

Trends and Challenges in Cross Border Mail Markets

a speech delivered by Bernhard Bukovc, Director Intercompany Pricing & Regulation
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The presentation focused on the developments of the cross border mail markets in Europe, its characteristics, the REIMS system, an analysis of future developments with regard to communication trends and its implications for the role of mail in 2020.

Characteristics of European cross border mail market

Cross border mail has an average market share, as compared to domestic mail, of about 4-5% in Europe. There are only very few countries, such as Ireland or Luxembourg, where the share of cross border mail is significantly higher. Volume concentration is another important characteristic of the market. 19% of the flows cover 80% of European cross border letter mail volumes. This shows that European DOs ('Designated Operators') exchange on average more than 60% of their volumes with only five trading partners. If we consider all European flows, i.e. the individual flows between countries, the vast majority (above 550) cover less than 10 Mio. items each. Only 19 European flows cover more than 30 Mio. items each.

REIMS

The REIMS system has been established in order to provide its parties with cost-covering commercial terminal dues rates that respond to the EU legal requirements. The fact that it exists already for many years proves its success, although the volumes within the system have been decreasing over the last years. Most of the EU countries are in the system, some however only with contractual relationship to selected posts and not all parties. Currently, among the EU DOs only Royal Mail, Bulgaria Post, Cyprus Post and Malta Post are completely outside the system.

On 1 January 2010 the new REIMS IV Agreement entered into force. As its predecessors, its main elements are the terminal dues geared to costs, a broad quality of service measurement as well as strict penalty and incentive mechanisms. A survey among the parties during 2009 showed that the system's main advantages are still the adequate reflection of the costs, the measurement in combination with penalties and incentives, the convenience of having only one agreement instead of innumerable bilateral agreements and the compliance with EU regulations.

There are however risks to the system. Due to some European DOs not participating and increasing domestic access as well as foreign sales activities the REIMS system covers today only about one third of European cross border mail. The challenge for the coming years will be to continue to amend the system in order to adapt it to the parties' commercial needs and to erase legal uncertainties. Some parties have left the agreement in order to apply the cheaper UPU rates, although they are considered by the vast majority of European DOs as non-compatible with EU law. However, as long as this legal uncertainty prevails there is the risk of more parties leaving the system.

Scenario 2020

Within the next five to ten years the communication behaviour will change significantly. IPC together with the Copenhagen Institute for Futures Studies has carried out an analysis of the societal changes and

its impact on mail. Its main findings are that mail customers will become more environmentally conscious, will come to expect more flexible and customized services from postal carriers, will show increasing demand that their mail be either delivered to online accounts or to be redirected to the place that is most convenient for them (at work, local store, school, at home etc.) and will expect to automatically trace letters giving them a greater sense of control.

The study further explains that there is a sustained transition away from letter mail (as can also be seen in current market reports). One-third of enterprises substituted all or a major portion of their communication with digital alternatives. These can be considered as innovators / early adopters that could lead the diffusion of innovations that will change a population's communication behaviour fundamentally. There is evidence that this trend is expanding (businesses and governments' transition towards ICT). Mature postal markets that have high-level of broadband penetration (US, Northern Europe) will most likely experience most significant declines. Direct mail may, however, increase because it could circumnavigate digital filters that will be an increasing barrier for efficient internet marketing.

The future cross border mail market

Current market liberalization in Europe has led to hopes that the future postal market will be dominated by considerable competition. However, there are various good reasons why this is not going to happen in the expected manner. First, we can see in markets that are already liberalized such as UK, Germany or the Netherlands that end-to-end (delivery/inbound) competition is not really happening, with a few exceptions. For example, the 0,2% level of end-to-end competition in the UK has decreased last year by a further 15% instead of growing. Big players, such as TNT, are changing their strategies and have announced market retreats. Delivery or inbound competition will therefore be very unlikely for the future European mail market (who wants to invest in a declining market?). Outbound competition might provide good opportunities, but is only serving – if at all – big customers. Niche players with special services and products might be able to find profitable business.

Overall, mail volume declines will force postal operators to adapt their business strategies, look for cooperation and decrease costs. Quality and value added services will become increasingly important to compete with Information and Communication Technology (ICT).

In order to address the operators needs, the REIMS system could provide a valuable tool - in conformity with EU law and on a attractive commercial basis - in this respect for the future.