Post Office Network Realignments and their Impact on Innovation

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Agenda

- Introduction
- Post office network development in selected countries
  - New Zealand vs. Sweden
  - Swiss Case: Impact of post office closures on mail volumes
  - Australian Case: High value retail network
- Stylized network models and their impact on innovation
- Conclusion
Worldwide, incumbent post office networks vary considerably

- Why different strategies?
- Impact on innovation?
New Zealand vs. Posten AB (Sweden)

New Zealand (FMO 1998)
“Provide 880 retail outlets, thereof 240 post offices” (now: 953 outlets, thereof 326 post offices)

Sweden (FMO 1993)
„Provide nationwide financial transaction services“ (until 2008)

- Postshops: Economies of scope between postal and financial services
- Postcenters: Economies of scope with 3rd party suppliers
  ➢ Successful development of Kiwi bank

- Business Centers / Kassaservice: Stand alone
- Shops: Economies of Scope with 3rd party supplyers
  ➢ Kassaservice closed as of 31.12.2008
Success story New Zealand Post based on banking

- **Mission:** The New Zealand Post Group offers services to help New Zealand run. We connect people, businesses and communities.

- **Kiwi Bank:** “We're in more than 300 PostShops, which means we can stay open longer than other banks, even on weekends in many places.”
  - New Zealand’s Most Trusted Bank three years in a row
  - First to introduce real time mobile phone banking, beating the world’s biggest banks to win the international 2007 Financial Innovation Award
  - 13% EBIT-margin
  - Contributed to about **3/4 of group profit in 2009**

➢ **Success of Kiwi bank based on**
  Accessibility, Trust, Service (opening hours), Economies of Scope
Swiss Case
Impact of post office closures on mail demand

Development of Swiss quarterly mail volumes

Development of Swiss post office network

- Drops in mail volumes because of post office realignment?
Estimation Results

Mail volume decline...

\[
\ln(q) = \beta_0 + trend(t) + \beta_1 \ln(gdp) + \beta_2 \ln(p) + \beta_3 \ln(s) + \beta_4 (eproxy) + \beta_5 (office).
\]

... due to ...economy ...pricing ...internet ...post office realignments?

Results from static regression and dynamic VEC model*:

- Economic activity (GDP) and prices still important
- E-Proxies are very relevant reflecting “E-Substitution” (very significant)
- Network realignments appear to have no impact on mail volumes (not significant)

Results are not really surprising:

- Post offices mainly serve private customers (only 15% of the market)
- Letter boxes are valuable and very accessible alternatives to post offices
  - Transforming post offices into agencies makes sense from a pure cost point of view
  - Why do many postal incumbents still rely on post offices?

Case Australian Post: Successful Retail Services!

- Australian Postal Corporation Act 1989:
  - Reserved area up to 250 grams
  - “Maintain a minimum of 4000 retail outlets, including 2500 in rural and remote areas.”
  - As of 2009: 4433 retail outlets, including 2541 in rural and remote Australia (⇒ i.e. more than necessary! ).
- Retail outlets (post offices) are organized in business segment “Agency Services & retail merchandize”. Solid and positive financial development:
  - 2008: 86 M $, EBIT-Margin 12%
  - 2009: 95 M $, EBIT-Margin 13%
- Strategy: Leverage point-of-sale multi-channel capabilities
Innovation crucial for success
Development of IT platform netPOS

- Rollout of netPOS in 2001
- Web browser-based network infrastructure, based on open standards
- Integration with systems outside Australian Post
- Instant two-way communications with 3rd party business clients
  - Interactive, online business opportunities at postal counters
  - Allowed to use any post office as a „front counter“ of business partners
  - Today: Little implementation costs of new services, little training effort of staff in retail outlets
Today, retail outlets offer broad range of services
Extensive complementary services to letters and parcels

- **Agency services** for more than 750 **businesses and government bodies:**
  - Identity and verification services (+30% transactions, +18% revenue in 2009)
    - Identification services for 39 financial institutions incl. anti-money laundering check
    - Various other identity services for 48 businesses and government bodies. Customers.: Australian and British passport authority, Western Aus. Police
  - Financial services:
    - Banking services which provide access to more than 70 financial institutions, e.g. deposits and withdrawals with Bank@Post. Business banking for 10 financial institutions
    - Money transfer services (distributor of Western Union and Government)

- **Retail merchandise**
  - Mobile phones, gifts, greeting cards, office products, books
  - Philatelic program
  - Packaging
## Three stylized models of post office networks

<table>
<thead>
<tr>
<th></th>
<th>“Postal Network”</th>
<th>“Universal Network”</th>
<th>“Postal Bank Network”</th>
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</thead>
<tbody>
<tr>
<td><strong>Leading example</strong></td>
<td>Sweden</td>
<td>Australia</td>
<td>New Zealand</td>
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<tr>
<td><strong>Required authorizations</strong></td>
<td></td>
<td>Extensive Retailing</td>
<td>Banking license</td>
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<tr>
<td><strong>Offered Products</strong></td>
<td>Postal Services</td>
<td>Postal Services</td>
<td>Postal Services</td>
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<td></td>
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<td>Financial Transactions</td>
<td>Financial Transactions</td>
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<td>Agency Services</td>
<td>Banking Services</td>
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<td><strong>Agency types</strong></td>
<td></td>
<td>Full range offices</td>
<td>Full range offices</td>
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<td></td>
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<td>Postal business centers</td>
<td>Postal business centers</td>
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<td>Business Centers Agencies</td>
<td></td>
<td>Agencies</td>
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<tr>
<td><strong>Franchising</strong></td>
<td>Precondition</td>
<td>If wanted</td>
<td>Precondition/If wanted</td>
</tr>
<tr>
<td><strong>Financing Need</strong></td>
<td>No</td>
<td>?</td>
<td>No</td>
</tr>
<tr>
<td><strong>Impact on innovation</strong></td>
<td>Limited possibilities</td>
<td>Large (product and process</td>
<td>Medium (focus banking part)</td>
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<tr>
<td></td>
<td>(costs are outsourced)</td>
<td>innovation)</td>
<td></td>
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<tr>
<td><strong>Unique selling proposition?</strong></td>
<td>No</td>
<td>Yes</td>
<td>Yes (banking)</td>
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## Summary

<table>
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<tr>
<th>Regulation</th>
<th>Strategy</th>
<th>Innovation</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMO + no infrastructure requirements</td>
<td>Save costs</td>
<td>Process Innovation</td>
<td>Cost efficiency</td>
</tr>
<tr>
<td>FMO + financial transactions</td>
<td>Save costs, Diversify / provide banking services</td>
<td>Process Innovation, Product Innovation</td>
<td>Cost efficiency, USP in banking</td>
</tr>
<tr>
<td>FMO? + Infrastructure requirements</td>
<td>Diversify/ bring value into network</td>
<td>Product Innovation</td>
<td>USP in „high value retailing“</td>
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</table>
Thank you.

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