

How postal operators around the world are responding to a rapidly changing environment

Postal networks throughout the world are experiencing the most tumultuous times. Damaged by the global financial crisis, national postal operators are simultaneously subject to growing competition as rival mail companies take on lucrative business bulk mail contracts, express and parcel services.

Meanwhile we are witnessing a communications revolution. Today one in five people globally are email users. There are also 4.1 billion mobile phone subscribers in the world; and experts predict fast, high quality broadband access will allow an increasing number of activities that once required letters mail to move online.

A considerable amount of 'e-substitution' has already taken place. A Eurostat survey found by 2006, 35% of European internet users had substituted most of their traditional postal mail by internet or email messages. Since then many companies have started charging customers for receiving paper bills; and some governments, including Finland and Sweden, now only send out e-invoices.

Changing market

The postal sector still plays a significant part in national economies - in European countries nearly one in every hundred workers is employed in the sector. But serious questions are being asked about the sector's future prospects. Last year the UK saw 15% fewer letters being posted than five years ago and similar falls are reported by other developed countries. UK letter volumes are predicted to decline further – between 25% and 40% over the next five years. However, the future role of mail is a contentious issue and there is a great deal of debate about whether communications technology will actually lead to a precipitous decline in letters mail volume.

These dramatic changes have been mirrored by changes in the way national postal operators are owned and run. In Europe most former state owned national postal operators have become limited companies. However, in most cases the state continues to hold a controlling (over 50%) stake and only a small number of national operators are no longer state controlled. Next year the UK intends to join the Netherlands and Malta in fully privatising its national mails service.

Mails businesses are also becoming more global in nature. Many national postal operators have merged or taken over other postal services. For instance the Danish and Swedish national postal operators have merged into one firm, PostNord; while others are expanding their operations into other countries.

Cost reduction

The combined pressures of increasing competition, economic downturn and radical changes in communications have led most national postal operators to seek to reduce their costs. Automation has increased significantly and over

70% of letters are now sorted automatically in most European countries. The majority of European national postal operators have also restructured their transport and logistics networks, centralising their processes and closing regional distribution centres and sorting offices.

Some cost saving measures are more apparent to customers, as they result in a direct reduction in services. This year has seen both Latvian Post and Jersey Post move from six to five days a week delivery services, with the United States Postal Service planning to follow suit. In Finland a proposed new law could mean first class mail is no longer part of the statutory 'Universal Service'.

Labour is one of the main costs for a postal operator and many national operators have reduced their workforces, often resulting in industrial unrest. Cuts in postal workers' pay are also common. Last year the Dutch postal workers' union opposed TNT Post's proposed 15% pay cut. The US plans a two-tier pay system that starts new employees at a salary 10% lower than existing workers.

New rival postal operators often lower their wage bills by employing a younger or less-educated workforce, part-time or casual workers; and slash their overheads by using workers' houses as delivery and sorting offices.

As we have seen in the UK, national postal operators can undertake post office closure programmes as part of efforts to reduce costs. The US Postal Service, which expects to lose about \$7bn this year, is currently "reviewing" 3,000 of its 38,000 post offices. It says only 19% of its post offices are covering their costs, and significant numbers of closures are anticipated.

The US is also one of many countries moving post office services out of specialist outlets and into supermarkets and other retailers. Both Polish Post and Post Office Ltd (POL) in the UK (Post Office Local) are currently piloting this approach.

Changing services

The global economic downturn badly affected the number of publications, unaddressed mail and volumes of direct mail sent. But international research shows that parcel and express mail have been growing since the end of 2009. Germany's Deutsche Post reports that rapidly growing internet retailing resulted in a 5% revenue increase in its parcel business in the first half of 2010. Deutsche Post's express division saw an increase of 12%, mainly due to significant increases in international shipments.

The majority of European postal operators are extending their traditional physical mail services by providing hybrid mail which uses both electronic and physical delivery. This usually involves digital data being sent to a print centre as close as possible to the final delivery address, where the electronic mail is printed onto paper and then packed into an envelope which is delivered by a postman to the receiver's mail box.

For customers still wishing to send their mail entirely by physical means, new services circumventing the need for stamps are being developed. In April Denmark introduced a mobile postage service for standard sized letters. Customers can send a text message and get back a code they then write on the envelope. Online postage is already widely available from many national postal operators, including Royal Mail.

Many national postal operators engage in other e-commerce services such as electronic document handling, e-payments, e-invoicing and the provision of digital certificates. A significant number of European operators are offering parcel arrival notifications via email or mobile phone.

Postal operators are also seeking to extend their communications business by entering the mobile phone market. Poste Italiane launched its PosteMobile brand three years ago. It has reported dramatic business success, and plans to increasingly transform mobile phones into “electronic purses” to pay for transport services such as taxis, buses and trains, as well as to make purchases.

Several national postal operators are expanding their banking and financial services, which in many cases has yielded significant revenues. Italy’s BancoPosta says its financial services have yielded “outstanding results”. France’s La Poste reports its La Banque Postale continued to grow in 2010 and now boasts more than 10 million active customers. Swiss Post’s PostFinance contributed 61% of Swiss Post Group’s profits. Last year the UK’s POL reported financial services products contributed 29% of total revenue, and 2.4 million financial services customers.

The UK government has said that Britain’s post office network should become a ‘front office for government’; and a document checking service for state pension and Pension Credit applications is being trialled at the moment. But Britain is not alone in proposing an extended role for post offices in providing government services. Possibilities under consideration in the US include providing services in partnership with state and local government and reduction of fraud by getting recipients of some government benefits to appear at local post offices. In Hungary Magyar Posta is also talking to local government about possible forms of cooperation.

Future

National postal providers are operating in uncharted waters, facing competition and uncertain economic conditions amidst a communications paradigm shift. Despite these challenging circumstances many national operators appear optimistic. La Poste in France, MaltaPost and Russian Post are all undertaking comprehensive programmes of post office refurbishment. Hungary is actually reopening post offices.

Royal Mail and POL in the UK are facing similar issues to national postal operators throughout the developed world. A wide variety of solutions are being adopted, but it seems that if national operators are to survive they must embrace new communications technologies.

The UK is set to be unique as it is the only national postal service in the world planning to separate its mails from its retail (post offices) function. This move can only mean government and POL will need even surer footing, learning lessons from other national postal operators, in order to secure the future of our mails service and post office network to meet the needs of twenty-first century citizens.

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