

Intermodal competition

WHAT STRATEGIES CAN POSTS ADOPT TO COMBAT INCREASED COMPETITION IN THE COMMUNICATIONS MARKET, AND WHAT WILL BE THE EFFECT OF REGULATION?

Since the end of the 1990s, mail volumes have experienced a considerable decline in most industrialised countries. Experts agree that the decrease will strongly affect the development of postal markets in the future. Finding an appropriate co-evolution of regulation and market development has become one of the primary challenges of postal reform.

Figure 1 compares actual addressed mail volume in Switzerland to hypothetical volumes based on GDP growth rates. Before the emergence of email, GDP and mail volumes grew at approximately the same rates. The reason for the decline is the increasing convergence between postal products and telecommunications (Maegli et al, 2010). However in Switzerland, for example, there are still about 350 addressed mail items per year per person on average. If electronic means of communication are such good substitutes for physical mail – and much cheaper – why are there still such high mail volumes? Apparently physical mail possesses qualities that are not rivalled by electronic communication.

These observations raise two issues relating to the further development of postal markets:

- From a regulatory perspective, how can the increasing convergence of postal and telecommunications markets be mirrored by appropriate regulation – especially with respect to the definition of universal postal services?
- From a strategic perspective, how can mail be positioned in the mid- and long-term as a valuable alternative to email?

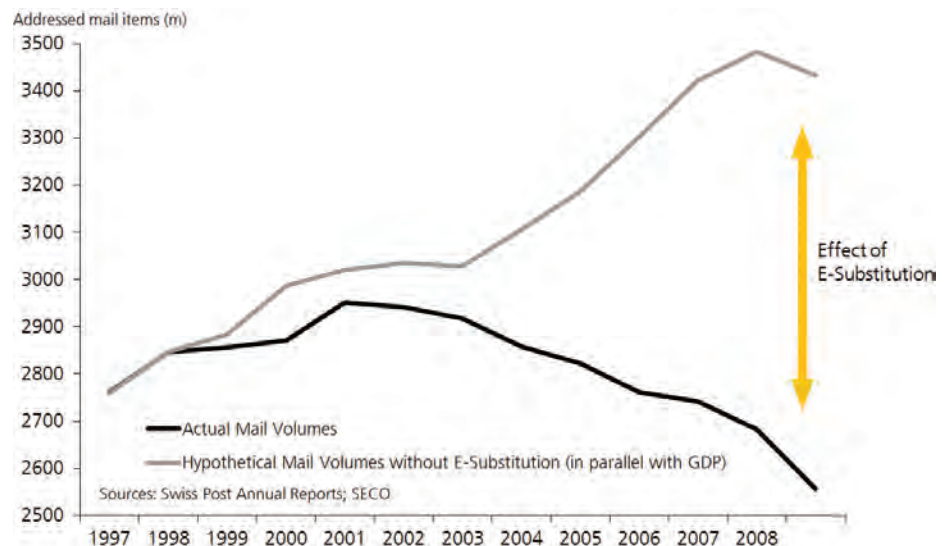


Figure 1: Actual and hypothetical mail volumes in Switzerland 1997-2009

Current universal services Universal postal services usually include a minimum range of products and services, together with constraints on accessibility to the postal infrastructure as well as quality and delivery frequency requirements. Universal Service Obligations in telecommunications ensure the ubiquitous availability of good-quality services via effective competition and choice in circumstances in which users' and consumers' needs are not satisfactorily provided by commercial means. They define a minimum set of services of specified quality to which all users and consumers should have access at an affordable price.

The inclusion of postal and telecommunications services into the definition of universal services may not only be justified by concerns of structural market power. Cremer et al (2000) provide a series of alternative economic justifications: USO as a remedy for a network externality, USO as a redistribution policy instrument, USO as a means to supply a public good, and USO as an instrument to conduct regional policy.

Electronic communication infrastructures and services allow for a nationwide use of telecommunications services at relatively low rates as well as for more flexibility in use than in physical

communication. At the same time national postal providers are mandated by law to provide cost-intensive postal services to every household nationwide due to the USO. Compared with the postal services, universal services in telecommunications do not include explicit services and applications but requires the physical connection between households at affordable prices. With the emergence of widely used secure mail services and digital identities, electronic communication has become an increasingly close substitute for mail products. Therefore regulation in telecommunications also affects hybrid forms of postal products.

Aspects of convergence The costs of some elements of the postal universal service are high, so universal service providers seek ways to abate them in the liberalisation process. An increasing number of postal operators have started to invest in digital solutions to combine them with traditional physical postal services (Maegli et al, 2007). Current pilot projects include virtual mailboxes (for example Belgian Post, Post Denmark and Canada Post), electronic billing and e-government efforts. Incumbent operators are increasingly aiming at installing secure digital identities and providing complementary services based on the telecommunications network. The relevant question is whether the universal service will be the same in the future as well as whether the evolving technologies and customer needs are changing the definition and role of the universal service.

Even though postal universal service might be considered as a fairly unvarying business during the past few centuries, a slow but constant change has been seen through its long history. From Victorian London, where mail was delivered up to 12 times per day, delivery frequency has been reduced over the years to five or six times per week. Today rapid and data-intensive communications are secured by electronic means rather than by physical delivery of letter mail. In the coming decade technological innovation will further expand communication possibilities and as market liberalisation affects postal operators, their and social role is likely to change as well.

Hybrid solutions could herald a new era in postal universal services. For example Swiss Post introduced Swiss Post Box, a hybrid alternative and complement for the last mile delivery to households. Itella recently started a similar pilot project testing alternative delivery solutions, where physical mail is delivered twice a week. Arriving mail is stored in a PO box at the local postal office and receivers are informed via SMS. At the same time the letters are opened and scanned in order to send them electronically to the receiver by means of a special system. Other examples including telecommunication solutions to meet consumer needs and facilitate delivery are Swiss Post's PickPost-Solution and Austrian Post's PickupPaket. In the latter system, addressees are alerted instantaneously when a parcel is delivered to a designated shop they have defined.

These solutions have something in common: components of the telecommunications infrastructure complement and partially replace traditional last-mile delivery. New services have the potential to replace traditional universal services such as secure mail, so distinct universal service regulations across the two sectors are being increasingly blurred. A key question soon will be: Is it necessary and efficient to have letter mail delivered every day? What are the alternatives?

The most important driver of convergence is the evolution of consumer needs towards fast and secure access to messages. The telecommunications network allows for acceleration of delivery at low cost while physical mail is more reliable but more costly. Convergence therefore relies on a combination of the strengths of both means to overcome their weaknesses.

A technologically neutral USO

Technological neutrality in the definition of the USO means that the focus is on the satisfaction of consumer needs, not on the technology used to achieve it. For example the main needs of recipients concerning postal services are physical and timely delivery. They do not really care about how these needs are satisfied as long they are. The technology used by the operator is of little interest. Put differently, if the delivery of a particular type of correspondence serves the needs of the recipient,

independently of different technologies, its delivery is technologically neutral. But do such technologies exist to ensure that the delivery of letters and other items of correspondence can be accomplished in a technologically neutral manner?

Hybrid services such as Swiss Post Box improve physical delivery; they are the secure electronic complement to the physical letterbox. Swiss Post Box guarantees worldwide 24/7 access to physical mail by scanning and emailing it in a secure unit as soon as it arrives at the sorting centre. Moreover customers can decide to have the mail physically delivered, archived or shredded. Managing physical mail during a temporary absence becomes as easy as handling electronic messaging. As a prerequisite, broadband and mobile penetrations have to reach a critical mass. Countries and governments that are strategically pushing forward their digital communications infrastructure will therefore gain a substantial and long-lasting competitive advantage.

In the above case, where mail delivery can be either physical or via hybrid services, universal services become a technologically neutral multichannel concept. Technological convergence turns the technologies in the two markets to closer substitutes than in the past and functions therefore as the cutting-edge process for a technologically neutral universal service. A technologically neutral universal service has therefore an all encompassing meaning in the communications sector and could also be referred to as 'communications universal service', and the corresponding obligation as the 'communications universal service obligation'.

Maegli et al (2010) present a unified approach with a combined communications universal service definition. This approach is built on the original idea of the USO: to safeguard the public's access to a minimum range of basic services. Under the concept of a communications universal service obligation, no matter how quickly communication technologies change, the right to a minimum level is of high importance for the economic development of a society. Therefore a unified definition of the universal service consists of the basic principle of having the possibility to

communicate from senders to receivers no matter whether it is physical or electronic

How could this work in practice? If receivers are connected to a broadband network they can receive digitised letters instantly via email. The physical delivery with a combined bundle of items could happen two or three times a week depending on the definition of the communications USO. With this combination of physical and electronic mail, the customer's need for physical and fast delivery is satisfied.

Future value proposition Despite strong competition from electronic communications means, there is still high demand for physical mail. However demand for various mail categories is developing differently. B2B volumes are decreasing, B2C volumes, including direct marketing, are slightly growing or at least stable and C2C volumes are decreasing. The future value of mail is what the physical letter sets apart from electronic messages. In general a letter enables the sender to show appreciation to the receiver and add a personal touch. Other valuable aspects are the reliability of arrival as well as better and secure data protection in closed envelopes. From an emotional perspective, a letter is more likely to stay in the receiver's memory than an email.

As email inboxes are increasingly deluged by spam, the value of letter mail is being rediscovered by marketers as a premium delivery channel for targeted direct mail. Letter mail and electronic direct marketing have been influenced by similar trends in the way they are used. Both share

a number of characteristics:

- Personalisation: They can be targeted at specific market segments, helping to increase their relevance and consequently the response rates.
- Low cost per response: Good targeting results in lower cost per response compared with less targeted approaches, such as for example telephone direct marketing.
- Measurability: They allow tracking of response rates and consequently the return on investment on each campaign.
- Confidentiality: Users can communicate their message to their specific customers or prospects without letting other customers and competitors know.

Compared with electronic direct marketing, letter mail still offers a number of distinct benefits:

- The personal touch: Receiving a tangible item such as a letter is experienced as a more personalised and involved form of contact than receiving an email or SMS.
- Tactile experience: A physical letter gives the touch and feel of the paper, as well as the smell and sound in some cases.
- Less intrusion: Letter mail, unlike electronic direct marketing, has a higher chance of being read when the recipient is more relaxed, such as when they get home from work or at the weekend.

These benefits enable postal operators to maintain their position in intermodal competition. They are also the basis for further developing their value proposition to customers. The convergence between pixels and paper will allow the development of new ways for enterprises to use letter mail in their communication vis-à-vis their customers.

Conclusion Despite strong competition from electronic communications means, there is still a demand for physical mail. As well as the strategic challenges for postal operators arising from electronic competition with traditional mail products, we argue that future discussions on the evolution of postal services should focus on the following central questions:

- What is the effect of the convergence on postal operators' business models?
- What is the value proposition of physical mail in the future?
- How can the concept of postal services in combination with digital solutions be redefined?
- How can such combinations be incorporated into universal service?

In light of the answers to these questions, evolving solutions must be developed to continue to address the primary objective of strategy and regulation: delivering and enabling what consumers want and what they are willing to pay for. ■

References

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