



The global economic  
and financial crisis:  
further insights into  
its impact  
on the postal sector



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# Contents

<b>I. Introduction</b> .....	5
<b>II. Postal Traffic and Express Volumes</b> .....	7
1. Trends in domestic markets – aggregate estimates	
2. Performance variation in domestic markets	
3. Trends in international markets – aggregate estimates	
4. Performance variation in international markets	
<b>III. Postal Traffic and Express Revenues</b> .....	15
<b>IV. Postal Financial Services</b> .....	17
<b>V. Further insights – Measures adopted to mitigate the impact of the crisis</b> .....	19
1. Postal network	
2. Financial indicators	
3. Services offered	
4. Other areas	
<b>VI. Conclusion: avenues for further analysis</b> .....	23



# I. Introduction

On the occasion of a high-level debate at the Postal Operations Council (POC) in April 2009, the International Bureau of the Universal Postal Union (UPU) carried out an assessment of the impact of the global financial and economic crisis on the postal sector.<sup>1</sup> The analysis was based on a survey that the International Bureau had conducted of the 15 of the world's largest Posts and private courier companies in March 2009. The analysis was considered valuable information, contributing to a better understanding of the impact of the crisis on the sector and providing indicators that contribute new perspectives to the decision-making and crisis-management processes.

It was therefore decided to continue the work in this area and follow up the April study with an assessment of the situation in the first half of 2009, to be presented at the 2009 CA. The present analysis is based on the follow-up survey conducted in the autumn of 2009 and takes into account the views expressed by participants.

The study is organized as follows: Section II below analyses the impact on postal traffic and express mail volumes during the first half of 2009, followed by an analysis of postal and express mail revenues in section III. Postal financial services (section IV) and measures taken to limit the impact of the crisis (section V) are also discussed.

## Methodology

The present survey is a follow-up to the survey conducted in March 2009. To maintain comparability with the results of the March survey, this follow-up survey is based on the same structure as the previous one, with an additional section on qualitative issues.

In view of the keen interest shown by member countries, the number of participants in the follow-up survey had increased. This second survey on the impact of the financial and economic crisis on the postal sector was sent to a larger audience made up of 22 of the world's largest postal operators and private courier companies. The questionnaire sent to operators comprised three parts: «Impact on volumes», «Impact on revenues» and «Supplementary information on qualitative issues regarding other services offered and on measures implemented to limit the impact of the crisis».

To estimate operator performance in the first and second quarter of 2009, results obtained from the first and second parts of the survey were weighted according to the operator's size, estimated by its contribution to world total volumes in each market segment to obtain aggregate estimates; individual country data were kept confidential. Survey participants represented a panel consisting of designated postal operators accounting

<sup>1</sup> A copy of the study "The global financial and economic crisis: Initial insights into its impact on the postal sector", is available on the International Bureau website at [http://www.upu.int/postal\\_economics/en/the\\_global\\_economic\\_and\\_financial\\_crisis\\_en.pdf](http://www.upu.int/postal_economics/en/the_global_economic_and_financial_crisis_en.pdf)

for some 69% of world total letter post volumes in the domestic service, 57% in the parcels segment and 78% in the express market segment (based on 2006-2008 average). The express mail segment included two private operators. Similarly, in the international service (dispatch), survey participants represented 45%, 13%, and 56% respectively of total volumes of the letter-post, parcels and express mail market segments (including two private operators).

In revenues, survey participants accounted for some 64% of the world's total letter post volumes in the domestic service, about 20% of parcels and some 80% of the express mail market (including two private operators).

In the international service (dispatch), participants represented 43%, 9%, and 55% respectively of revenues from the letter-post, parcels and express mail market segments (including two private operators).

**Due to the low representativity of the sample for international parcels, their figures must be taken with some caution and will be further updated and submitted to data completion in forthcoming IB-UPU quarterly surveys.**

## II. Postal traffic and express volumes

### 1 Trends in domestic markets – aggregate estimates

Figure 1 shows the quarterly variations in worldwide volumes of letter post, parcels and express items (including two private operators) in the domestic service for 2008 and for the first two quarters of 2009 (compared with the same quarters of the previous year).

#### *Continued decline in letter-post volumes...*

The domestic letter-post segment increasingly felt the effects of the financial and economic crisis: quarterly variations showed increasingly negative growth rates through 2008, dropping even further to -11.7% and -12% in the first and second quarters of 2009 (Figure 1). However, this was largely due to the performance of one industrialized country's operator which, if not taken into account, would have resulted in a moderate, though still increasingly negative, trend. All survey participants showed declining rates in the first and second quarters of 2009 (more than 6% declines for a majority of them compared with the same quarters of the previous year).

Declining direct marketing volumes seemed to account for many of the observed changes, although structural changes, such as the trend towards electronic substitution of traditional mail, also played a role here. Over three quarters of the survey respondents (78%) confirmed steeply or moderately declining numbers of advertising items, while 11% reported an increase (Figure 2).

#### *... parcels stable and even growing...*

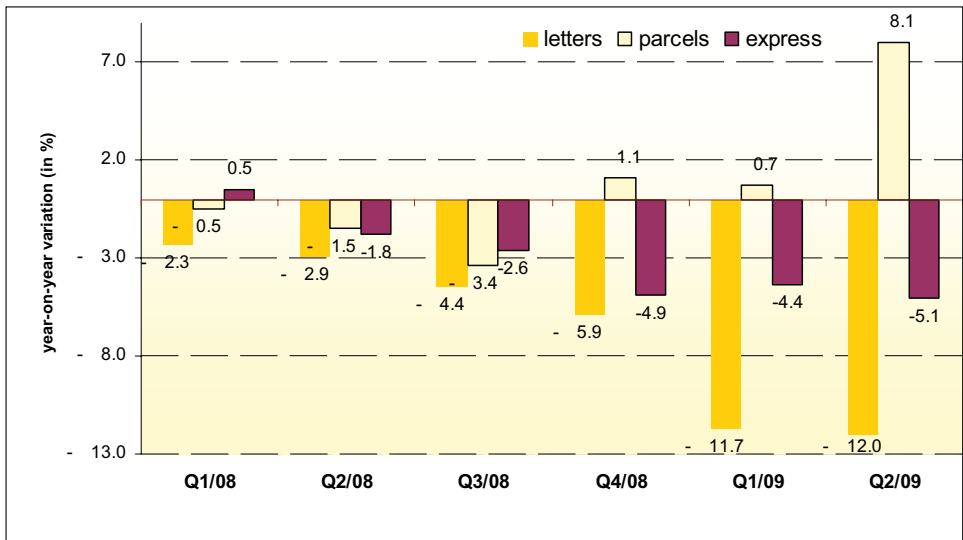
Similarly, worldwide parcel volumes were largely affected by another industrialized country's operator whose volumes were already recovering in late 2008. Thus, a turnaround to positive growth in the parcels segment took place in the last quarter of 2008 (1.1% compared with the same quarter in 2007), followed by 0.7% and 8.1% in first

and second quarters of 2009. Half of the operators replying to the survey saw positive growth rates in the first half of 2009. Evidence from many countries shows that e-commerce was resilient in the economic environment in late 2008 and the first half of 2009 and in some cases even saw growth, thus benefiting parcel volumes. As shown in Figure 2, about 43% of survey participants saw moderate or large increases in e-commerce shipments during the first half of 2009. By that time, the economies of some industrialized countries, such as Germany and France, were already coming out of the recession.

#### *... express volumes with signs of stabilization?*

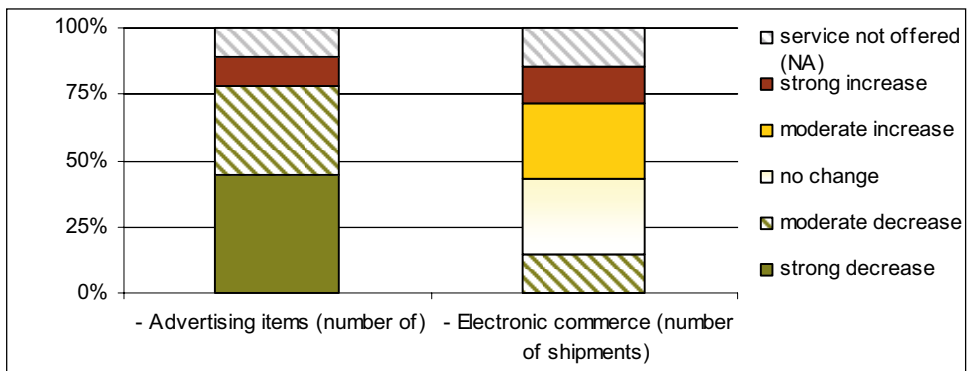
In the domestic express mail segment, the accelerating decline slowed in the first half of 2009, with less dramatic, though still negative, performance of -4.4% and -5.1% in the first and second quarters of 2009 (Figure 1). This could be due to customers' attempt to cut costs by switching to more economical services, as was seen in a number of countries.

Figure 1: World growth rates in volumes of postal traffic (DPOs) and express mail (DPOs and others) – domestic service



Source: UPU

Figure 2: Other postal transactions



Source: UPU.



## 2 Performance variations in domestic markets

To better understand how the impact of economic climate is distributed, it is interesting to compare the variations in performance among survey participants and across segments. While the April survey had shown increasing variation in performance, with even some operators experiencing positive growth in 2008 (though declining towards the end of 2008, as seen in Figure 3), variations became increasingly similar.

*Smaller variations between operators for letter post...*

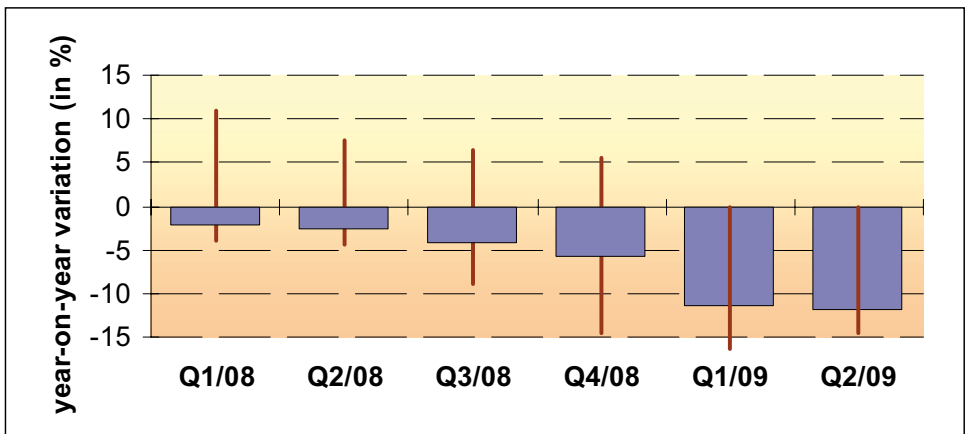
The aggregate growth rates since 2008 were negative and continue to be, but in 2009 there was not a single operator with positive results. The results ranged between -2.4% and -16.2% (first quarter) and -5.8% and -4.6% (second quarter), thus giving much worse results than in 2008. Further investigation is needed to determine whether this was actually the result of a “time lag” in the im-

act on letter-post volumes in the domestic segment, or simply an “overlap” of structural effects (increasing substitution) and the effects of the crisis.

*... Larger variations for parcels and, in particular, express items*

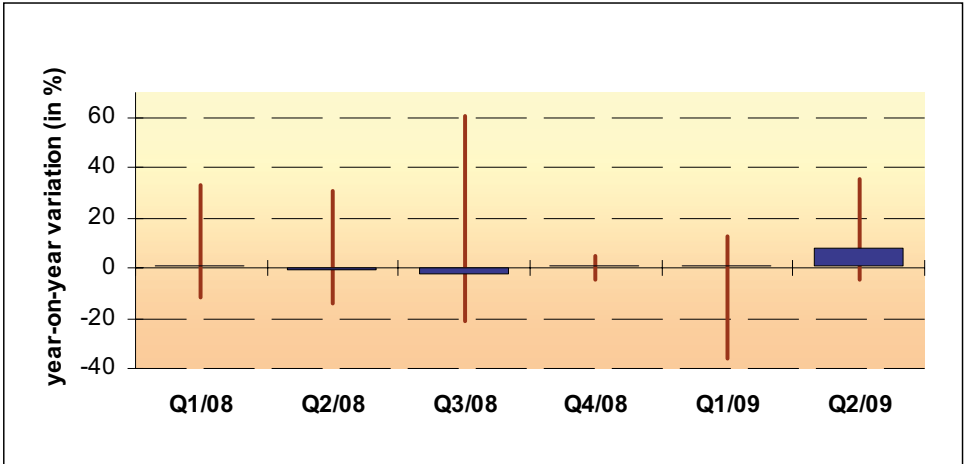
For the parcels segment, the large variations in 2008 surprisingly led to fewer variations in growth performance in late 2008 and early 2009 (Figure 4) and, most importantly, less variation in the negative figures. This was not the case for the domestic express mail segment, where performance variations seemed to increase in 2008, compared with the first half of 2009, when only three operators showed positive growth rates (Figure 5).

Figure 3: Best/worst performers for letter post – domestic service (DPO volumes only)



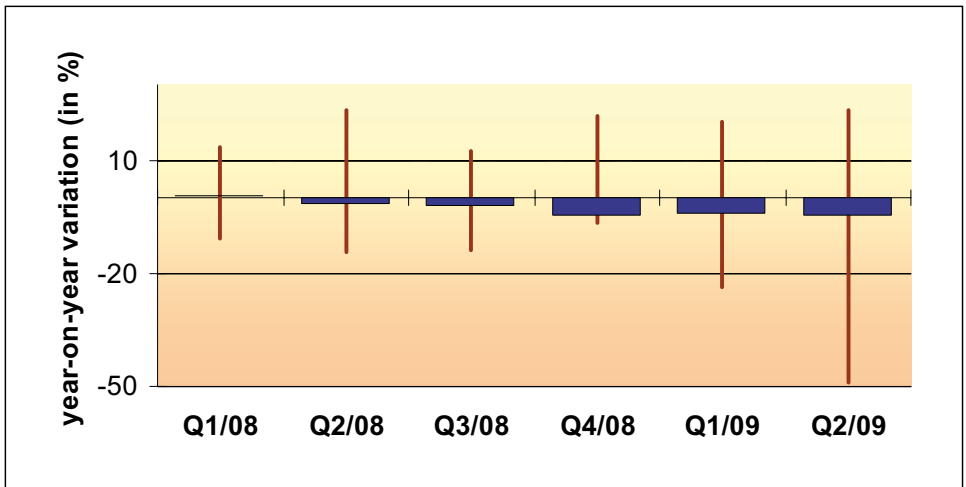
Source: UPU.

Figure 4: Best/worst performers for parcels – domestic service (DPO volumes only)



Source: UPU

Figure 5: Best/worst performers for express items – domestic service (volumes)



Source: UPU

### 3 Trends in international markets – aggregate estimates

International postal markets seemed more resilient in the April study and indeed, except for the express mail segment, positive growth rates were achieved in the first half of 2009 (Figure 6). Nevertheless, for volume performance, international markets also seemed more volatile than domestic markets.

#### *International letter-post and parcel volumes show signs of recovery...*

During the first two quarters of 2009, international letter-post and parcel volumes seem to recover. In the international letter market segment (dispatch), the declining trend seen in 2008 worsened (-3.6%) during the first quarter of 2009 (though significantly more moderate than in the domestic market). This was followed by a turnaround to positive growth (5.0%) in the second quarter of 2009. With only a few operators providing third-quarter data for 2009, it might still be too early to talk about an end in the decline of international letter-post volumes, particularly since the trend in 2008 was not that clear. It remains to be seen whether positive growth rates are here to stay.

Parcels in the international segment seemed to recover more quickly, as seen in the survey results<sup>2</sup> (from a -4.5% decline end 2008 to 0.9% and 8.5% growth in the first and second quarters of 2009).

#### *... international worldwide express volumes continue their decline*

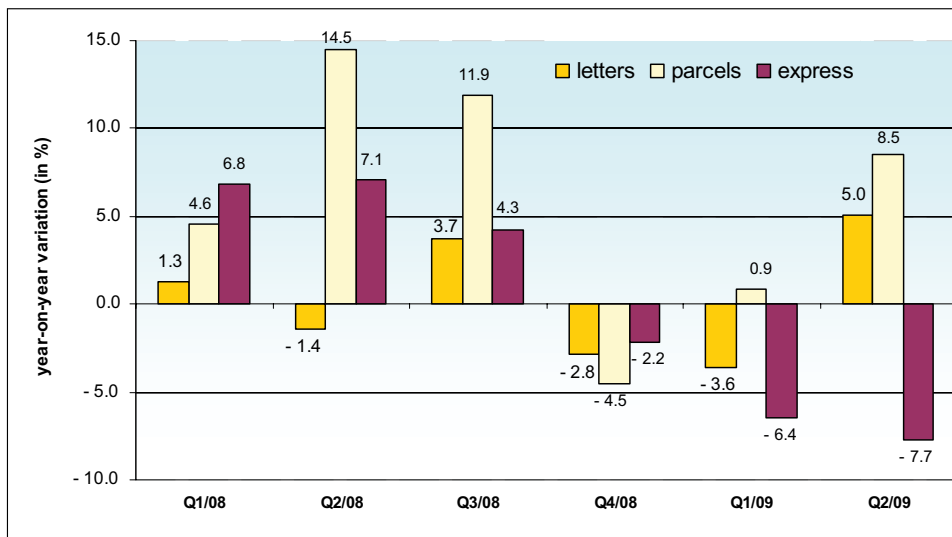
In contrast to what was observed for the letter-post and parcels segments, international express mail volumes continued their drop with three consecutive quarters of decline between the last quarter of 2008 and the

second quarter of 2009. The decline already seen in the fourth quarter of 2008 had accelerated, reaching -6.4% and -7.7% in the first and second quarters of 2009. These figures might be due, as in the domestic segment, to customers adopting more economical solutions and to the sharp decline in international trade seen during this period.

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<sup>2</sup> It should be remembered, however, that the survey respondents that provided data on parcels in the international service (dispatch) represent on average only 13% (during 2006-2008) of total parcel volumes dispatched in this market segment (for further information, see "Methodology" box on page 1).

Figure 6: World growth rates in volumes of postal traffic (DPOs) and express mail (DPOs and others) – international service (dispatch)



Source: UPU

#### 4 Performance variations in international markets

In contrast to the more uniform performance observed in the domestic market segments, the international service showed increasing performance variations among operators, with the exception of the parcels segment:

*Increasing performance variations among operators in letter post...*

In contrast to the more uniform performance observed in the domestic letter-post segment, results for the international service paint a more diverse picture, hinting at larger variations among operators (Figure 7). Performance ranged between -12.2% and 15.2% in late 2008 and between -24.1% and 10.9% and -33.7% and 26.5% in the first and second quarters of 2009. These variation revealed big differences in the business

models of operators: some operators seemed to have the ability to recover from the crisis more quickly. Overall, only three operators showed positive results in the second quarter of 2009.

*... more homogeneity seen for parcels...*

Performance variations in the parcels segment (Figure 8), with year-on-year quarterly growth rates of between -7.9% and 15.4% (first quarter of 2009) and -4.3% and 14.8% (second quarter of 2009), are much more homogeneous than those for the international express mail segment.

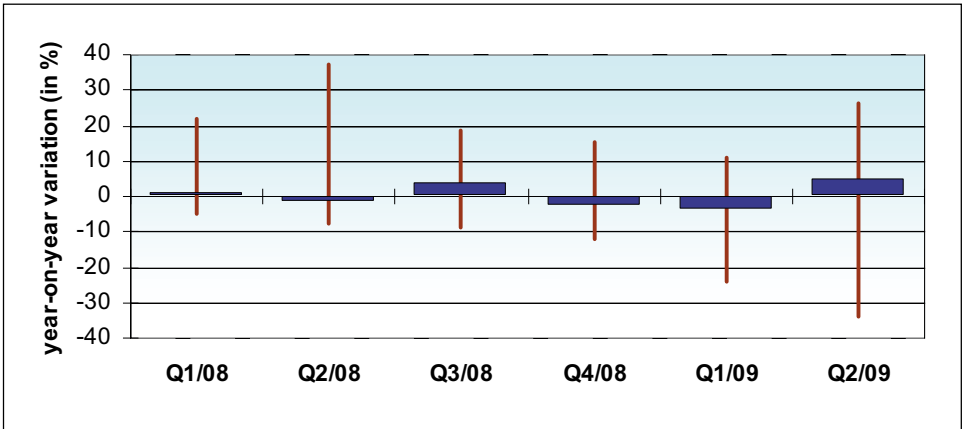
*... and a wide gap opening between operators in the express mail segment*

In the express mail segment (Figure 9), the gap between the worst and best performers was 80.9 percentage points in the first quarter of 2009 (-13.1% to 67.8%) and 56.5 per-

centage points in the second quarter (-26.3% to 30.2%). Moreover, while the performance gap narrowed, fewer operators showed posi-

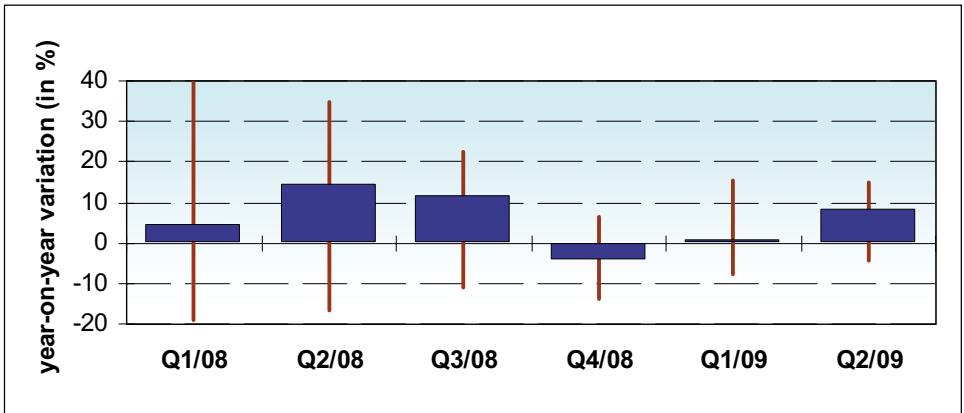
tive performance in the second quarter, further evidence of the extent to which the crisis had spread across operators.

Figure 7: Best/worst performers – letter-post items, international service (DPO volumes only)



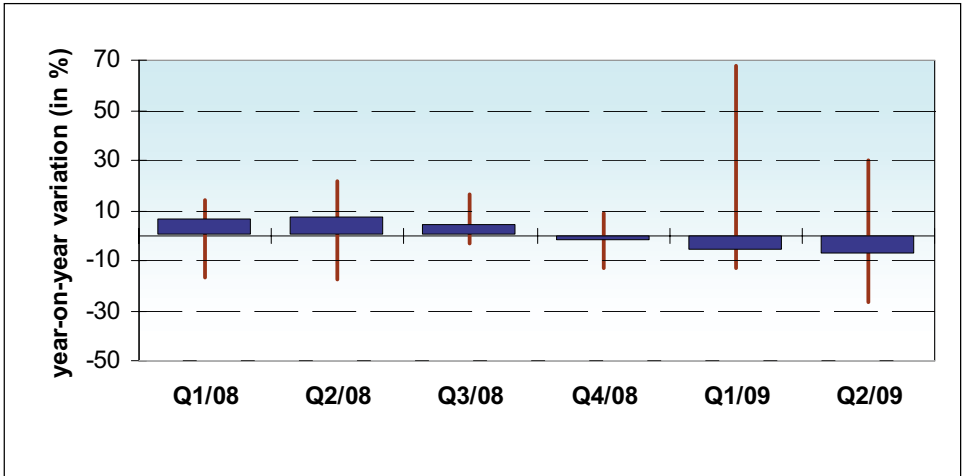
Source: UPU

Figure 8: Best/worst performers – parcels, international service (DPO volumes only)



Source: UPU

Figure 9: Best/worst performers – express items, international service (volumes)



Source: UPU

### III. Postal traffic and express revenues

As regards postal revenue, almost all segments were affected by the downturn, with the exception of parcels in the international service, where a quicker recovery seemed to have begun in late 2008. Interestingly, the sector seemed to have responded to the crisis with a significant time lag, with revenues gradually falling in 2008 and continuing their decline further in early 2009 (except for letter-post and parcels in the international service). The development of postal and express revenues in the first half of 2009 is presented in Figure 10. Since it was not possible, in the case of the 2008 data, to present developments in the domestic and international service separately, they are presented as distinct figures (Figure 11).

#### *Letter-post revenues greatly affected by the downturn...*

The very rapid decline observed for letter-post revenues in the domestic service during 2008 seemed even more dramatic in 2009, though it may have stabilized: for both quarters in the first half of 2009, a -9.1% decline was observed. Only three operators reported positive revenues. Things look brighter for the international service: the -8.4% decline in the first quarter of 2009 slowed to -1.8% in the second quarter.

#### *... parcel revenues more resistant to the crisis, with a positive picture for the international service...*

The decline in revenues seen for parcels in 2008 was much smaller than in the other segments. In the domestic service, however, negative growth rates were seen in early 2009 (-0.5% in first quarter and -1.5% in second quarter), which could be an indication

of stiffer competition in this segment. Data from several operators for the third quarter of 2009 seem to indicate that the worst may be over and that recovery is about to begin, although it is still too early for a full assessment. In the international service, parcel revenues growth rates were 18.3% and 16%.<sup>3</sup>

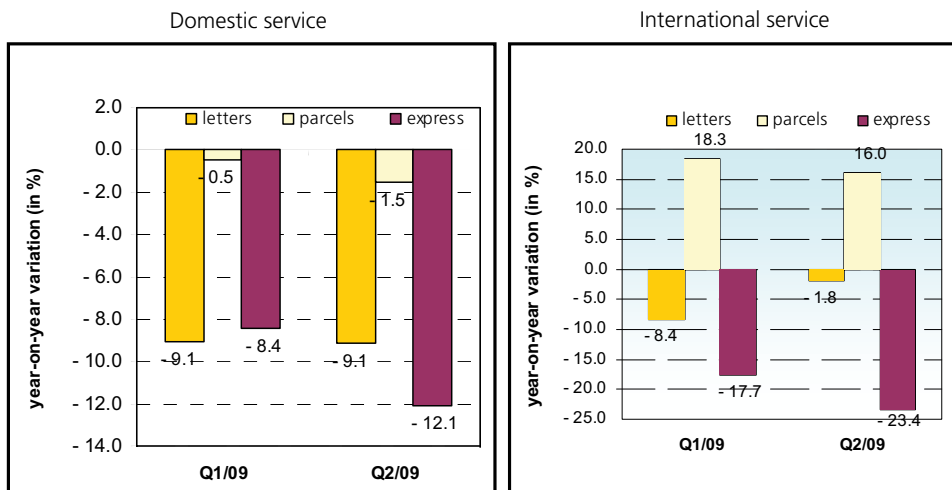
#### *... express mail revenues plunging*

Revenues for the express mail segment have been in free fall since late 2008. Figures were even worse in the first half of 2009 for both the domestic and international services. The drop was -8.4% and -12.1% in the domestic service and -17.7% and -23.4% in the international service in the first and the second quarters of 2009. The variation in performance across operators was nowhere as large as in the express mail segment. In this connection, the impact of fuel surcharges and the dispatch of fewer and less heavy items might also be a factor.

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<sup>3</sup> A note of caution here: survey data for the international parcels segment represent less than 10% of the average 2006-2008 worldwide parcel volumes (see Methodology, page 1). Comparability is also limited, since the 2008 estimates cannot be disaggregated to isolate international service performance.

Figure 10: World growth rates of postal traffic (DPOs) and express mail (DPOs and others) revenues, 2009



Source: UPU

Figure 11: World growth rates of postal traffic (DPOs only) and express mail (DPOs and others) revenues (domestic + international service), 2008



Source: UPU



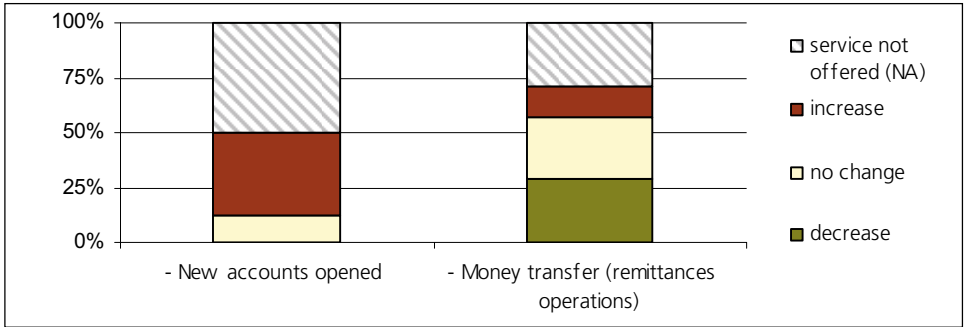
## IV. Postal financial services

Postal operators providing financial services, or offering these services in partnership with other institutions, continued to see an influx of customers and deposits. This trend, already observed in 2008, was partly due to customers' perception of postal financial services as a "safe haven". Thirty percent of survey participants noted an increase in the number of new accounts during the first half of 2009, while 12% noted no change; about half of survey participants did not offer postal financial services (Figure 13). An increase in remittance transactions was reported by 14%, while 28% reported no change and the same percentage reported a decrease.

### Some figures from selected operators:

- PostFinance, the financial branch of Swiss Post, continued the previous year's promising performance in 2009. In the first three quarters of 2009, it was mainly financial services that accounted for the 11.5% net profit growth that Swiss Post saw over the same period in the previous year:
  - The number of new customers in the first three quarters of 2009 increased by 4% over the same period in 2008;
  - The number of new accounts increased by 5% during the same period;
  - The amounts in deposits increased by 36%;
  - The first three quarters of 2009 outperformed the previous year by 75%.
- Germany's Postbank also reported higher figures:
  - Total volume of savings increased by 21% in the first two quarters of 2009;
  - Market share increased by 10.3%;
  - The number of private giro accounts remained constant;
- Deposits in giro accounts increased by 5.4%;
- The number of new accounts (222,700) showed a rate of growth 11.7% lower than the previous years' growth.
- The Banco Posta of Poste Italiane reported another first half of growth:
  - Financial services were an important driver of Poste Italiane's overall revenue growth, with the market segment reporting 8.6% growth during the first half of 2009 compared with the same period in 2008;
  - The number of Banco Posta current accounts increased by 2.6% over 2008.
- France's Banque Postale also posted the positive figures:
  - The number of active customers has increased by 3.8% since June 2009;
  - In the first half of 2009, there were more than 380,000 new giro accounts, a 13% increase over the same period in 2008;
  - The operating result increased by over 30%.
- South Africa's Postbank will be corporatized as a stand-alone company in the South African Post Office Group from 2010. Its deposits increased by 14% in 2009 (fiscal year ending in March) compared with 2008.

Figure 12: Postal financial services



Source: UPU

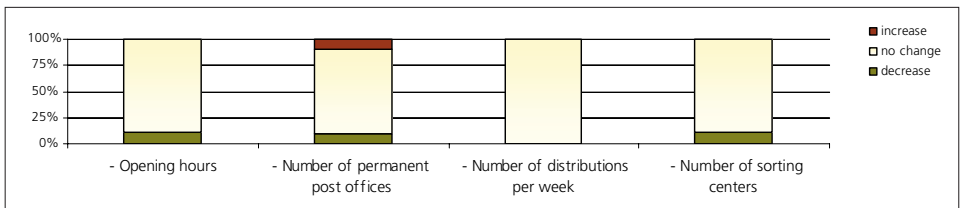
# V. Further insights – Measures adopted to mitigate the impact of the crisis

Many operators adopted measures during the first half of 2009 to limit the impact of the financial and economic crisis, measures aimed at offsetting declining revenues by cutting costs in different areas of business activity.

## 1 Postal network

Among the measures most frequently mentioned in the survey, relating to the postal network, were reduced business hours and fewer sorting centres in operation (11%), followed by an increase or decrease in the number of permanent post offices (10%) (Figure 13). While an overwhelming majority did not report introducing any crisis measures relating to the postal network, this fact has to be viewed in the context of the regulatory framework (provision of the universal service). Furthermore, such measures may also be introduced with a time lag and thus not be felt until the second half of 2009.

Figure 13: Measures adopted – postal network



Source: UPU

### 2 Financial indicators

As a measure to deal with the crisis, as many as two thirds of survey respondents reported a reduction in the number of new or ongoing projects (Figure 14). At the same time, over 16% increased new or ongoing projects to manage the crisis, indicative of the variety of strategies that were adopted. Similarly, the amount of investment being made was reduced by some respondents (29%) and increased by others (57%). An increase in wages and higher postal pricing (20g domestic letter tariff) were also observed in the first

half of 2009 (33% and 22% of respondents respectively). Together with number of hours worked, these are the areas where the least change was reported, which again could be related to the regulatory framework as much as to the sector employment situation. Several operators had introduced measures in these areas by the third quarter of 2009. Perhaps less a measure taken, and more a result of the crisis, as many as 83% of survey respondents reported declining profits during the first half of 2009.

Figure 14: Measures adopted – financial indicators



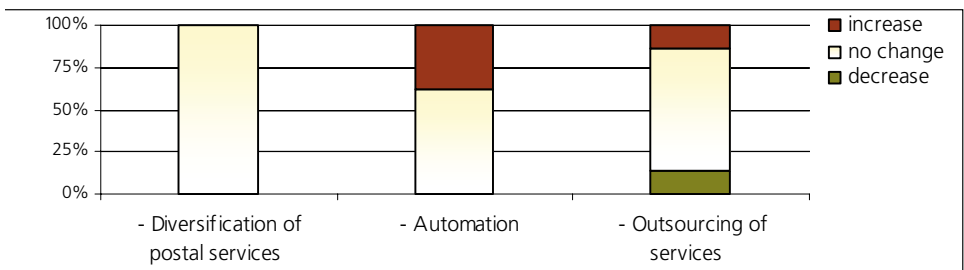
Source: UPU

### 3 Services offered

In the current economic and financial environment, automation and outsourcing of services, often viewed as “classical” cost-saving measures, have been stepped up by 37.5% and 14.3% of respondents respectively (Figure 15). At the same time, 14.3% of respondents reported having decreased their outsourcing of services. The diversification of postal services

was reported as unchanged by all survey respondents, indicating that decisions affecting the services portfolio were not seen as primary crisis-related measures. The diversification that was taking place was aimed instead at improving customer service, introducing innovative products or offsetting the revenue declines in “traditional” areas (mail volumes affected by electronic substitution).

Figure 15: Measures adopted – services offered



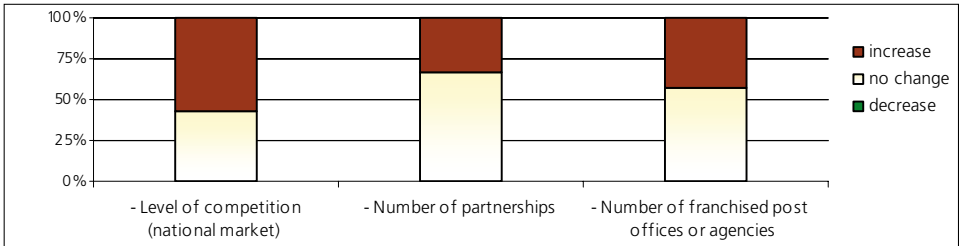
Source: UPU

**4 Other areas**

In the category “Other areas”, as much as 57% of survey respondents reported that the level of competition had increased (Figure 16). However, it is not quite clear to what extent this is directly related to the crisis. While internationalization (entry of foreign operators into markets other than their home markets) can also be seen as a strategy for weathering the crisis, there are cases of operators forced to retreat from foreign markets to limit their losses and thus give back market share to their competitors. It should also be kept in mind that the level of competition in the national market is closely related to the regu-

latory framework, although, because of the economic crisis, plans to open up the market were put on hold or abandoned in some countries. An increasing number of partnerships, as reported by one third of survey participants, fall into the area of strategic decisions for improving the company’s response to the crisis and benefit from synergies to better position the company in the future. A total of 38% of respondents reported an increasing number of franchised post offices or agencies during the first quarter of 2009, thus helping to cut costs while maintaining the service network.

Figure 16: Measures adopted – other areas



Source: UPU



## VI. Conclusion: avenues for further analysis

The present analysis reveals that the impact of the financial and economic crisis is felt in all market segments of the postal sector, although in some segments results are more positive than in the first assessment undertaken in March 2009. In certain market segments and for certain operators, performance seems to have improved compared to the earlier assessment. However, it is probably too early to determine whether this can already be considered as first steps out of the crisis for the sector, at a time when only few operators have released results for the third quarter of 2009. An assessment of the situation until the end of 2009 will contribute more insight and reveal further hints as to whether a possible rebound can already be anticipated.

Furthermore, a more thorough assessment, covering an increasing number of postal operators<sup>4</sup> and increasing number of countries

and regions, and also taking into account an increasing number of operators from the developing world, would help drawing a more comprehensive and more differentiated picture of the extent of the crisis and its impact on the postal sector in different regions of the world. Continued analysis would therefore provide additional insight and further indicators that would help gauging tendencies and drawing lessons from the Great Depression as to eventually leading to an assessment of 2010 tendencies. As the evolution of franking revenues in selected countries during 1924-1938 demonstrates, the impact of the recession was felt by the sector with a slight time-lag. Disparity across regions may exist even though a general trend can be identified. Recovery was much less abrupt (soft slope) than the arrival of the first signs of the impact of the Great Depression on the postal sector.

Figure 17: Evolution of postal franking revenues in the 1920's and 1930's (1924=100)



Source: UPU

<sup>4</sup> A further challenge consists in the fact that many operators consider quarterly data on volume trends as confidential and therefore do not share such data (despite full confidentiality ensured in the present study) or simply do not compile such data.





# Developments in the third quarter and outlook – views from the press

## Operators' results

"Swiss Post said today it increased net profits by 11.5% over the first three quarters of 2009 after a half-year decline, thanks to strong growth in its financial services." *Source: Swiss Post [www.laposte.ch](http://www.laposte.ch).*

"The core letter business, PostMail, saw the volume decline continue unabated over the first nine months of 2009, with 4.9% fewer addressed letters than for the same period in 2008. The economic crisis has reinforced the decline resulting from electronic substitution and volume consolidation by customers. (...) As a result of these developments, PostMail revenues dropped 3.8% (...)." *Source: Swiss Post [www.laposte.ch](http://www.laposte.ch)*

"The volumes of mail delivered by Itella fell significantly. First-class letter volumes decreased by 8% and parcels by 13%. The volume of addressed letters has been falling for a period of five years." *Source: Itella*

"The economic conditions reflect differently on Itella's various services. On the whole, volumes are not showing any tangible signs of the expected upswing, which means the full-year net sales and operating profit will be weaker than a year earlier. Itella Mail Communication has been able to partly compensate for the decline in delivery volumes through productivity-boosting measures, but the full impact of these measures will be seen only in the upcoming years." *Source: Itella*

"Despite tough economic conditions, Australia Post's revenue grew by \$26.1 million (or 0.5%) in 2008–2009 to reach \$5.0 billion, with growth in all three core business areas. (...) In recent years, we have invested heavily in broadening our revenue base and cutting

our operational costs. So those strategic investments meant that we were well-prepared for the tougher economic conditions experienced this year." *Source: Australia Post*

"A stabilizing economic environment led to improved volume trends during the (third) quarter, while UPS's international business continued to increase market share (...) Operating profit decreased to \$929 million, as the benefits of substantial cost reductions and productivity gains were more than offset by the economic impact of lower volumes and changes in product mix." *Source: UPS*



"Developments during the first three quarters of the 2009 financial year show that the economic downturn has also had the expected negative impact on the regions and markets in which Austrian Post operates. Source: *Austria Post*, [www.post.at](http://www.post.at).

#### Business outlook

Moreover, regardless of general economic trends, we must prepare for a fall in letter volumes in the future". Source: *Itella*.

The economic downturn will continue to have a negative impact on the letter mail and parcel delivery volumes of Austrian Post. Large companies are expected to continue the cost-cutting measures they have initiated, leading to ongoing pressure on prices and delivery volumes. Further general economic risks exist, such as increased competitive instability, price pressure, declining consumer spending and potential loss of customers along with the related negative effects on Austrian Post's letter mail and parcels business. Accordingly, the downward trend in revenues

is expected to continue. Source: *Austria Post*, [www.post.at](http://www.post.at).

"I'm encouraged by the signs of economic recovery that are becoming apparent, although we still have a long way to go," said Scott Davis, Chairman and CEO. Source: *UPS*.

"... We have revised our forecasts for global ad expenditure growth downwards this year to -9.9% from the -8.5% figure published in July (...). We are still confident that the second half of the year will be much less painful for the ad market than the first half, and we expect the market to hit bottom before the end of 2009. (...) We now forecast a meagre 0.5% recovery in 2010, down from 1.6% in July. This figure shows a sharp disparity between developed markets, which we expect to shrink another 2.9%, and developing markets, which we expect to see grow by a very healthy 7.8%." *Zenith Optimedia, Press Release, 19 October 2009*.



## Contact

International Bureau  
of the Universal Postal Union  
Economics and Regulatory Affairs  
Directorate (DER)  
3000 BERNE 15  
SWITZERLAND  
Internet: [www.upu.int](http://www.upu.int)



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