# Business models for postal and delivery services

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# Structure of the Presentation

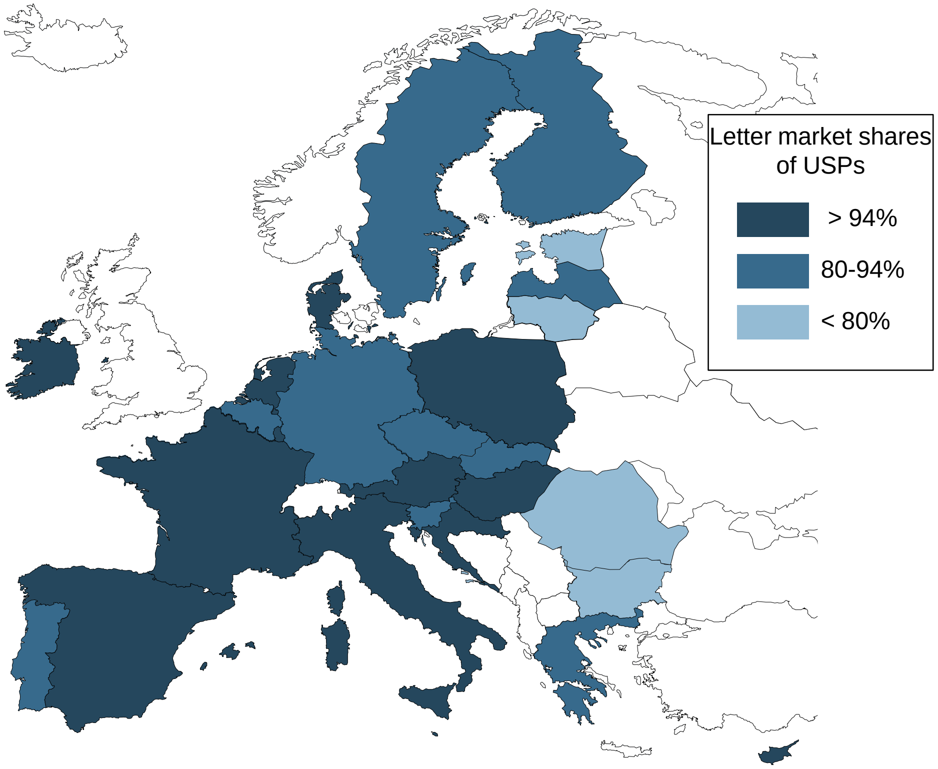
1. Competitive landscape in the EU
2. Business models
3. Conclusions

# 1. Competitive landscape in the EU

## Domestic letter markets

Letter markets liberalized, but very little competition

- Universal service providers (USPs) are de facto monopolies in most MS
- In some MS, small markets shares by entrants (owned by publishers, or private equity)
- Some competition in upstream operations from consolidators (using ‚downstream access')

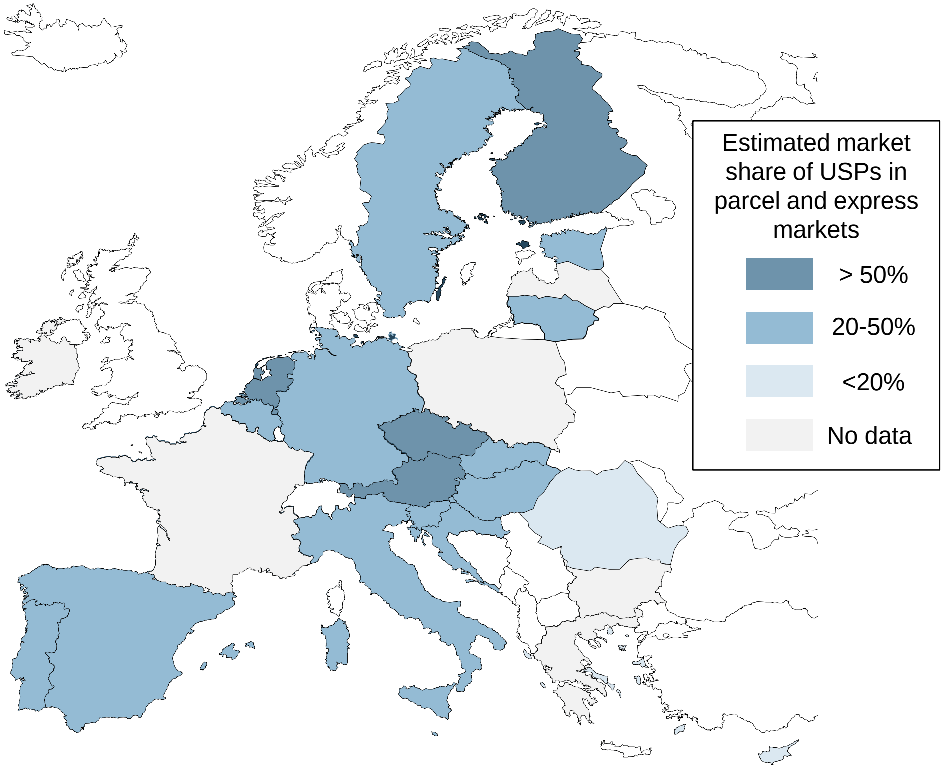



Source: Own illustration based on Copenhagen Economics (2022), Main developments in the postal sector (2017-2021)

# 1. Competitive landscape in the EU

## Parcel and express delivery markets

- Universal service providers are traditionally X2C networks
- Traditional private B2B parcel operators in many Member States
- Express companies / integrators (UPS, DHL Express …) adding B2C to long-standing B2B operations



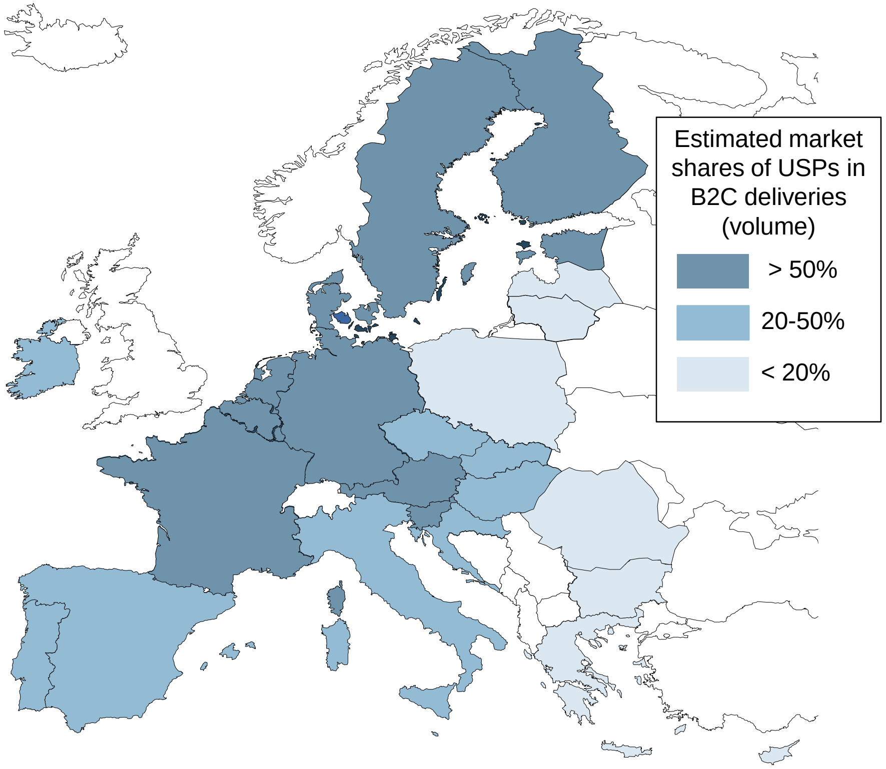

Source: Own illustration based on Copenhagen Economics (2022) Main developments in the postal sector (2017-2021)

# 1. Competitive landscape in the EU

## Parcel & express delivery markets

B2C parcel and express services with growing shares in parcel & express markets

- First-mover advantage for USPs with traditionally nationwide X2C networks and a weak position in B2B deliveries
- DHL eCommerce dedicated B2C network, in cooperation with local USPs
- International and European parcel & express networks expand into B2C deliveries: Geopost/La Poste, GLS/Royal Mail and UPS
- Market entry by international and European e-commerce platforms (e.g. Amazon, bol.com, Allegro)




Source: WIK-Consult

# 2. Business models

## Important business models for postal and delivery services

- Universal Service Providers transforming their business models
- Pan-European road-based parcel networks expand into B2C deliveries
- International express integrators target high value e-commerce
- E-commerce platforms investing in delivery markets in some Member States

# 2. Business models
## Universal service providers

- In most MS, USPs continue to be first choice for B2C delivery
- USPs looking for their role in the wider e-commerce business:
  - strong competitive suppliers in some MS
  - deliverer of last resort in others
- With declining letters volumes and competition in parcel delivery, many USPs struggle to operate profitably. Compensation of “USO net cost” in place in several Member States (including DK, FR, IT) and discussed in many more
- Operations for letter delivery need to be downsized, become more cost-effective to cope with lower volumes – daily delivery becomes less relevant and viable
- Parcel services are traditionally less profitable than letter services, but operations and service levels must meet customer expectations in competitive markets – daily delivery expected by the market
- Transformation to efficient e-commerce parcel operators (unions, labour conditions)

# 2. Business models | USPs

## Letter tariffs increase sharply across EU, service levels decrease

| | Price | Quality |
|---|---|---|
| Domestic | ▪ Acceleration of tariff increases since 2018/2019<br>▪ Average price increase for a single-piece D+1 (20g+)[1]:<br>2017: 0.83 EUR<br>2021: 1.10 EUR | ▪ USPs maintain a nationwide infrastructure with daily delivery but not necessarily for letters<br>▪ Trend from D+1 to D+2,3,4… |
| Cross-Border | ▪ Vary significantly from 0.88 EUR in Portugal to 4.44 EUR in Denmark (2021)[1] | ▪ Cross-border transit time depends on national delivery standards |

[1]Source: Copenhagen Economics (2022) Main developments in the postal sector (2017-2021)

# 2. Business models | USPs

## Examples of modernized operations: less cost, lower service levels

Denmark
- Since 2016: New US standard D+5 → Overnight service = express letter (non-US)
- Since 2024: No designated USP

Sweden
- Since 2018: US standard from D+1 to D+2 (Plans to go to D+3)
  → Overnight service = express service (non-US)

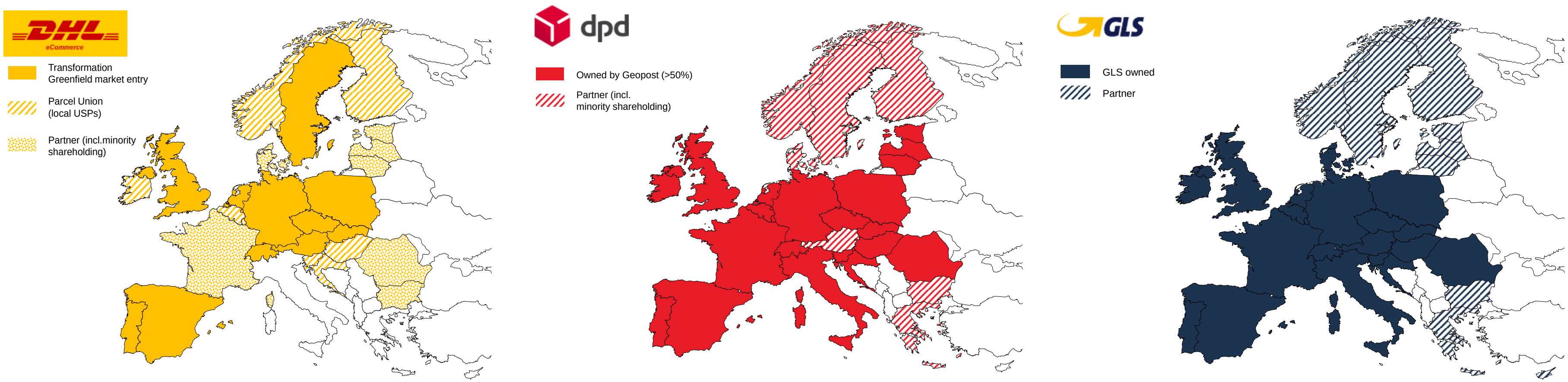
Finland
- Since 2017: New US standard D+4
- Since 2018: 5 delivery days in rural areas (exceptions for ~1.000 households) & 3 delivery days in urban areas
- Since October 2023: 3 delivery days nationwide

France
- Since 2023: New US standard D+3 ('Lettre verte' changed from D+2 to D+3)
  → Overnight service only as hybrid letter product ('lettre rouge')
  → D+2 only for business customers

Italy
- No daily delivery in rural areas: Delivery frequency of 2.5 days (25% of the population)

# 2. Business models | Parcel operators

## Pan-European road-based parcel networks




- DHL eCommerce offers harmonized cross-border services
- DPD: Promotion of Out-of-home delivery
- GLS: Mix of B2B and B2C strategies in different markets

Source: WIK-Consult

# 2. Business models | Integrators

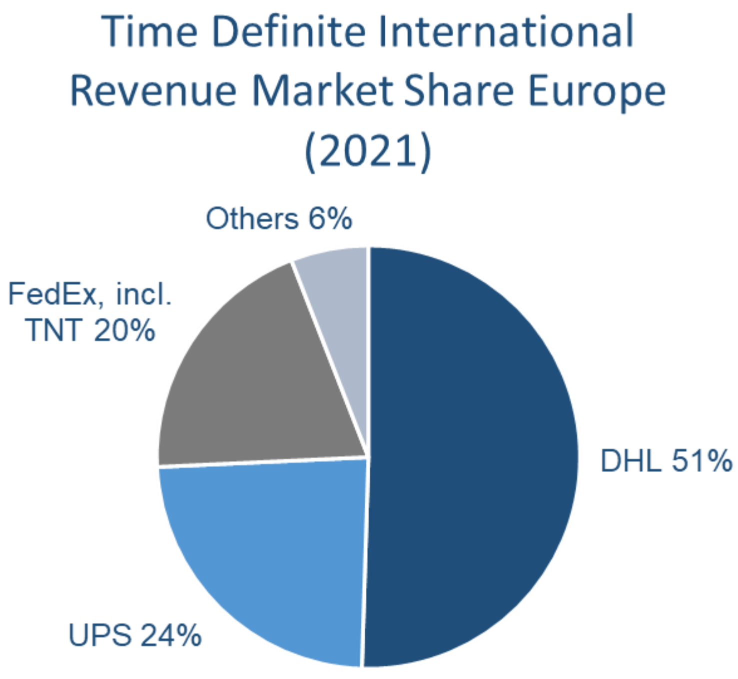
## Integrators target the high value e-commerce segment

Integrators expand from B2B segment to B2C in international e-commerce (from/to Non-EU)

- DHL Express: 45% of volumes are B2C (2022)
- UPS
- FedEx/TNT: Merger in 2016

Highly reliable international delivery with guaranteed day- and time-definite services

Status of Economic Operators (EOs) in EU customs treatment




Source: Deutsche Post DHL Group Investor Presentation, March 2023

# 2. Business models | E-commerce

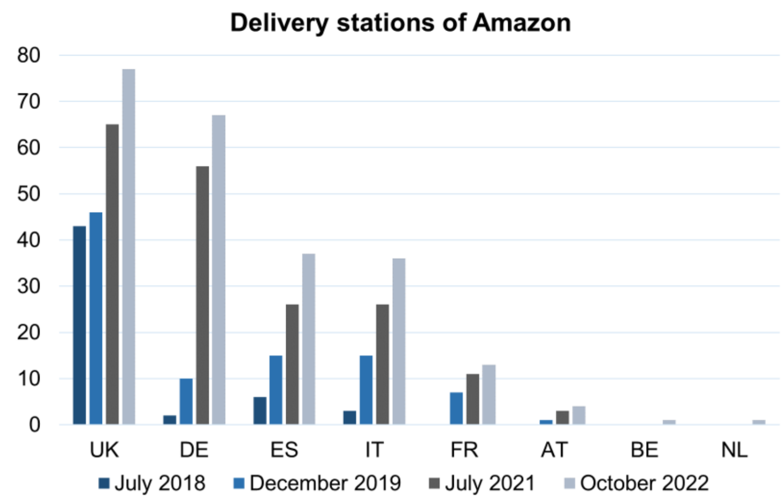
## Platforms / Amazon massively grown since 2018

Amazon is a vertically integrated online retailer and marketplace offering their fulfillment services to marketplace sellers and invested 2020-2022 heavily in delivery capacities in its core markets

Amazon has significant shares in parcel markets in AT, DE, ES, IT and UK

| | **Marketplace** launched in | **Warehouses** # centres (2022) | **Delivery** launched in | **Delivery** # stations (2022) |
|---|---|---|---|---|
| **UK** | 2002 | 46 | 2013 | 77 |
| **DE** | 2002 | 30 | 2015 | 67 |
| **FR** | 2003 | 11 | 2018 | 13 |
| **IT** | 2010 | 10 | 2016 | 36 |
| **ES** | 2011 | 16 | 2017 | 37 |
| **AT** | amazon.de | 0 | 2018 | 4 |
| **NL** | 2020 | 0 | 2021 | 1 |
| **SE** | 2020 | 1 | | 0 |
| **PL** | 2021 | 9 (for AT&DE) | | 0 |
| **BE** | 2022 | 0 | 2021 | 1 |

Source: WIK-Consult



# 3. Conclusions

- Most new players in delivery are in fact old players:
  - Letter delivery: quasi monopolies by USPs in all Member States
  - Parcel delivery more competitive: major players are pan-European parcel networks owned by DHL Group, La Poste, and Royal Mail, increasing competition by e-commerce platforms
- Parcel delivery markets perform well
  - Generally competitive and cost-effective
  - Service levels on the rise for many years (shift to recipient-centric delivery options)
  - Price levels controlled by buying power of large shippers/e-commerce platforms
- Letter delivery markets are struggling
  - USPs struggle to operate profitably as volumes and revenues erode
  - Service levels are reduced, but prices increase despite USPs strong efforts to modernise
  - Subsidies in many Member States (to compensate “USO net cost”)
- Political/regulatory challenges:
  - USO needs to accept reality of letter operations and decreasing demand
  - Maintain competitive framework for parcel delivery
  - Avoid parallel regulation by postal and transport legislation

# Thank you for your attention!

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