

# **The Future of the Postal Sector: the Elephant in the Room\***

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Advanced Workshop, November 20, 2009, Washington, DC

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# Outline

1. The Setting: the current state and the new reality
2. Issues resulting for POs and regulators
3. Responding to the New Reality
4. Concluding Implications for the Future of the Postal Sector

# The Setting: the current state and the new reality

- International problem – Finland Conference
- Bad news, good news
- Bleak outlook for postal sector
- Cloudy picture of other regulated industries
- Carbon involves all industries in varying degrees
- Regulation – a growth industry again

# Issues resulting for POs and regulators

- Grim present – grimmer future?
- Regulators not faced anything like this as POs continued to jog steadily along
- Regulators expected to respond but can they solve the problems?
- Only partially

# General Regulatory Strategies

- Hands off?
- USPS has faced (relatively) hands off regulation and has monopoly
- Mail volume down 15% over less than 2 years
- Under FMO excessively proactive regulation problematical – could lead to inefficient competition

# Reinventing POs

- Regulator has role but cannot save POs
- POs must save themselves
- This presentation and much of today about ways in which POs can reinvent themselves
- Difficult
- For USPS especially difficult

# Responding to the New Reality

- Areas of concern: competition and USO
- Competition: FMO in Europe, access, intermodal competition
- The new competition different but not faced
- Different because changing so rapidly
- Email facing competition, Facebook, Twitter, Youtube, Skype, IM, text messaging and ???

# Intermodal competition

- Hurts mail as a communication medium
- As a transaction medium
- As an advertizing medium
- Helps parcel and packet business
- But serious competition e.g. UPS and FEDEX  
Ground for USPS
- Serious rethinking required by POs

# Role of Regulator

- Regulators do not have solution - unrealistic
- Regulator face issues of USO and competitors, e.g. access
- Access and worksharing needs rethinking especially for USPS where it is significant
- Role of access regulation remains important issue

# POs alone must solve their problems

- Lessons from other declining industries
- Monopoly and cost cutting – unlikely salvation
- Grow the top line
- Telecommunications
- Insiders' failure to figure out the problem of technological change – 1996 Act irrelevant
- Traditional long distance doomed early and now traditional wire line

# Telecommunications

- Longdistance and wireline hurt by mobile and VOIP
- If you can't beat 'em join 'em!
- Telcos invented much of the technology, fiber
- Telcos already in mobile and Internet
- Wirelines losing 7% a year with intermodal competition – own other modes except cable
- Mobiles, broadband growing rapidly

# POs not so well placed

- Fiber and computers help at margin
- Telcos traditionally not entrepreneurial became somewhat in employing new technologies but remain monopolists at heart
- USPS not entrepreneurial
- Not allowed to be
- Cost cutting only option and restricted at that
- No business model

# Government Model

- Service in US Government means e.g.
- Internal Revenue **SERVICE**
- Immigration and Naturalization **SERVICE**
- Government primarily determines demand for these services
- US Postal Service (monopoly) market determines demand
- Surplus/deficit similarities to private company

# Understanding the Market

- Brainwash and scare populace into less tax avoidance
- Government does not have same tool available to control demand for postal service
- USPS continues to be run a US Government **SERVICE**
- Drastically reducing its options

# Developing a Business Model

- Drastically eliminate Congressional Oversight
- Operate as a regulated publicly owned company
- European POs greater commercial orientation
- Encourage commercial freedom and entrepreneurship
- Difficult to encourage entrepreneurship with government salary model

# Assume Commercial or Privatized Model

- Build on your strength
- Distribution network
- Already Coopetition (Smith and Vogel, Asmus)
  - Business model might change tradeoffs
- Carbon and electric vehicles (Ravnitzky, Kleindorfer)
- Using fleet using latest sensors, radio, etc (Ravnitzky)

# Concluding Implications for the Future

- Elephant in the room not going away
- Greater need for price flexibility
- Environmental issues
- Electric vehicles and POs
- Financing electric vehicle – major problem for USPS but possibly big benefits
- If money maker a privatized/commercialized PO would find funding

# Concluding Implications for the Future

- Do-not-mail laws issue in US
- Regulators may need to take position to avoid such laws
- Funding USO major issue requiring more (different) regulation