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**Competitive Analysis of Incumbent Postal
Operators in Europe**

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Abstract

Due to regulatory and institutional developments, changes in consumer behaviour and the emergence of new technologies during the last two decades, incumbent postal operators in Europe had to face new challenges, threats but also opportunities. The incumbents reacted with diversification into new businesses, internationalisation and both the horizontal and vertical integration by means of alliances and acquisitions. As a consequence, the competitive landscape of the European postal market has fundamentally changed: The asymmetric market development enabled the early moving competitors to enter new markets and put pressure on incumbents in more liberalised markets. The type of ownership is a second factor which determines the competitive behaviour. Letting the incumbents into private ownership is a strategic move by which a government can increase the competitive ability of their postal organisation. Governmental ownership, in return, imposes constraints on the adoption of the most cost effective or profit maximising strategy. Incumbents with large home markets, as a third factor, naturally exert a higher competitive pressure on incumbents with smaller home markets.

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1. INTRODUCTION

Since the 1980s the postal sector is undergoing substantial changes, basically as a result of its liberalisation, triggered and sustained by market forces, technology, as well as by the European Commission and its deregulation policies. Overall, the historical postal operators have successfully adapted to these changes by modernising their structures and their processes, by diversifying, and by internationalising.

This article outlines the historic developments which shaped today's postal market in Europe and gives answers to the question why its incumbent operators compete in their specific manner. We will start by describing the current state of the postal industry today and its historical development up to now. Here, we will especially look at the forces which have been triggering the transformation of the industry during the 1980s and 1990s, in particular the deregulation policies pursued by the European Union and national governments in Europe and elsewhere. Besides such political drivers, we will also look at market forces that have been unleashed in the industry.

Based on this we conduct a competitive analysis of the European incumbent postal operators. In doing so, the paper will build on the theoretical framework of Michael Porter's industry and competitive analysis: The objective of the latter is to develop a strategy profile of a competitor which provides information about the likely success of the current strategy and probable responses to the strategic moves of its competitors, as well as to changes within the industry. Porter lists four diagnostic components: future goals, current strategy, assumptions and capabilities (strengths and weaknesses).

The conclusions from this competitive analysis will bring up four factors which were crucial in the development of competition in the industry. They determine what kind of strategies an operator has at its disposal and how he will be able to act in an ever more competitive market: (1) Asymmetric Market Development, (2) Type of Ownership, (3) Size of Home Market, and (4) Degree of Diversification. Together, these four factors significantly determine how a historical postal operator will be able to react to the above identified trends, and how the competitive postal landscape of the future will look like.

In the last chapter we draw the competitive landscape, again following the framework of Porter, by giving an overview about to be expected offensive moves or the defensive capabilities of the European incumbents.

2. TRENDS AND STRATEGIC DRIVERS IN THE POSTAL INDUSTRY

There is a broad consensus that the postal sector worldwide has entered a period of fundamental change. “The environment of the postal industry continues to be dominated by globalization, liberalization, competition, technological change, outsourcing and other change drivers” (UPU, 2002: 25). From a competitive point of view, the key drivers which have influenced and keep influencing the industry are regulatory and institutional developments, quickly changing shape of the industry and its markets and new technologies. “Unleashed by the pincer movement of technical innovations and market liberalisation the 1990s have seen dramatic reorganisation efforts at many large postal operators worldwide. These efforts mainly aiming at a diversification and internationalisation of the business were strongly spurred by a stagnation in the demand of the incumbent domestic mail and parcel segment, as well as by an increasing competition” (Dörrenbächer, 2004: 1). As it is not the aim of this article to discuss the trends and strategic drivers, the following short overview just provides the common frame for the competitive analysis afterwards. It bases on broadly accepted facts and opinions of experts in this field.

2.1 Regulatory and Institutional Developments

Political changes were (and continue to be) the major environmental pressure point in the last decades. While globalisation and market forces do play a critical role in the evolving postal sector, institutional policies of liberalisation has been the most significant driver of change. More precisely, the European Union has been at the forefront of liberalisation and subsequent re-regulation of the postal sector, and its influence extends far beyond Europe. Most authors start their analysis in 1992, when the Green Book was published by the European Commission. From a political point of view this Green Book which defines in essence the future construction of the postal sector and market in Europe formed the foundation for all subsequent developments in this industry. The Postal Directive 97/67/EC was the concretisation on the legal level by defining a minimal Universal Service, limiting the letter monopolies to 350 grams and implementing independent national regulators. With the Directive 2002/39/EC a further cut in the letters monopoly to 100 grams was made by January 2003. Both Directives aim for a gradual and controlled market opening of the postal sector throughout the EU and were milestones on the way to the full liberalisation of the European postal market by 2006 when all postal services will be open to competition. The allowed market competition should result in lower costs of resources used to deliver services, lower market prices, higher quality of services and thus an increase in overall value created (see Strikwerda/Rijnders, 2004; others).

The consequences are multifaceted: Various private postal operators (so called Competing Postal Operators, CPO) are now offering multiple services, especially for parcels but also for business letters (B2X, businesses as sender). Nevertheless, all incumbents have maintained dominance in the home market but the focus changed from competition in national markets to a competition for the European market (see Strikwerda/Rijnders, 2004): The market opening enabled the larger incumbents to enter other national markets and to compete there with the incumbent operator, such as the German Post did with its subsidiary DHL or the French Post with its subsidiary DPD. Last but not least also several logistics divisions of large companies are now offering their services and products to business customers. One of the most successful examples is the Hermes Logistik Gruppe, the subsidiary of Otto Versand in Germany, which today offers a full range of parcel and letter services in the X2C segment (private households as recipients).

Another dynamic could be observed in the last decade, the trend towards corporatisation: More and more European governments started to incorporate the incumbent operator, to sell shares at the stock exchange and therefore to reduce the state-controlled part to a minimum. The aim is to raise capital for further investments as well as to give the management the utmost flexibility to act on the liberalised market. Within this development, some incumbents, such as the German and the Dutch Post, began to buy shares of other incumbents in order to ensure their stake in the major letter markets throughout Europe.

The ongoing corporatisation and the sale of shares to investors has automatically led to a quest for financial performance as incumbents are no longer controlled by the government but also by both institutional and private shareholders who stipulate a maximisation of their investment. The executives of the incumbent therefore do no longer only have to provide a reliable service public but do have to bear in mind the financial demands of the shareholder. Satisfying these different requirements is a difficult task which raises many problems, for example by taking investment decisions which are necessary to hold up the required universal service but which will not pay off the financial investment (or vice versa). As the privatisation proceeds, the boundaries between public and private operators will become blurred as both serve the same markets with comparable products and both are governed by the same managerial principals. This will produce highly competitive strategic groups where the distinctive feature is not the national versus private ownership but the range of services and the geographical reach.

2.2 Industry & Market Developments

The total EU letter market is estimated to have been about EUR 49 billion in 2000 and EUR 52 billion in 2002. The annual growth rate has been about 3.5%, but a significant slowdown to 0.5 in 2003 or even decrease in the near future is expected. Within this market, the six largest Universal Service Providers (USP) have together more than 75% market share. The total revenues earned in EU parcel and express markets are estimated to amount to EUR 33 billion in 2000 and EUR 36 billion in 2001 (see Campbell, 2004: 26ff.). In contrast to the letter market, this market is more fragmented with many small and medium enterprises offering local CEP services and the five largest operators accounting for approximately 52% market share. Postal services today position themselves at the crossroads of three different markets: Communication market (e.g. letters), advertising market (e.g. direct mail) and transportation/logistics market (e.g. parcels). All of them are important for the economic development and welfare and are generally open to competition. This fact forces incumbents to battle at different fronts at the same time.

Globalisation is still one of the major pressure points on postal operators. Customers are increasingly making production, location, marketing and sourcing decisions on an international level and are looking for pan-European or international “end-to-end” services and solutions. The postal markets have therefore evolved from a national to a regional, European level with the top operators such as Deutsche Post World Net (DPWN) and TNT competing on an international level. With operational networks (not own infrastructure, but alliances and partnerships) expanding in scale and reach, postal operators have to grow together with their customers. Parallel to the globalisation of the express and the parcel markets, new entrants have emerged – e.g., Fedex, DHL, TNT, UPS and others more – some of which have been absorbed again by some of the historical operators. But one must also

mention here numerous entrants on the national, sub-national and even local parcels and express markets, who operate in particular geographical areas or with particular clients.

Customers, particularly business customers who account for 82% of the mail (with 39% going to other business recipients and 43% to households; UPU, 2002: 26) are becoming increasingly demanding: They want faster, more reliable postal services, more choice of product (including more sophisticated products, such as tracking) and competitive prices which meet their individual requirements. "The trend in demand is for postal and logistics services to be more standardised, available from a single buying point, across geographical areas and transport modes, for all consignment weights and types, in a range of time-definite options" (International Post Corporation, 2004: 16)

As far as the demand side is concerned, one can observe different tendencies. "Threats are ongoing, and they take the form of obsolescence and reduced demand for letters through substitution" (UPU, 2002: 26). The most brought up trend is the e-substitution, the thread of substitution of the letter as the traditional way of written communication by electronic ways such as e-mail. Although worries about future growth of the letter volume are not new, e-substitution has contributed substantially to the slowdown. These effects were analysed in several studies¹ and the decline in growth was measured: While the growth rate between 1995 and 2000 in Western Europe was 2.6% per year, it was only 0.5% in the years 2002 and 2003. Astonishingly, the stimulant impact of economic growth on the growth of mail volume is declining and a correlation can no longer be established: According to IPC (International Post Corporation, 2003: 16), forecasting mail volumes is nowadays extremely difficult as the traditional variables (gross national product, personal consumption, and consumer prices indexes) for predicting longer-term trends are no longer correlated with the performance of postal operators. Since 1998 the letter post has grown at only half of the rate of real GDP, a discrepancy that has widened sharply as letter post volumes have remained flat since 2000.

2.3 New Technologies²

New technologies are an important source of innovation and a major growth driver enabling postal operator to develop high-performing services and products in response to a constantly changing environment. One must name especially the information and communication technologies (ICT) which act simultaneously on a product and on a process/production level. Of particular interest here is the way the historical operators have made use of the ICTs when innovating: let us mention the tracking and tracing technologies, as well as other investments into improving speed and quality of the postal service, such as for example high tech sorting centres. Indeed, thanks to the ICTs the historical postal operators have managed to simultaneously achieve several goals, namely efficiency gains in the production process, speed and faster delivery times as well as significant quality improvements. New technologies have, as a consequence, also revolutionised bulk mail, generated hybrid products (computerised mass mailings), and made possible new services such as tracking and tracing. Rather than simply transporting letters and parcels from A to B, the ICTs do indeed offer significant new possibilities to add value to such transport, and, by doing so, to help the historical postal operators become much smarter, as well as more customer focused. Innovations in technology are also used by

¹ See International Post Corporation (2004: 18ff.), Campbell (2004: 133ff.)

² For further information on this topic see: Finger/Alyanak/Rossel (2005)

postal operators to compensate the negative effects of e-substitution by offering multiple web services such as e-banking, mail-accounts, and virtual document services.

Overall, the ICTs increase the availability of information to customers and thus reduce the information stronghold that the enterprise holds over the business. As a result, the customers are being empowered and can somewhat take control over the products and services. Consequently, this will increase transparency in the markets and enable the customers to make qualified decisions. One can expect significant competition and innovation from this evolution, and only companies with the technical and organisational capability to be transparent to their customers will gain.

2.4 Incumbents' Responses

These manifold trends and strategic drivers in regulation, market development and technology led to a variety of changes in the competitive behaviour. The Universal Postal Union identified the following main strategies (UPU, 2002: 33ff.):

- (1) Efficiency improvement / Rises in productivity
- (2) Modernisation of retail outlets / Improving image / Opening new opportunities
- (3) Quality of services
- (4) Diversification
- (5) Globalisation
- (6) Acquisitions
- (7) Alliances

Strategy (1) concerns a technological aspect of postal logistics, while strategies (2) and (3) primarily address marketing and sales topics. The other strategies correspond with the three main "reorganisation dimensions" postulated by Dörrenbächer (2003: 11ff.): Diversification (4), Internationalisation (5), and Integration (6, 7). As those three dimensions are of strategic relevance, we will examine them in the following.

2.5 Diversification

For obvious reasons it is not attractive to reinvest free cash flows from the declining mail business in the existing activities as it would not provide a sound basis for a long-term strategy. The moves (mainly of the larger) incumbents therefore aim at reducing the dependence on the declining mail market by expanding into higher-growth, higher-profitability, but more competitive business areas. Most of the responses to the strategic drivers and changes in the competitive behaviour of the incumbents can therefore be subsumed under the mantle of diversification. It is therefore fair to conclude that diversification is a commonly found answer to the strategic drivers which challenge the postal industry.

2.6 Internationalisation / Globalisation

The general trend in all industries to incorporate internationalisation in general has started in the 1950s, both in quality and quantity. "This is mainly due to overall structural changes such as political liberalisation, the decrease of transportation and communication costs as well as a growing

homogenisation of products and services across borders” (Dörrenbächer, 2004: 12). The postal business has always been an international business with incumbents delivering mail to another country, but only to one specific geographical point where another incumbent had to take over. This fact alone does certainly not make an industry international. However, with the liberalisation as an enabler and the homogenisation of the offering as a driver on the demand side, these were also the reasons for the internationalisation of postal operators. The pressure on postal operators to use the newest technology is a further aspect of internationalisation as the infrastructure should be pan-European to achieve lowest average costs. Through diversification and the widening of the portfolios incumbents can optimise network infrastructures, cost structures and therefore realise economies of scale.

One could argue that internationalisation is a driver itself and not a competitive reaction. However, incumbents would not have expanded internationally out of nothing as they were operating as national operators for centuries and basically set up to serve the confined home market. The internationalisation of the business customers, their need for one-stop shopping solutions, or the increase in cross-border mail traffic created a new necessity for internationally operating companies. A (theoretical) intrinsic motivation for an internationalisation could be a fast growth and/or a higher profitability of a foreign market. Although the first can currently be observed in China with countless companies eager to expand, the behaviour of the European postal competitors is different: Only the already widely internationally active DPWN and TNT are developing such new markets to close white gaps on their maps.

To sum up, incumbent postal operators are today competing on three different levels: The national, the regional, and the international level. When talking about the national level we mean the competition in a country within its political borders while the regional level concludes all activities from the adjacent countries to an area-wide pan-European business.

2.7 Integration

For centuries, the postal market acted as a well balanced network with strong incumbents and long-lived agreements between them. After building up international networks to provide one-stop-shopping cross-border solutions postal operators do also have to control the whole network and are therefore integrating continuously new companies. This consolidation and network creation process is progressing along three main axes of vertical integration, horizontal integration, and diagonal integration:

Vertical integration³ is pursued through upward linkages, thus increasing their reach by offering new product lines, and through downward linkages by buying courier and express companies, so to be able to service customer to the last mile (i.e., the homes of end customers). Obviously, the aim is to create an integrated service, by offering the whole management of the supply chain under a single roof. At the same time, the economies of scale which are being built up can be used to increase the efficiency

³ We distinguish vertical integration from diversification as follows: Vertical integration remains within the traditional postal value chain while diversification seeks new businesses outside the traditional business. There is, however, no exact separation between the two terms.

of the entire supply chain process by lowering costs for both the operator as well as the (end-) customer.

In terms of horizontal integration, incumbents are buying competitors in other geographical areas, so as to expand their global reach and to build up their global network. Initially, large incumbents have entered foreign markets which were open for competition and where legal and political hurdles were low for non-domestic firms. Therefore, it made sense to enter new markets via an acquisition or the setting up of express and parcel businesses. Alliances and minority strategic shareholdings may also be part of this strategy to increase the global reach, especially where taking over another firm is not opportune due to political or legal reasons.

Finally, incumbents are teaming up with enterprises from other sectors in order to complement their production and marketing strategies. This is especially the case in conjunction with the upcoming information technologies that force all postal companies to offer new products and venture into unchartered territories that hitherto had been occupied by either media or telecommunications firms. For example track and trace services are to be found in this group. The general aim of diagonal integration is to allow for cross selling of new products in order to increase the profitability of the company on the basis of existing product lines. Just as with vertical integration, extra business can be generated by offering the customer a (virtual) one-stop shop.

3. COMPETITIVE ANALYSIS OF SELECTED INCUMBENT POSTAL OPERATORS

“Competitive intelligence is a systematic program for gathering and analyzing information about your competitors’ activities and general business trends to further your own company’s goals” (Kahaner, 1997: 16). A company doing competitive analysis wants therefore to anticipate changes in the marketplace as well as the possible actions of competitors. Furthermore, new or potential competitors should be discovered and learnings from the success and failures of others deducted. In this chapter, competitive intelligence about European incumbent postal operators is gathered in order to consolidate the facts, assumptions and rumours to a competitive analysis. The objective of this competitive analysis is to develop a strategy profile of the respective incumbent, which provides information about the likely success of the current strategy and probable responses to the strategic moves of its competitors, as well as to changes within the industry.

Porter (2000b: 48) lists four diagnostic components: future goals, current strategy, assumptions, and capabilities (strengths and weaknesses). The traditional analysis starts at the future goals, proceeds to the assumptions which in combination leads to the current strategy which can be double-checked with the capabilities of the competitor. For obvious reasons, the current strategy and the capabilities (what the competitor is doing and can do) can be analysed more easily than its future goals and the assumptions held about itself and industry. These latter factors are much harder to observe, although they explain what is really driving the company and determine how a competitor will behave in the future.

Those profiles are normally used within a closely defined market and usually developed by a competitor to analyse his rivals with whom he is competing directly in the same market every day. For this scientific reason, competitive profiles are generated of companies which – although competing in the same industry – are not competing in the same (geographical) market. This procedure allows comparing different incumbents by common criterias from a neutral viewpoint.

Putting the four components together allows us to design competitor response profiles (Porter, 2004b: 67) which give answers about to be expected offensive moves or the defensive capabilities of the European incumbents. Offensive moves have to be expected from incumbents which are not satisfied with their current position and which have future goals (stated or implied) which make offensive moves necessary. Those moves have to be rated about their strenght and seriousness, in other words the consequences for the market must be evaluated. The defense capability predicts how the other market participants will react on the offensive moves and how vulnerable they are.

The detailed competitor response profiles are not part of this article as they are work in progress and therefore not worked up for this purpose here.

4. CONCLUSIONS FROM THE COMPETITOR ANALYSIS

There are of course several conclusions to be drawn, but the most impressive is the following as Strikwerda and Rijnders (2004: 8) summarise it: “The future competitive configuration of the European postal market cannot be analyzed at the level of the mail business.” Freedom of action in mail business has become rare and most incumbents are simply hoping that the full market liberalisation can be delayed as long as possible. Successful strategies about how to maintain market shares do not exist and solutions to finance the Universal Service Obligation (USO) have to be searched elsewhere.

4.1 Crucial Factors Shaping the Competition

The very basic reason for carrying out a competitive analysis is the fact that different competitive patterns can be observed and the postal operators do not work uniformly across Europe. Putting this as an axiom, the focus is laid on the factors which were crucial in the development of competition in the industry:

- (1) Asymmetric Market Development
- (2) Type of Ownership
- (3) Size of Home Market
- (4) Degree of Diversification

Together, these four factors significantly determine how a historical postal operator was able to react to the above identified trends, and how the competitive postal landscape of the future will look like. One would probably expect to find globalisation or internationalisation among these factors, but the competitive analysis has pinpointed that this trend or the degree of its achievement do not necessarily influence the competitive behaviour of any incumbent. The authors expect that in the near future the factor “alliances/networks” will also become a crucial factor. We will later see that most incumbents are not competitive enough to succeed in a changing market environment without a strong alliance or network.

4.2 Asymmetric Market Development

Like in all other liberalising industries, market development is, at least in the beginning of the process, relatively uneven and differs from country to country. The uneven market development was (and still is) supported by the phenomenon of “asymmetric liberalisation” (Strikwerda/Rijnders, 2004: 2). Most economic theories assume that the process of liberalisation is symmetric and synchronous, that the benefits are distributed evenly and that each economy has sufficient comparable advantages. Although the Postal Directive is mandatory for the EU member countries, it is realised in a very heterogeneous manner with different paces and most of the non-member countries are following autonomously but only partially and with substantial differences. This market disequilibrium creates opportunities for early moving incumbents from more protected markets to compete for more open markets while the opposite is not possible wherefore the state of liberalisation in the home market has to be contemplated as a crucial asset.

On the other side, the asymmetric market development also puts pressure on incumbents with further liberalised home markets: With competition increasing and monopoly profits diminishing fast, they are forced to seek new sources of income which can be found only in new markets, either through a geographical expansion or through diversification. So they are generally trying to enter other liberalised postal markets abroad. As obvious end game, incumbents in more liberalised markets are competing in countries of incumbents whose markets are further liberalised as well.

One would expect to discover many incumbents with a strictly protected home market (or otherwise low competition) and the following secured steady cash flow which go global and enter aggressively new markets. This type of incumbent should be able to act from a comfortable starting point as it does not have to worry about the home market and has enough resources to act independently. However, this trend can definitively not be observed in the European postal market. Rather, in countries with a barely liberalised market incumbents have not managed to become full scale global operators whereas the highly liberalised market of the Netherlands has generated a global player such as TNT. Only a few exceptions can be named which match this profile: Swiss Post has one of the most protected home markets but is one of the major international players for cross-border mail. The same applies to Austrian Post which has not yet be harassed too much by other operators but is now expanding in the Eastern-Europe markets (e.g. Slovenia, Croatia and Slovakia). No serious signs of a full market liberalisation can be seen in France why competition in this market also has to be considered weak. Some level of competition therefore (in conjunction with a large enough home market and easy access to capital from the financial markets) seems to be necessary to entice an incumbent into seeking to play a global role.

Those incumbents with more protected markets are in most cases also not active in foreign markets. The reason can be that they still earn good money from the monopoly and presently feel no need for an increased competitive behaviour. As they can not yet be attacked by other operators (or only in a few businesses), they are not urged to engage in any competition and are skimming their home markets.

Competitive behaviour in target markets	high	moderately competitive French Post Swiss Post	DPWN TNT highly competitive Royal Mail
	low	barely competitive Austrian Post Danish Post Italian Post	Swedish Post moderately competitive
		Low	high
		Competition in home market	

Figure 1: Competitive Environment of Selected Incumbents (schematically).

The map of the competitive environment (Figure 1) shows these facts schematically: The more competition in the home market, the more competitive behaviour in target markets can be observed. Unsurprisingly, there are almost no operators which could be described as “moderately competitive”.

The market is split in a highly competitive group consisting of DWPN, TNT, Royal Mail and LaPoste (commonly referred to as “The Big Four”, see chapter 5.1) and a barely competitive group with the remaining incumbents. Barely competitive in this connection does not mean that these incumbents are not able to compete with other postal operators, but that they are in arrears with getting fit for the next level of competition, especially in comparison with the Big Four and the major private operators. Recapitulating can be stated that therefore the opening of the home market and the increasing competition in it is conducting to the competitive behaviour in external markets.

This map only displays the relative degree of competition and does not make any statements about absolute market sizes/shares or the success of the corresponding strategy. In other terms, it classifies incumbents on an axis how competition has to be rated in relation to the market size/share.

4.3 Type of Ownership

Almost the same considerations can be made when regarding the type of ownership: TNT and DPWN are both publicly listed at stock exchanges and their governments are constantly reducing the share held by the state. Not surprisingly, they are the most competitive incumbent postal operators in the world, facing high competition in the home market and acting competitive in target markets. Letting the incumbents into private ownership seems therefore to be a strategic move by which a government can increase the competitive ability of their postal organisation: The ongoing corporatisation and the sale of shares to investors automatically leads to a quest for financial performance as institutional and private shareholders stipulate a maximisation of their investment. The executives of the incumbent therefore do no longer only have to provide a reliable service public but do have to bear in mind the financial demands of the shareholder. Furthermore, they have relatively easy access to capital. Vice versa, the governmental ownership can impose constraints on the adoption of the most cost effective or profit maximising strategy. The political control and resistance can prevent incumbents from investing in private companies or entering into alliances. Other restrictions are for example the raise of money, the undertaking of investments or the reducing of staff levels (see Nera, 2004: 39). Over decades, Royal Mail was not permitted to buy shares of companies. Joint ventures and alliances were limited by a maximum amount. It was only with the introduction of the Postal Services Act in 2000 when the market was partly liberalised that these restrictions were abolished.

Ownership, together with the broader strategic attitude of governments vis-à-vis their operators does therefore significantly influence the strategic capability of a historical operator. At the time of writing, several countries have plans to partially or totally privatise their incumbents, which would free them from many of the constraints above: The German government has sold its remaining shares of Deutsche Post AG. Denmark sold 25% of its incumbent’s shares and Austria (evaluating an IPO for 2006), Greece (planning to sell 25% of Hellenic Post), Portugal (planning a 30% partial privatisation of CTT Correios), Romania (selling 25%), Hungary, and also Slovakia are seeking for partners. The Dutch government further reduced its shares in TNT to 10%. On the contrary the British government has just denied to have plans for a corporisation of Royal Mail.

4.4 Size of Home Market

The third factor corresponds basically with the first two: “...it can be argued that the incumbents with large home markets naturally exert a higher competitive pressure on incumbents with smaller home

markets.” (Strikwerda/Rijinders, 2004: 11). A large home (mainly letter) market (such as Germany or France) means automatically a better starting point for an incumbent. As they all started with an absolute monopoly, incumbents in large markets could build up a larger and highly connected infrastructure which provides them higher economies of scale. This asset enables them to enter new markets with a wider revenue basis and to achieve earlier the required cost-covering volumes (see Manner-Romberg, 2003: 18). If for example DPWN wants to enter the Swiss mail market, it can use parts of its infrastructure in the home market to supply the Swiss market and would not be forced to build up a whole new infrastructure. For an incumbent, like the Austrian Post, in return, would be exactly this step necessary as its infrastructure is geared to a small home market and can not be used for additional volumes generated in new markets.

Likewise related to the home market is the share of an incumbent in it: As each and every European incumbent has maintained at an average a dominant share of 95% in the home market (see Campbell, 2004: 94ff.), the importance of the size of the home market becomes obvious. In 2004, DPWN still holds a comfortable 92.2% market share (2003: 96%) in the German letter market which generated the necessary cash flow to finance the massive expansion course. Table 1 gives an overview of the respective market size and the incumbent’s share:

Table 1: letter post market sizes and incumbent shares in 2003 (www.upu.int / Campbell, 2004: 94).

Country	Market Size ⁴	Incumbent Share
Germany	20’840	96.0%
Great Britain	20’749	99.7%
Netherlands	5’384	95.0%
Spain	5’248	90.0%
Switzerland	2’917	100.0%
Denmark	1’153	98.0%
Slovenia	674	98.0%

The importance of the home market becomes also apparent if the quota between domestic and international turnover is compared: In 2000, Royal Mail generated only 7.5% and La Poste 12% of its turnovers abroad. Only DPWN (33%) and TNT (75%, due to the small home market) have significant relative international turnovers (see Manner-Romberg, 2003: 100).

4.5 Degree of Diversification

Keeping in mind that the future of the European postal market can not be analysed on the level of mail business, it is obvious that the open, scale-intensive logistics market will drive and shape the future postal market. It is such diversification which will allow a historical operator to create competitive differences and advantages. Nera (2004: 40) calls these activities the “extended value chain” which recognises “that in the case of the majority of postal and express items, a number of activities have already taken place before the items are delivered to the postal operator or collected from the

⁴ Number of letter-post items, domestic service (in millions).

customer's premises". So the traditional value chain of collection – transport - sorting – transport – delivery is extended with inbound and outbound logistics at the beginning.

The fourth factor deciding the competitive behaviour of an incumbent postal operator is therefore the degree of its diversification. As we have seen in chapter 2.5, diversification is beside internationalisation and integration the main dimension in which incumbents can develop. However, diversification is the one dimension which really creates competitive differences between postal operators. Incumbents which have diversified on a large scale compete in multiple, new markets and so the strategy is chosen more deliberately. Diversified incumbents invest generally more time and money into market research and marketing communication as they have to enter or build up new markets what reflects on the competitive behaviour in the traditional postal home market. On the other hand, over-diversification may well also be problematic as scarce resources may become spread too thin.

5. THE COMPETITIVE LANDSCAPE

From a competitive point of view, the European postal market presents itself split in two camps: “There is a large group of internationally expanding, pan-European companies to which DPWN, TGP, LaPoste, and Royal Mail belong. In the second large group (the defenders) are postal operators whose markets are too small or which itself are too small to survive” (Manner-Romberg, 2005: 11). These assessments correspond with Finger (2004: 26) who identifies 4 different scenarios for postal incumbents:

- (1) Global Players, where we look at operators that pursue an expansive growth strategy to become globally integrated enterprises offering the fully line of postal products and services from A to Z;
- (2) Specialised Players where smaller postal operators have fully modernised their businesses to confront especially the technological challenges but who due to various reasons (political, legal, geographic, demographic) have no ambitions to become global operators;
- (3) Defensive Players where postal operators have not yet formulated clear strategies to confront the challenges or are due to national constraints (especially domestic political reasons) not able to do so;
- (4) National state-owned operator which are no longer dominant on their domestic market with heavy competition from private foreign operators and the lack of a regulatory framework.

Within the first three scenarios, Finger underlies the full liberalisation of the postal market and the implementation of a sufficient regulatory framework (e.g. definition of universal service, postal regulator). The first scenario doubtlessly describes DPWN, TNT, Royal Mail and LaPoste whose supremacies in the European postal market are beyond controversy among experts. In addition to Manner-Romberg and Dörrenbächer, Finger names two different scenarios for the smaller incumbents (the defenders) by assuming that one part will manage to reorganise successfully, form powerful cooperations, and can become profitable. The other part will have to be subsidised as they are not ready to face the new competition, they can not compensate the decline in mail volume, and their markets are too small to operate profitably after the fall of the monopoly.

The fourth scenario can be applied to postal operators in developing countries (keyword: lack of regulatory framework) and is not relevant within our scope of European countries.

5.1 Global Players

Global players, often referred to as the “Big Four”, are historical postal operators which have been capable of taking advantage of liberalisation and have or are about to create a globally integrated postal network which they either own or significantly control, and this in all three market segments that are express, parcels, and increasingly also mail. This group is characterised by massive expansion strategies, both geographically and in product range. Postal companies pursuing this strategy follow their multinational customers and related trade flows and outsourced logistics. The strategy of the global integrator is to expand their coverage both horizontally and vertically to capture the market for so-called third party logistics and to act as a one-stop-shop for their industrial customers, whom they are following to markets abroad. DPWN, TNT and LaPoste have all communicated their intentions to lead the European postal consolidation process and have the cash flow to execute this strategy. Through consolidation and takeovers these incumbents will increase their market power even more, as

they already have large networks generating enough cash-flow to further increase their market shares. The concentration and consolidation of the market around two to four such global integrators will also mean that Europe will be serviced by a small number of relatively efficient postal operators that are able to use economies of scale. This will enable them to provide price-efficient services to their customers, as well as increase margins to secure a good return on the vast assets invested into the infrastructure.

If we follow the four relevant factors which shaped the competition landscape (see chapter 4.1), we realise that those four incumbents could profit to a great extent from them: They all have a big home market which provides them with enough cash flow for investments in foreign markets and acquisitions. As far as TNT is concerned, they could not profit from a big home market, they took already at an early stage advantage of remaining profits and later of its early liberalised home market. All four incumbents used the asymmetric liberalisation as an instrument in the power play for markets to enter them at the earliest possible point in time. If a further differentiation should be done, we can describe DPWN and TNT as more aggressive and pro-active and LaPoste and Royal Mail as more conservative ones. Although the pace of reorganisation of the latter has been much more moderate, the general direction (at least with regard to internationalisation and diversification) is more or less the same.

Interestingly, all of the big players have actually political problems in their home market. In Germany and England, the question of access regulation is reaching a climax. In addition, Royal Mail struggles to deliver the required delivery quality and DPWN has to face complaints concerning the cost/performance ratio. On the other side, the retention of the letter monopoly is currently discussed by the German parliament as well as labour unions and is very likely to be voted through.

5.2 Specialised Players

The other group, consisting of basically all the remaining and much smaller incumbents, shows a significant different competitive behaviour. Constrained by their budgets and their privatisation status, they have to face the massive consolidation process by the aggressive actors which puts heavy pressure on the defenders. They do not have the early-mover advantages and are now detecting the immense need for action. As a conclusion, Dörrenbächer (2003: 43) simply states: “All other (than the Big Four, editor’s note) European postal operators are either considered to be targets for future take-overs or expected to form co-operations with other non- or weak-reorganisers”.

But this does not mean that only the Big Four will by themselves dominate the global market. There will remain enough room for the other historical postal operators to position themselves, in particular if they have special competencies, be they geographical or commercial. The relative success of these specialised players will heavily depend upon financial and political constraints. Per definition, such specialised players will not have the financial clout to expand on a large scale, simply because they will not have a sufficiently big or sufficiently lucrative home market, or because they have liberalised relatively late and were not able to take advantage of the asymmetric competition. Others still may have legal or political constraints, whereby they may lack the political support for privatisation – as a pre-condition from raising money from the capital market – or simply be burdened by costly public service obligations. Their success will depend, on the following factors, namely to have particular high quality niche products, to successfully use the ICTs in their products, their processes, to be able to

resist and compete successfully with invading global integrators in their home market and perhaps region, and to be able to expand their business into neighbouring territories.

5.3 Defensive Players

Defensive players are small incumbents who have not managed, for several reasons, to transform themselves sufficiently rapidly and sufficiently profoundly so as to take advantage of the liberalising postal market. Consequently, these defensive players focus on their respective domestic markets and try to defend it as good as long as possible against the intrusion of both the global and the specialised players. Consequently, these posts are natural takeover targets and have to work out intelligent defence mechanisms to remain independent as well as profitable.

5.4 Alliances and Cooperations

Experts agree that a solo attempt of a smaller incumbent is a possible strategy but that profitability will be at stake as such incumbents face heavy market threats as soon as the monopolies will fall. More promising is the buildup of alliances and strategic cooperations. On the other hand, it may very well be that a global player views the costs of entering a market as being too high and decide to align itself with a defensive player. This will especially be the case in markets where traditional monopolies still persist and are unlikely to fall anytime soon (e.g. Switzerland). But it may also be worthwhile for a global player or specialised player to simply take a share in a small player. Such a strategic partnership gives the small player access to the global or at least regional network of the new partner company without having to build up these infrastructures on their own. The following section names a few existing alliances between European postal operators to demonstrate how (especially smaller) incumbents organise themselves to build up powerful networks and profit from economics of scale and scope.

- **La Poste**
 - With Fedex, Correos (Spain), Italian Post and Sweden Post (was planned as a “south alliance” with Portugal and Greece, but could not be realised)
 - Several DPD franchisees belong to La Poste and another incumbent, so DPD Iberica (with Spanish Post) and DPD Scandinavia (with Swedish Post).
- **Posten AB (Sweden)**
 - Franchise agreements with DPD (La Poste) in Sweden, Norway, Denmark, Finland, and Iceland
 - Cooperation with DPD in Poland and for the Baltic room
 - Pan Nordic Logistics (PNL, see below)
- **Swiss Post**
 - Joint venture with TNT for international express
 - Joint Venture with GLS (subsidiary of Royal Mail) for international parcels
- **Spring**
 - A joint venture between TNT (51%), Royal Mail and Singapore Post (24,5% each) for crossborder mail and value added services
- **Pan Nordic Logistics (PNL)**
 - In 2000, Denmark Post, Sweden Post and Norway Post bundled their respective crossborder parcel businesses in a joint venture “Pan Nordic Logistics” (PNL). After the withdrawal of Sweden Post from the joint venture, an express operator in Sweden was acquired and cooperation agreements were entered with Finland Post, Estonia Post, Latvia Post and

Lithuania Post. PNL aims at keeping the Nordic countries in the business and at becoming itself the leading Nordic company in the express and parcels markets.

- **Baltic Express**

- Allows Estonia Post, Latvia Post and Lithuania Post to deliver parcels from door to door in the Baltic countries by using the delivery network of their partners.

5.5 Offensive Moves

In this section we focus on moves concerning the presence of incumbents in other European countries and the share holding and/or cooperation between the operators. Moves on the level of the product and service portfolio will not be analysed, as this would go beyond our scope.

5.5.1 Satisfaction with Current Position

Experts (see Manner-Romberg, 2003: 33f.) rate the competitive situation in the European postal market as comparatively stable and do not expect offensive moves in the near future. As far as upcoming takeovers are concerned, they are not very likely as the Big Four have some integration tasks to do before they continue their acquisition courses. The strategies of DPWN and TNT envision a focus on the emerging markets in China and India. It is therefore assumed that they will concentrate their resource overthere and slow down their European activities. This could, in return, create opportunities for smaller incumbents. Most of them which will be targets for takeovers are not ready yet as the pain and pressure of the market liberalisation is not high enough.

Nera (2004: 52f.) describes the current strategy of about half the EU member states as “cautious expansion” along the dimensions horizontal/vertical integration and internationalisation. Examples are Swedish Post, Post Denmark, Estonia Post, Latvia Post, Lithuania Post, Correos and Austrian Post. Most of them have some interests or operations abroad, but are generally quite satisfied with their actual position. As a consequence, these incumbents are not expected to undertake bigger offensive moves in the near future. They are likely to pursue their strategies, focusing on niche markets (e.g. Austrian Post in Eastern Europe).

Incumbents from smaller states (e.g. Belgium, Ireland and the Czech Republic) are generally consolidating their existing position (see Nera, 2004: 52f.): They do not significantly engage in the pan-European competition, but are trying to maintain or slightly improve their position in the home market. These incumbents strongly focus on the traditional mail business and offer only postal-related value added services like document management. It is to be expected that they will soon face heavy pressure as the gains from mail business will decline, no synergy potentials are available and new competitors will enter the market cherry-picking.

5.5.2 Probable moves

A complete new competitive situation would take place if two incumbents join forces as this would create a new big player. Naming possible incumbents would be too speculative. Within the group of the Big Four, Royal Mail (or at least its subsidiary GLS) would be an ideal target for TNT, as the British incumbent faces massive financial problems and could provide the necessary parcel ground network which lacks the Dutch incumbent who is specialised in express. Take-overs of smaller incumbents in other countries are expected to be made (if at all) by DPWN or TNT. However, the

attempts of both to buy shares of different incumbents (e.g. Danish or Austrian Post) were aborted due to political resistance. La Poste has a working parcel network (DPD) and an efficient cooperation with FedEx for its express business wherefore no immediate moves are expected. Royal Mail has problems in its home market to such an extent (recapitalisation, quality) that further internationalisation attempts or even acquisitions would probably not be accepted by government, regulator and citizens.

However, also smaller incumbents have merging plans. The Swedish post could play a key role in these developments. With the dedicated aim of becoming the leading postal operator in the Scandinavian and Baltic room but a comparatively small home market without monopolies, it has not enough resources to achieve its goals on its own. It can therefore be expected that Posten AB will soon be looking for one or more strong partners. If they can hold up their independence or if Posten AB will become a premium target for takeovers is questionable, especially as the high quality and technology standard of this incumbent is very interesting. Post Danmark as another example lists in its “Strategy 2006” the following objective: “Post Danmark is increasingly being exposed to competition from major international players in the postal and logistical markets. The most effective response to this development is to form an alliance with one of these players”. In June 2005, Post Danmark has sold 22% stake to the British private-equity group CVC Capital Partners. In return, Post Danmark and CVC have teamed up to acquire the share of up to 50 per cent minus 1 share in De Post-La Poste, the Belgian national postal operator. Especially the Scandinavian incumbents, as it seems, will be at the forefront of a new phase of mergers and acquisitions in the European postal market.

As far as take-overs of competing private operators are concerned, no strategic offensives are pending. The larger and independent operators are not up for sale and the smaller ones do not suffice to unhinge the relative stable competitive configuration. Not to neglect, however, are moves by the two big US integrators FedEx and UPS: Both companies emphasise again and again that they have no intention to enter letter markets as this would require very high investments and probably heavy losses at the time of market entry. In the long run, however, we can not eliminate a possible cooperation with or even take-over of a medium-sized incumbent by one of the two integrators. FedEx already has a strong alliance with La Post, whereas UPS as the global market leader does not currently have such a link.

Strategic relevance could be achieved by future cooperations in air transport: French Airpost (subsidiary of La Poste) for example has an agreement with Poste Italiane. TNT has the leading air transport network, closely followed by DPWN, FedEx and UPS. But as all the other European incumbents are too small to maintain own air transports, such cooperations could become a new crucial factor which determines the future configuration of the European postal market.

5.5.3 Strength and seriousness of moves

All of these strategic moves have to be considered as strong and serious (as soon as they are completed). Today’s relative equilibrium between the Big Four, the Specialised and the Defensive Player would be destabilised and the competitive landscape must be drawn anew. If we weight the respective seriousness with the probability of occurrence, the near future will keep ready only a few major moves. Most probable is the following scenario: A couple of operators (Big Four, but also Swedish or Danish Post) will continue their acquisition processes and purchase shares of smaller, but promising incumbents. From a European point of view, such a move is not a significant impact at any rate as it mainly affects the particular national market. However, if powerful networks are constructed by means of such share purchases, the assessment turns out different. Each incumbent teaming up with a larger

operator is furthermore a lost potential partner for other incumbents. As a consequence, the number of possible partner decreases and panic buying could set in.

5.6 Defensive Capability

We expect that most of the European incumbents will concentrate their resources on skimming their protected markets and preparing themselves for the full liberalisation in order to defend a (hostile) takeover by a large operator. At the moment, the possibilities of smaller incumbents to defend themselves against these afore said moves have to be assessed positive. Due to their monopolies and the governmental ownership, the incumbents have big influence on how much competition is admitted, either in terms of the market entry of another operator or an attempted share holding. With the focus opened to the looming liberalisation, the defensive capabilities of smaller incumbents seem to be questionable. As analysed above, the ability to resist and compete successfully with invading global integrators in their home market will become the deciding factor on the way to become a “specialised player” rather than a “defensive player”. Their success will depend, we think, on the following factors, namely to have particular high quality niche products, to successfully use the ICTs in their products, their processes, and their own management, and to be able to expand their business into neighbouring territories. In conclusion one can say that such specialised players can be expected to fulfill their role very well and they will probably be highly competitive in their respective markets, though clearly they will not be able to compete on a global scale.

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