Scenarios for the future development of the German letter market

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Objectives

Future of the postal market

- Drivers of letter demand
- Letter demand in 2035
- Impact on the universal service regulation

Develop scenarios for the German letter market in 2035

Methodology

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Desk research on demand drivers

- International digitalisation benchmark
- Identify relevant drivers for the German postal market
- Develop theses on future development of drivers in Germany

Stakeholder interaction

- Interviews and workshop with stakeholders
- Survey among large business senders (supported by DVPT)

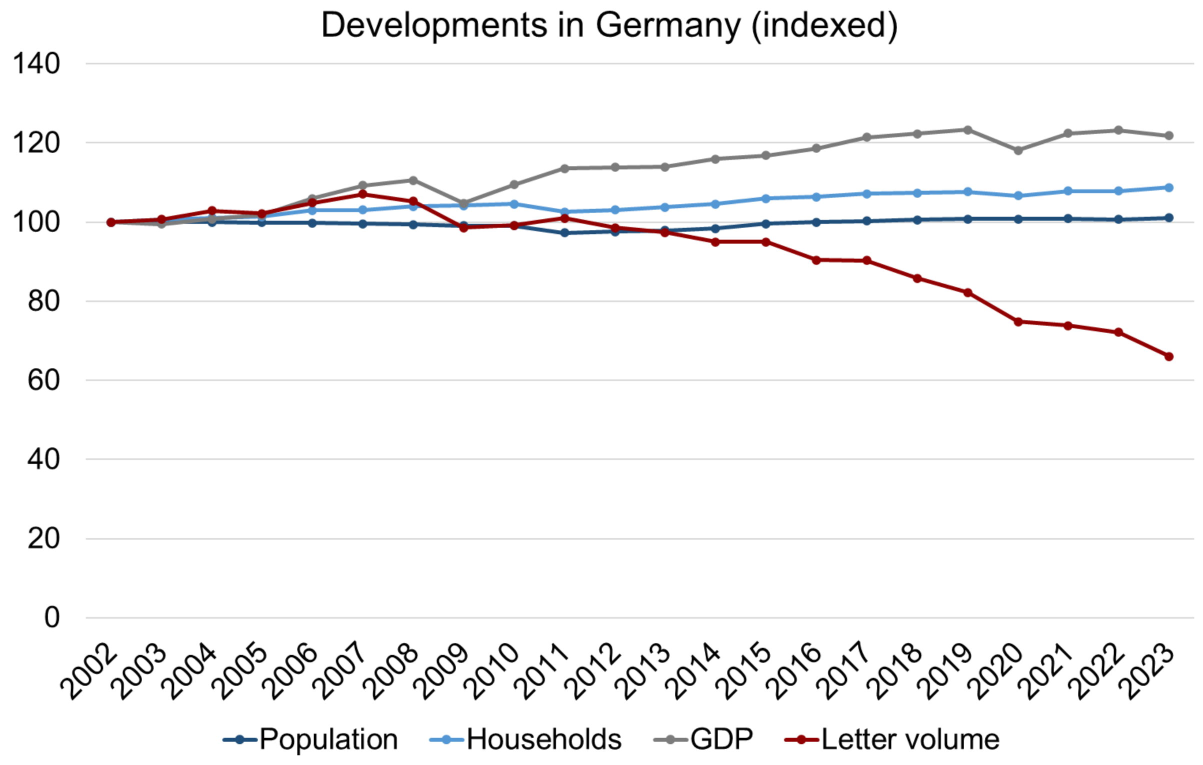
Development of qualitative scenarios

Drivers for letter volume development in Germany

Which are drivers for letter volume development (in Germany)?

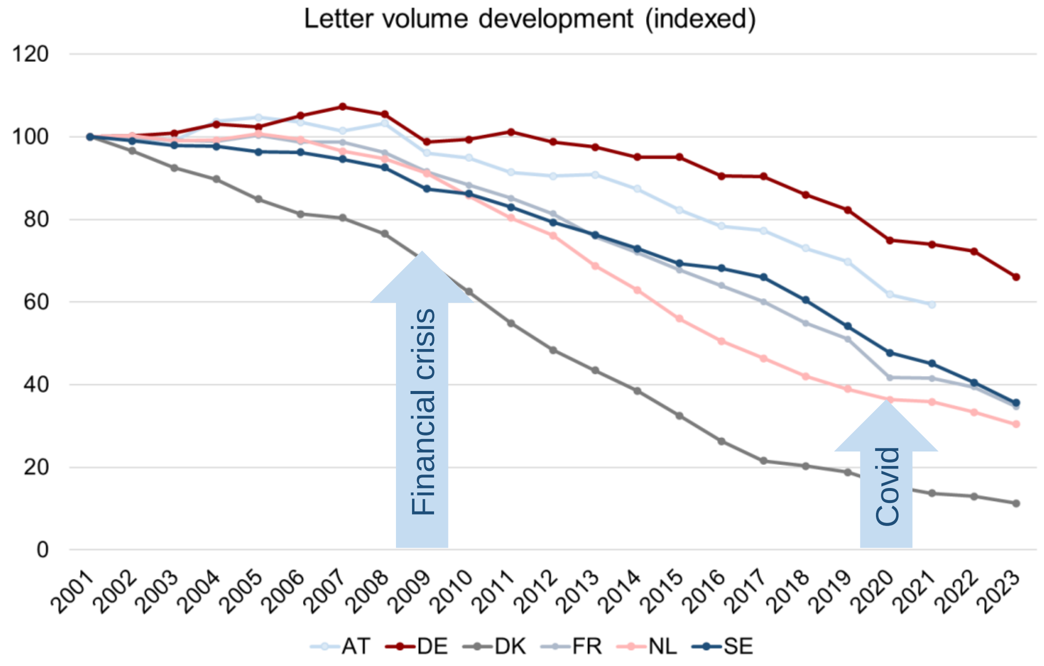
- Economic development?
  - No longer a major driver
  - But: visible impact of economic crisis
  - Letter volumes do not recover afterwards
- Population and household growth?
  - Appear less relevant
- Major driver: Digitalisation and electronic substitution?

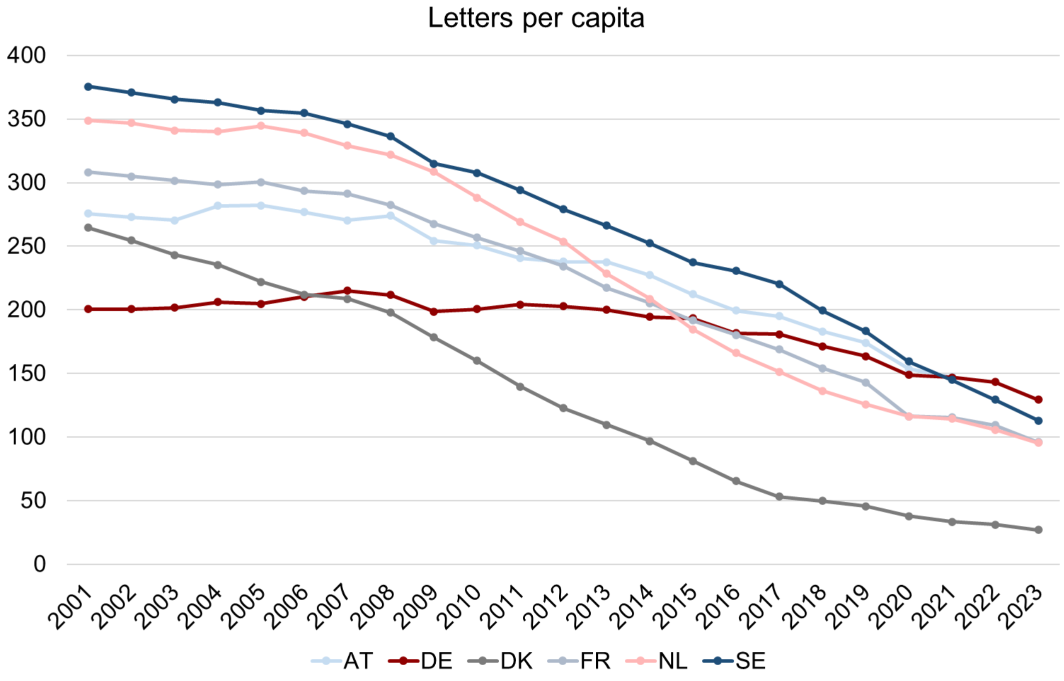
  → International comparison



Letter volumes in selected countries: past and present

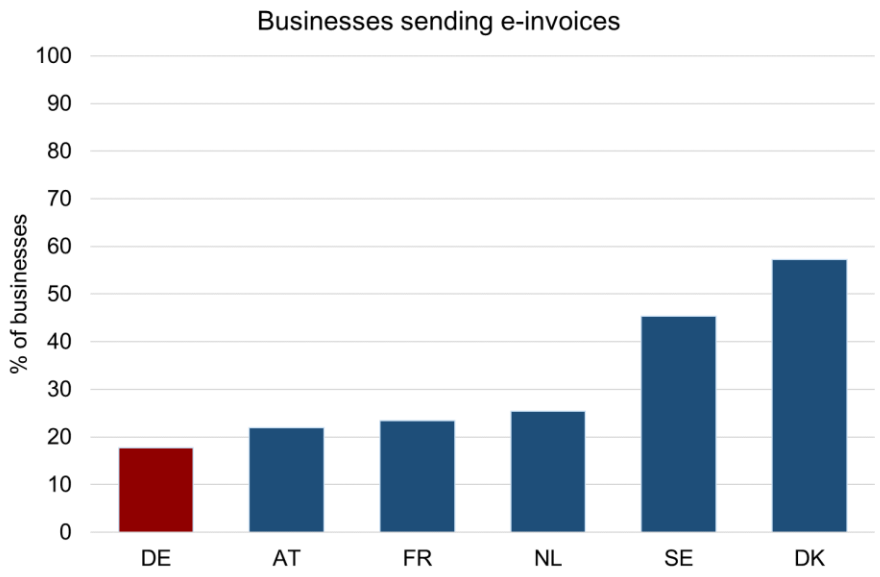
- Letter volumes decline in Germany weaker than in other countries
- Financial crisis (2009) and Covid pandemic as turning points
- Since 2018 in Germany, volume decline has accelerated

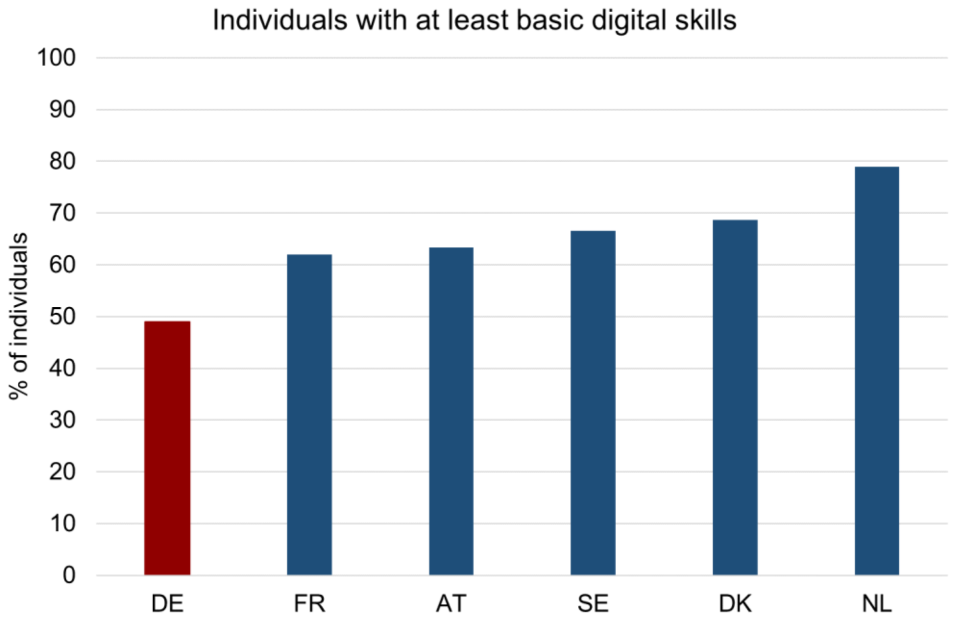


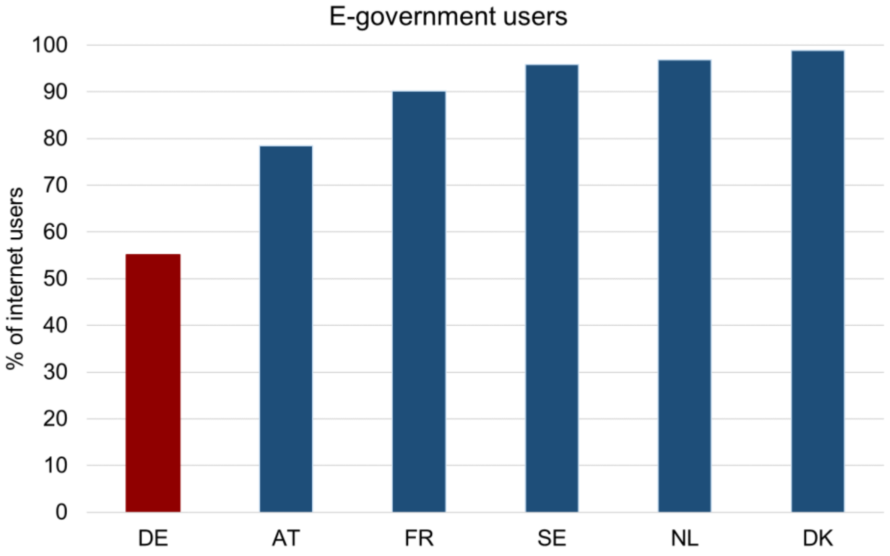


International benchmark
Reasons for slower letter volume decline in Germany

- Many basic digitalisation indicators for Germany below EU average
- Consumers lack digital skills
- Businesses: high share of non-digitised businesses
- Public sector: slow progress in digitalisation







Interim conclusions for Germany

- Lack of digital infrastructure and lack of use cases in Germany compared to Denmark, Netherlands, Sweden
  - eID introduced in 2011 but not well-known and not broadly used
  - Many Germans are unaware of digital e-government solutions
  - Some reluctance to use digital solutions
- Germany lags behind in terms of digitalisation across all areas of business and society
- Reasons
  - Late start of digitisation projects
  - Higher share of elderly population
  - Failed first attempt to introduce digital postbox (‚DE-Mail‘) in 2012
  - Legal hurdles for businesses and public sector to use digital tools
  - Federal structure

Letter volume drivers: from the present to the future
Examples for changing legal & technological framework

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Legal changes and digitalisation initiatives in Germany

- Electronic billing B2B mandatory (stepwise from 2025 onwards)
- Signature no longer required for public administrative services
- New (planned) initiative for secure digital postbox (BundID) for citizens and businesses
- All German ID cards will be equipped with eID in 2027

Technological changes: Progress in AI

- Better targeted advertising campaigns
- Cost reductions of digital communication

Generational change in businesses

- Baby boomer generation retires
- Younger generations prioritise digitalisation

Impact of these changes?

Scenario building

Two scenarios for 2035

Slow scenario

Insecurity

Weak economic growth

Slow path of digitisation

Fast scenario

Strong economic growth

Fast path of digitisation

- Economic growth includes expectations on
  - GDP growth
  - Consumer climate
  - Inflation and interest rates
  - Population and household developments, migration
  - International developments, including trade, customs, international conflicts
  - Sustainability policy
  - Stable postal regulatory framework

- Digitisation includes expectations on
  - Digital infrastructure
  - Development of digital skills
  - User attitudes towards digital and traditional communication channels
  - Take-up of e-government solutions
  - Technological progress and application of technology (e.g. AI)
  - Legal framework for digital and technological solutions

Scenario building
Slow scenario 2035

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Weak economic development	Slow path of digitisation
• Weak real economic growth • Global economy impacted by international crises and trade conflicts, protectionism • Ageing German society • Shrinking population due to low migration • Customs duties and CO2 pricing increase input prices for senders and postal operators	• Some legal hurdles for digitisation still in place • Digital postbox connecting all public administrations and citizens only after 2035 • Businesses offer proprietary digital solutions • Mandatory B2B e-billing does not trigger more digitisation among SMEs • Consumers value letters & printed newspapers

Expectations on letter demand in 2035

- Public sector senders still use letters – slow digitalisation
- Businesses still offer both digital and letter channels to consumers
- Weak economy → less advertising in the postal channel
- C2X: gap between younger generations (mostly digital) and the elderly

Scenario building
Fast scenario 2035

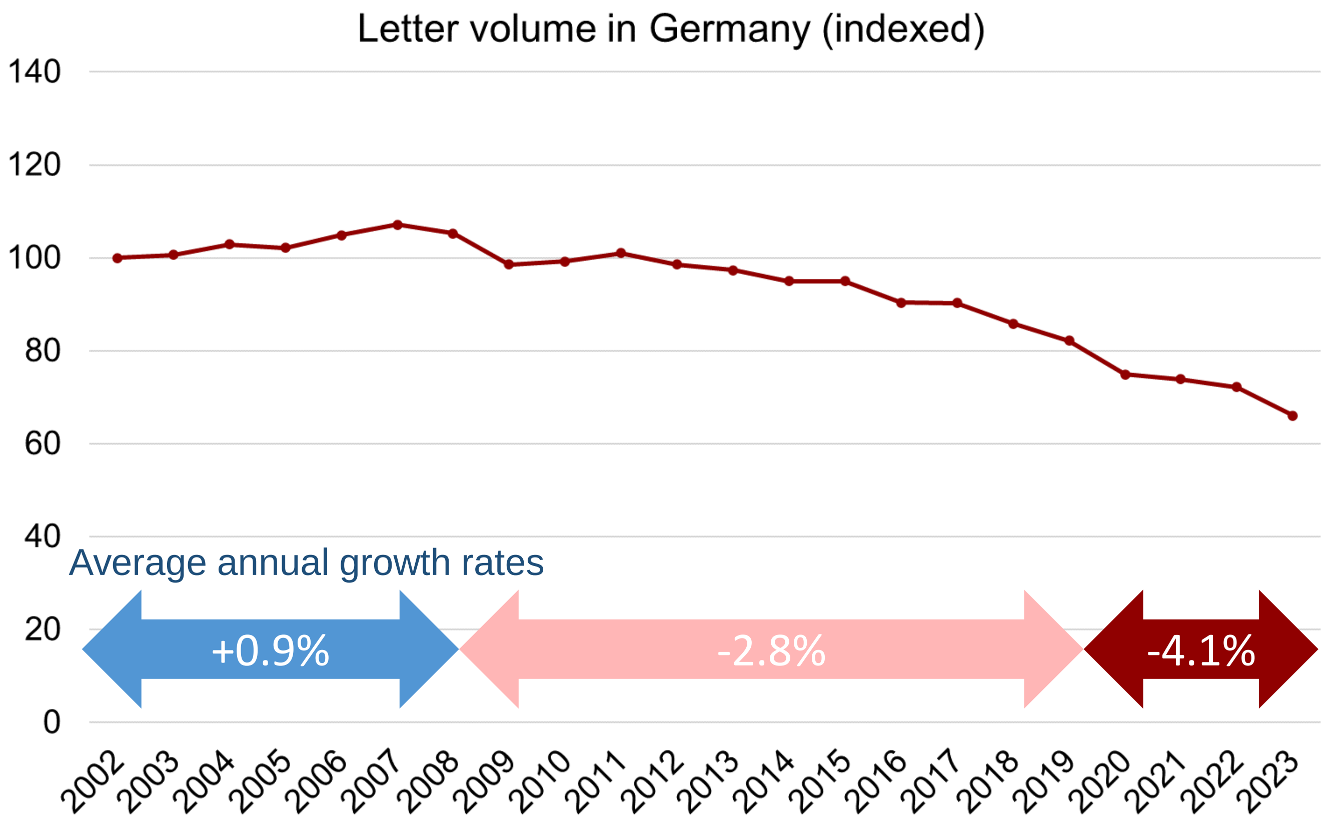
Strong economic growth	Fast path of digitisation
• Strong real economic growth supported by growing global economcy • Global free trade • No major international crises • Migration continues as in the past, immigrants rejuvenate society • Reduced regulation for AI	• Accelerating digitisation in the public sector → pull effect • Improvements in digital skills including among elderly • Mandatory e-billing triggers digitalisation of SMEs • Generational change in businesses • Letters are regarded as old-fashioned, digital channels as convenient • Digital advertising more accepted & cost-efficient

Expectations on letter demand in 2035

- Public sector communication puts digital first from 2030 onwards
- Businesses send fewer letters, mostly to non-digital receivers
- Significant progress in AI with impact on communication channels and their costs

Estimates on volume development per scenario

- Estimates on future volumes developments in Germany based on international comparison
- Average annual decline until 2035
  - Slow scenario: decline by 4-6% p.a.
  - Fast scenario: decline by 7-10% p.a.



CAGR	2002-2008	2008-2020	2020-2023
AT	+0.6%	-4.2%	na
DE	+0.9%	-2.8%	-4.1%
DK	-3.8%	-12.4%	-10.1%
FR	-0,6%	-6,7%	-6,9%
NL	-0.9%	-8.3%	-8.0%
SE	-1.1%	-5.7%	-9.3%

WIK expectations on volume development per scenario

- Remaining volumes from 11 billion letters in 2023
  - Slow scenario: 5 to 7 billion letters in 2035
  - Fast scenario: 3 to 5 billion letters in 2035

	Slow scenario	Fast scenario
Gov2X / X2Gov	Letter volumes sent by / to public institutions decline only slightly	Strong decline due to digital postbox solution
Transactional mail (B2X)	Transactional volumes decline stronger than total letters but B2C transaction items are still commonly sent	Invoices and other transactions are primarily digital
Addressed advertising	Addressed advertising declines but less than total letters, less than transactional mail	Addressed advertising is a premium product.
Private letters & cards (C2X)	Private letters and cards decrease moderately	Strong decline of private letters and cards
Newspapers & magazines	Newspapers and magazines in the postal channel decline strongly (more than total volumes)	Postal delivery of newspapers only exists in urban regions

Impact on quality of service and letter prices
Market structure on German letter market

- Factors impacting pricing and quality of service for letters in the scenarios
  - Volume developments for letters (and parcels, due to joint delivery by Deutsche Post)
  - Strategy of Deutsche Post and competitive pressure from letter market competitors

Deutsche Post

- National and international letter and parcel delivery
- Letter market share: ~85%

Strategy on letter market?

- Strategy 2030: transformation to „predominantly parcel business“
- Joint delivery of letters and parcels to be extended to 80-90% (~60-70% today)

Letter market competitors

- ~400 competitors
- Different business models and regions covered
- Focus on business letter and transaction mail, newspaper delivery
- Consolidation process and market exits in recent years

Strategies on letter market?

- No common approach
- New business opportunities: advertising letters? Packets / parcels?
- Focus on letter vs newspaper delivery?

Outlook to 2035

Expectations on quality of service and letter prices

- Higher prices and lower transit time to be expected in both scenarios
- Our assumption: competitive pressure higher in slow scenario

Slow scenario	Fast scenario
Expectations on prices • Lower price increases • Advertising: stronger increases than in the past likely • Price cap headroom for bulk letters may not be fully used **Expectations on quality** • Transit time performance likely to remain within limits of postal law (up to D+3/4). • Heavy cut-backs unlikely but less reliable • Less reliability and lower transit times for advertising • The higher the competitive pressure, the less likely it is for Deutsche Post to reduce quality significantly	**Expectations on prices** • Higher price increases • More pronounced price increases for advertising mail • Bulk mail prices increase in line with single-piece mail **Expectations on quality** • Deutsche Post prioritises parcels in joint delivery • Fast reduction of current quality (D+1/2) likely • Further reduction of transit time targets below D+4, delivery frequency → postal law reform • Risk to drive users away from using postal channels

Thank you for your attention!

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