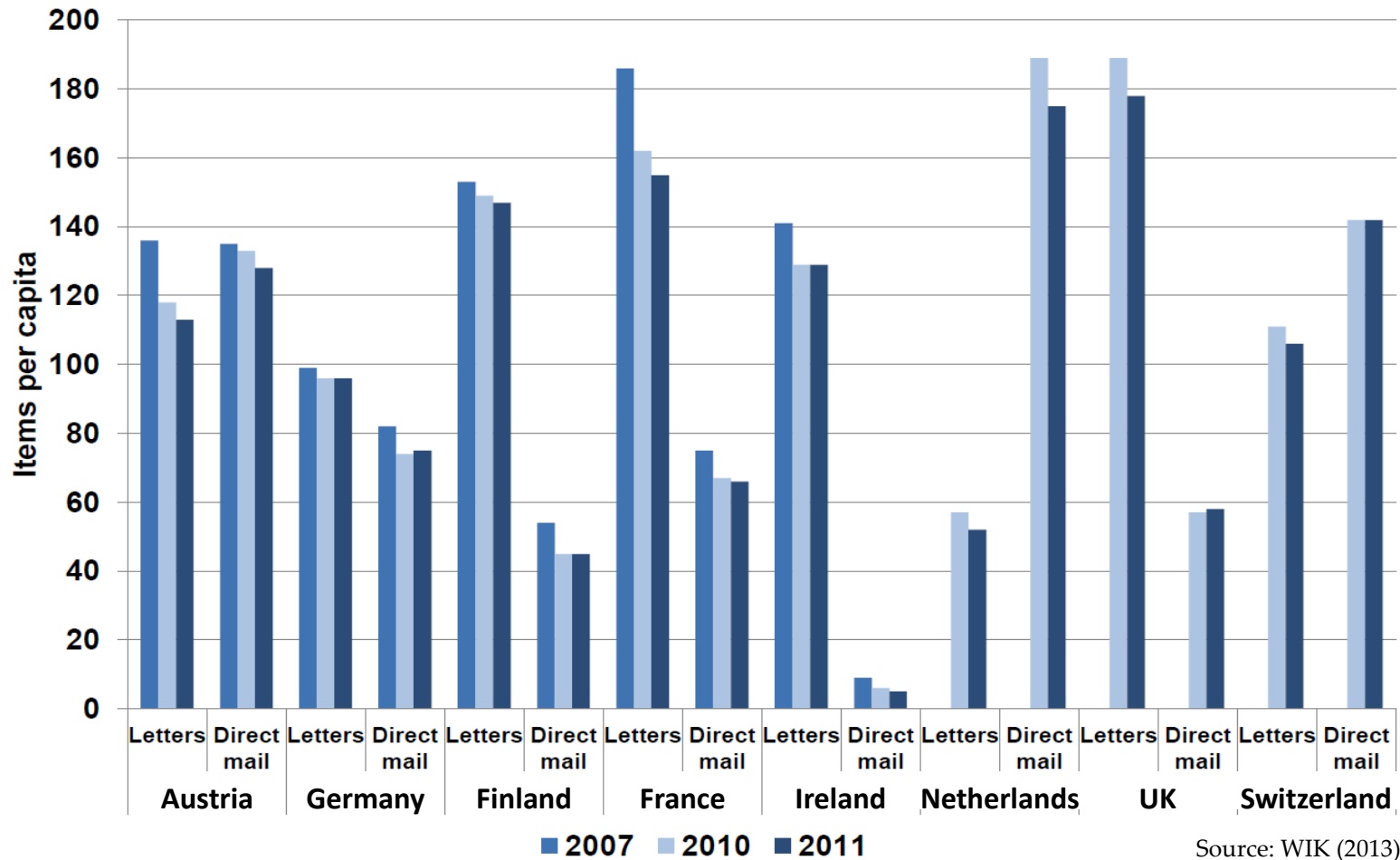
The Mailstream as a Platform

Christian Jaag

Christian Bach

Ninth bi-annual Postal Economics Conference on
“E-commerce, Digital Economy and Delivery Services”

Mail volume development



→ Electronic substitution is often stronger for transactional mail than for direct mail

Introduction

Motivation for the paper

- Why is there still so much direct mail? What makes it valuable?
- What might the long-run effect of asymmetric electronic substitution be?

Conjecture

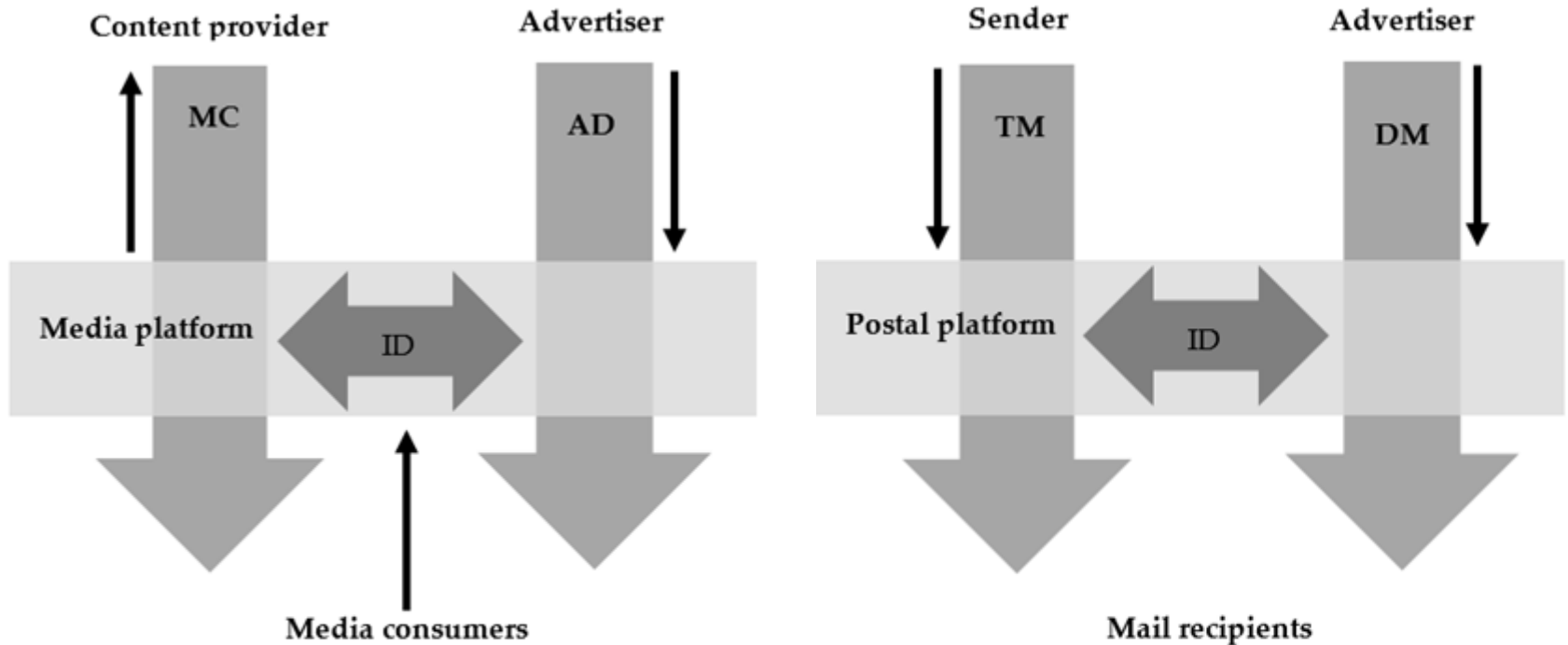
The recipients' attention to direct mail depends on other mail items in his mailbox

- What are the implications of the mailstream being a platform
– for pricing, price regulation and postal policy?

The mailstream compared to media platforms (I)

		Television	Print media	Mail
Platform		Channel	Newspaper	Mailstream / Mailbox
Market 1	Demand side	Advertisers	Advertisers	Senders
	Good	Time slot	Page space	Transactional / Direct mail
	Price	Price per advert	Price per advert	Postage fee
Market 2	Demand side	Viewers	Readers	Recipients
	Good	Televised content	Editorial content	Transactional / Direct mail
	Price	Subscription or zero fee	Subscription or zero fee	Zero fee

The mailstream compared to media platforms (II)



→ = Payment streams

ID = Interdependencies

MC = Media content

AD = Adverts

→ = Payment streams

ID = Interdependencies

TM = Transactional mail

DM = Direct mail

The mailstream compared to media platforms (III)

Similarities

- Multi-sided market
- Various types of content
- Interdependency between content types

Differences

- Mailstream is non-excludable
- No provision of own content by the postal operator
- No active design of the mailstream by the postal operator

Agents in the model

Postal operator

- Provides the mail platform
- Maximizes his profits by offering transactional mail and direct mail

Transactional mail sender

- Uses the mail platform to send transactional mail items
- Profit depends on the quantity of his transactional mail and the postage fee

Direct mail sender

- Uses the mail platform for advertising purposes
- Ultimate objective is to increase demand for his products
- Profit depends not only on the quantity of his direct mail and the postage fee, but also on how effective the advertising is for his sales

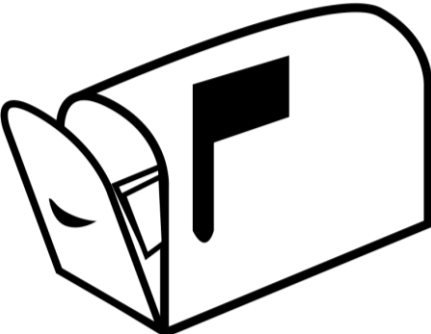
Recipient

- Has a mailbox in which he finds transactional mail and direct mail
- Attention to direct mail is increasing in the volume of transactional mail

Structure of our analysis

Transactional
mail

Direct
mail



Content

Advertising



Recipient

Monopolistic postal operator

Case 1: No interdependency

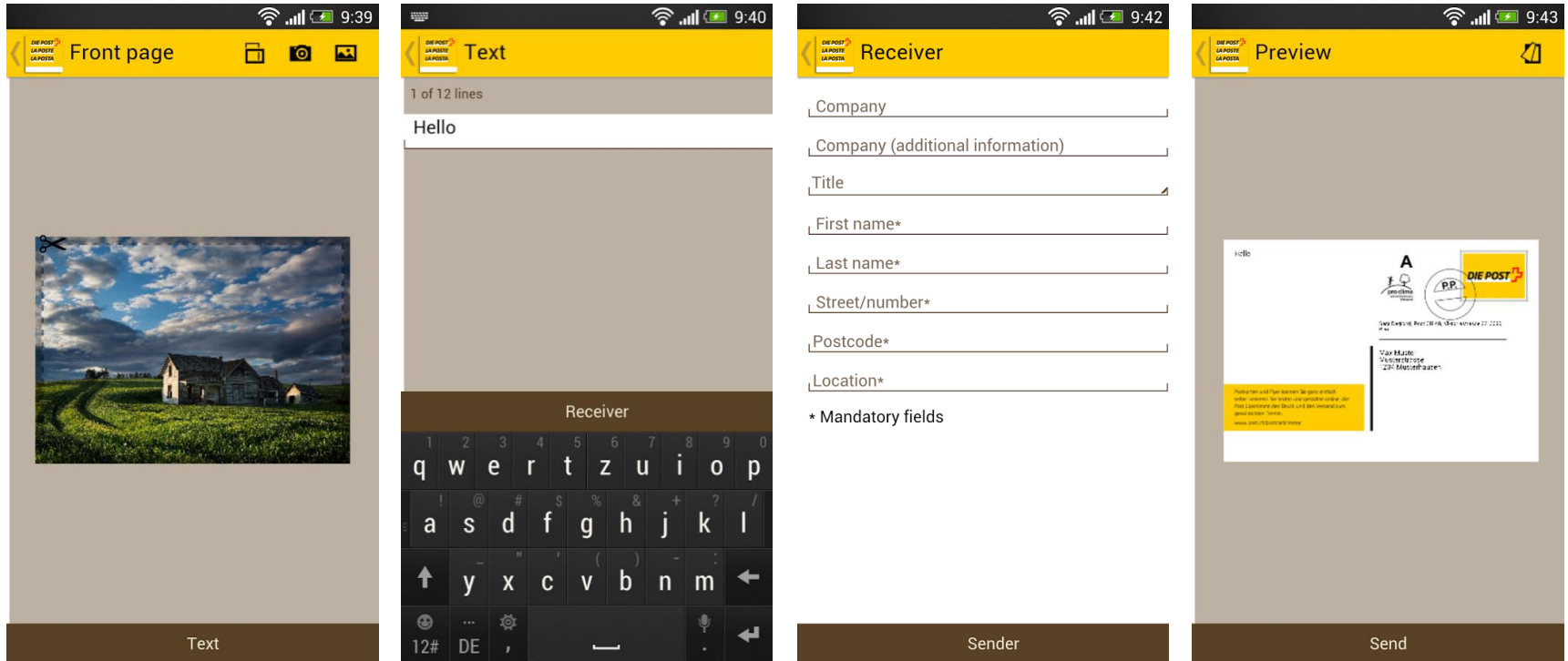
- Independent demand for the two mail types
 - Standard pricing depending on each mail type's marginal cost and demand
- Typically: Low price for direct mail, high price for transactional mail

Case 2: Interdependency

- Transactional mail has a positive effect on the recipient's attention to direct mail
 - Transactional mail makes direct mail more valuable
 - Postal operator internalizes the interdependency
- Higher price for direct mail; lower price for transactional mail
- Higher volumes for both mail types

Electronic substitution of transactional mail degrades the mailmix and indirectly reduces demand for direct mail

PostCard Creator – send postcards free of charge



Source: Google play store

Direct competition (I)

Assumptions

- Entrant focuses on direct mail; has lower marginal cost than incumbent
- Differentiated direct mail products
- Postal operators compete in prices

Case 1: Maximum differentiation

- Entrant does not steal business from incumbent
- Incumbent's incentives to cross-subsidize transactional mail remain intact
- Entrant is able to freeride on platform provided by the incumbent
- Benefits to direct mail senders due to new offer

Direct competition (II)

Case 2: Maximum substitutability

- Entrant steals incumbent's direct mail business due to lower marginal cost
- Incumbent does not internalize interdependency
- Price for direct mail is lower than under the incumbent's monopoly:
 - Entrant is more efficient
 - Value is lower due to reduced transactional mail volume

Intermediate cases

- Higher substitutability of incumbent's and entrant's direct mail
 - More intense competition, more business lost by incumbent
 - Lower profits for POs and transactional mail sender
 - Ambiguous effects on direct mail sender's profit: Lower price but reduced attention to direct mail due to degraded mailmix

Conclusion and further research

If there are interdependencies between various types of mail, postal monopolists have an incentive to cross-subsidize “good” mail

Entrants with selective market entry strategies can freeride on the platform provided by the incumbent operator

This reduces the incumbent’s willingness to invest in this platform

→ Liberalization may not have helped in keeping mail an attractive channel for advertisers

Is there an interdependency between mail types after all? How strong is it?

→ Market research on recipients’ response to direct mail depending on the composition of the mail they receive

Contact

Christian Jaag, PhD
Managing Partner

Swiss Economics
Weinbergstrasse 102
CH-8006 Zürich

+41 44 500 56 26

christian.jaag@swiss-economics.ch
www.swiss-economics.ch