

Postal strategies in a digital age

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Abstract

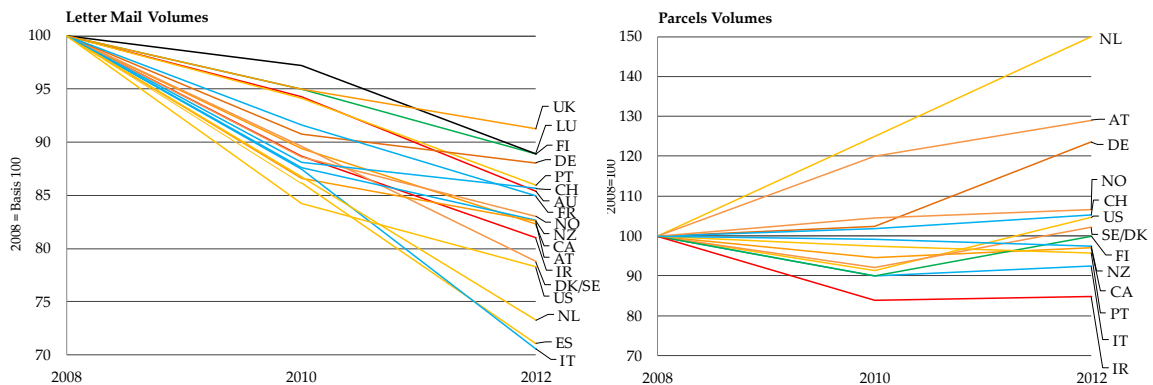
Electronic communications impact all of postal operators' businesses. While letter mail volumes are decreasing due to electronic substitutes, parcels are thriving. Postal operators react in different ways to these challenges and opportunities. Some try to compensate the loss in their mail business by converging their services toward telecommunications, e.g. by offering hybrid or electronic mail. Some focus on parcels and electronic commerce solutions. Some try to reduce their universal service obligations and try to cut costs. Some leverage their networks, e.g. post offices into banks or retail centers, or mail carriers into community service providers. And many apply a mix of those strategies.

This paper explores various approaches by means of selected case studies and an overview of performance indicators. The indicators reveal particularly successful strategies, namely those that leverage infrastructure, reputation and competencies. Based on the results, generic strategies are derived. Special attention is given to the legal and regulatory environment which critically affects the post's ability to adopt a successful business strategy.

1. Introduction

Electronic communications impact all of postal operators' businesses. Traditional letter mail can be substituted by various electronic means, whereas quality parcels services are of essence for online shops bypassing the traditional retail channels. Figure 1 illustrates the development of letter mail and parcels volumes for selected postal incumbent operators (colorization see explanation to table 1). The Figure reveals important decreases of letter mail of up to 30 per cent within four years. At the same time, most incumbent operators benefit from growing e-commerce and see their parcels volumes rising despite of the economic crisis in 2009. According to IPC (2013), parcels may globally increase by up to 69 per cent until 2020.

Figure 1: Development of letter mail and parcels volumes of selected incumbent operators



Source: Swiss Economics based on IPC (2013)

These developments represent major challenges and opportunities for postal service providers. Incumbent postal operators have reacted and are reacting differently to those challenges. In their letter mail business, postal operators have implemented a series of different measures. All of them are trying to cut costs, e.g. by reorganizing processes throughout the value chain, applying increased automation, outsourcing of carriers, or reducing wages. Many are increasing prices above inflation, in particular for single piece mail. Some have reduced or are trying to reduce service standards and/or universal service obligations (USO) (e.g. delivery times or frequency of delivery). Some have improved services, for example intelligent mail or hybrid services. And some are trying to leverage their delivery network, for example by providing community and doorstep services or cross-selling third-party products.

To participate in growing e-commerce markets, incumbent operators have at the same time steadily developed their parcels business. Many have improved end-to-end transit times, e.g. by better delivery times (Saturday delivery, Sunday delivery, evening delivery, selectable time slots) and faster delivery speed. Similarly, many have improved sender and recipient services (track&trace, collection at home, flexible delivery points, parcel lockers etc.). Many operators are also expanding toward logistics (all-in-one solutions, warehousing, etc.).

Similarly, postal operators have developed their post office networks into different directions. Many have replaced their traditional post offices by agencies where basic postal services are provided in third-party retail outlets, e.g. 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 operators have chosen different combinations of these measures. 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 per cent of revenues, whereas USPS remains, partly due to regulatory requirements, focused on its traditional mail and parcels business. As a result, postal incumbents strongly differ according to their revenue distributions, as shown in Table 1. Based on their revenue mix, the operators are classified into one of the following categories: Important role of letter mail (M), parcels (P) logistics (L), retail services (R), financial services (F), information services (I) and telecommunications services (T). Note that a sharp delineation of the revenue components is not possible (e.g. between parcels and logistics). The values in the table are therefore only indicative.

Table 1: Revenue composition and classification of selected incumbent operators

Revenue Composition	AT	AU	BE	CA	CH	DE	ES	FI	FR	IN	IR	IT	JP	LU	NL	NO	NZ	PT	RU	S-D	UK	US
Mail	0.58	0.36	0.76	0.56	0.33	0.18	0.91	0.49	0.38	0.36	0.75	0.12	0.11	0.25	0.85	0.41	0.48	0.74	0.40	0.56	0.49	0.81
Parcels & express	0.36	0.50	0.11	0.38	0.15	0.31	0.08	0.12	0.23			0.02			0.15	0.59	0.16	0.18	0.13		0.51	0.19
Logistics & freight				0.02		0.51		0.28												0.38		
Postal retail	0.06	0.14		0.04	0.14				0.16	0.09	0.25		0.07						0.12			
Financial services			0.09		0.31				0.22	0.55		0.85	0.82	0.03			0.36	0.08	0.35			
Information services			0.04		0.07		0.01	0.11	0.02											0.06		
Telecommunications							0.00					0.01		0.72								
Classification	P	R	M	P	F	L	M	I	F	F	R	F	F	T	M	P	F	M	F	L	P	M

Source: Swiss Economics based on IPC (2013)

This paper aims to derive generic long-term strategies for incumbent operators. Special attention is given to the legal and regulatory environment which critically affects a post's ability to adopt its business strategy. Doing so, the paper extends the analysis of Buser et al. (2008) focusing on post offices to a broader context.

In a first step, the various approaches observed in practice are explored by means of selected case studies. In a second step, a broader overview of performance indicators of postal incumbent operators is provided. The indicators reveal particularly successful strategies. In a third step, generic strategies are derived.

The paper is structured as follows. Section 2 presents the relevant literature on postal incumbent strategies. Section 3 summarizes selected country studies and describes the specific strategies pursued by postal incumbents in light of their relevant regulatory background. In Section 4, performance indicators are established and the incumbent operators are assessed against these indicators. Section 5 develops three generic strategies. Section 6 concludes.

2. Literature review

Several authors have studied the strategies of incumbent postal operators before. Petrovic (2005) recognizes the role of the State in influencing the strategies of incumbent postal operators 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 postal operators, 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 postal operators to enter the area of Telecommunications as a natural complement to the traditional postal business, and briefly compare the strategies of different postal operators in this field.

In 2013, the International Post Corporation (IPC) and Boston Consulting Group published a report on the future perspectives of the postal sector, indicating that building a new compelling position for incumbent postal operators requires many fundamental changes, and that postal operators need to accelerate from evolutionary to revolutionary transformation to accommodate revenue decline 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. The authors also state 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 all its untapped potential, and reinvent postal services for the 21st century.

This paper contributes to the literature by linking the specific regulatory context in which postal strategies are derived to the behavior and performance of incumbent operators.

3. Selected country studies

Business models of incumbent postal operators are bounded to the regulatory framework in which they are conceived (see also Petrovic, 2005). In this section, illustrative examples of the following six countries are elaborated: Australia, New Zealand, UK, Switzerland, USA and Italy. Each example starts with an overview of the regulatory framework that describes the basic requirements for the designated Universal Service Provider (USP), followed by the implemented and planned strategies of the respective incumbent operator. It is found that the chosen strategies differ significantly. Their performance is analyzed in Section 4.

Australia Post

In Australia, the universal service provider must provide a universal letter service at a single uniform rate of postage (uniform tariff), on an equitable basis. Moreover, the USP is required to maintain a minimum of 4000 outlets, of which at least 50 per cent but not fewer than 2500 must be in rural or remote areas. These outlets can adopt the form of corporate post offices, licensed post offices, community postal agencies or franchises (Howard, 2015). Additionally, the USP is to maintain a network of at least 10'000 letter boxes and provide a mail collection point at each retail outlet. The frequency of delivery is five-days-a-week for 98 per cent of all the addresses and a two-days-a-week for the remaining 2 per cent. The cost of the Community Service Obligations (CSO) is funded by an internal cross-subsidy within the letter service. The USP has a

reserved area to deliver letters weighting less than 250g, which are directed to an Australian address.

Australia Post is the incumbent postal operator in Australia and is a Government Business Enterprise, fully owned by the Commonwealth of Australia. The vision of Australia Post is keeping Australia connected, by delivering mail, helping businesses and consumers with parcels, and providing a national retail network that supports local communities and organizations.

The primary segments, in which the group operates, are “Postal Services” that comprises the Mail and Retail segments, and “Parcel Services” that currently deliver the strongest performance.¹ The strategy for the “Postal Service” segment is to implement changes that secure the sustainability of the regulated mail services business, such as: increasing the basic postage rate, adjusting the USO for letters, handling parcel scanning devices across its delivery network to enable postmen to deliver small parcels that require tracking and signature-on-delivery, or continue increasing the number of providers that sign to use the Digital Mailbox². More than 62 per cent of the postal offices are located in rural or remote areas, where citizens have reduced access to other than postal services or products. The reason for this spread of postal offices in remote areas is the geographical profile of Australia, where small communities are settled far away from urban centers, which makes postal offices a highly important communication and retail node for citizens living in these areas, which is also reflected in the USO constraints. Australia Post offers a very high variety of retail products to its customers in every post outlier and aims to be the one-stop shop to suit a wide range of needs of its customers. The product range includes “agency services” for more than 750 businesses and government bodies, including banking services for 70 financial institutions, insurance and medical services as well as diverse retail supplies such as furniture and food.

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 ecommerce, by e.g. integrating Australia Post and StarTrack³ to create a logistics provider that serves both, business and consumer markets with an broader suite of delivery services, or by stimulating e-commerce growth by offering its customers the choice to direct their deliveries to locations other than their homes.

New Zealand Post

The USO in New Zealand is defined in the Deed of Understanding between New Zealand Post and the Minister of Communications and Information Technology. The USP has to operate a minimum of 880 collection points from which at least 240 must provide personal assistance. Until June 30th, 2015 there must be a six-days-per-week delivery to more than 95 per cent of the delivery points, a five- or six-day-per-week delivery to more than 99.88 per cent of the delivery points and one- to four-day-per-week delivery to the remaining delivery points. This will change from July 1st 2015, due to an amendment to the Deed of Understanding. From this date on, 99.88 per cent of the delivery points must have a not fewer than three-day-per-week delivery frequency, and the rest of the delivery points must have at least a one-day-per-week delivery frequency. Since there is no compensation fund, all costs associated with the USO are borne by the designated operator.

¹ Operating EBIT of \$337.5 million in 2014 (up 20.8 per cent) and revenue growth of 16.4 per cent

² 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.

³ In October 2012, Australia Post acquired Qantas' 50 per cent interest in StarTrack, making Australia Post the sole shareholder in StarTrack.

New Zealand Post is a state-owned enterprise held by the Minister of Finance and the Minister for State-owned Enterprises that acts as USP. New Zealand Post has the vision of being invaluable to New Zealanders' lives and businesses.

The New Zealand Post Group consists primarily of two "clusters of businesses", namely "Logistics & Communications" services that include, among others, the provision of the USO, the operation of a nationwide store network, or the management of time sensitive delivery warehouse services, and "Financial Services" that with Kiwibank has a strong growing presence in personal and small business banking. Kiwibank acts as a very significant contributor to the Group's success. The strategies of New Zealand Post for the two business clusters are as follows: Build a sustainable physical network that offers the flexibility to align to changes in demand (e.g. progressively change its delivery mode from walking and cycling to a walking and vehicle support that will allow its postmen to accommodate the continued growth in parcels); create a platform upon which it can deliver a range of valuable digital services to New Zealanders, develop and deliver, in an economic and sustainable way, an exceptional customer experience by providing effective products and services (e.g. increasingly using agency type models where the New Zealand Post service offering is co-located within a host business, allowing greater convenience and longer opening hours); ensure long term value creation for New Zealand Post through the further development and growth of Kiwibank⁴; ensure the internal structure, processes and frameworks in operation at New Zealand Post Group to offer the most efficient and profitable outcome for the group; and ensure that its people have the skills and capabilities they require to succeed, and to create a culture in the organization that enables and encourages them to strive for great customer outcomes (Statement of Corporate Intent 2011-2014, New Zealand Post).

Poste Italiane

In Italy, the USO includes letter mail up to 2kg and universal parcels up to 20kg (both non-express), as well as registered and insured mail, press and editorial items, electoral items and all mail related to administrative and judicial procedures. The designated USP must ensure that 75 per cent of the population has an access point at a distance of less than 3km from its residence. Moreover, it has to make sure that 92.5 per cent of the population has an access point at a distance of less than 5 km from its residence. Similarly, 97.5 per cent of the population must be provided by the USP with an access point at a distance of less than 6 km from its residence. The USP is obliged to deliver with a five-days-a-week frequency (with some exemptions for barely inhabited areas). The USP enjoys no reserved area, except for judicial acts and traffic fine notices. The USO is partly financed by public compensations from the state budget, using a "subsidy cap" formula and additionally, postal operators finance a compensation fund. However, the yearly contributions to this fund made by the postal operators have not yet been significant.

Poste Italiane is a 100 per cent state-owned public limited company and is the designated postal operator for Italy. 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.

⁴ The support to Kiwibank reveals as logic, given the significant financial contributions of Kiwibank to the New Zealand Post. Kiwibank has been focusing on the provision of high levels of service through a wide branch network and high innovation levels for internet and mobile banking. By June 30th 2014, the segment earnings before income tax reached the first position within the group, contributing NZD 139M. The success of Kiwibank is based on the accessibility it offers to its clients by leveraging its existing branch network, the long opening hours and a high focus on innovation. In its aim to provide innovative solutions to its clients, Kiwibank was the first bank in introducing real time mobile phone banking, beating the world biggest banks to win the international 2007 Financial Innovation Award. The heritage of this innovation is appreciated in its service today with initiatives like «Fetch» to fasten the withdraw speed.

The Gruppo Poste Italiane is based on two commercial pillars and three business areas, supported by corporate units, which address, manage, control and provide services to support business processes. The two commercial pillars are the “Post Office Network” and the “Business Sales and Public Administration”. “Post Office Network” manages the retail and SME segments and coordinates the post office and Poste Impresa network, thereby representing the main access channel to Poste Italiane services and products. “Business Sales and Public Administration” serves large companies, utilities, banks, and public administrations. “Mail, Logistic and Communication Services” provides letters, parcel services and advertising mail. “BancoPosta” is the business unit for financial services, whereas “PosteVita” is the business unit committed to insurance services.

Gruppo Poste Italiane reports its yearly financial activity into four service markets: “Postal and Business Services”, “Financial Services”, “Insurance Services” and “Other Services”. One of the strategic objectives of Poste Italiane in the “Postal and Business Services” market is to position itself as a provider of highly qualitative 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 the field of the “Financial Services”, Poste Italiane aims at further diversify the range of products offered, strengthen the current position in the account and payments systems market and consolidate its leadership in the prepaid cards market, by introducing innovative services in the areas of bank transfers, remittances and standing orders. For the “Insurance Service” market, Poste Italiane aims to keep focusing on the PosteVita insurance group by developing tailored products for its target segments in combination with multi-channel operations. Since its beginning, PosteVita has developed very successfully and accounted for over 60 per cent of group revenues in 2013. Additionally, Poste Italiane has found a growth opportunity in the non-life segment of insurances, in which it is active through PosteAssicura (Poste Italiane Annual Report 2013).⁵

Royal Mail Group

The UK Postal Services Act of 2011 defines the USO requirements for the USP. Letters have to be collected at every access point and must be delivered on six weekdays. Parcels have to be delivered on five weekdays. Public prices for a package service must be affordable and uniform. Moreover, the USP must guarantee that at least 95 per cent of users are located within 5km of an access point capable of receiving the largest relevant postal packages and registered mail. Furthermore, the premises of not less than 95 per cent of the users in each postcode area must be within 10 km of an access point capable of receiving the largest relevant postal packages and registered mail. The USP has no reserved area, since the postal market is fully open since January 1st 2006. As a result of the provisions of the Postal Services Act, Ofcom has implemented a new regulatory framework for financing the USO, by which the universal service provider should be allowed to make a “reasonable commercial rate of return” while fulfilling the USO. Ofcom recognizes that EBIT margins between 5 per cent and 10 per cent for the reported business activities should enable a financing of the universal postal service on a sustainable basis.⁶

⁵ 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 segment to fulfill their needs and explode this market niche.

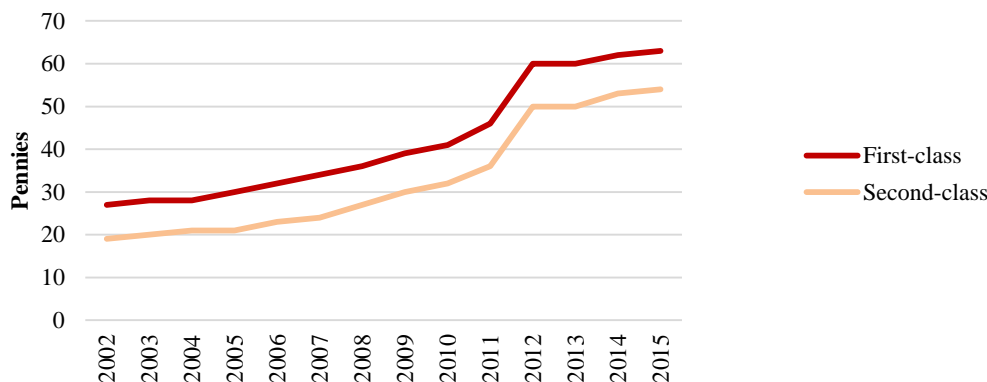
⁶ Securing the Universal Postal Service, decision on the new regulatory framework, Ofcom, 27 March 2012, § 5.41, p.50

Royal Mail Group Ltd is a limited company, owned by the Government of the United Kingdom (30 per cent), the company employees (minimum required by law of 10 per cent) and private investors (60 per cent free float) that is designated as the USP.⁷

The vision of Royal Mail Group 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 generating sustainable shareholder value. The two divisions of Royal Mail Group Ltd are the UK Parcels, International and Letter (UKPIPL) that carries out the Universal Service Obligation in the UK, and the General Logistic Service (GLS) that provides business-to-business parcel and express services, as well as logistics solutions through its network in the domestic markets in which it operates. Both divisions reported positive operating profits in the years 2013 and 2014. The strategy for UKPIPL is to be a successful parcel business by continuing to grow parcels and maintain its strong position in the consumer, micro SME and SME market segment. Moreover, it aims to deliver significant IT upgrades (such as the launch of Local Collect, a click and collect solution with the Post Office), introduce new products and maximize the proportion of traffic it can handle in the UK in a profitable way. Additionally UKPIPL aims to become more customer focused and to give customers more choices by offering longer opening hours.

Since 2002, Royal Mail Group has increased the prices of first- and second-class stamps for regular letters (up to 100g) considerably.⁸ The strategy for GLS focuses on the continuation of its expansion and growth, and on the improvement of its offering, by e.g. increasing the number of B2C delivery options.

Figure 2: Evolution of Royal Mail first and second class stamps



Source: Swiss Economics

Swiss Post

In Switzerland, the Universal Service Obligation (USO) includes the daily conveyance of addressed letters and parcels, newspapers and magazines, and outbound international letters and the provision of basic financial services such as bank accounts for residents and payments. Moreover, Swiss Post has to ensure that its retail network can be reached by 90 per cent of the population within 20 minutes by foot or public transport (for financial services 30 minutes). Prices have to be affordable and uniform for single-piece letters, single-piece parcels and newspapers. Standard letters and direct mail up to 50g currently remain reserved for Swiss Post.

⁷ 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.

⁸ The price of a first-class stamp for a standard letter in 2002 was of 27 pence, whereas by the year 2015 the same stamp would cost 63 pence. A similar pattern is to be observed in the prices of the second-class stamp for standard letters that cost 19 pence in 2002 and 53 pence as of March 2015.

Around 70 percent of the letters market is already deregulated. The residual monopoly on domestic letters up to 50 grams is an important pillar for Swiss Post's financing of the universal service.

Swiss Post is a public limited company under special law that act as the designated USP and is fully owned by the Swiss State. 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 make it easier for its customers to operate in today's complex environment, giving them greater scope to succeed.

Swiss Post is an incorporated holding comprising three main operating subsidiaries: Post CH Ltd. (with the divisions PostMail, PostLogistics, Swiss Post Solutions and Post Office & Sales), PostFinance Ltd. (with the division PostFinance) and PostBus Switzerland Ltd. (with the division PostBus). Since 2013, Swiss Post is focusing on maintaining and increasing the value of the company and on achieving industry-standard returns in all business areas. For PostLogistics, Swiss Post aims to maintain its leading position in Swiss e-commerce and continue to foster its cooperation with partners to add more than 660 postal agencies to its network by the first half of 2015. Moreover, and in order to satisfy the market needs, Swiss Post has enlarged its palette of services and focuses on online vendors. An example of new services is "YellowCube".⁹ The division Swiss Post Solutions aims to further develop the internationalization of Swiss Post's business and to broaden the range of postal-related services in the context of the digital transformation, focusing on its three core markets, Germany, UK and USA. PostMail experienced in 2014 a moderate decrease in income due to lower mail volumes. Post Office and Sales operates the retail network and postal services for private customers and aims to further tailor its services to the needs of its retail customers.

U.S. Postal Service

According to the U.S. legislation, the U.S. Postal Service (USPS) must provide prompt, reliable and efficient services in all the areas and render postal services to all communities and serve the entire population of the United States as nearly as practicable. USPS must receive, transmit and deliver throughout the US, its territories and possessions, written and printed material, parcels, and other materials, and maintain at least one class of mail for letters with a uniform price throughout the United States. Uniform rates for First-Class Mail must be provided for articles weighing up to 13 ounces (369 g). The USO does not define a specific number of post offices or letter boxes. USPS currently fulfills a six-days-a-week delivery policy. There is no compensation fund to finance the USO. Profits from competitive products can be used to help defray costs for meeting the Universal Service Obligation.

The US Postal Service (USPS) is an independent establishment of the Executive Branch of the US Government and 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 declines (Crew and Geddes, 2014). Hence, USPS is forced to restrict its activities to the traditional postal services, such as delivery of first and second-class mail, which accounts for over

⁹ "YellowCube" is an all-in logistics solution for distance selling made for online vendors. With this service, the Swiss Post takes care from storage, picking and packing, fast shipping and return management, so that vendors can fully outsource their warehouse, shipping and packaging duties. Vendors can store their products in a highly automatized logistics centre, in which the Swiss Post takes care of, warehousing, picking and packing according to the vendor needs. Once the vendor gives a shipping order, the Swiss Post can include the vendor flyers in the package and/or personalize the package with their corporate image. The recipient of the ware therefore receives a post-delivered item, which is packed according to the vendor image and conditions. Services also include return management. Customers can online see the number of stored units at the logistics centre, and track their costs online.

two thirds of its annual operating revenue, and shipping and parcels, which accounts for the remaining operating revenue (Annual report to Congress, 2014).

The vision of the USPS is to improve its services, products and capabilities to adapt to the changing needs of customers in the digital age. Given the restrictions imposed by the regulatory framework, USPS only operates within the traditional mail service with one division: Mail / Shipping & Packages.

USPS has five strategic focus areas that align with the Postal Service’s strategic goals – preserving reliable and affordable universal service and implementing comprehensive transformation for a long-term sustainable future – articulated in the Postal Service’s April 2013 Five-Year Business Plan. The five strategic focus areas are: “Meeting the Emerging Needs of the Digital/Global Era” by informing and connecting the postal enterprise, stakeholders and the OIG through the use of innovative technology¹⁰; “Achieving Twenty-first Century Modernization” by making recommendations that enhance service to customers, improving operational economy and effectiveness¹¹; “Ensuring Mailer and Recipient Value” by exploring emerging opportunities in integrated delivery, micro logistics, and managed delivery¹²; “Enhance the Brand and Integrity” by conducting investigations and audits that enhance the integrity and security of Postal Service products, services and people¹³; and “Recovering and Preventing Improper Payments” by proactively addressing vulnerabilities and accelerating recovery of improper payments (Five Year Strategic Plan FY2014-FY2018, Office of Inspector General).¹⁴

4. Performance

Table 2 summarizes the main areas in which the investigated incumbent operators have put particular emphasis. If one operator is not marked in one area, this does not necessarily mean that no measures were taken in the respective area; it only means that the major strategic efforts have been concentrated in other areas.

Table 2: Strategic efforts and financial development of selected incumbent operators

	Major strategic efforts					Financial performance	
	Area 1: Multi-channel vending & retail	Area 2: Financial & insurance services	Area 3: Innovation in parcel/ mail delivery	Area 4: Increase prices/ cut costs	Area 5: Logistics	EBIT Margin 2012	EBIT Change EBIT Margin from 2007 to 2012
AU	X		X		X	0.079	-0.049
NZ		X	X			0.067	-0.023
UK	X		X	X	X	0.032	0.019
CH		X	X		X	0.106	0.006
US			X	X		-0.075	-0.004
IT	X	X				0.076	-0.028

Source: Swiss Economics based on annual reports and IPC (2013)

¹⁰ E.g. better integrate information technologies to equip OIG staff with responsive, mobile tools, enabling them to work on a variety of devices anywhere, anytime, thereby increasing operational efficiencies and improving the effectiveness of OIG operations.

¹¹ E.g. further modernize OIG’s capability to synthesize data and information on postal operations and turn it into useable knowledge and insight to identify the root causes and solutions for weaknesses in postal operations.

¹² E.g. track social, technological and industry trends capturing patterns of human interaction, how businesses are organized and how transactions take place

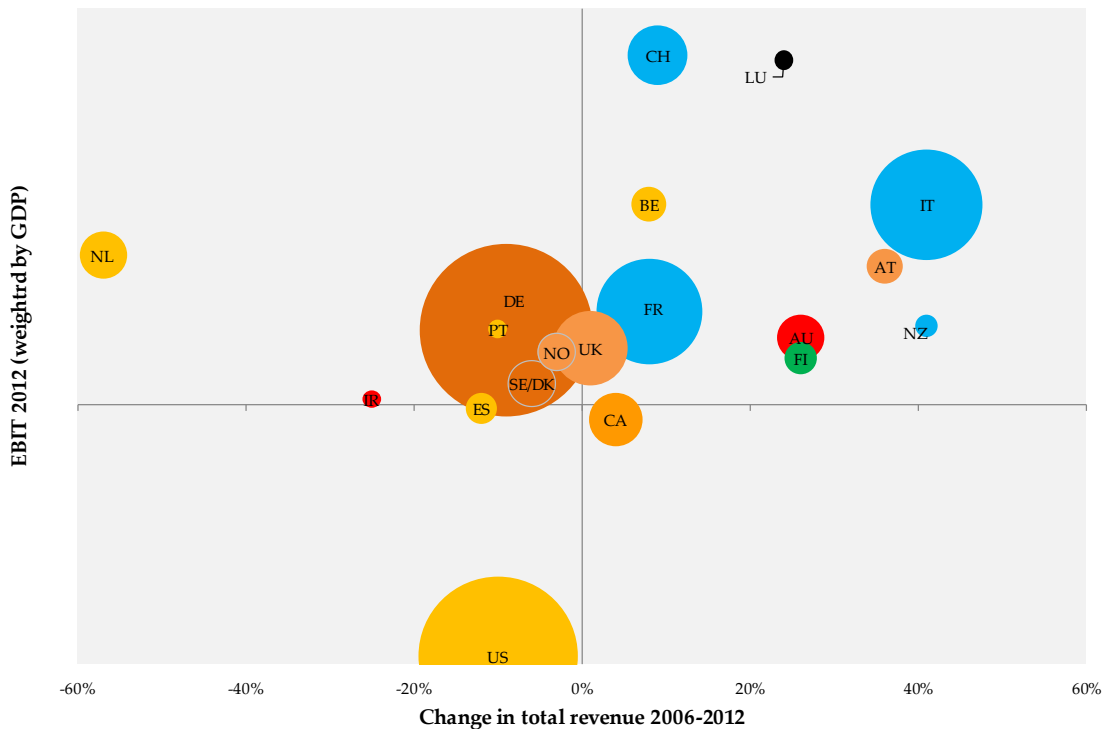
¹³ E.g. help the Postal Service to self-police employee misconduct by sharing insights from employee misconduct cases

¹⁴ E.g. strengthen internal controls on postal systems.

The last two columns of Table 2 report the financial standing of the incumbent operators. Consistently good margins have been achieved from the incumbent operators of AU, NZ, CH and IT.

Figure 3 illustrates weighted EBIT of incumbent operators and the change in total revenue from 2006 to 2012 in a scatter plot. The size of the circles indicate absolute revenue, e.g. USPS and Deutsche Post achieve high revenues and therefore large circles. The colorization represents the categorization from Table 1.

Figure 3: Performance of selected incumbent operators



Source: Swiss Economics

The figure is to be interpreted with caution, as there are many different factors influencing the apparent performance of postal operators. For example the large revenue decline of Post NL was primarily caused by the divestment of TNT.

It may be concluded that the “blue” incumbent operators, i.e. the ones that put particular emphasis on financial services, perform particularly well in terms of EBIT and revenue development. It would be false, however, to conclude that all postal operators should diversify into financial services and banking. Having already been active in financial transaction services in the past and disposing of the necessary infrastructures seem to be important prerequisites for successful business development in this domain.

In the first quadrant with negative EBIT and revenue development, there are two operators (USPS and Correos), both relying strongly on letter mail. Generally, diversified postal incumbents appear to have developed better in relative terms. Examples of successful diversification strategies among the case studies discussed above are Australia Post with its community retail services provided in post offices, New Zealand Post and Swiss Post with their banking services, and Poste Italiane with its success in selling life insurances. In these cases, diversification was based on leveraging existing infrastructure, competences and reputation. Strategies that focus on

a particular market, e.g. KEP markets or logistics, succeed in compensating losses in the letter market. Overall margins, however, appear to be more modest.

5. Generic strategies

From the discussed case studies and performance indicators from above, generic strategies can be derived which have proved to be successful or are promising due to their impact on innovation and performance (see Figure 4). These optimal strategies are path-dependent and ultimately result from the regulatory framework. The strategies result in specific types of innovation and are reflected in business performance (see Figure 4). The reasoning of the derivation of generic strategies is similar to the structure-conduct-performance paradigm developed by Bain (1959). Strategy, innovation and performance in turn can influence regulation, as indicated by the dotted lines. Whereas regulation strategies aim at influencing regulation directly, innovations may lead to changes of regulations for example based on new possibilities to fulfill the USO. Performance on the other hand may limit or extend the scope of fundable USO.

Figure 4: From regulation to performance



The dependency on the legal and regulatory environment of the successful strategies and the posts' ability to adopt them results from a number of interaction channels:

- The state ownership and the associated principle of legality determines the legal boundaries of a postal operator's scope of business.
- The scope of the (past and current) USO determines the USP's cost structure and its assets for new business development.
- The status of market opening determines the degree of (potential) competition and the USP's ability to finance its obligation with own funds (see for example Dietl et al., 2005).
- The past definition of the USO and the performance of the USP determine its reputation and thereby its potential to leverage it into new business fields where trust is key (see Dietl and Jaag, 2011).
- The scope of the USO determines the viability of (the USP's and its competitors') postal and financial services due to the strategic deterrence effect (see Jaag, 2011).
- The scope of the USO with associated mandatory services also determines whether new services must be economically viable on their own or whether they may benefit from cost savings due to the opportunity to substitute traditional processes (e.g. physical delivery) (cf. Jaag et al., 2015).

Figure 5 illustrates the interdependencies based on the case studies from Section 3 with emphasis on regulations concerning the post office network. The figure reveals substantial differences in the evolution of post office networks that can be explained by different initial regulations.

Figure 5: Post office network regulations and development

	Regulation	Strategy	Innovation	Performance
AU	Maintain 4000 retail outlets, including 2500 in rural/remote areas	Bring value to post office network by providing 3rd party services, e.g. banks	IT platform facilitating high value retailing with 3rd parties	Strong growth and profitable post office network

NZ	Provide 880 retail outlets, thereof 240 post offices	Bring value to remaining post offices	Launch of KiwiBank	Strong growth and profitability of bank
UK	Full market opening, structural separation of post office network	Compete for letters and parcels	Process innovations	Limited growth and EBIT margin
CH	Minimum accessibility, financial transactions in USO	Develop all business divisions and in particular PostFinance	Process and product innovations	Solid growth, strong development of Post-Finance
US	Post office requirements, no diversification allowed	Develop mail and parcels business	Process innovations	Substantially negative margins
IT	Full market opening, post offices for 96% of municipalities+	Diversify	Launch of BancoPosta, PosteAssicure, PosteVita, and more	Strong growth of new services

The interdependencies also determine the optimal type of innovation: the more flexible a post is in terms of its infrastructures, the more attractive investment in process innovation is. Conversely, e.g. if the USO is strongly input-oriented, product innovation aiming to utilize these assets is more attractive.

Three generic strategies are shown in Figure 6. (1) In a regulatory environment with no infrastructure requirements as part of the USO (i.e. there is no minimum number of self-run access points or prescribed delivery to every receiver's doorstep), there is a large potential to increase efficiency by reducing and outsourcing access points and relocate delivery to centralized post-boxes. (2) In a regulatory environment with a diverse USO including financial transaction services, a hybrid approach is possible: To diversify into financial and banking services. This also allows to exploit synergies between the different services. (3) If there are infrastructure requirements in place, bringing value into the network by diversifying into services which make use of these infrastructures, is the way to go.

Figure 6: Generic strategies

Regulation	Strategies	Innovation type	Performance effect	Lead example
no infrastructure requirements	<ul style="list-style-type: none"> exploit synergies increase efficiency focus 	process innovation	cost efficiency	SE
financial transactions in USO	<ul style="list-style-type: none"> exploit synergies increase efficiency diversify into banking services 	process innovation product innovation	cost efficiency USP in retail banking	NZ
infrastructure requirements	<ul style="list-style-type: none"> exploit synergies increase efficiency diversify / bring value into network) 	product innovation	USP in community services / high value retailing	AU

Given the diverse legal and regulatory environment, Figure 6 shows that one size of a corporate strategy does not fit all. This also implies that there are things which postal operators can learn from each other in terms of new business development, but only to the extent that their regulatory frameworks support similar strategic choices.

6. Conclusion

Many postal operators have significantly and successfully moved away from their traditional core businesses. In particular, operators with banking services have been able to achieve growth and above average margins. However, the optimal business strategies are not the same for all postal operators since they are often only second best, given the specific regulatory framework. Hence, regulation is relevant for understanding business strategies and the great policy challenge consists in accomplishing the optimal co-evolution of regulation and its institutions with market developments.

Three successful generic postal strategies have been identified in this paper. It is important that postal regulation allows to pursue one of these generic strategies. For example, with binding regulations in place (e.g. USO prescribing infrastructures or processes), these regulations should be complemented with legal and regulatory support the following dimensions: First, there needs to be a legal foundation for diversification into new business to better utilize the necessary infrastructures or processes. Second, regulated services must be able to be substituted over time (i.e. discontinued) if there is an innovative alternative in place. Third, any cross-subsidization of existing or new services should be limited in order to allow new services to compete on a level playing field. As an example, regulations that prescribe a minimum number of Post offices need to go along with a corresponding legality and ability to diversify to bring value into the existing post office network.

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