

# Competition and the Crisis: Trends and Challenges in EU Postal Markets

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# Who is WIK-Consult?

- WIK ('Scientific institute for infrastructure and communication services')
  - Independent research institute, owned by the German government
  - ~ 40 consultants/researchers
  - 25 years of experience with economic regulation and sector policies
  - Telecommunications, postal and energy markets
- WIK-Consult is a 100% subsidiary of WIK
  - Consultancy specialised in regulated industries, founded in 2001
  - ~ 60% of revenue from customers outside Germany

# Contents of presentation

**Liberalisation of  
postal markets in the  
European Union**

**Country studies of  
liberalisation and  
competition**

**Impact of the  
economic crisis on  
the postal sector**

This presentation is about liberalisation  
& competition in letter/mail markets,  
not parcels or express

# Liberalisation in the EU

## 15 years of transition to competition

### 1997 / First Postal Directive (97/67/EC)

- Monopolies limited to 350 gram / 5 x Stamp
- Further liberalisation to be considered as of 2003

### 2002 / Second Postal Directive (2002/39/EC)

- Weight & price limits reduced as of 2003 und 2006
- 2009 suggested target date for full liberalisation

### 2008 / Third Postal Directive (2008/6/EC)

- Full liberalisation by 2011
- 11 countries to liberalise by 2013 (~5% of EU vol.)

Timely implementation?

# Liberalisation in the EU

Weight limits implied gradual, very gradual liberalisation

	Weight limit	Price limit	% of volume in weight limit
1998 – 2002	350 gram	5 x stamp	91 %
2003 – 2005	100 gram	3 x stamp	79 %
2006 – 2010	50 gram	2.5 x stamp	72 %
(– 2012)	<i>(Derogations for eleven Member States)</i>		

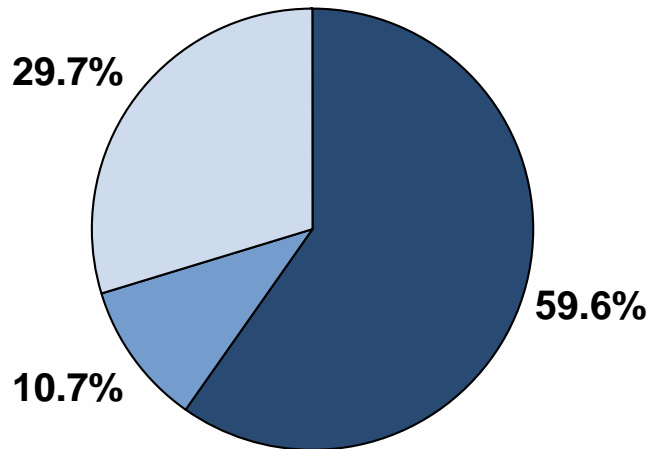
*Maximum reservable area:*

*Member States may preserve monopolies only “to the extent necessary”.*

# Liberalisation in the EU

## More than half of all EU mail is from liberalised countries

Importance of national monopolies in EU  
(Countries weighted by mail volume)



- Fully liberalized
- Monopoly for Correspondence < 50 gram
- Monopoly for all letter post < 50 gram

- Most EU countries maintained maximum permissible monopolies
- No monopoly in seven countries
  - Sweden (1993)
  - Finland (1997)
  - Great Britain (2006)
  - Germany (2008)
  - Netherlands (2009)
  - Estonia (2009)
  - Spain (local mail liberalised)
- Some countries restrict monopoly to correspondence – direct mail liberalised, e.g. Italy, Spain, Slovenia...

# Liberalisation in Sweden

## The European frontrunner

<b>Approach to market opening</b>	<u>Full liberalisation in 1993</u>
<b>Actual competition</b>	<ul style="list-style-type: none"><li>• Only one important competitor: Bring CityMail</li><li>• Bring CityMail delivers business mail in urban areas</li><li>• In 15 years, CityMail's market share rose very slowly to ~10,7% (of mail volume) in 2008</li><li>• Sweden Post reacted with aggressive pricing (and prices were challenged by competition authorities)</li><li>• Business mail tariffs declined, stamp price increased</li><li>• CityMail went bankrupt twice</li></ul>

- Competition does not come easily in the postal sector

# Liberalisation in Finland

## De jure liberalisation

<b>Approach to market opening</b>	<ul style="list-style-type: none"><li>• Full liberalisation in 1991</li><li>• But restrictive licence conditions<ul style="list-style-type: none"><li>- High quality targets imply delivery every day</li><li>- „Universal service tax“ if licensees deliver only in urban areas</li></ul></li></ul>
<b>Actual competition</b>	<ul style="list-style-type: none"><li>• Practically no competition</li><li>• Considerable letter price increases for business customers and consumers</li></ul>

- No competition was achieved de facto

# Liberalisation in the UK

## Downstream access but no competition in delivery

<b>Approach to market opening</b>	<ul style="list-style-type: none"><li>• January 2003: Bulk mail liberalised (&gt; 4,000 items)</li><li>• 2004: Royal Mail offered “access contracts” under pressure of its regulator</li><li>• <u>January 2006: Full liberalization</u></li></ul>
<b>Actual competition</b>	<ul style="list-style-type: none"><li>• Practically no competition in end-to-end delivery → Royal Mail’s market share: 99.9% in 2008</li><li>• Successful entry by consolidators (~3% of vol. in 2005/06, ~6% in 2006/07, ~12% in 2007/08, further growth in 2009)</li><li>• Royal Mail reacts with new pricing strategies: ‘Direct customer access’ &amp; ‘Zonal pricing’</li></ul>

- Almost no competition in end-to-end delivery

# Liberalisation in Germany

## Competition from local operators

<b>Approach to market opening</b>	<ul style="list-style-type: none"><li>• Weight and price limits since 1998. Value added services liberalised, e.g. guaranteed overnight delivery</li><li>• <u>January 2008: Full liberalization</u> (But barriers to competition: sector-specific minimum wage and VAT exemption for universal service products)</li></ul>
<b>Actual competition</b>	<ul style="list-style-type: none"><li>• ~ 800 licensed operators in 2008, mostly local</li><li>• 8.4% combined market share in 2008 (by volume). Deutsche Post's market share slightly increased in 2008</li><li>• 2006-07: Emerging nationwide operations TNT and PIN</li><li>• 2008-2009: Household coverage of TNT-Holtzbrinck partnership aiming to 90%; recent hybrid mail initiative</li><li>• Deutsche Post decreased business customer tariffs (2008)</li></ul>

- Competition did not increase with full liberalisation!

# Liberalisation in the Netherlands

## Competition for direct mail

<b>Approach to market opening</b>	<ul style="list-style-type: none"><li>• Direct mail (Drukwerk) opened to competition in 2000</li><li>• <u>April 2009: Full liberalization</u></li></ul>
<b>Actual competition</b>	<ul style="list-style-type: none"><li>• Entrants started off delivering unaddressed, expanded to addressed direct mail and publications</li><li>• Two important entrants with 2% growth in 2008:<ul style="list-style-type: none"><li>- Sandd (currently for sale?)</li><li>- SelektMail (Deutsche Post)</li></ul></li><li>• Entrants adopt low cost model (two deliveries per week)</li><li>• TNT's market share down to ~ 87 % in 2008 despite monopoly</li></ul>

- Two entrants operate nationwide delivery networks

# Liberalisation in Spain

## Competition on local delivery

<b>Approach to market opening</b>	<ul style="list-style-type: none"><li>• Monopoly has long related to inter-city mail only<ul style="list-style-type: none"><li>- Local mail liberalised</li><li>- Weight and price limits for inter-city mail</li></ul></li><li>• Downstream access regulated since 2006</li></ul>
<b>Actual competition</b>	<ul style="list-style-type: none"><li>• Incumbent market share ~ 89 %</li><li>• Market share Unipost 10%, other local operators 1%</li><li>• Main competitor is Unipost (group of local operators, 38% owned by DPWN), covers approx. 75% of territory; 2008 revenue 107 M€ and growth of 6%</li></ul>

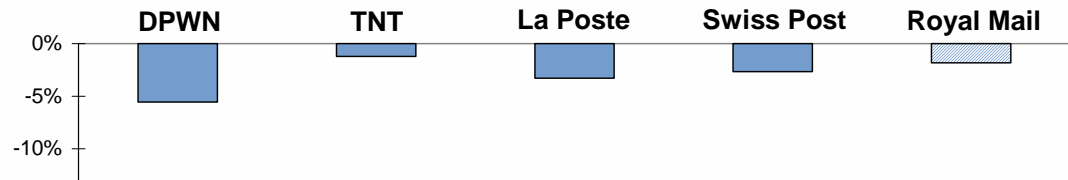
- Unique history of local delivery operations outside monopoly.

# Impact of the Crisis

## Economic slump hits on mail volumes & margins

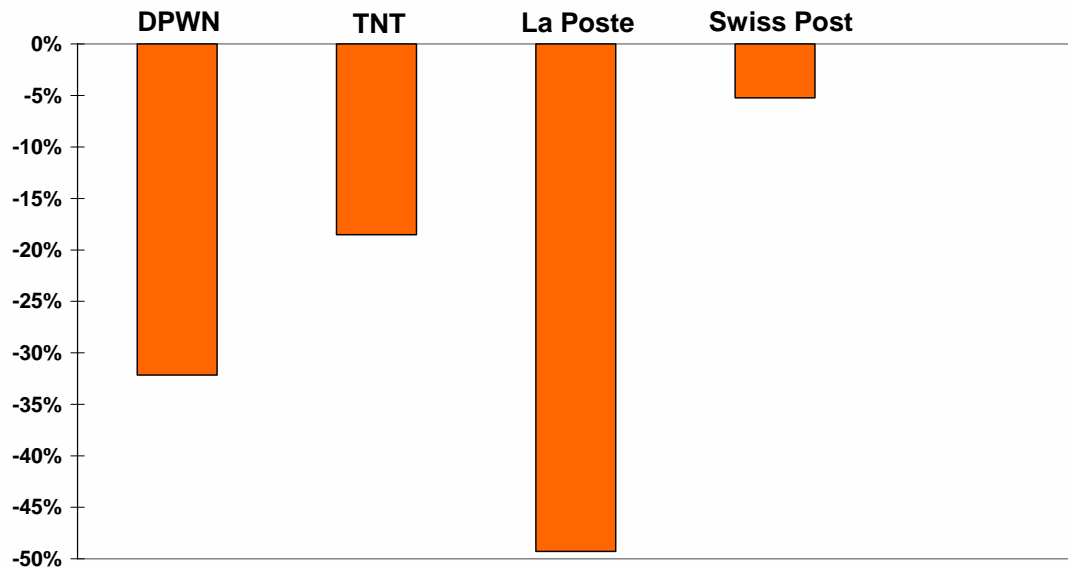
- Significant drop of incumbents' mail revenues

Change in mail revenue, HY 1/2009 on HY1/2008  
for Royal Mail: FY2008/09 on FY 2007/08



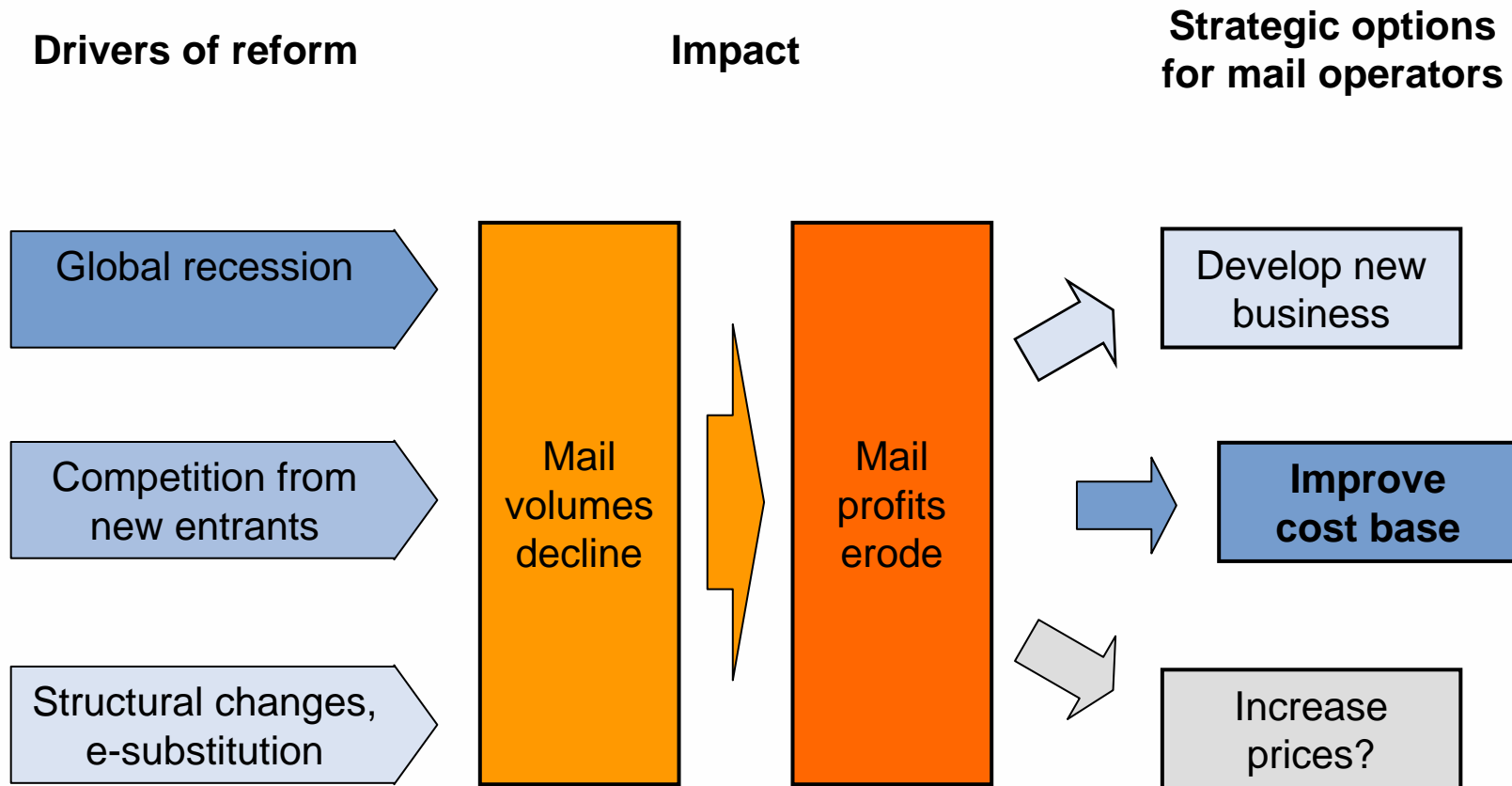
- Even more drastic drop of mail divisions' profit (EBIT)

Change in EBIT for mail division, HY 1/2009 on HY1/2008



# Impact of the Crisis

## The crisis adds to other drivers of reform!



# Impact of the Crisis

## First reactions of postal operators

Ambitious plans for cost saving announced by many operators, e.g. TNT (€550-600m), DPWN (€1b), La Poste (€200m)

Reduce transportation cost, e.g. outsourcing, reduce air mail transportation

Re-structure operations, e.g. DPWN pilot project (summer 2009): enhance flexibility in sorting and delivery

Difficult collective bargaining in many countries, and high risk of industrial action

Reduce labour cost, e.g. TNT: job guarantee in return for wage cut

**Downsize employment**

# Conclusions

Global recession

Competition from  
new entrants

Structural changes,  
e-substitution

- Recession has similar effect on the market as other, longer term drivers of change
- Recession has accelerated need to reform, improve efficiency
- Recession puts pressure on incumbents earlier - before full liberalisation in 2011
- Chances are that incumbents will now be in a stronger position when competition arrives



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