

Variety in Business Models. Postal Challenges and Strategies 2011

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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, mostly in Europe

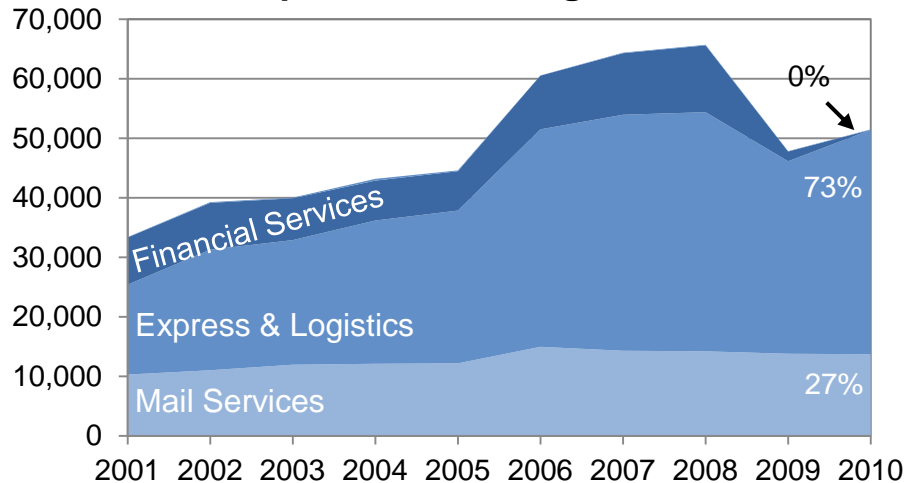
Contents of Presentation

Case studies of postal operators

- Deutsche Post DHL (DE)
- Groupe La Poste (FR)
- Itella Corporation (FI)
- Royal Mail Holdings Plc. (UK)
- Swiss Post (CH)
- TNT N.V. (NL)

**Challenges and
strategic options
for postal operators**

Revenues per business segment in m EUR



➤ Current position

- Mail revenues modestly down
- Express & Logistics revenues up
- Postal Bank divested

➤ Strategic objectives for 2015 ('Strategy 2015')

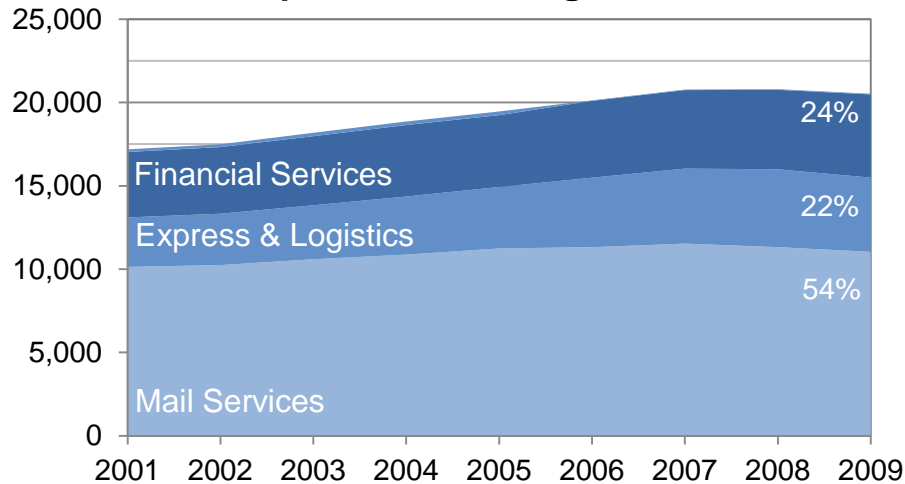
- Maintain the position as 'the postal service for Germany' / maintain focus on core business
- Become 'the number one logistics company for the world' / cautious approach to target global growth markets & industries
- Increased focus on digital communication ('E-Postbrief')

Profits per business segment in m EUR (2010)



Groupe La Poste

Revenues per business segment in m EUR



➤ Current position

- Mail revenues decline despite price increases
- Modest growth in express & financial
- Strong in financial services

➤ Strategic objectives for 2015 (‘Ambition 2015’)

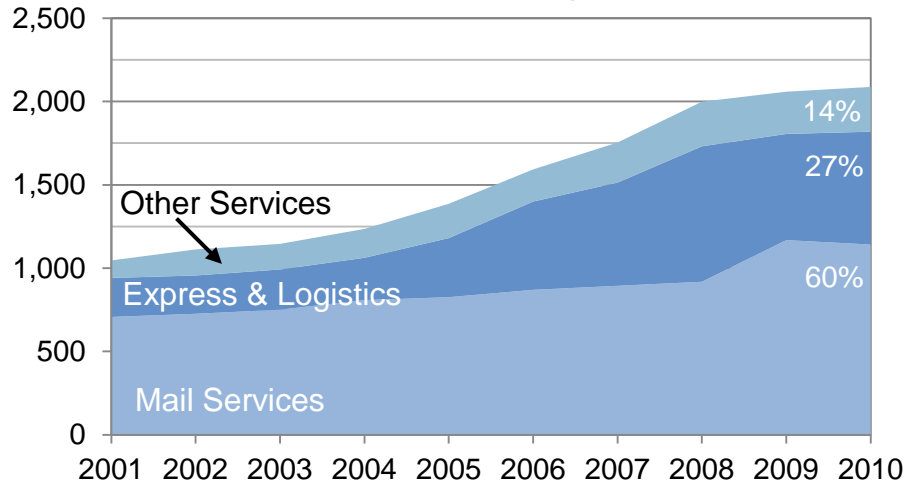
- Focus on Parcel & Express in Europe / plans to enter new markets in Europe
- Focus on Financial Services
- Modernise post office network & technological innovations for mail in France
- Foster innovation in mail products (‘hybrid mail services’, mobile access)

Profits per business segment in m EUR (2009)



Itella Corporation

Revenues per business segment in m EUR



➤ Current position

- Mail volumes decline, shaky revenues
- Solid revenues in Express & Logistics
- Profits rely on mail

➤ Strategic objectives for 2015 (‘Vision 2015’)

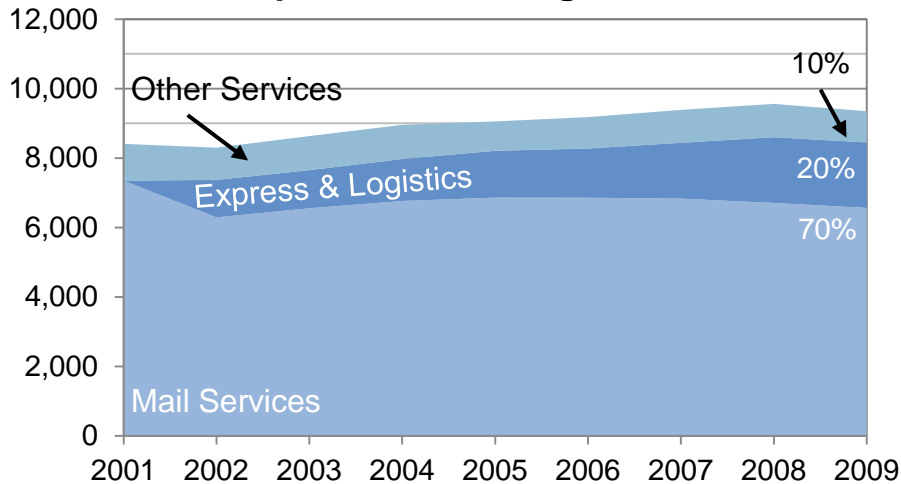
- Focus on Information and Logistics
- Expand further to markets Europe and Russia
- Clear footprint in digital communication
- Focus on ‘high-value solutions business’

Profits per business segment in m EUR (2010)



Royal Mail Holdings Plc.

Revenues per business segment in m GBP



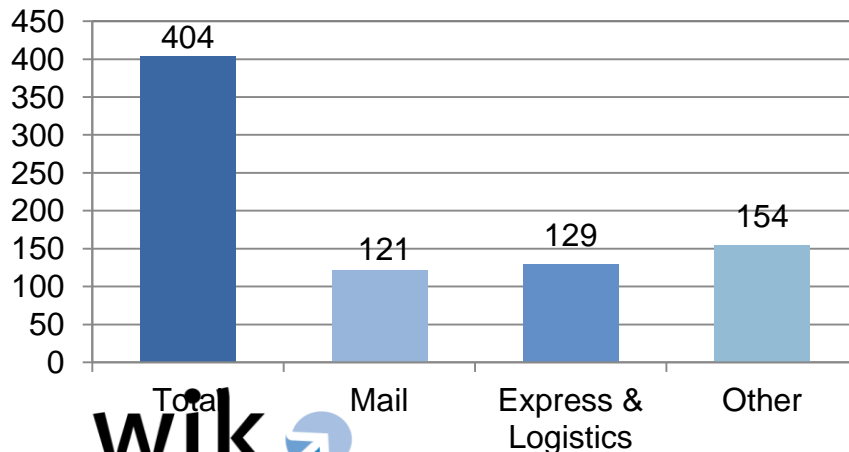
➤ Current position

- Mail revenues decline despite price increases – revenue affected by downstream access competition
- Instability due to pending postal legislation
- Profitable parcels & express business

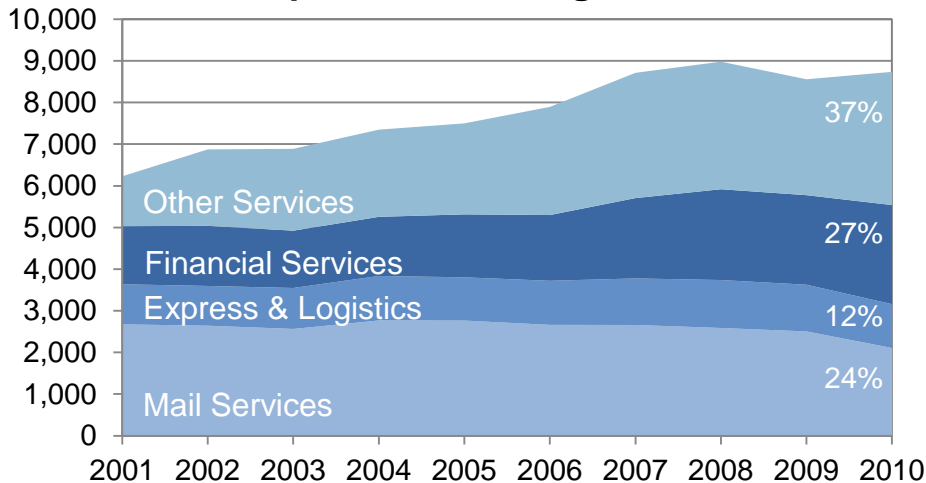
➤ Strategic objectives

- Focus on modernising operations - 'World Class Mail programme' running since 2006
- Reduce number of mail centres
- Expand range of insurance products offered in post offices

Profits per business segment in m GBP (2009)



Revenues per business segment in m CHF



➤ Current status

- Mail revenues decline
- Profitable financial services
- Reduced presence in foreign markets

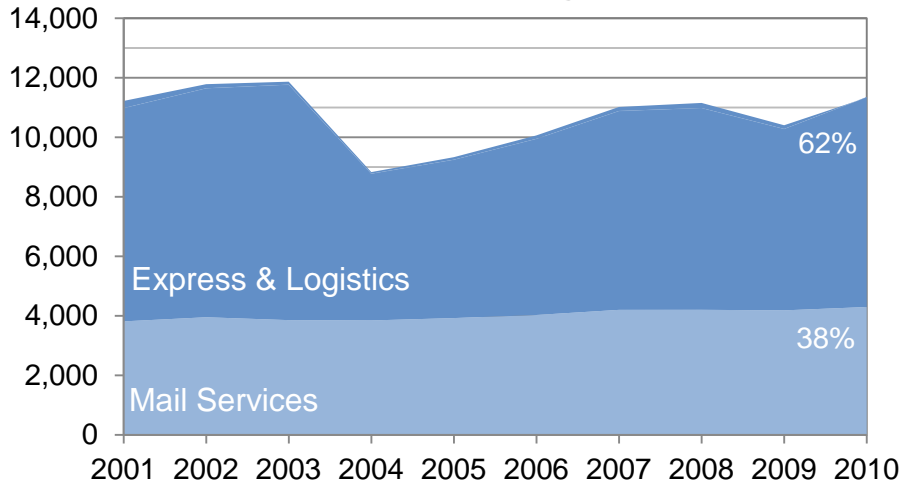
➤ Strategic objectives for 2010-2013:

- Focus on domestic market
- ,In the next three years, Swiss Post will focus even more heavily on four areas of activity: communications, logistics, retail finance and public passenger transport'

Profits per business segment in m CHF (2010)



Revenues per business segment in m EUR



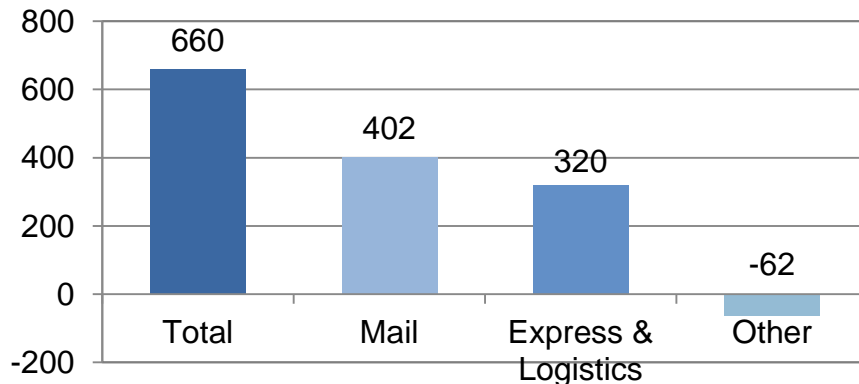
➤ Current status

- Mail revenues stable, but volumes decline
- Separation of TNT

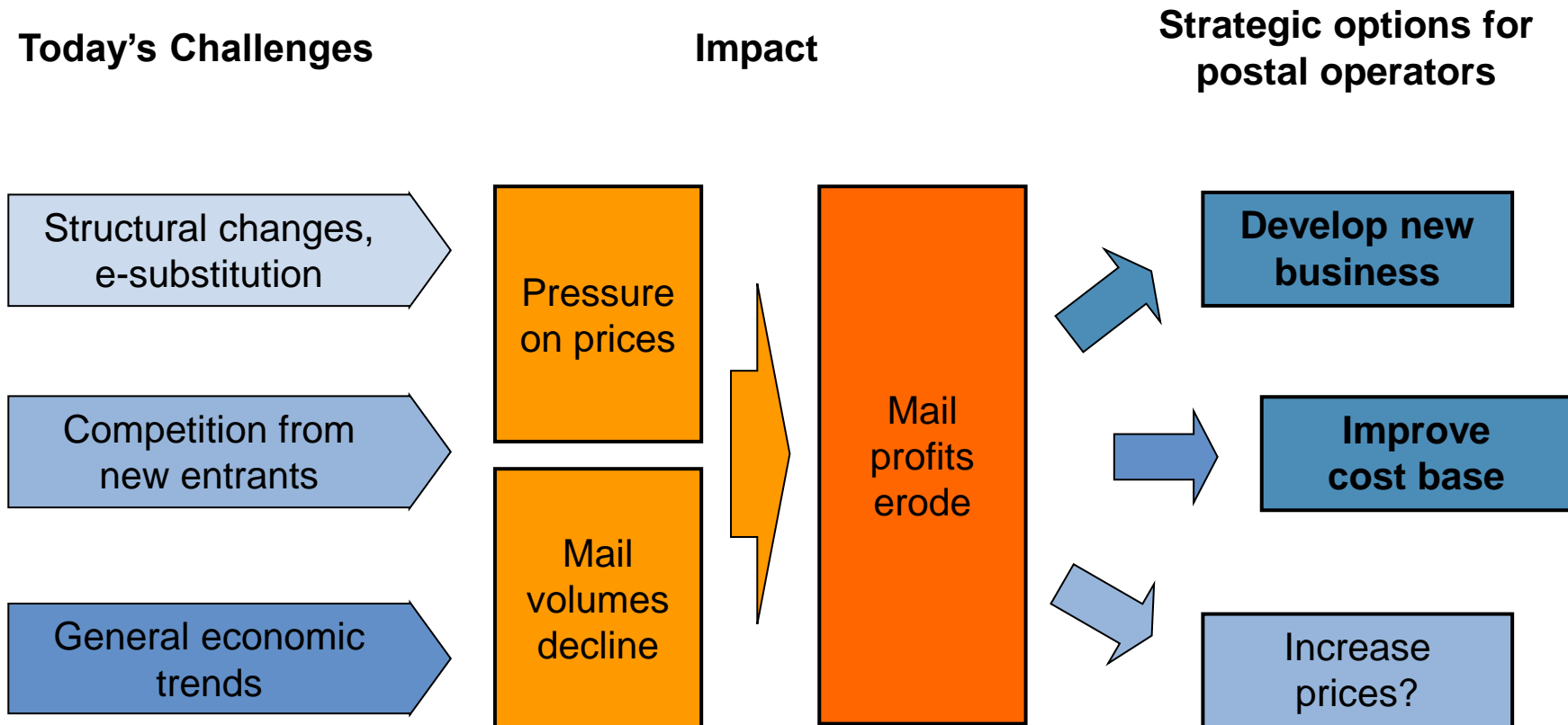
➤ Strategic objectives for 2015: ('Vision 2015')

- PostNL (Mail): Expand in areas with core competencies
 - Mail in the Netherlands, Germany, UK, and Italy
 - Parcel operations
- TNT Express
 - Strengthen existing express business
 - Expand to adjacent markets: high-end standard parcels, value-added services

Profits per business segment in m EUR (2010)



Challenges and Strategic Options



Improve Cost Base

Restructure branch networks

- Deutsche Post now converted all post offices to agencies
- 900 of 1050 Itella outlets are now agencies

Reduce employment

- Royal Mail reduced employment by ~65,000 since 2002. 1,700 further job cuts planned
- Swiss Post saved 23 m CHF in staff cost 2010.

Optimise sorting networks

- Continuous modernisation & new sorting technology at many postal operators
- Automated sequencing gets better and better
- Royal Mail expects to achieve annual savings of £30 million by closing mail centres in Greater London

Outsource employment

- Contract drivers at several parcel operators
- Some mail operators acquired competitors with lower/more flexible wage structures. E.g. Network VSP (NL), First Mail (DE). No massive outsourcing yet

More flexible delivery networks

- Deutsche Post reduced delivery of direct mail on Mondays. That way, fewer sorting centres need to operate on week-ends
- TNT Post considers reducing weekly deliveries to 3 for some products

Consolidate IT systems

La Poste plans to consolidating IT activities of Retail and Banque Postale, expects €70 million savings by 2012

Develop New Business

Expand to international markets

- TNT & DHL in express & mail
- La Poste and Royal Mail in parcels
- Itella & Swiss Post Solutions in document management
- Nordic posts in logistics

Extend parcel pick up / promote e-commerce

- Deutsche Post: massive roll-out of automated pick up stations (>2,500 'Packstationen')
- Itella introduces pick up in kiosks
- Royal Mail to relies on pick up in delivery offices - plans to extend opening times

Develop products for secure electronic communication

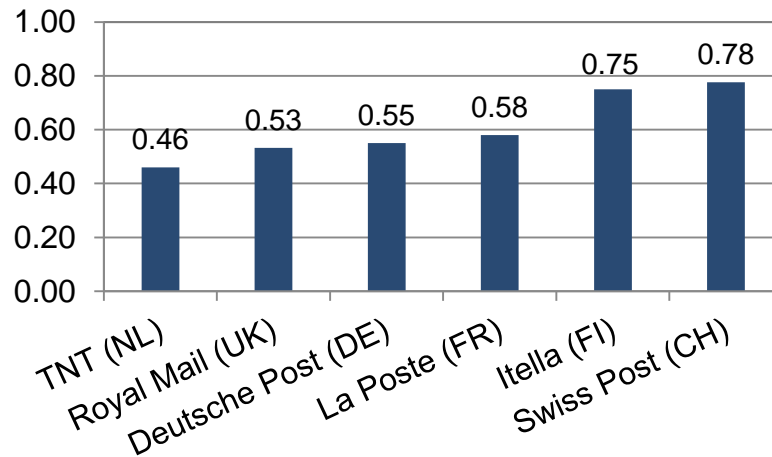
- Itella: NetPosti
- Deutsche Post: 'E-Postbrief'
- Swiss Post: Inca Mail, Swiss Stick and Swiss Post Box

Extend portfolio of financial services

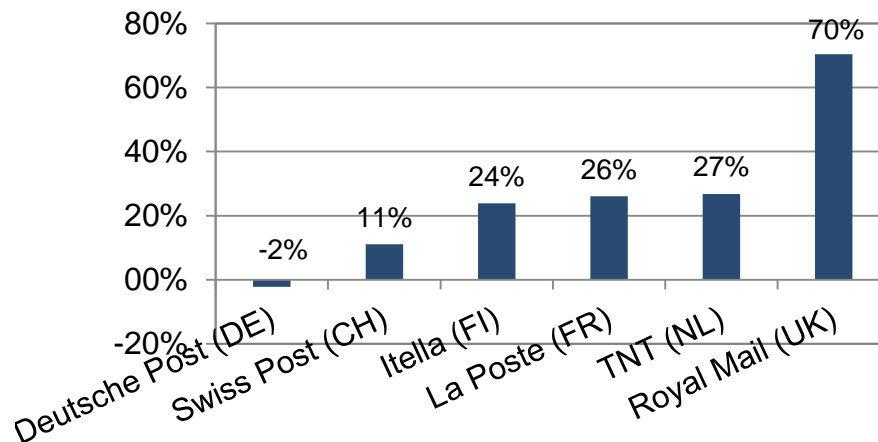
- La Poste: E.g. Third party insurance and credits for SME's
- Royal Mail: E.g. car and home insurance, a 'two-in-one' credit card

Increase Prices

Letter post tariffs (FSC, 20g) in 2011



Increase in letter post tariffs (FSC, 20g) 2000-11



- Substantial recent increase in public tariffs – justified by volume decline
- Bulk tariffs likely increased less
 - More competition for large senders – other media & mail competition
 - Difficult for postal operators to enforce price increases to large senders
- Price increases may create risk of further volume declines
- Public tariffs generally controlled by regulators



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