

MAIN DEVELOPMENTS IN THE POSTAL SECTOR BETWEEN 2017 AND 2021

Presentation to the Postal Service Directive Committee
December 12, 2022

Copenhagen Economics

- Established in 2000
- Offices in Copenhagen, Stockholm, Helsinki and Brussels
- Single expertise: Economics
- 85+ employees, Ph.D. or M.Sc. in Economics
- Multiple nationalities and spoken languages: English, Danish, Swedish, Finnish, German, French, Spanish, Italian, Lithuanian, Romanian, Hungarian
- Dedicated to 14 service areas, incl. Postal & Delivery, State Aid, Climate & Sustainability, TMT & Digital



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The outcome of the project: A 360 page report + country annexes

- Chapter 1 Important postal developments
 - 1.1 Structural letter post volume decline
 - 1.2 Growing volumes of parcel and express deliveries
 - 1.3 Evolution of universal service providers' financial performance
 - 1.4 Market responses to main market developments
 - 1.5 Developments in quality of service
 - 1.6 Developments affecting cross-border parcel flows
- Chapter 2 Developments in the universal service and consumer protection
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 - 2.3 Complaints and user satisfaction
 - 2.4 Application of tariff principles
 - 2.5 Cost accounting and funding of the USO
 - 2.6 Standardisation of letters and parcels
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- Chapter 5 Environmental sustainability in the postal sector
 - 5.1 Environmental impacts of the postal services logistics value chain
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 - 5.3 Challenges to achieving carbon neutrality
- Chapter 6 The impact of the Covid-19 pandemic on the postal sector
 - 6.1 Impact of the pandemic on market developments
 - 6.2 Impact of the pandemic on the provision of postal services
 - 6.3 Quality of service and operational bottlenecks
 - 6.4 Postal regulatory response to the pandemic
- Chapter 7 Cost structure, retail prices and rebates of parcel delivery
 - 7.1 A generic cost model for cross-border parcel deliveries
 - 7.2 Comparison of cross-border parcel delivery costs with retail tariffs

Please add suitable images
for the different chapters



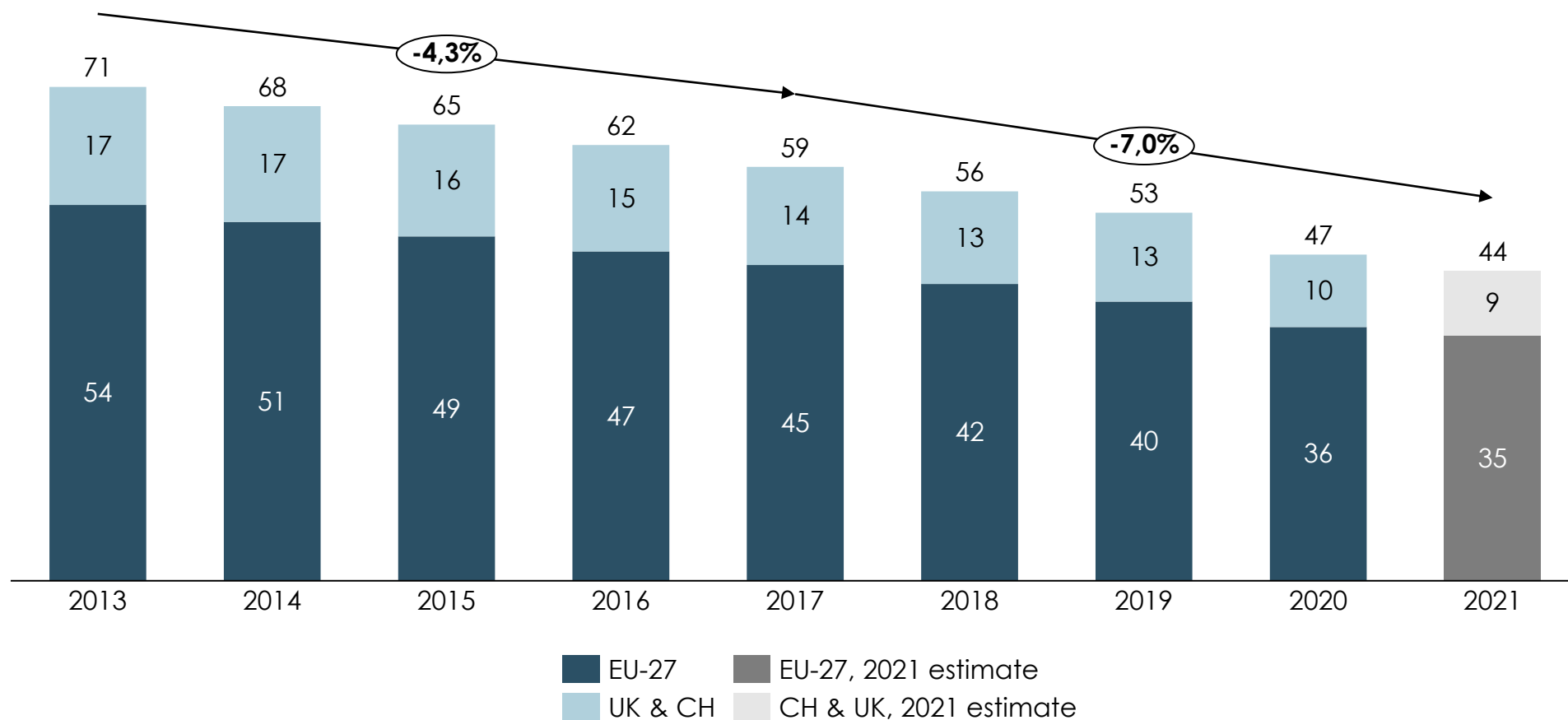
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Key market developments

Domestic letter post volumes declined by 7% 2017-2021

Domestic letter post volumes, single-piece and bulk, total market, 2013-2021, Europe (28 countries)

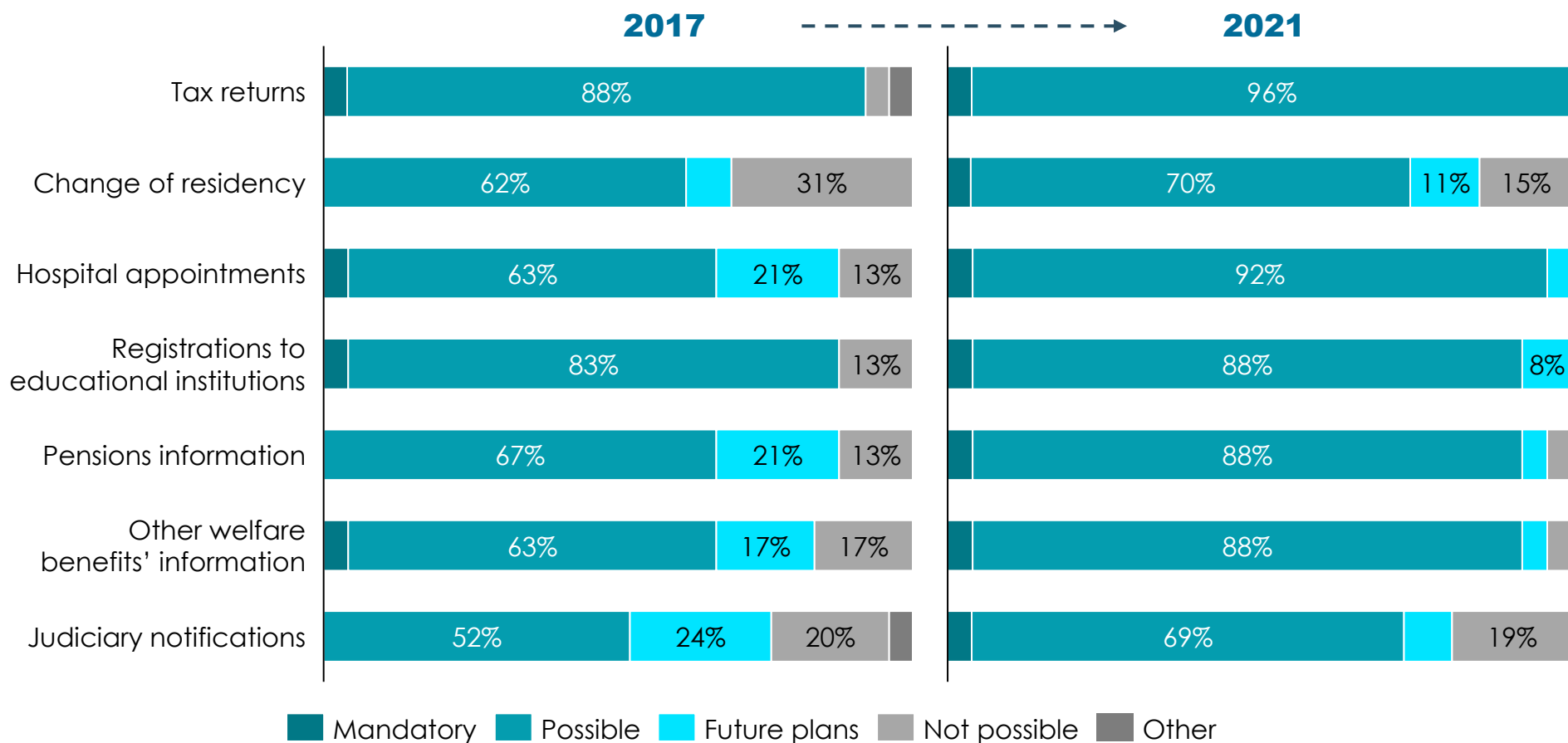
Items, billions; change is reported as compound annual growth rate (CAGR)



E-substitution is the main explanatory factor

Digital communication with public authorities, 2017 vs 2021, Europe (27 countries)

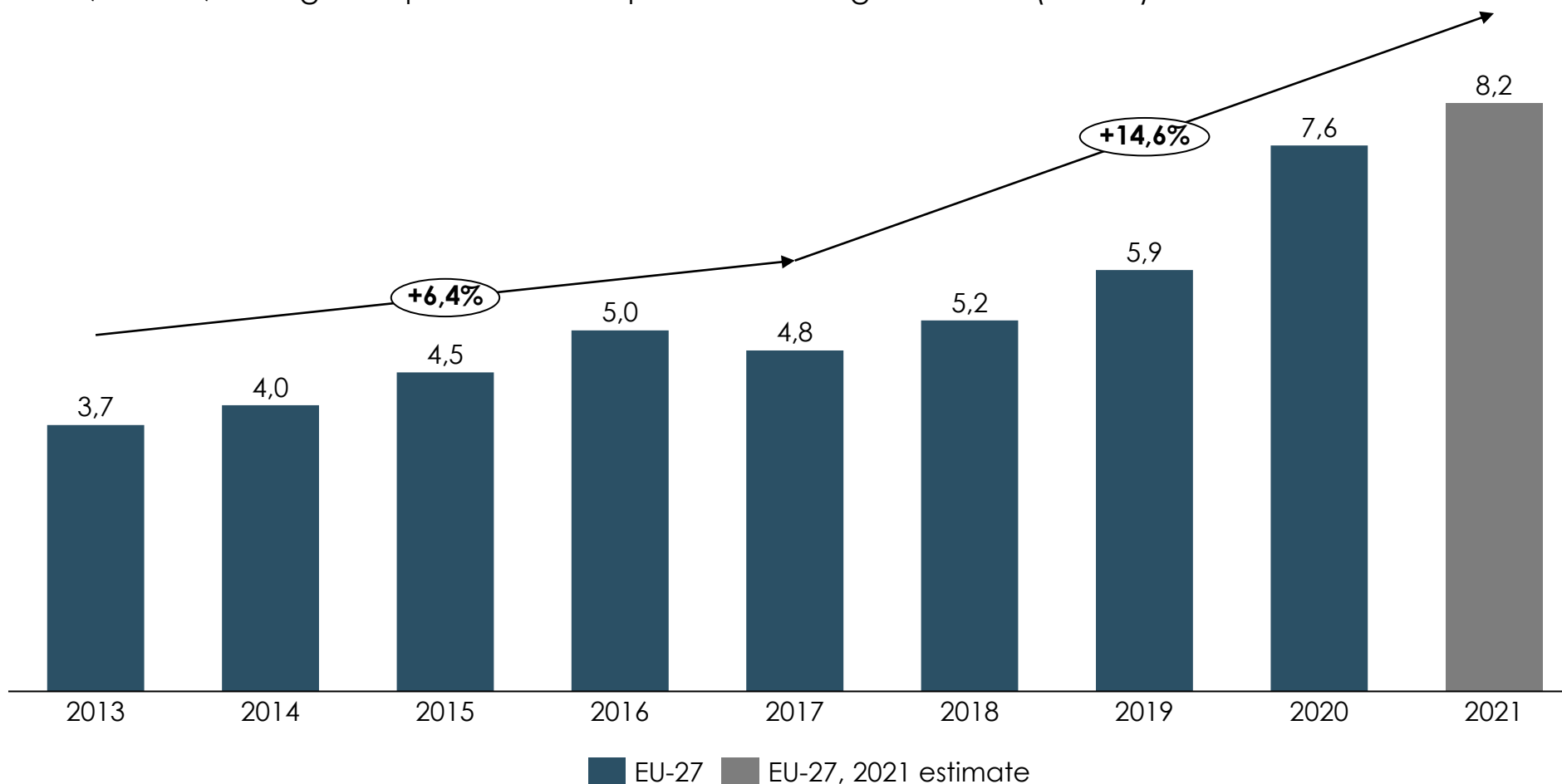
Share of countries (%)



At the same time, demand for parcel delivery has increased at an accelerating rate 2017-2021

Domestic parcel volumes, total market, 2013-2020, Europe (23 countries)

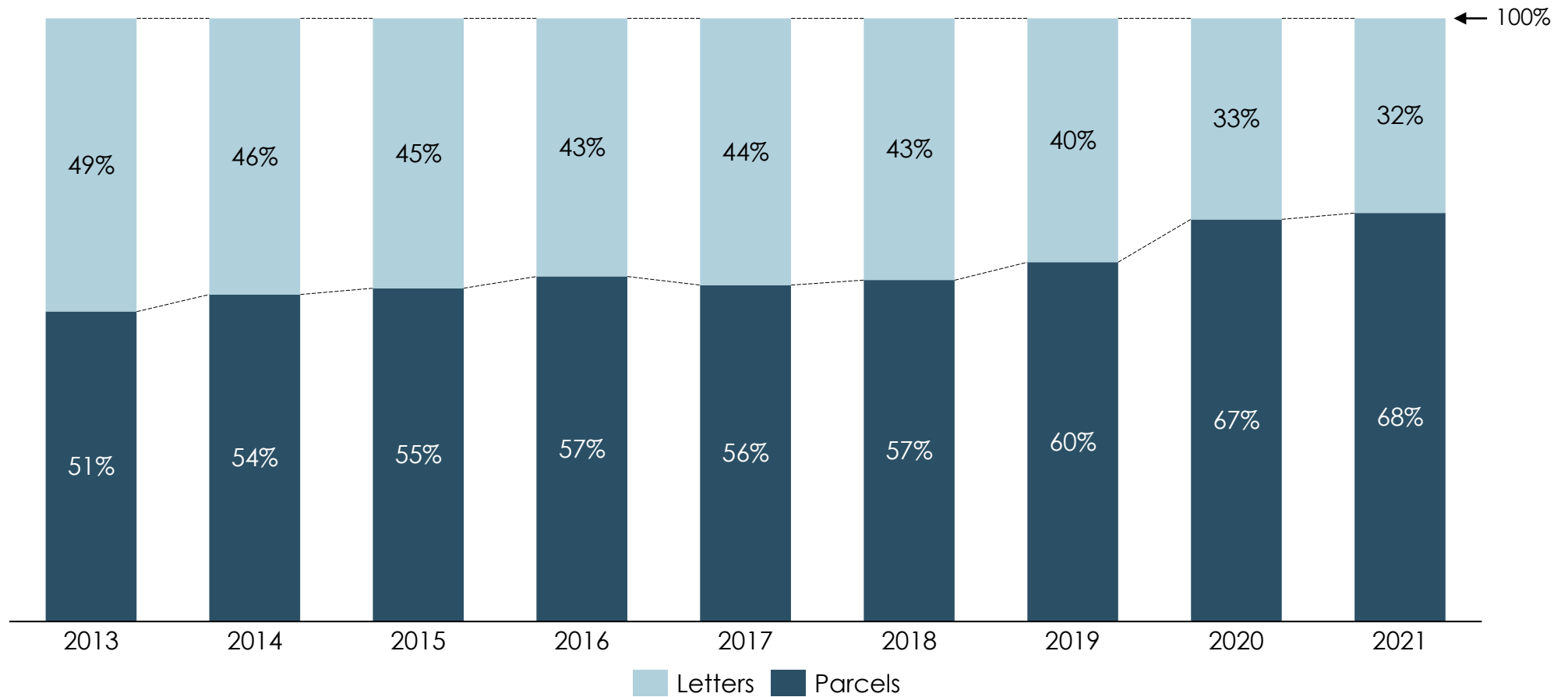
Items, billions; change is reported as compound annual growth rate (CAGR)



As a result, parcel and express services make up an increasingly larger share of total revenues for operators

Development of postal revenue, total market, 2013-2021, Europe (26 countries)

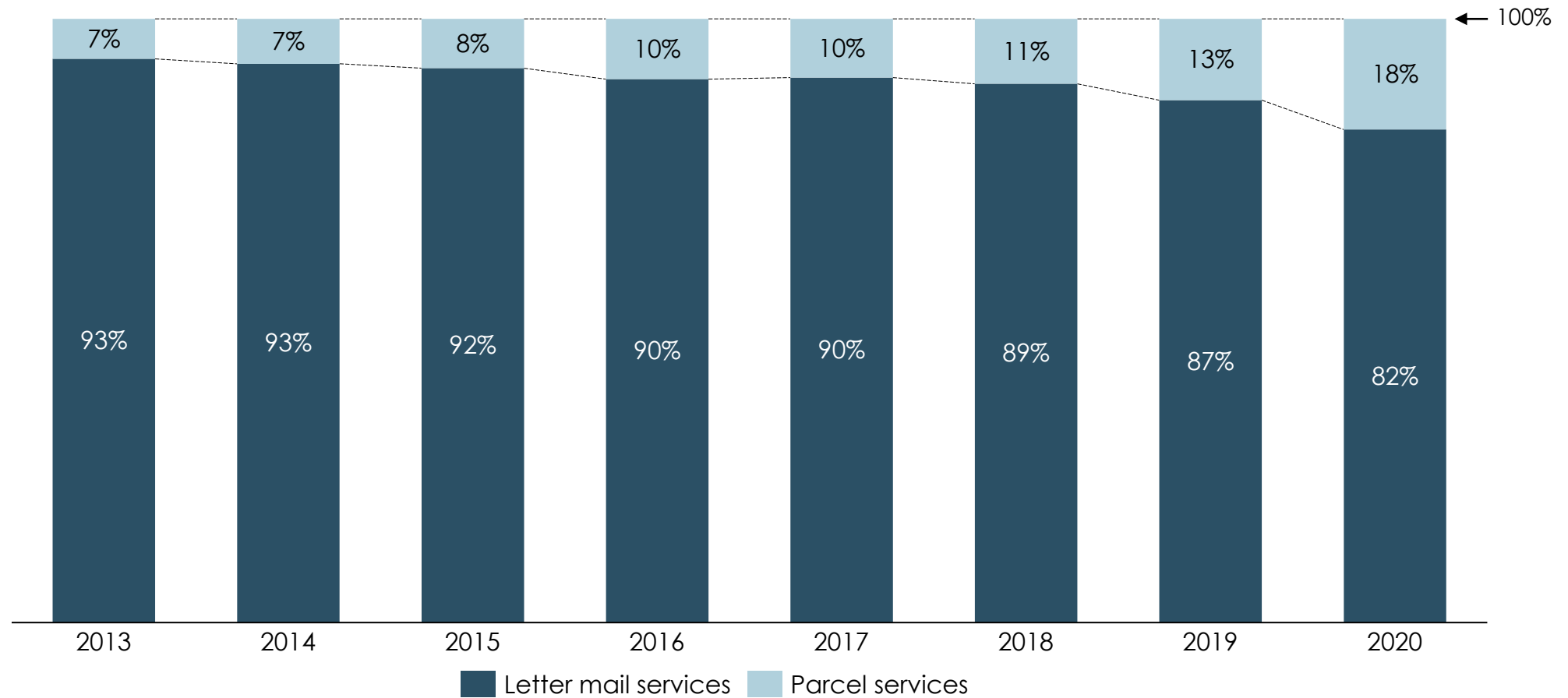
Composition of revenue in %



However, in terms of volumes, operators still deliver four times more letters than parcels

Share of total domestic postal volumes, letters and parcels, total market, 2013-2020, Europe (23 countries)

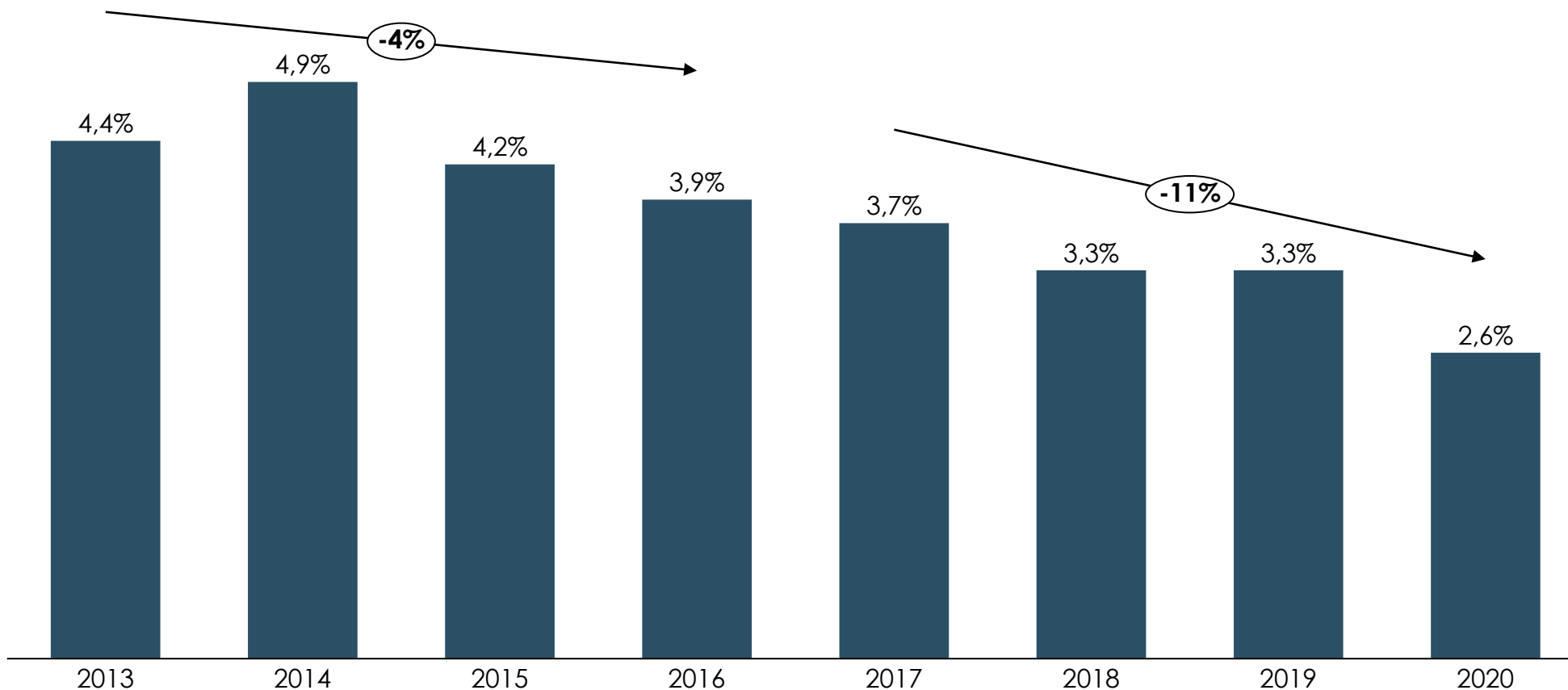
Composition of volume (%)



These developments have resulted in declining EBIT margins for postal USPs

Average EBIT (total business), USPs, 2013-2020, Europe

EBIT in per cent; change reported as compound annual growth rate (CAGR)



There are mainly two ways of ensuring financially sustainable provision of postal services

- Increase revenues (increase prices, ensure public funding)
- Reduce costs (cut quality or service levels)

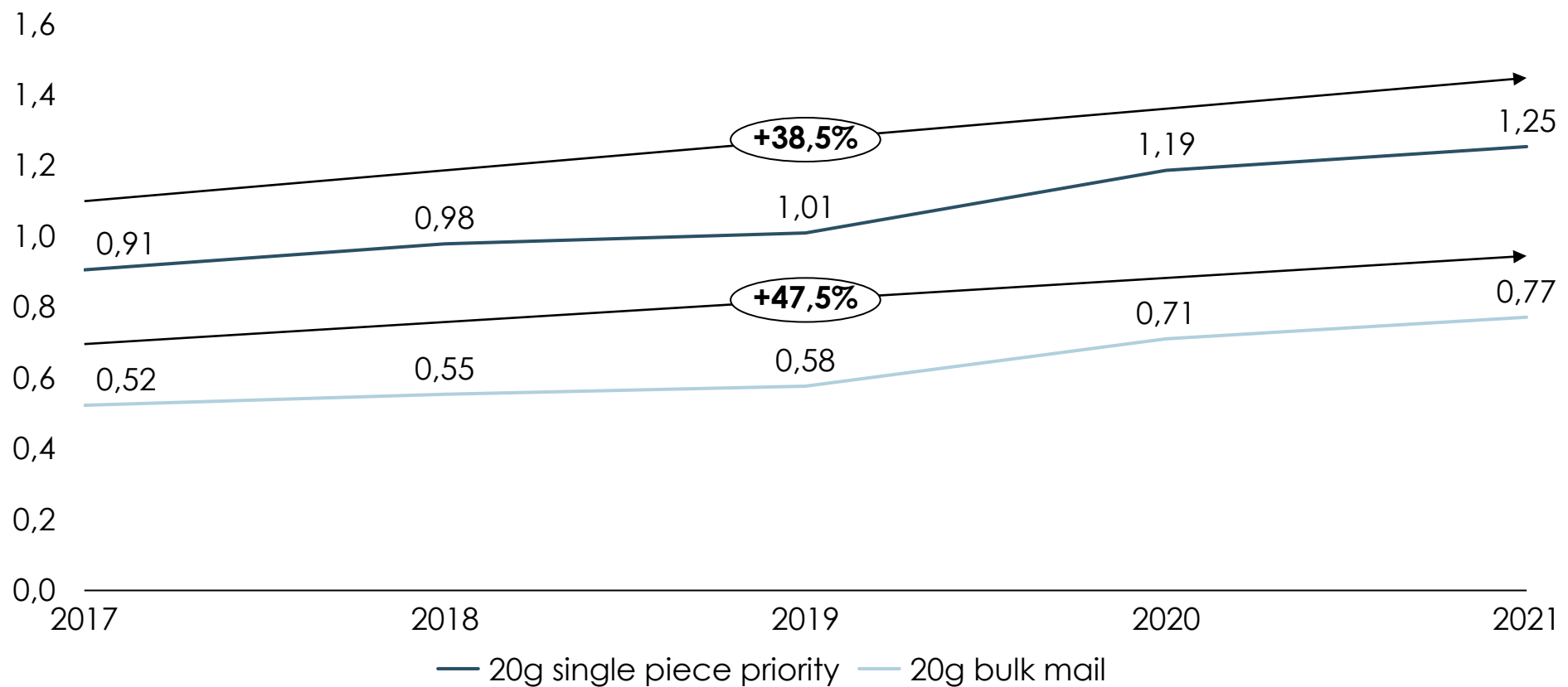
- Sometimes, regulatory changes/intervention is needed, such as:
 - Reduction in USO scope
 - Relaxation of price regulation

ACTIONS TO INCREASE REVENUES

Prices for single piece and bulk letters have continued to increase 2017-2021

Domestic 20g letter prices, single-piece letter vs. bulk mail, unweighted average, 2017-2021, Europe (14 countries)

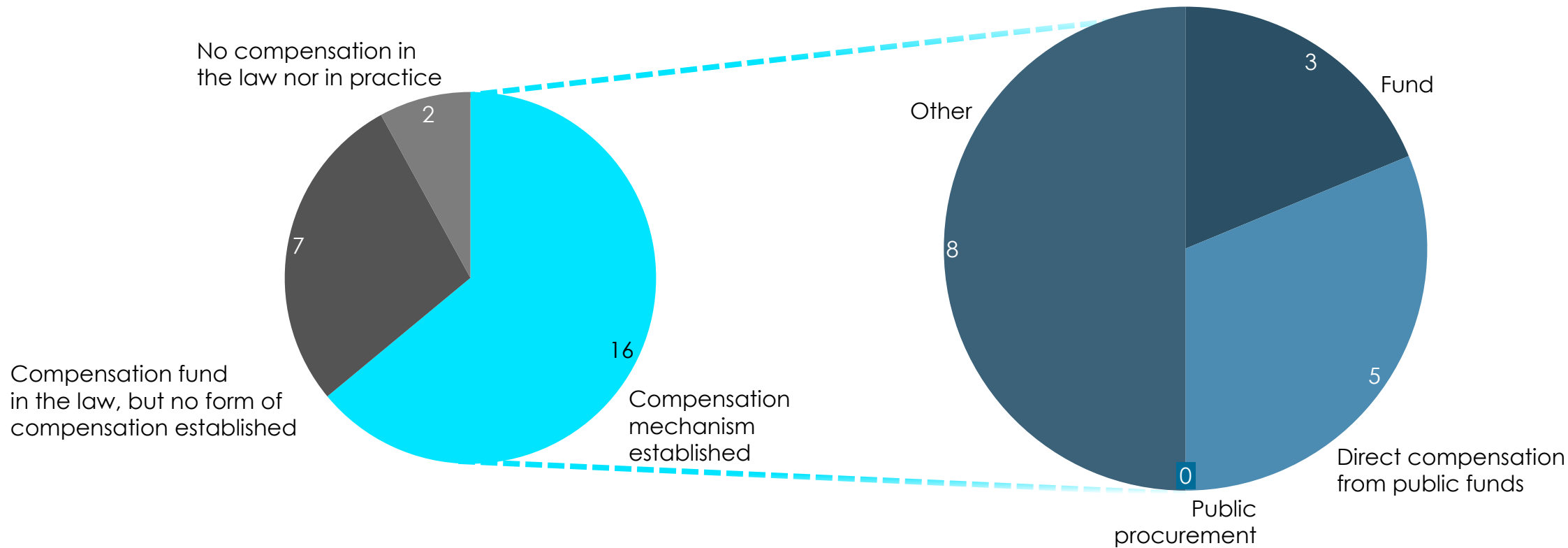
EUR, unweighted average



The majority of countries have authorized different forms of compensation by law

Compensation mechanisms for the funding of USO net costs

Number of countries

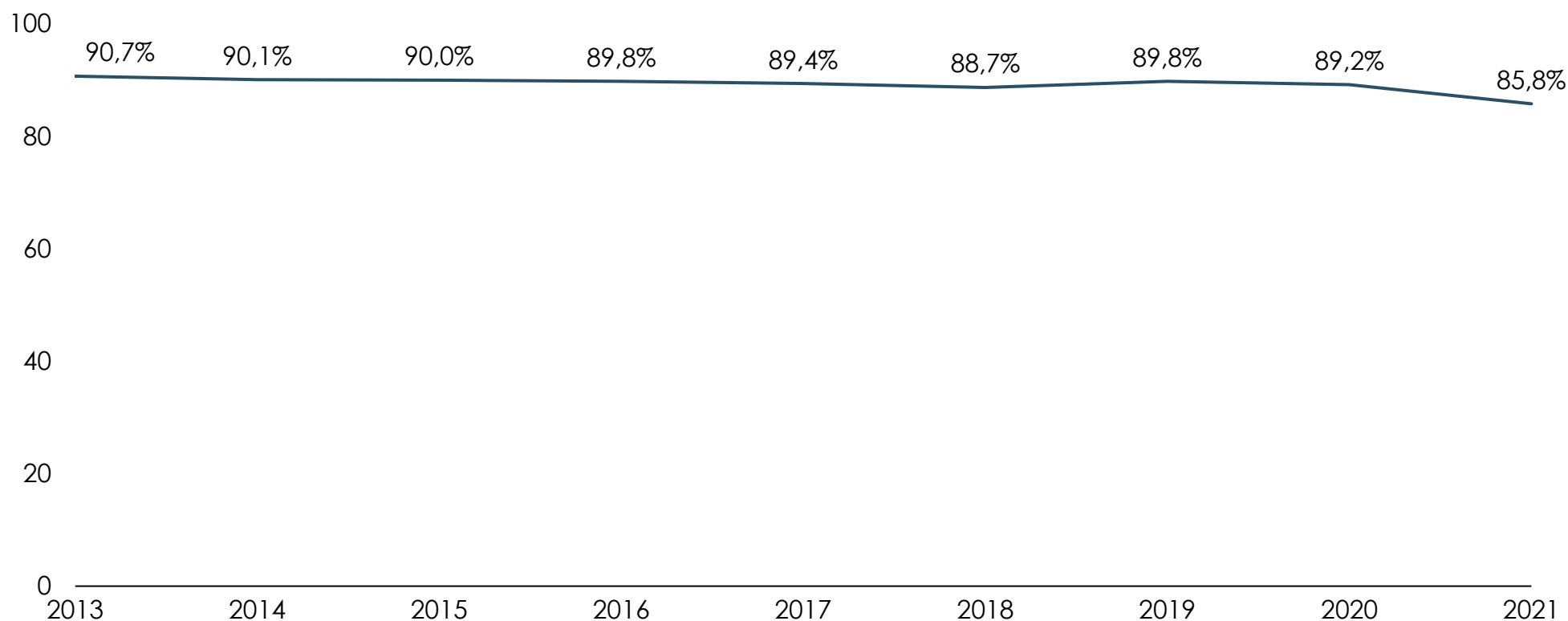


ACTIONS TO REDUCE COSTS

The quality of service of priority mail has slightly declined during the 2013-2021 period

D+1 delivery performance, 2013-2021, Europe (19 countries)

% of D+1 letters that arrived in D+1, median across all 19 countries



Please try to find a better way of illustrating these changes.

Summary of main changes to the postal USO 2017-2021

Product scope	Delivery frequency	Delivery speed	Price regulation
BE (2018): Bulk parcels excluded from the USO	<p>FI (2017): 3 days in areas with competing networks for newspaper delivery 5 days per week</p> <p>DK (2018): 1 day (letters)</p> <p>NO (2020): 2.5 days</p>	<p>FI (2017): D+1 → D+4</p> <p>NO (2018): D+1 → D+2</p> <p>SE (2018): D+1 → D+2</p> <p>BE (2019): D+1 → D+3 (still D+1 priority available)</p>	<p>IE (2017). Price cap removed</p> <p>SE (2019): Adjustment to price cap regulation</p>
	<p>Introduction of alternate day delivery models in Belgium (2020) and Sweden (2021) without change in five day delivery frequency requirement.</p>		

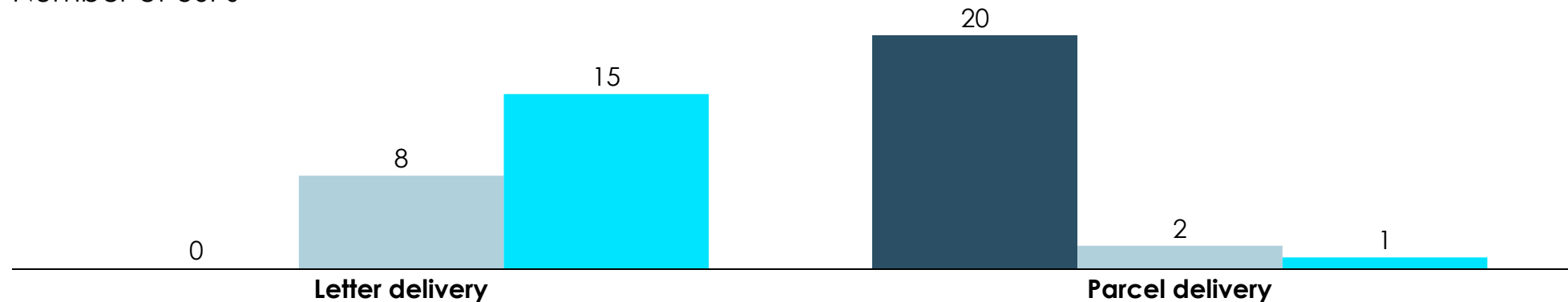
2

THE IMPACT OF THE COVID-19 PANDEMIC

A majority of USPs noted a clear trend of declining demand for letter services and increasing demand for parcel delivery services during the pandemic

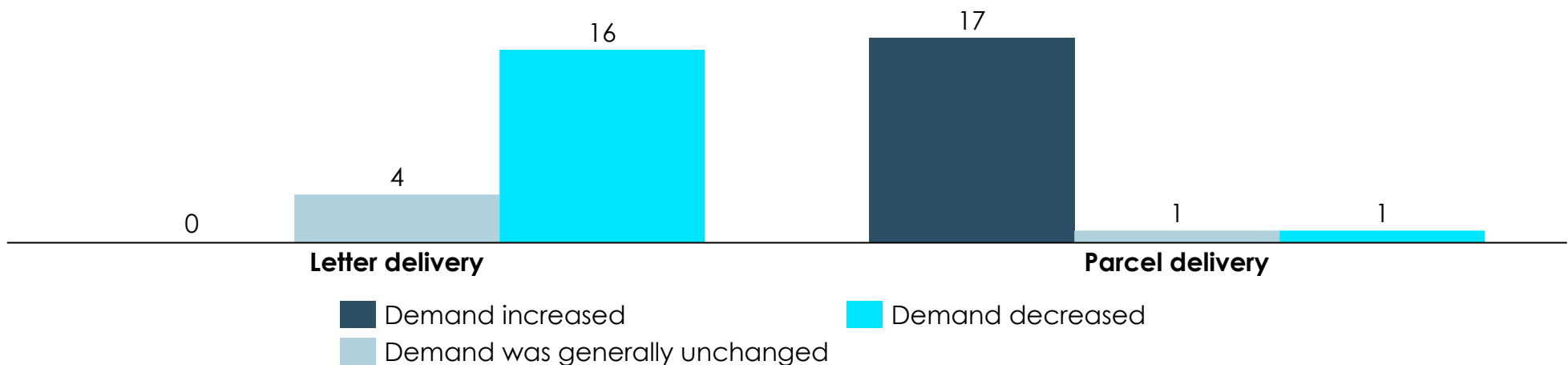
Change in demand for letter and parcel delivery services, individuals

Number of USPs



Change in demand for letter and parcel delivery services, businesses

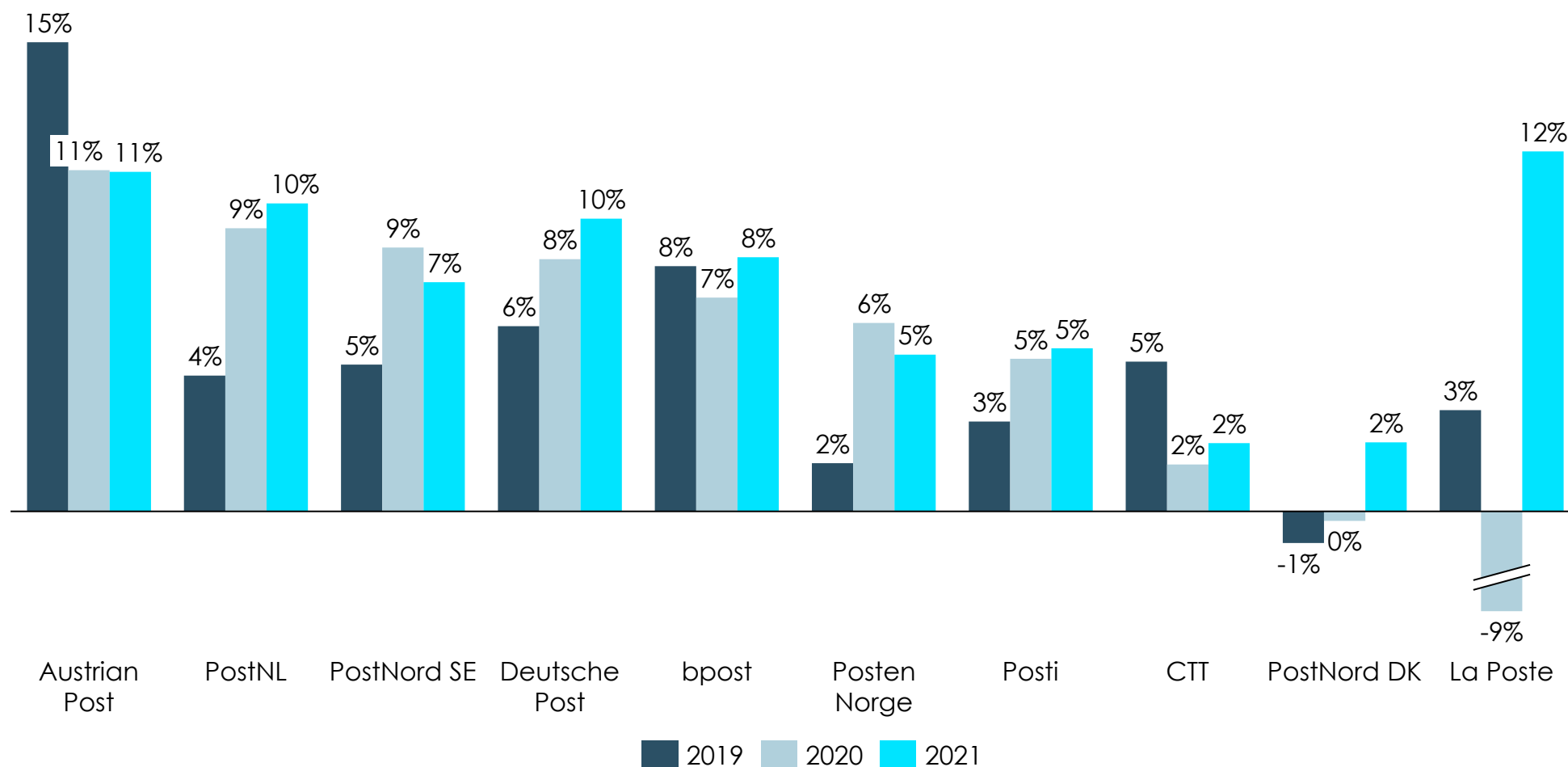
Number of USPs



Despite gloomy estimates at the start of the pandemic, many operators were profitable between 2019 and 2021

USPs' profit from letter and parcel segments, 2019-2021

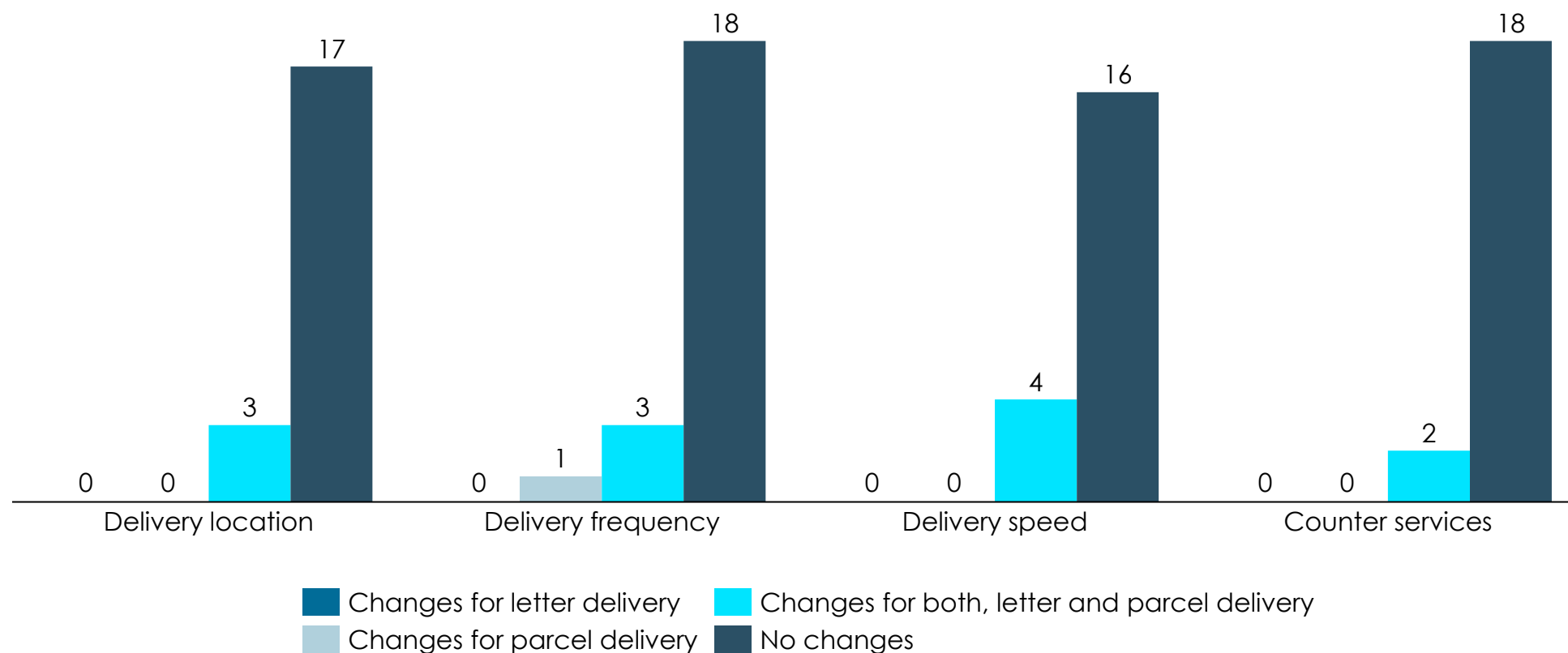
EBIT margin in per cent



The majority of operators did not change the level of services offered for letter and parcel delivery

Changes in service level offered as a result of the pandemic

Number of USPs



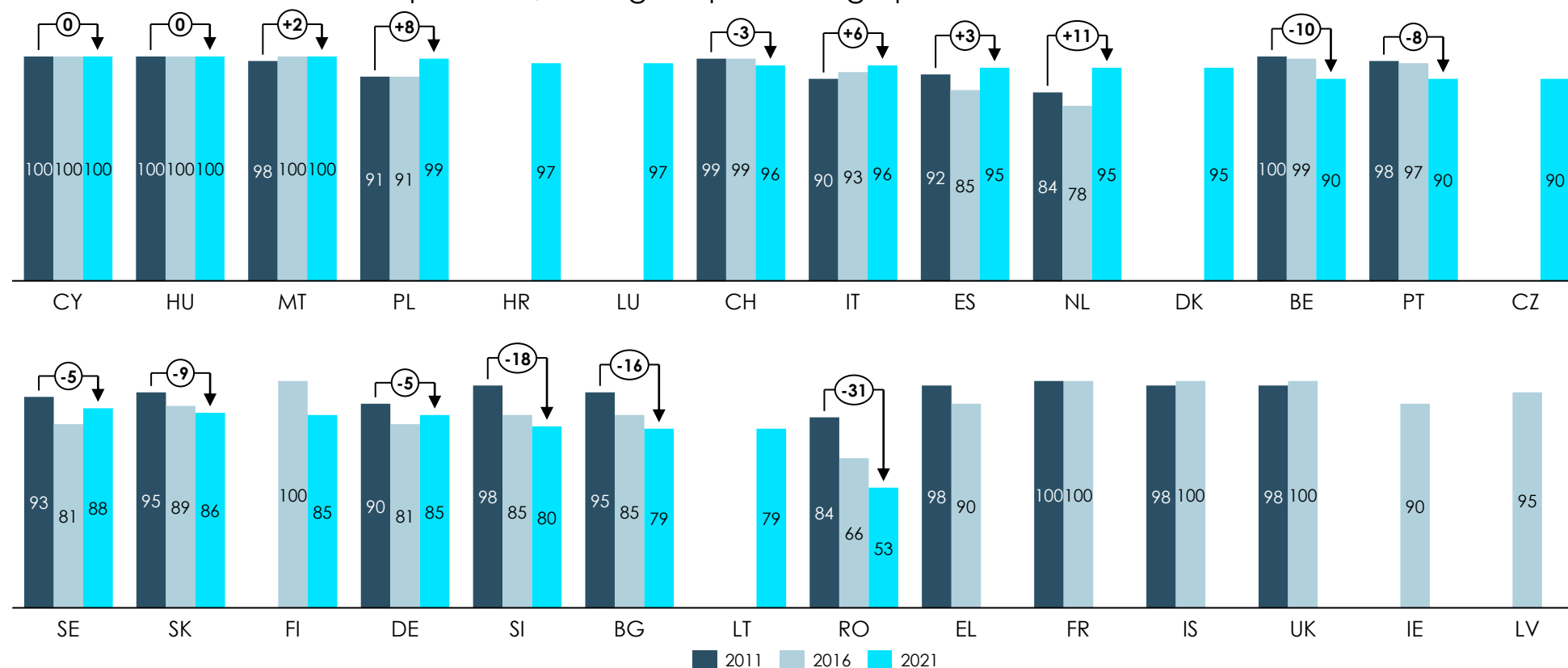
3

CHANGES IN THE COMPETITIVE LANDSCAPE

The development of the USP's market share in the letter mail segment varies across Member States

Development of incumbent's market share in the domestic addressed letter mail delivery market, 2011-2021

Market share incumbent in per cent, change in percentage points

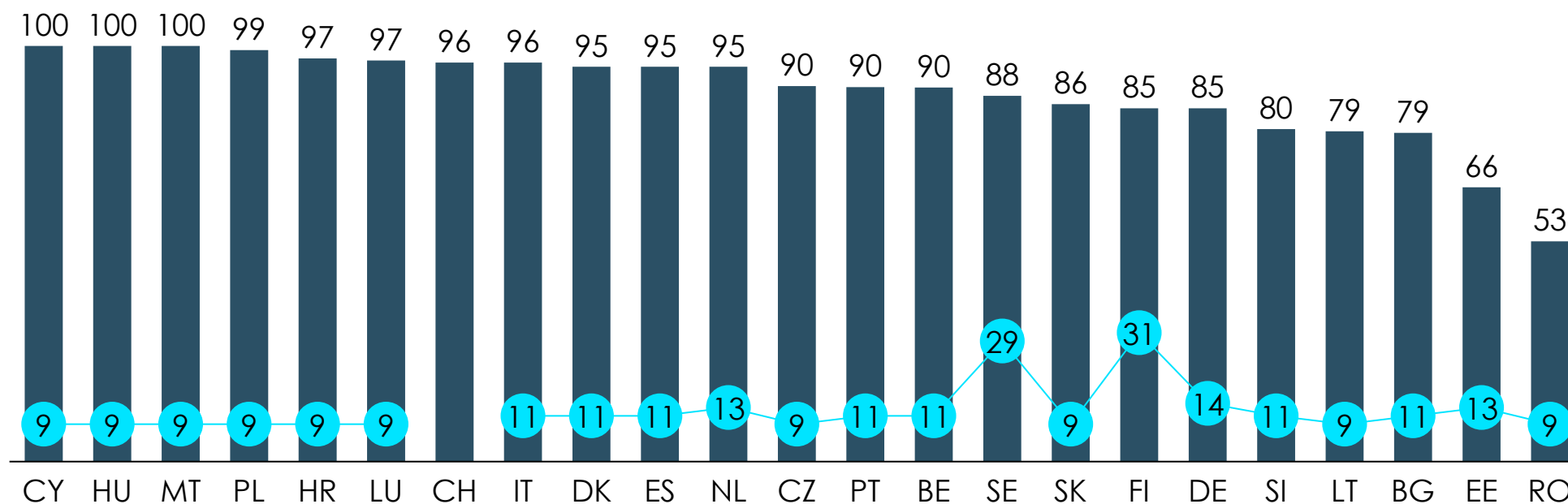


With a few exceptions, USP market shares in the letter mail segment remain high

Market share of postal incumbent 2021 vs. years since full market opening

Market share of the incumbent (%)

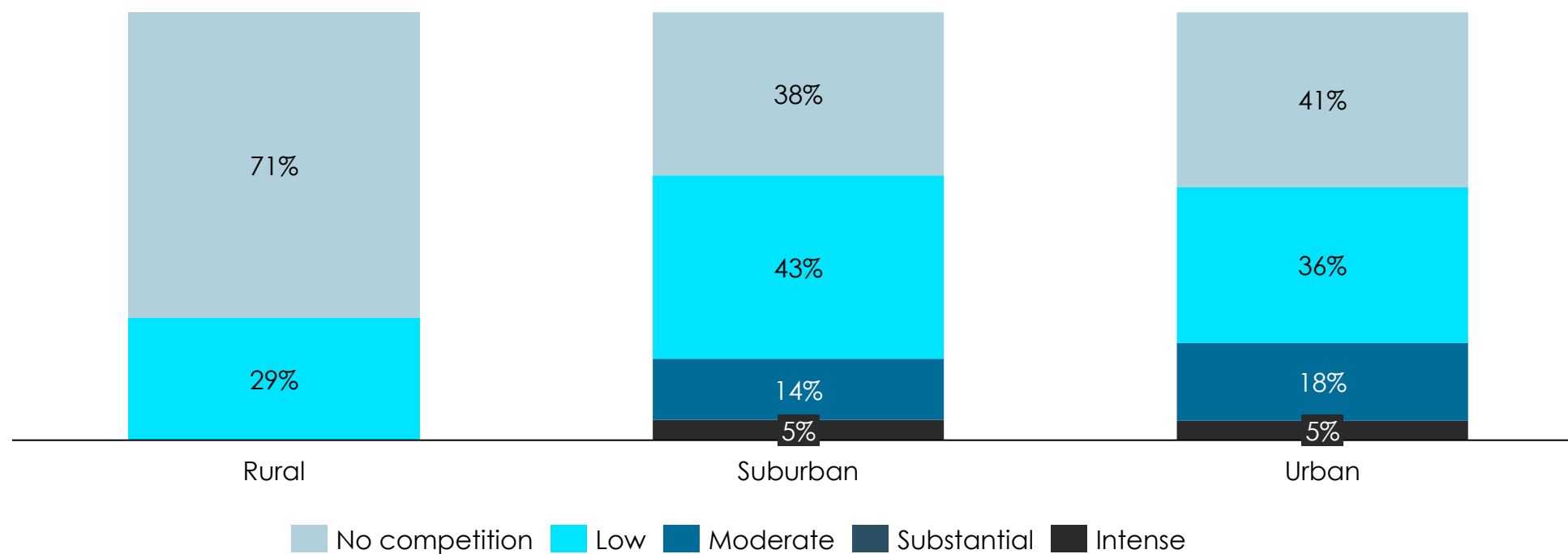
—●— Years since full market opening (2022)



Moderate or substantial competition is only observed in urban or suburban areas

Assessment of letter competition in rural vs. urban areas

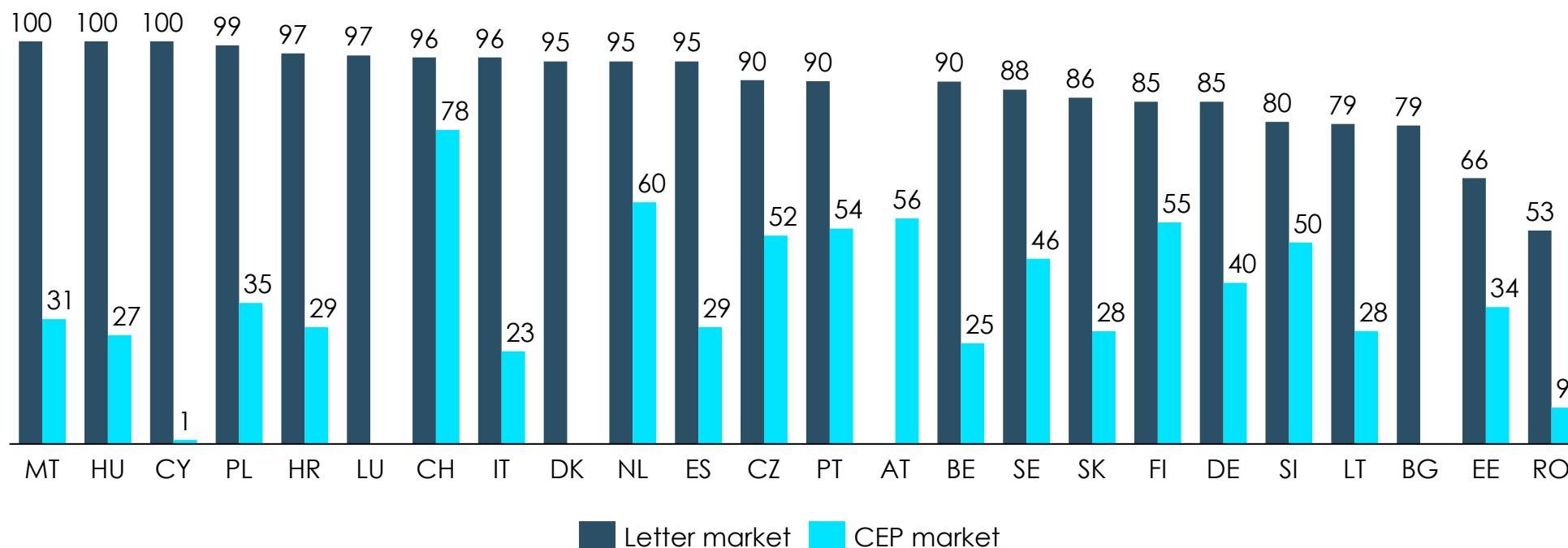
Share of countries



USP market shares in the parcel delivery segment are often much lower than in the letter delivery segment

Market share of postal incumbent in the domestic letter and CEP market, 2021

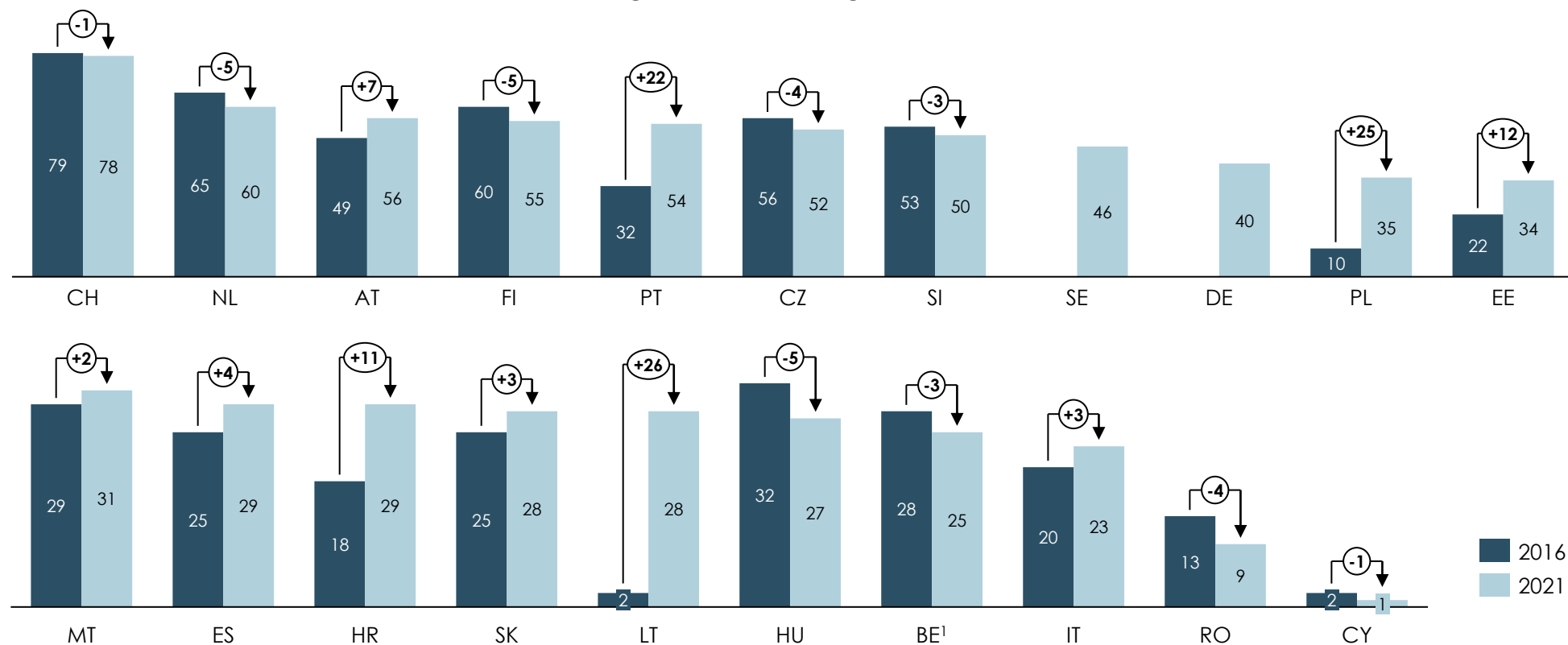
Per cent



The developments of the USPs market share in parcel & express segment vary across Member States

Development of incumbent's market share in the parcel and express market, 2016-2021

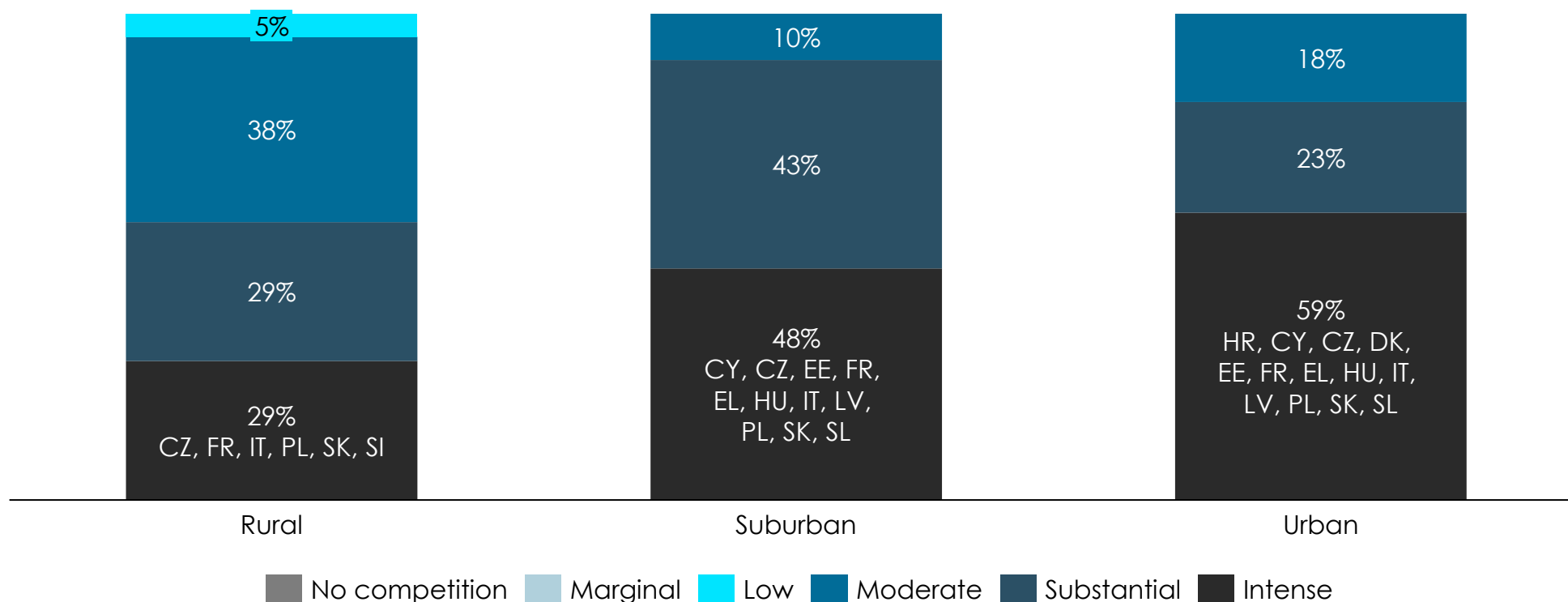
Market share incumbent in per cent, change in percentage points



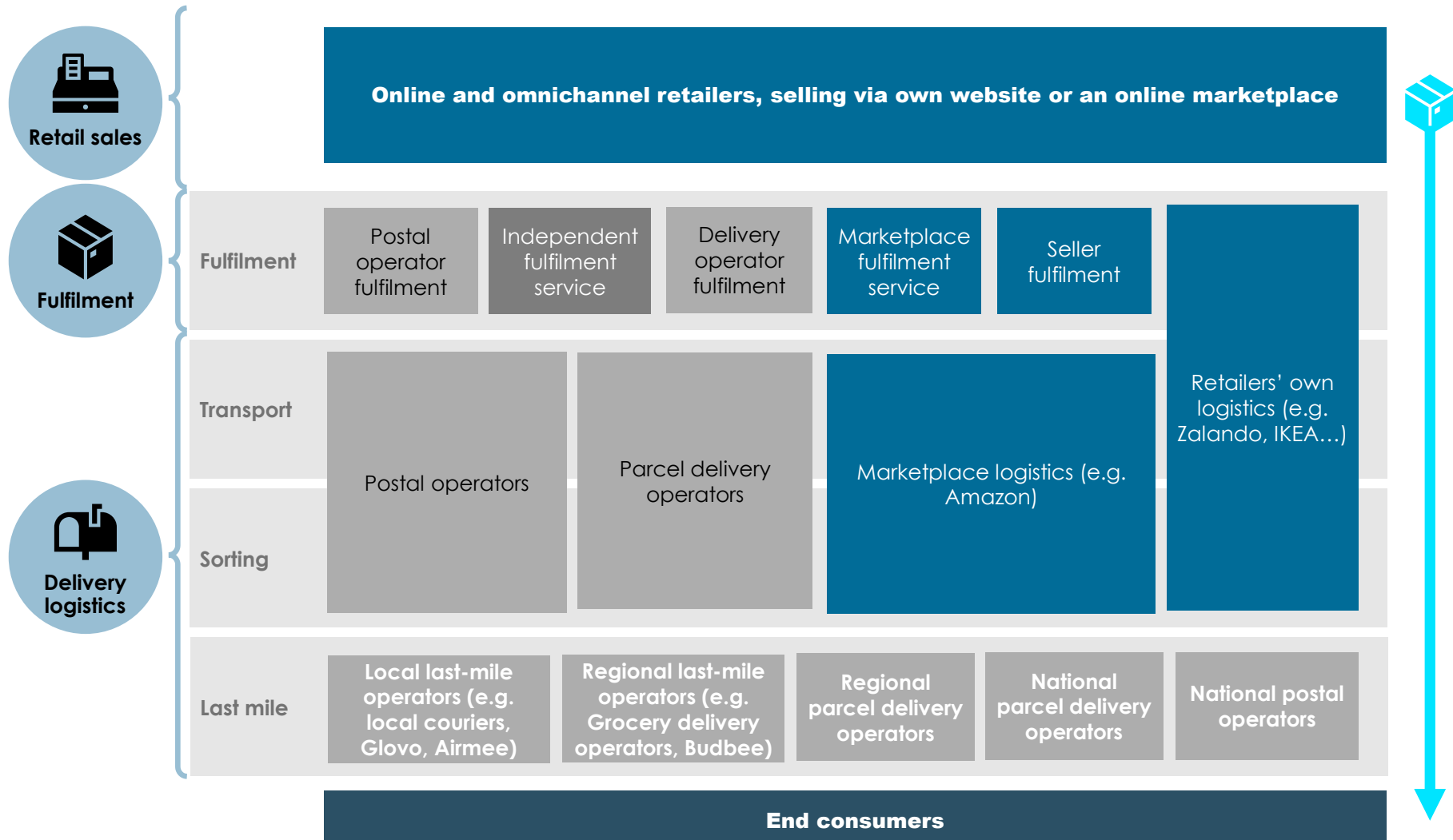
NRA identify at least moderate level of competition for parcel delivery in all geographical areas

NRA assessment of parcel & express competition in rural vs. urban areas

Share of countries (%)



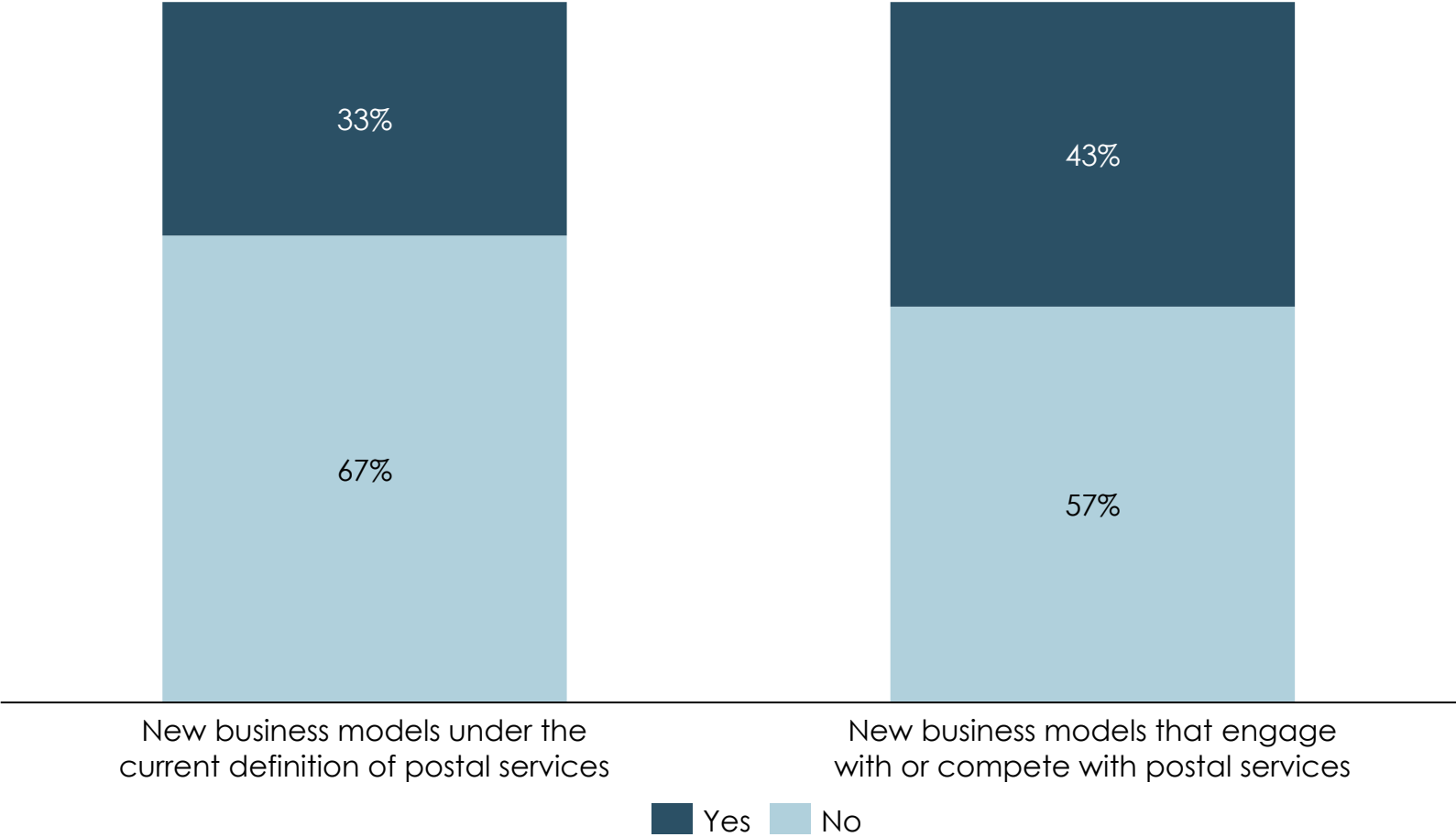
The traditional postal delivery value chain has become more fragmented and contested for parcel delivery



NRAs report that new business models are emerging

Have new business models emerged?

Share of countries (%)



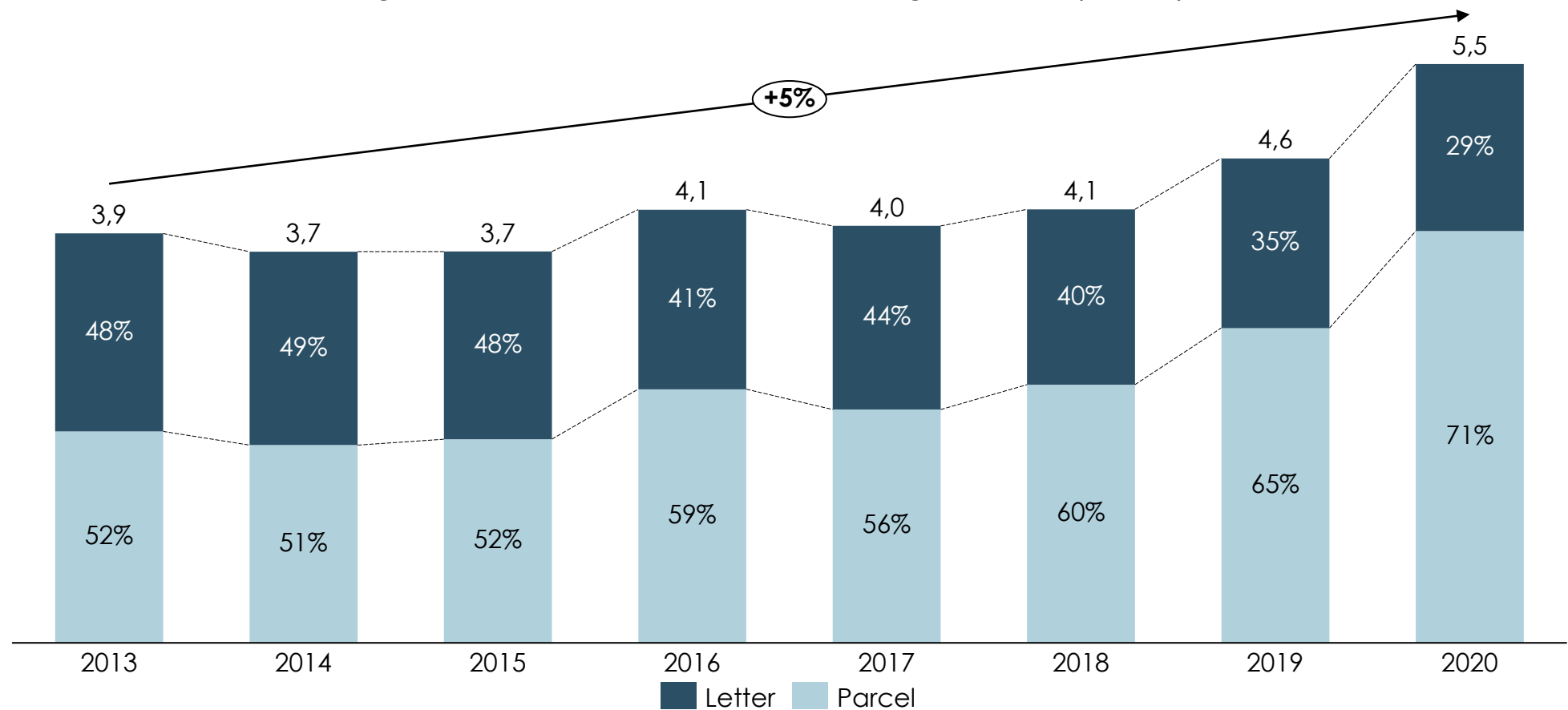
4

ENVIRONMENTAL SUSTAINABILITY

CO2 emissions from domestic deliveries in the EU amounted to 5,5 million tons in 2020 and grew by an average 5 per cent annually since 2013

CO2 emissions from domestic letter and parcel delivery in EU27

Million tonnes CO2, change is reported as compound annual growth rate (CAGR)

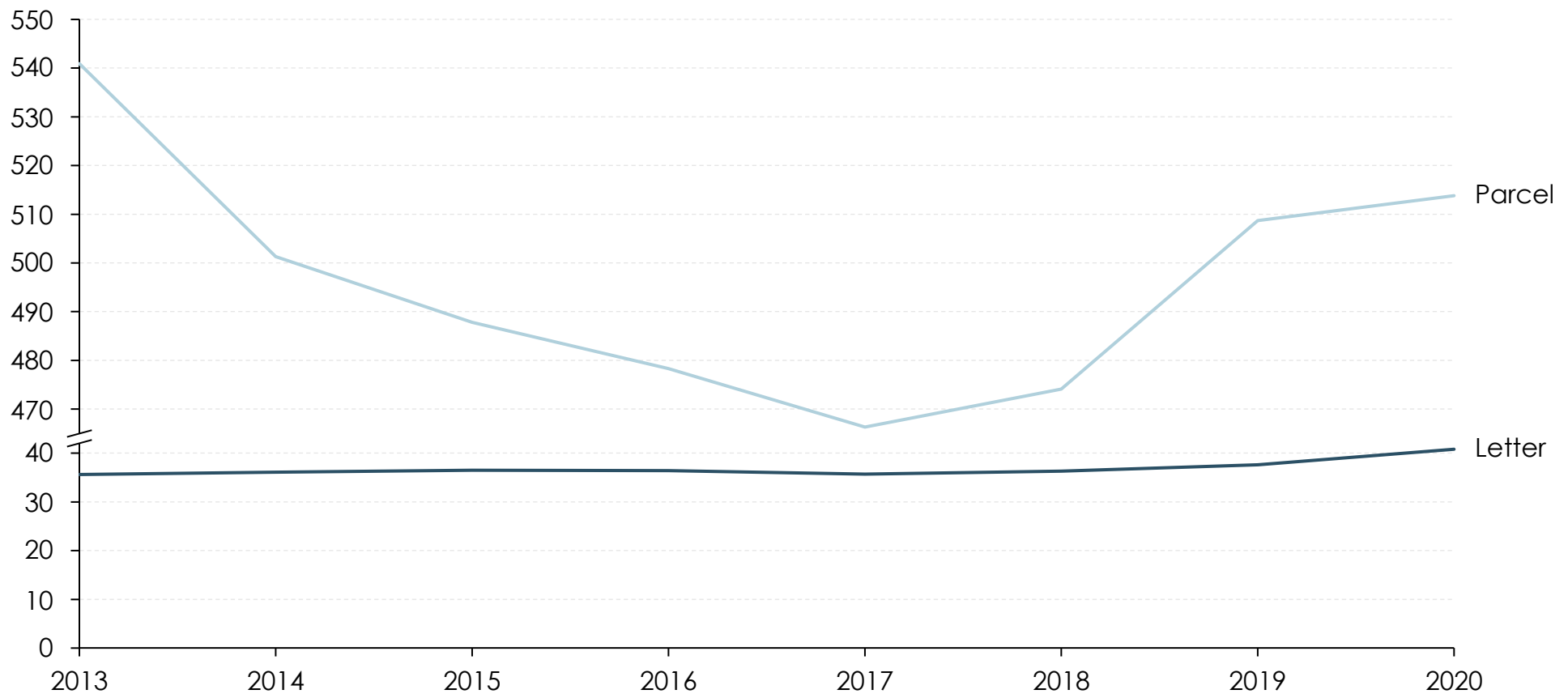


Note: Includes Scope 1, 2 and 3 emissions; cross-border deliveries not included. Source:

Changes in the product mix (from letters to parcels) create challenges for postal operators to reduce their environmental footprint

CO2 emissions from parcel and letter delivery, 2013-2020

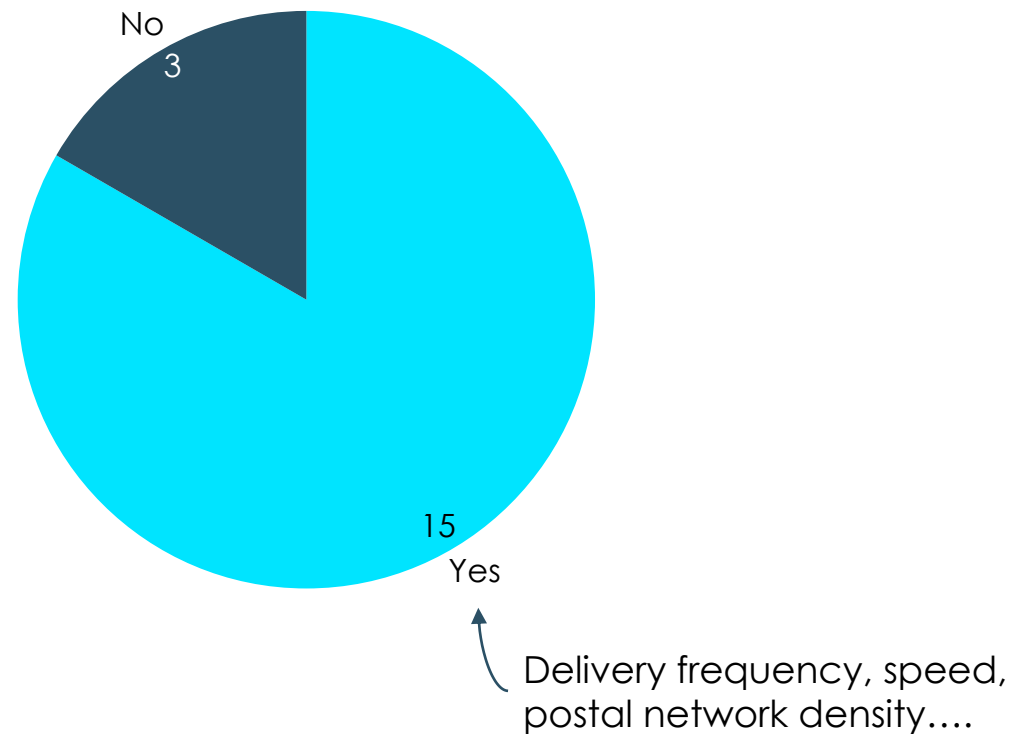
Grams CO2 per item



Most of the USPs responded that USO requirements constrain their ability to adapt and reduce environmental footprint

Is the USO constraining your ability to adapt and reduce your environmental footprint?

Number of USPs



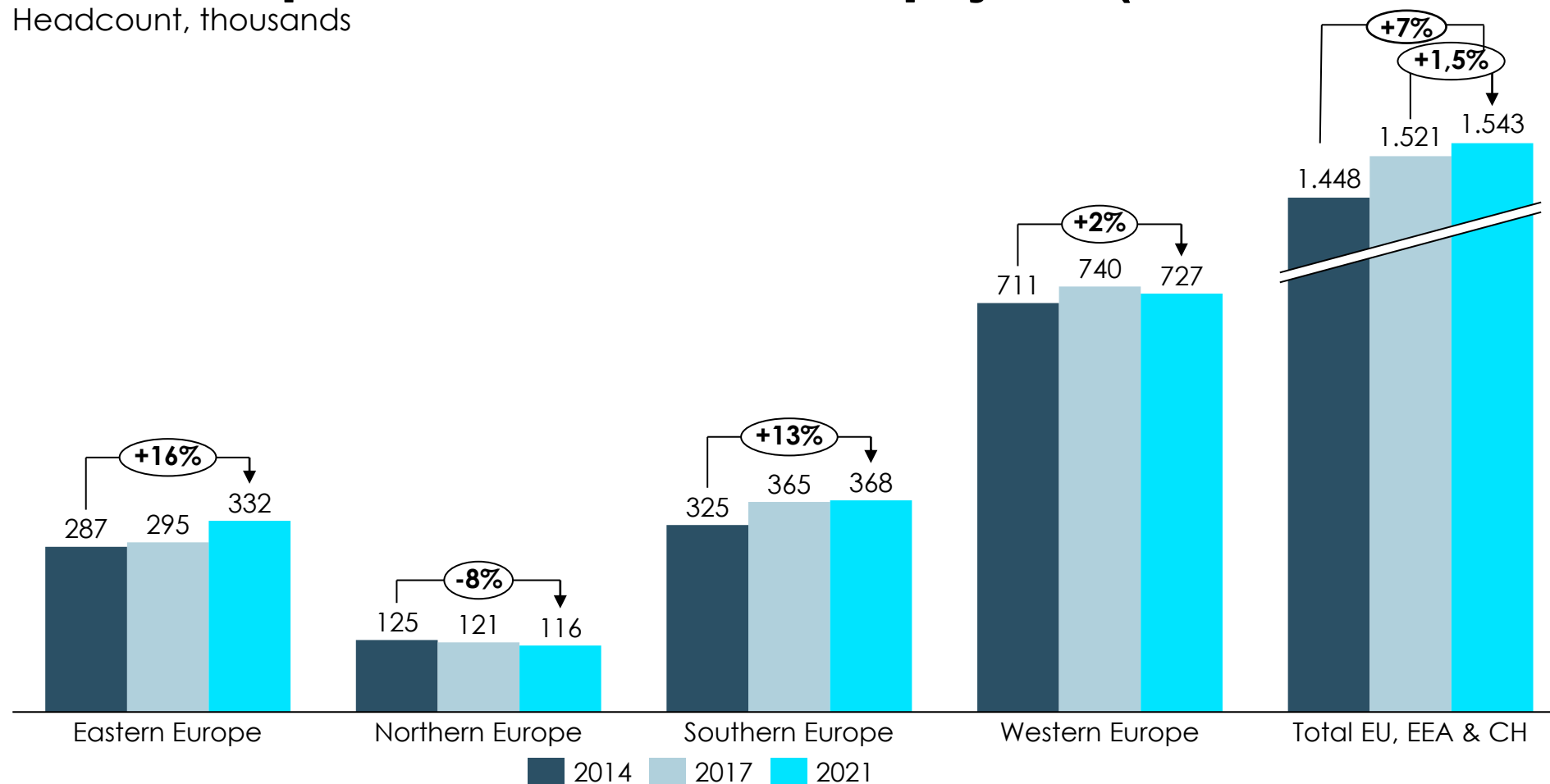
5

EMPLOYMENT

Total sector employment

Evolution of postal and courier sector employment (2014 vs. 2017 vs. 2021)

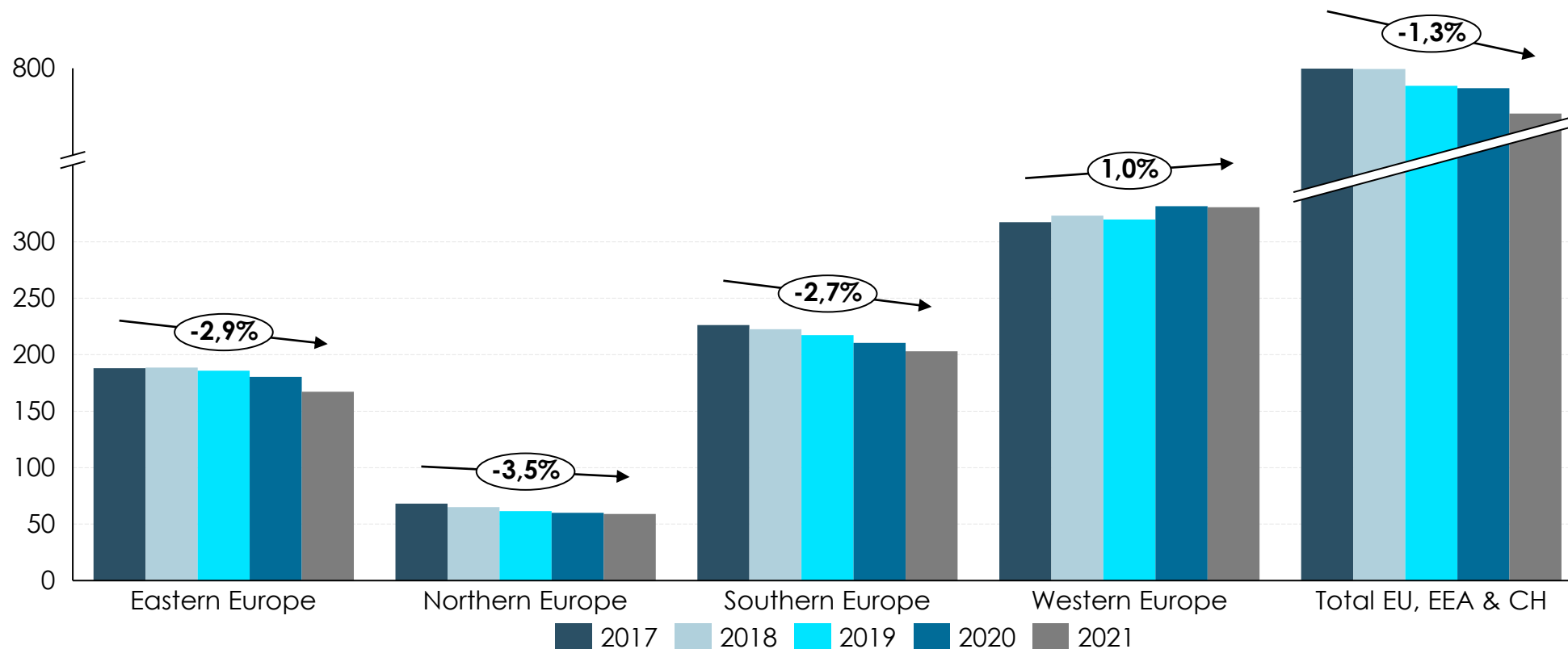
Headcount, thousands



Employment by USPs in Europe declined at 1,3 per cent annually on average

Evolution of USP employment, 2017-2021

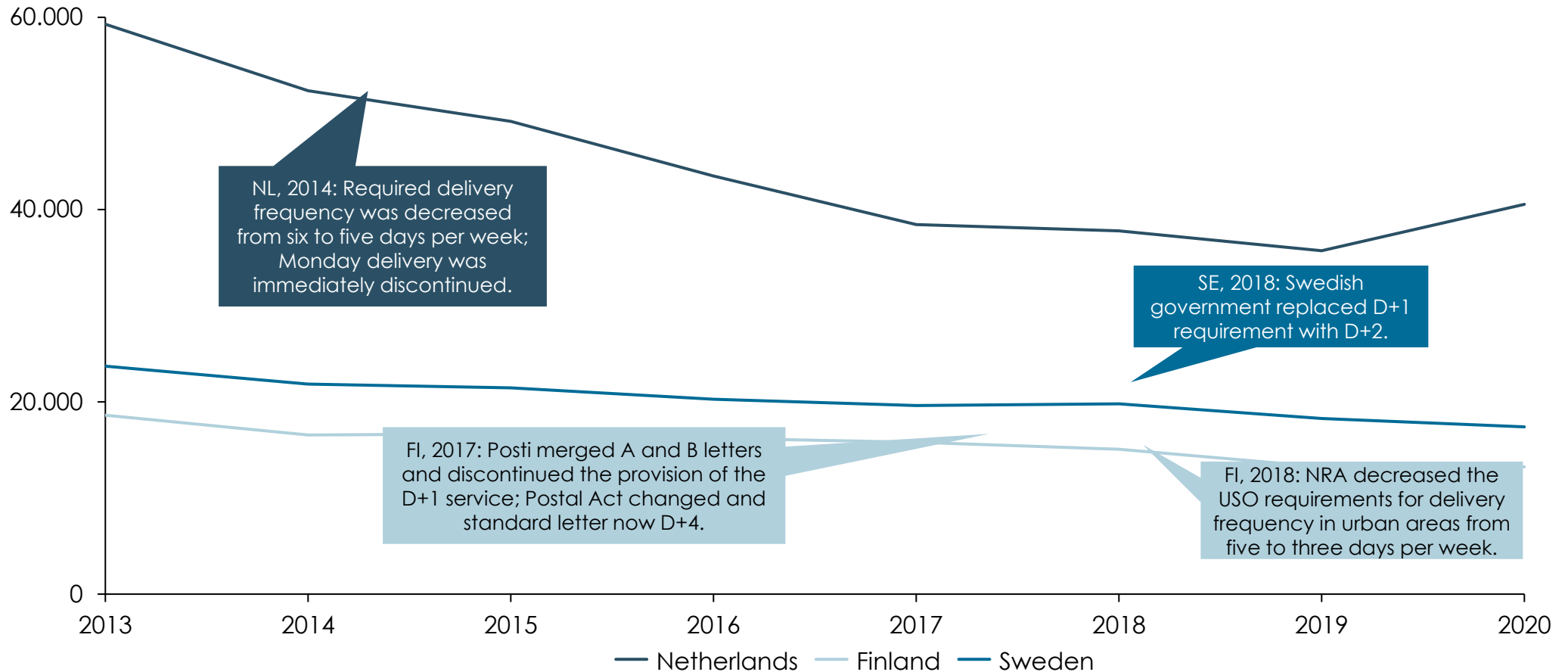
Staff employed in the home country, headcount, thousands; change is reported as compound annual growth rate (CAGR)



We do not observe stark drops in USP employment following reductions in USO requirements

USP employment development following USO changes, 2013-2020

Total headcount, USP employees



6

EVOLUTION OF TARIFFS AND COSTS FOR CROSS-BORDER PARCEL DELIVERY

Introduction



Context:

- Article 11 of the Regulation on cross-border parcel delivery services: the European Commission shall evaluate the impact of this Regulation on cross-border parcel delivery levels and e-commerce, including data on delivery charges.
- Previous studies identified certain high prices and inconveniences of cross-border parcel delivery as being among the main obstacles to greater uptake of e-commerce



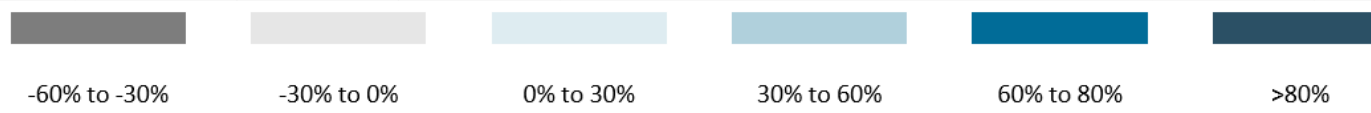
Two types of analyses

- Assessment of evolution of retail tariffs and costs (*dynamically*)
- Comparison of cross-border parcel delivery costs with retail tariffs (*statically*)

If all cross-border parcel deliveries provided by USPs were sold at list prices, the generic margin would range from -53 to 90 percent

Estimated generic margin between list prices and cost estimates for cross-border parcel delivery by USPs, 2020 data

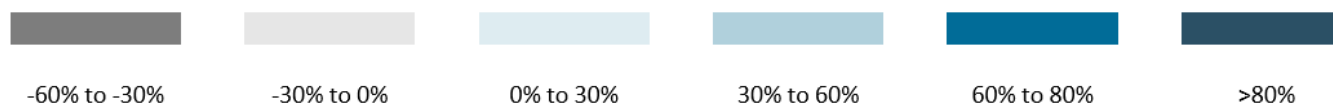
Country of origin	Country of destination																											Average generic profit margin across all destinations
	AT	BE	BG	HR	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES	SE	
AT		57%	73%	74%	39%	67%	40%	61%	52%	47%	68%	63%	69%	12%	49%	64%	68%	53%	25%	51%	73%	37%	73%	72%	71%	29%	30%	55%
BE	82%		84%	84%	67%	83%	75%	80%	77%	62%	71%	80%	82%	68%	74%	81%	83%	65%	64%	65%	86%	75%	84%	83%	83%	72%	71%	76%
BG	72%	61%		83%	67%	73%	43%	72%	62%	53%	72%	84%	78%	16%	55%	75%	79%	57%	45%	55%	82%	47%	90%	78%	77%	37%	35%	63%
HR	64%	48%	87%		67%	67%	23%	77%	53%	48%	61%	81%	72%	41%	49%	79%	82%	53%	55%	40%	77%	38%	79%	73%	70%	28%	25%	59%
CY	48%	35%	73%	62%		53%	18%	48%	34%	30%	46%	63%	58%	4%	33%	51%	56%	33%	31%	30%	59%	21%	71%	58%	57%	15%	9%	42%
CZ	70%	69%	76%	75%	49%		49%	67%	65%	56%	81%	72%	70%	27%	51%	70%	77%	61%	44%	59%	63%	55%	79%	53%	71%	46%	49%	62%
DK	61%	62%	64%	64%	37%	64%		63%	61%	55%	68%	65%	61%	33%	48%	65%	67%	58%	31%	59%	70%	47%	64%	64%	62%	41%	52%	57%
EE	61%	53%	75%	74%	54%	64%	43%		75%	58%	66%	71%	65%	28%	53%	76%	78%	48%	39%	49%	78%	44%	80%	70%	65%	48%	44%	60%
FI	77%	68%	82%	81%	62%	79%	64%	81%		69%	73%	75%	79%	51%	66%	81%	82%	64%	54%	72%	85%	64%	83%	80%	79%	60%	64%	72%
FR	52%	60%	58%	60%	25%	56%	38%	48%	43%		61%	49%	53%	23%	43%	52%	56%	55%	19%	53%	62%	44%	57%	58%	58%	38%	29%	48%
DE	50%	47%	57%	57%	1%	55%	24%	45%	32%	32%		40%	48%	-21%	16%	49%	56%	39%	-19%	40%	69%	11%	56%	55%	51%	-2%	7%	34%
EL	77%	71%	89%	82%	69%	78%	59%	76%	68%	65%	76%		81%	40%	70%	78%	81%	68%	63%	67%	83%	61%	87%	81%	81%	56%	54%	72%
HU	79%	71%	88%	84%	73%	78%	60%	81%	76%	65%	78%	83%		54%	72%	78%	81%	69%	62%	68%	84%	68%	86%	82%	81%	63%	63%	74%
IE	65%	70%	67%	68%	54%	68%	59%	63%	59%	66%	69%	61%	66%		57%	65%	67%	67%	51%	67%	71%	60%	67%	68%	67%	57%	54%	63%
IT	70%	65%	74%	75%	54%	68%	53%	66%	60%	63%	69%	71%	70%	38%		68%	70%	63%	57%	61%	73%	59%	73%	72%	74%	54%	48%	64%
LV																												
LT	67%	72%	75%	72%	45%	68%	50%	77%	77%	56%	78%	64%	72%	21%	47%	73%		52%	35%	56%	83%	54%	80%	70%	68%	38%	51%	62%
LU																												
MT	-6%	10%	41%	20%	-1%	20%	-39%	35%	0%	39%	54%	31%	13%	-53%	47%	38%	43%	-8%		30%	15%	-15%	50%	25%	15%	25%	-34%	15%
NL	63%	55%	66%	68%	38%	66%	33%	61%	57%	44%	58%	59%	63%	37%	27%	63%	66%	48%	30%		72%	51%	67%	67%	66%	21%	22%	53%
PL	69%	63%	79%	77%	44%	53%	47%	74%	65%	51%	75%	67%	72%	15%	46%	77%	82%	57%	23%	58%		41%	81%	58%	72%	30%	39%	58%
PT	64%	67%	74%	74%	55%	72%	60%	69%	64%	64%	67%	69%	71%	51%	60%	70%	72%	64%	54%	63%	75%		74%	73%	73%	64%	56%	66%
RO	59%	47%	83%	75%	71%	59%	17%	77%	60%	43%	60%	78%	69%	-1%	48%	64%	71%	36%	16%	38%	76%	31%		71%	66%	30%	15%	52%
SK	77%	68%	82%	81%	59%	55%	54%	73%	66%	61%	76%	75%	78%	33%	60%	75%	79%	65%	45%	64%	83%	54%	82%		78%	46%	47%	66%
SI	71%	59%	77%	78%	48%	68%	41%	64%	55%	52%	68%	68%	71%	16%	54%	67%	71%	56%	33%	54%	76%	43%	77%	73%		34%	32%	58%
ES	68%	70%	69%	70%	50%	67%	59%	64%	59%	69%	70%	67%	66%	51%	64%	65%	67%	68%	50%	67%	70%	72%	69%	68%	68%		55%	65%
SE	64%	65%	67%	67%	44%	67%	62%	70%	70%	60%	69%	61%	65%	41%	54%	71%	72%	62%	39%	63%	73%	53%	67%	67%	65%	49%		62%



If all cross-border parcel deliveries provided by non-USPs were sold at list prices, the generic margin would range from 0 to 94 percent

Estimated generic margin between list prices and cost estimates for cross-border parcel delivery by non-USPs, 2020 data

Country of origin	Country of destination																										Average generic profit margin across all destinations	
	AT	BE	BG	HR	CY	CZ	DK	EE	FI	FR	DE	EL	HU	IE	IT	LV	LT	LU	MT	NL	PL	PT	RO	SK	SI	ES		SE
AT		55%	79%	78%	74%	62%	45%	70%	50%	57%	58%	73%	66%	43%	48%	75%	77%	56%	72%	51%	70%	58%	70%	71%	69%	58%	36%	62%
BE	59%		82%	80%	78%	77%	51%	76%	59%	63%	58%	77%	77%	61%	53%	79%	81%	50%	77%	43%	79%	62%	77%	79%	77%	57%	53%	68%
BG	78%	73%		88%	85%	78%	69%	81%	77%	72%	80%	68%	83%	57%	69%	86%	88%	73%	72%	71%	88%	72%	79%	85%	84%	64%	60%	76%
HR	83%	80%	91%		83%	82%	74%	84%	84%	67%	81%	89%	79%	61%	74%	86%	84%	79%	79%	75%	85%	74%	85%	83%	77%	73%	73%	79%
CY	75%	59%	87%	82%		78%	53%	80%	65%	54%	67%	69%	82%	60%	68%	81%	80%	59%	71%	55%	78%	63%	81%	83%	80%	61%	53%	70%
CZ	73%	78%	88%	84%	91%		71%	79%	78%	72%	74%	82%	68%	60%	69%	83%	84%	79%	89%	75%	77%	70%	81%	63%	81%	65%	65%	76%
DK	67%	66%	83%	82%	79%	0%		79%	65%	74%	66%	76%	82%	67%	63%	80%	81%	66%	79%	62%	77%	71%	82%	81%	83%	71%	57%	71%
EE	82%	80%	90%	89%	84%	85%	76%		76%	82%	83%	86%	88%	71%	79%	76%	78%	80%	81%	80%	89%	80%	90%	87%	87%	78%	66%	82%
FI	65%	64%	79%	79%	70%	71%	62%	76%		70%	68%	73%	74%	56%	65%	80%	80%	65%	66%	61%	77%	65%	73%	77%	74%	68%	53%	70%
FR	49%	54%	70%	70%	60%	53%	47%	65%	38%		46%	55%	50%	41%	43%	67%	67%	52%	59%	43%	64%	43%	56%	70%	65%	24%	35%	53%
DE	60%	59%	81%	78%	64%	70%	44%	74%	61%	58%		77%	71%	44%	51%	76%	78%	54%	59%	53%	79%	54%	77%	74%	71%	50%	48%	64%
EL	77%	70%	86%	86%	61%	78%	63%	81%	72%	69%	74%		82%	52%	72%	83%	85%	70%	78%	67%	84%	70%	87%	83%	83%	67%	61%	75%
HU	70%	74%	86%	81%	83%	82%	64%	85%	73%	71%	76%	89%		60%	68%	87%	86%	75%	78%	70%	84%	77%	79%	79%	75%	69%	69%	77%
IE	43%	60%	73%	69%	78%	65%	50%	63%	50%	58%	57%	58%	63%		50%	65%	66%	59%	74%	53%	68%	56%	65%	67%	63%	60%	47%	61%
IT	57%	55%	77%	78%	68%	68%	45%	67%	41%	60%	59%	73%	72%	36%		73%	75%	55%	69%	50%	75%	57%	71%	75%	72%	55%	33%	62%
LV	73%	66%	81%	78%	71%	74%	58%	70%	69%	64%	72%	75%	76%	44%	63%		70%	64%	63%	64%	81%	61%	82%	76%	76%	56%	60%	69%
LT	79%	74%	90%	86%	87%	80%	68%	75%	80%	74%	80%	87%	84%	66%	76%	67%		74%	80%	71%	87%	75%	90%	83%	85%	73%	72%	79%
LU	56%	50%	82%	81%	80%	77%	49%	76%	55%	63%	56%	79%	77%	63%	58%	80%	82%		79%	45%	79%	69%	75%	81%	77%	68%	51%	69%
MT	54%	54%	87%	84%	75%	81%	42%	78%	48%	62%	56%	78%	79%	59%	63%	79%	78%	54%		48%	79%	68%	79%	82%	83%	69%	48%	68%
NL	58%	55%	76%	75%	76%	71%	49%	72%	54%	48%	59%	72%	68%	50%	57%	74%	73%	53%	77%		72%	61%	64%	75%	72%	62%	53%	64%
PL	75%	72%	88%	87%	87%	75%	68%	84%	76%	70%	78%	84%	76%	53%	66%	85%	86%	70%	83%	62%		69%	85%	79%	81%	62%	63%	76%
PT	60%	58%	79%	80%	78%	65%	54%	64%	57%	64%	65%	72%	73%	44%	57%	75%	76%	60%	75%	60%	76%		78%	73%	72%	39%	35%	65%
RO	71%	62%	76%	80%	83%	77%	53%	76%	70%	54%	66%	63%	58%	50%	46%	79%	79%	64%	74%	57%	71%	62%		73%	77%	51%	56%	66%
SK	73%	75%	87%	85%	94%	60%	70%	82%	80%	73%	75%	87%	74%	63%	72%	83%	85%	76%	93%	74%	78%	73%	83%		83%	71%	68%	78%
SI	84%	79%	94%	75%	92%	86%	77%	87%	81%	84%	83%	88%	90%	78%	78%	90%	90%	80%	89%	78%	90%	85%	91%	89%		83%	73%	84%
ES	66%	67%	81%	82%	70%	76%	59%	76%	63%	61%	68%	76%	75%	55%	62%	78%	78%	65%	70%	61%	78%	43%	73%	79%	78%		58%	69%
SE	67%	65%	77%	77%	65%	70%	56%	71%	59%	63%	67%	72%	73%	54%	66%	73%	70%	67%	63%	61%	75%	67%	69%	76%	74%	66%		68%



Important considerations

- Uniform/zonal pricing limits USPs ability to consider country specific costs and higher transportation costs for longer distances
- Non-USPs do not have the same challenge and can thereby attain a similar margin across all countries
- In addition: while the cost of delivering large quantities of parcels are similar to the cost of delivering a single-piece parcel, e-retailers and other buyers of bulk parcel delivery often save up to 60-70 per cent on the list prices.
- Hence, actual margins are often much lower than the ones displayed in the earlier overview.

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