Research on Postal Markets

Trends and Drivers for International Letter Mail, Parcels, and Express Mail Services
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Final Report
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1. Introduction

The first study on postal market trends and drivers for international letters, parcels and express services was completed in 2010. This report represents the five-year update of the market research and analysis.

By 2020, some 940 million online shoppers are expected to spend almost $1 trillion on cross-border e-commerce transactions (McKinsey in “Digital Globalization: the New Era of Global Flows”, March 2016). How will international postal services cope with this new era of global flows? Today, some 12% of all international trade in goods is already related to international e-commerce purchases.

Postal services around the world are considering potential future product and service enhancements to supplement or replace declining letter-post volumes. Some postal operators are finding that existing infrastructure, customer relationships, and supply chain expertise can be optimized, for example, in offering products/services/solutions related to letter post or parcel post, while others are contemplating areas that would be unrelated to the core business, but that might complement or increase their offerings.

The purpose of this report is to provide further detail into the research and analyses performed. We examined the entire market including emerging and traditional competition to identify key trends and comprehensively examine the evolution of the volumes and revenues along key variables that influence letter post, parcel post and express demand.

1.2 Key findings

Our analysis shows that the size of the world letter post market reached about $320 billion in 2015, and that the cross-border component remained at slightly less than 4%. The share of the international post is however most likely to grow steadily in the coming years given the rapid expansion of international e-commerce transactions. While the number of letter post items has declined, the average weight has increased mainly due to the rapid growth of packets and the decline in correspondence and transactions.

Our analysis' shows that the size of the parcel market is unambiguously increasing and reached $260 billion in 2015. The share of the cross-border lighter-weight3 component stands at about 12%, and that of the international heavier-weight component is also at about 12%. The market has grown across product categories (expedited, priority, standard, deferred). The providers that participate in the parcel market include:

- National designated postal operators (DOs). The DOs have experienced growth in the packets, parcel and express segments of the market, but for the most part, their revenue growth has not been commensurate with the revenue growth of the market. The opportunities for Posts are substantial and growing rapidly in both the heavier segment of letter mail (e.g. packets4) and all segments of the parcel and express markets.

- Competitors, but also DOs’ delivery and transportation partners in numerous circumstances, include the larger integrators, such as UPS-TNT and FedEx, other foreign postal operators such as DPWN-DHL, TNT, La Poste-Geopost-DPD, and smaller logistics and express companies (e.g. SF-Express, YTO-Express).

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1. Letter post refers to items weighing up to 2 kg including small packets. Parcel post refers to items weighing 0-20 kg and EMS refers to items containing documents and goods weighing up to 30 kg.
2. Numerous sources of public and private information were examined, including Adrenale Corporation’s own proprietary data.
3. Lighter-weight items are below 5 kg.
4. A packet is a postal nomenclature that refers to merchandise traveling in the letter-post stream.
• New entrants, which are simultaneously often among DOs' largest customers. Non-traditional competitors, such as retailers and e-tailers (e.g. Wal-Mart, Tesco, Amazon) are beginning to offer drop-ship, and logistics services and to deliver products to their stores and to end-customers.

The definition of a postal intermediary or service provider is becoming blurred as each firm participating in the industry expands its range of services up and down the postal value chain, and offers solution bundles including creative, list management, data processing, printing, customer care, pre-sorting and letter-shopping, fulfilment, consolidation, distribution and delivery services. Competition is intensifying on all fronts even the consumer-to-consumer space, which used to be the exclusive domain of Posts is under attack.

After the 2009 worldwide recession, demand for air shipments has shifted downward - from overnight express to 2/3-day priority; from priority air to deferred; and from deferred air to surface freight. In a sense, the market is moving toward the sweet spot of postal operators; however, as economic conditions improve, consumers' demand for instant gratification and for shipping that meets better and better standards has never been higher.

The second, more transformative trend is mostly attributable to the phenomenal growth of e-commerce and online merchandizing. This growth is, in turn, being driven by the near-exponential growth in Internet access and mobile, web-enabled devices, as well as the “gold rush” of device and app developers, entrepreneurs and merchants seeking to capitalize on the avalanche of new opportunities.

In a recent survey of over 160 firms, 10 game-changing trends in supply chain were identified. They are:

1. Customer service to customer relationship management
2. Adversarial relationships to collaborative and co-opetitive (co-operative and competitive) relationships
3. Incremental change to a transformational agile strategy
4. Functional focus to process integration
5. Absolute value for the firm to relative value for customers
6. Forecasting to end-casting (demand management)
7. Training to knowledge-based learning
8. Vertical integration to virtual integration
9. Information hoarding to information sharing and visibility
10. Managerial accounting to value-based management

These trends have a profound effect on postal operators who need to have world-class processes, practices and systems, innovative products and services that are relevant to customers’ needs in today’s market conditions, and quality standards that are second to none.

1.3 Preliminary conclusions

Competition in the e-commerce delivery market is fierce and rapidly evolving, driving Posts to continuously innovate and develop new offerings. Large international e-tailers are investing in their own delivery models, such as pick-up points and lockers, as well as warehouses established in destination regions, which might in the future reduce the need for cross-border delivery, although this is not what is currently observed. Freight-forwarders and consolidators partner with large retailers to offer international shipping by consolidating domestic deliveries. They offer fulfilment, shipping, duties and customs clearance. They act as an intermediary between the e-tailer and the delivery provider and transform the delivery into a commodity while putting pressure on prices.

With the evolution of the market, consumers are increasingly looking for convenience, predictability and/or speed according to their consumption circumstances. In this context, an expansion of delivery options is observed with the development of alternatives to home delivery such as collection points, networks or parcel lockers or customized delivery locations. This is a trend that postal operators have also actively embraced over the past years.

In the 2010 Research on Postal Markets, we examined the trends for lighter-weight international letter-post, and express and parcel (E&P), under three possible scenarios:

1. With “click and collect,” customers buy something online. Then, rather than waiting for the postman to ring the doorbell days later, they collect it from the shop, and delivery charges are generally waived.
2. E-tailers have introduced on-demand delivery services, with independent drivers and, more recently, drones.
3. Game Changing Trends in Supply Chain - Global Supply Chain Institute
1. The pessimistic scenario assumed that the lowest historical growth and farthest decline would continue into the future.

2. The optimistic scenario examined how the volumes of cross-border letter post and E&P packages would evolve under optimistic rates of growth.

3. The baseline scenario outlined our expectations of what the future would hold if the market continued its historical trends.

Now, five years later, the update of the market volume data shows that in the cross-border letter-post segment, the most pessimistic expectations are coming to pass for letters, while the optimistic scenario is clearly unfolding for small packets and heavier formats. In the E&P segment, the optimistic scenario is also taking shape.

Looking to the future, we expect that the following trends will continue:

- The decline of the items covered under the UPU’s current definition of letters (namely items up to 2 kg) is likely to continue, although at a less rapid rate, perhaps paralleling the base-line rather than the pessimistic scenario line. It could even be reversed provided that the heavier printed matter (e.g. direct mail) and packets pursue a two-digit growth rate trajectory spurred by the access of several million micro small, and medium-sized enterprises (MSMEs) to export markets worldwide (McKinsey, March 2016).

- The growth of express and parcels will probably increase, fuelled not only by e-commerce and online shopping, but also by new flows such as return processing and offshore repairs and reconditioning.

Therefore, by 2018, we expect the volume market for cross-border letter post to stabilize around the 4 billion pieces mark, and even possibly grow over this figure under favourable circumstances, while the international parcels and express services volume (under 5 kg) would increase to about 0.7 billion items or more.

If the DOs aggressively pursue these markets, where they have substantial strengths and core competencies, they stand to gain considerable share.

1.4 Recommendations

The meteoric growth of e-commerce and social media is presenting the Posts with unprecedented opportunities. There are indications that Posts are innovating and introducing new products to take advantage of the opportunities. As a result, DOs have been gaining share in the cross-border express and parcel service (E&P) segments. They should continue to focus on sustaining profitable growth in the key E&P segments, particularly as the growth of international e-commerce and online ordering accelerates.

E-commerce dynamics, like postal services, are uneven throughout the world. For example, the e-commerce revolution in Asia did not occur as dramatically in Africa, Arab countries or Latin America, where an extraordinary catch-up process could occur in the coming years.

Many developing countries (DCs) throughout these regions have not yet taken advantage of the growth opportunities in the marketplace. In fact, DC postal organizations need to further upgrade their practices, processes and systems in order to regain the market share that they have been losing in recent years and contribute to the overall market size growth. The catch-up potential is huge and represents a major opportunity for lagging countries. The markets in Africa, Latin America and the Arab countries are growing nicely, but the DOs are not keeping pace. It would be unfortunate if the e-commerce window of opportunity closed, leaving some postal operators behind, given that millions of MSMEs could be easily included in the international trading system and their trade and payments facilitated thanks to postal networks.

According to a recent study by the UPU1 that measured the development of postal e-services, significant progress has been made in the past five years. For example, the global reach of track and trace services has increased in the Arab countries (from 64% to 86%) and all but stabilized in other regions, between 80% (Africa) and 100% (industrialized countries, Europe and Commonwealth of Independent States (CIS)).

A number of postal organizations are already evolving and increasingly making more efforts to understand the needs of their customers and the changes in their marketplace. They are coming to the realization that the mining of the massive amount of customer, market, economic and operational information, called

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1. Measuring postal e-services development – A global perspective. UPU report 2015.
big data, drives customer engagement and loyalty, ensures marketing accountability, and creates new opportunities for innovation and growth. They are finding, however, that more is needed to turn that information into actions that lead to sustained profitable growth. Chief among these actions is product innovation and the introduction of services that meet and even exceed the needs of the marketplace. For example, the customer’s need for “instant gratification”, which usually accompanies an international online order, needs to be met with postal products that have the appropriate standards of quality, pricing and service levels that enable them to be competitive and relevant in the marketplace.

The UPU can play a major role in shepherding the member countries, particularly in the developing world, to fully harness the power of information mining and product innovation in order to reap the potential benefits of enhancing and tailoring current products and creating new products that meet or exceed customer needs and wants. The UPU can augment its members’ understanding of market dynamics and trends and customers’ passions and behavioural changes, and create an opportunity for the postal sector to offer new solutions to the market.

The forces creating changes and increasing the overall size and segmentation of demand are influencing changes in the competitive landscape. Cross-border mail and merchandise delivery face growing competitive challenges from foreign Posts, integrators, purveyors of alternative distribution models and large e-tailers establishing their own delivery models. Many competitors are adapting their networks, once geared primarily to serving the needs of business-to-business (B2B) customers, for B2C business, and more recently consumer-to-consumer (C2C) flows (e.g. eBay patrons selling on-line).

Fortunately, market dynamics are moving customer needs in a direction that favours the Posts. Figure 1 shows a high-level segmentation of customers and products. As more customer segments request additional information about their shipments and demand lower prices, and as Posts clarify and improve their service offerings, DOs stand to dramatically enhance their brand and market position.

![FIGURE 1 – Product options in high-level market segmentation](image-url)
In order to respond to the new market dynamics, DOs need to take advantage of the directional growth in the marketplace through:

- A concerted focus (i.e. operations, marketing, finance, pricing, etc.) on standard, deferred and economical services and expansion of information services to enable rapid growth into more markets.

- The development of technology solutions and product innovations targeting small and medium-sized enterprises (SMEs) (e.g. the UPS Global E-Commerce-Solution, Trade-Ability and Order-Link, and FedEx Global Returns). SMEs and small offices/home offices (SOHOs) have traditionally been a stronghold of the Posts, but they are being intensely wooed by competitors.

- Strategic developments, cooperations, co-opetitions, or acquisitions. For example, the recent FedEx acquisition of Bongo International, provider of services enabling international e-commerce orders and shipments.

- The development of customs clearance consolidation services to lower costs and speed up the process, perhaps even accompanied by injection into local networks for final delivery.

- Considering alternative consolidated delivery models offered at much lower price points than competitors, including ETOEs, direct entry and regional consolidators, and the adoption of innovative processes that solve customers’ pain points, particularly customs clearance. These Posts, for example, could match competitors by consolidating shipments, say from large retail accounts, block space with airlines, and negotiate agreements for bulk customs clearance and destination country delivery.

As the consumer, SOHO and SME market segments become more active internationally, the need for DOs to clarify their product lines becomes more acute, particularly as standards of service overlap among offerings. Currently, an item that is, say less than 2 kg, can be placed in an envelope and sent as a letter or put in a box and shipped as a parcel, with various levels of service and IT support, or sent by EMS, with premium services. The EMS on some routes might cost less than the parcel, and the cheaper airmail might travel faster than the more expensive parcel, as it might spend less time in customs.

Furthermore, these products and services are part of the physical dimension of the postal network. Therefore, the strategy for improving them contributes to and operates within the framework of the UPU strategy for 2017–2020. It includes the three UPU primary goals:

1. To improve the interoperability of the network infrastructure;
2. To foster effective postal sector market functioning; and
3. To ensure sustainable and modern products.

The UPU will support these goals by providing information reports, service performance measurements, market intelligence, training, workshops, senior management symposia and assistance to all members. As members better understand the expectations of their partners and the market, ascertain where they are performing well and where they are not, determine where there are opportunities to grow, expand or react to changes in the product and marketplace, and learn how they can improve, they can better compete and take advantage of the considerable opportunities that are coming their way.
2.1 Description of product or service

Although Posts throughout the world are faced with widely diverging economic conditions and business models, most are confronted with the same challenges of declining or low letter mail volumes and the need to enter new business areas or develop postal services according to citizens’ expectations in the 21st century. Overall results of the postal industry show that strategies of the postal industry to adapt to changing realities through active innovation and process optimization, are paying off somewhat.

In the cross-border arena, the current postal product definition is somewhat murky. For example, merchandise under 2 kg can be sent as standard or express parcels, or as small packets in the letter stream. Letter post rates in many emerging economies (sometimes underpinned by UPU terminal dues, which do not reflect true operational costs) face little or no price-based competition. While letter post is not suitable for many customers because it lacks tracking and has delivery standards of 10 to 20 days, some segments of customers find the product appealing owing to its lower price.

When speed and service are as important as price, both Posts and commercial competitors continue to focus their efforts on responding to customer demands for a faster, more reliable, and better-tracked service. The DOs’ generally lower shipping rates have not deterred competitors from providing more efficient and better integrated shipping options than the somewhat fragmented post-to-post channel. These players successfully compete on a variety of factors like delivery time, value-added services, reliability, bulk air transport, or global brand to provide a total value proposition rather than one based solely or principally on lower shipping prices.

To respond to the opportunities and threats in the higher-value segment, postal operators are introducing successful e-packet and e-parcels’ products, recognizing that the marketplace demands better tracking and speed. DOs are further modifying their cross-border letter post offering through bilateral negotiations.

Similarly, the UPU is keeping pace with market changes by seeking to modernize letter-post, parcel-post, and EMS products in an integrated way. The aim is to fully integrate the portfolio of physical postal products and develop adequate remuneration systems that cover the costs of delivering the products and ensure financial sustainability for the operators involved in an international postal exchange at both ends (i.e. origination and termination of the service).

2.2 Product maturity

The cross-border mail and parcel market is mature, highly competitive, and highly fragmented.

The market space has changed dramatically in the last two decades. Industry research has uncovered a rich range of dynamics related to the interplay between old and new communications technologies. In particular, we distinguish the following four patterns:

- Pure substitution – where the new process fully displaces the old method. Substitute products for letter mail include purely digital products (e.g. e-books, Internet advertising) and hybrid solutions. HP estimates that over 200 billion pages are tipping to fully digital every year.
- Complementarity – where the new and old methods coexist, though at different growth rates, and share the market for some time. The share of direct mail, for example, might decline in favour of digital media, although it might still grow in terms of volume.

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1. Example USPS ePacket®: Limited to 27 countries with the speed, tracking and transparency that e-commerce customers demand. Maximum length is 24 inches (61 cm), and minimum size is large enough to accommodate required elements, such as postage, address, and customs form. The total of length, height, and thickness cannot exceed 36 inches (91 cm). Maximum weight is 4.4 lb or 2 kg.
Creation of additional demand – where the new medium generates important new growth that adds to the growth of the traditional methods, which also continue to be used. The increased digitization of the economy is one of the main driving forces behind e-commerce growth, which offers Posts great growth opportunities.

Stalling – where, after a promising start, the new method reaches a limit, stagnates, and subsequently poses little threat to the traditional one. Transpromo\(^1\) and cross-border hybrid mail were supposed to grow meteorically; instead they are being displaced by a new interests and new methods such as multi-channel marketing and cross-media advertising.

International correspondence and transactions (C&T) letter mail is well into the upper reaches of the classical “S” curve of the product life cycle. Given advances in computers and communications, the conjecture of the last couple of decades has been that electronic substitution for printed material would rapidly follow. Yet despite the waves of new media technologies and the explosion of information touch points, the Posts have the opportunity to continually innovate and come out with new products and services that delay the saturation and decline stages of the S-curve.

1. Transpromotional (or “transpromo”) is the technique of incorporating high-response and personalization techniques directly into transactional documents such as bills or statements.
3.1 Market Size

Figure 3 shows that the size of the world letter post market reached about $320 billion in 2015. The cross-border component remained at slightly less than 4%. The share of the international post is however most likely to grow steadily in the coming years given the rapid expansion of international e-commerce transactions. While the number of letter-post items is in decline, the average weight has increased owning to the rapid growth of the packet segment.

The size of the parcel market is unambiguously increasing and has reached $260 billion in 2015. The share of the cross-border lighter-weight1 component stands at about 12%, and that of the international heavier-weight component is also at about 12%.

In terms of volume, the Posts account for a vast majority of the international traffic since they tend to carry predominantly lower-revenue, lower-weight letters and parcels, whereas competitors tend to transport and deliver higher-value and higher-yield packages. Figure 4 shows that the growth of express items and parcels carried by the Posts has not offset the decline of letter mail, nor has it kept up with the market growth.

1. Lighter-weight items are defined as below 5 kg.

Source: Adrenal analysis based on UPU, Collography, Boeing, competitor, proprietary and other research data.
3.2 Market dynamics

The worldwide view of the market is somewhat misleading as the market size and growth differ considerably by region. Figure 5 shows that three regions account for the vast majority of the revenues and volumes of cross-border letters and packages. The figure also implies that some intra-regional flows are more substantial than others. Comparing Europe to North America, for example, we see that they account for 50% and 24% of the world’s cross-border volume and 40% and 37% of the revenue, respectively. At over double the volume and about the same revenue Europe has a much greater regional, shorter distance traffic than North America.

With an expected worldwide growth of more than 10% a year, cross-border e-commerce still represents an untapped potential for the postal sector. The e-commerce market is highly dynamic and characterized by the rapid emergence of new business models and players moving up and down the value chain. Posts are best placed to exploit the potential of e-commerce, but they must continue to innovate in order to match changing consumers and e-sellers’ needs and be able to successfully compete on the market. Thanks to new global IT platforms, MSMEs are facing fewer and fewer barriers to access to global markets. This is currently enabling millions of new small and medium-sized companies to sell across-borders (McKinsey, March 2016). Removing the remaining barriers and catering to the needs of these new micro-multinationals (McKinsey, March 2016) could boost cross-border e-commerce by more than 75% by 2020.
Interestingly, the decline in international letter mail, blamed mainly on electronic diversion has affected the DOs of the highly digitized industrial countries less than the DOs of the DCs. This is primarily due to the convergence of several factors which include the following:

As a result of the changing market conditions, designated postal operators are experiencing varying growth rates in cross-border letter-post and parcel volumes. However, the growth of parcels and EMS has not yet offset the decline of letters.

Although Posts throughout the world are faced with widely diverging economic conditions and business models, most are confronted with the same challenges of declining or low letter-mail volumes and the need to enter new business areas or develop postal services according to citizens’ expectations in the 21st century.

![FIGURE 5 – Cross border volumes and revenues are concentrated in three regions](image)

**FIGURE 6 –**

**Volume growth rates at designated operators**

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<td>Domestic service</td>
<td>1.2%</td>
<td>−2.1%</td>
<td>−1.9%</td>
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<tr>
<td>International service</td>
<td>−1.8%</td>
<td>−4.8%</td>
<td>−6.1%</td>
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<tr>
<td>Domestic service</td>
<td>4.0%</td>
<td>3.2%</td>
<td>3.4%</td>
</tr>
<tr>
<td>International service</td>
<td>−0.2%</td>
<td>5.9%</td>
<td>7.4%</td>
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![FIGURE 7 – Distribution and evolution of cross-border letter volumes](image)

**Distribution of volumes - export**

- Industrialized countries 2678 million (77.4%)
- Arab countries 53 million (1.6%)
- Europe and CIS 190 million (5.6%)
- Asia and Pacific 433 million (12.7%)
- Latin America and Caribbean 44 million (1.3%)
- Africa 50 million (1.5%)

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<th>Change 2010–2015</th>
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<td>Latin America and Caribbean</td>
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<td>Asia and Pacific</td>
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<tr>
<td>Eastern Europe and CIS</td>
</tr>
<tr>
<td>Arab countries</td>
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<tr>
<td>Industrialized countries</td>
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Source: Designated operators of UPU member countries
1) The recent economic downturn has impacted DCs disproportionately;
2) The competitive environment in DCs has intensified considerably with new entrants and traditional integrators fiercely challenging DO market shares; and
3) Technology adoption (e.g. mobile devices) in DCs has accelerated, particularly in the higher-income, higher-education segment which sends and receives most of the mail.

3.3 Market trends

As mentioned previously, the continued growth of e-commerce is fuelling growth in parcels and parcels in postal networks both domestically and internationally as well as in the networks of the integrators and an increasing number of private parcel delivery operators. In addition there are many new players that are moving down the supply chain to enter the logistics market to capture growth and margins.

E-tailers have set the bar very high for all operators. Amazon, for example, continues to dominate the market in North America and Europe with year-on-year growth of 30%, largely driven by its expanding Amazon Prime customer base and the range of bundled services available to these customers. In Japan similar dominance is seen through the marketplace Rakuten and in the People’s Republic of China through the Alibaba Group.

Having set the norm with free delivery, tracking and free returns, some internet giants including Amazon, eBay and Google are moving down the delivery value chain. Many retailers are looking at their business models to address services that Amazon is not providing, such as customized goods and excellent face-to-face customer service. Traditional brick and mortar retailers are ramping up their “order online and collect in store” services, offering customers the convenience of online shopping with the instant gratification of collecting the goods the same day.

The potential e-commerce prize for postal operators is considerable, and postal parcel services are at an advantage as they have traditionally been more geared towards the C2C market. Competition in the marketplace for B2C e-commerce delivery is now so intense that postal operators, and even integrators, need to work together in a partnership of competition and cooperation. Examples of such successful partnerships are to be seen in other transport industries such as the airlines.

In the international letter-post segment new, and different alliances keep forming to compete with the designated operators and reduce their cross-border volumes even further. As an example of a new venture, Asendia was formed in 2012 as a partnership between France’s La Poste and Swiss Post. Now, Asendia employs more than 1,000 people worldwide and has offices in 15 countries and a global network of delivery partners. It offers solutions for the business, retail, direct marketing and publishing sectors.

Traditional competition and electronic substitution have conspired to reduce the market share of DOs (see Figure 8).

The figure also shows that in the expedited and parcel service segment, DOs have gained share in cross-border volumes, but that has not translated into a corresponding share increase in revenue, because Posts predominantly transport and deliver B2C and C2C items, which tend to have lower weights than the B2B shipments and international freight mainly handled by integrators.
It is important to note that, despite the decline in cross-border letter volume, the average weight per item has increased substantially, following the general positive growth trend in total international postal tonnage being transported, as can be seen in figure 9. The tonnage transported through international postal services, including letter post, parcel post and EMS, almost doubled, from less 1,000 tonnes a day in UPU dispatch tracking systems to close to more than 2,000 tonnes a day for certain periods of 2015.

That growth in weight is principally due to the increase in packets mailed in the letter stream. Yet, there is still the potential to maximize existing business through international direct mail. As shown by Asendia and others, there is an opportunity to reposition letter mail by connecting with today’s global consumer needs and demonstrating the benefits of direct mail in the mix with online marketing campaigns.

Another noteworthy market development is a move by postal organizations to develop bilateral and multilateral agreements taking the UPU system as the reference point so as to improve the different signing parties’ position. These agreements are typically signed between key trading partners in order to reduce costs and better serve their customers. Some are even establishing their own extraterritorial presence to speed up shipments and minimize the number of hand-offs by directly injecting cross-border items further downstream of the domestic network.

It is also worth noting that the double-digit increase in tonnage and volumes (shown in Figure 10) is across all postal products. In fact, the higher and more consistent volume and weight growth occurred in parcel post and express mail.

This shows that postal operators are becoming more competitive in the higher-weight, higher-value product segments.

On the direct marketing front, recent market research in the United States shows that over $700 billion of sales revenue was generated in the U.S. by about $50 billion spent on direct mail. This shows that direct mail still has the best return on investment of all media and that it therefore has a key potential in direct marketing campaigns. This potential is most likely to have been only partly realized at the international postal service level.

The UPU research makes the point that: “there was a time, not so long ago, when workload patterns and volume fluctuations throughout the year were relatively predictable. Those planning and organizing postal operations could foresee some regular peaks at month end and financial year end for business and transactional mail, such as bills and statements. In the fall period leading up to the December holiday season there would be an early peak of package traffic, usually in November, and then a major spike in letter volumes in December comprising Christmas greeting cards.

“This so-called ‘autumn pressure’ used to be so regular and predictable that it required specific planning with rescheduling of duty patterns, additional transport capacity and supplementary staffing for a three-week period. At other times of the year in the certain countries there were specific days like Valentine’s Day, Easter Day and Mother’s Day for greeting cards but the equivalent was experienced and planned for in other countries, as it was possible to anticipate for these and other locally known annual variations. Now, very little is predictable in the same way as it was. Peaks of letter volume have been replaced by significant fluctuations in parcel volumes.”

With e-commerce, and with new peak days, like Black Friday, Cyber Monday and China’s Singles Day, being added, and crucially for postal operators, the timing and sequence of the traditional peaks of volumes are becoming less predictable and are now, in many cases, being driven by marketing hypes rather than by seasonal variations.

### Table: Year-on-year growth by mail category

<table>
<thead>
<tr>
<th>Tonnage</th>
<th>Total</th>
<th>Letter post</th>
<th>Parcel post</th>
<th>Express</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 vs. 2014</td>
<td>15.8%</td>
<td>2.2%</td>
<td>16.6%</td>
<td>32.8%</td>
</tr>
<tr>
<td>2014 vs. 2013</td>
<td>23.8%</td>
<td>31.0%</td>
<td>12.1%</td>
<td>30.3%</td>
</tr>
</tbody>
</table>

### Table: Evolution of cross-border letter mail content

<table>
<thead>
<tr>
<th>Volume in Billions</th>
<th>Mix Proportion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions</td>
<td>2005 2015</td>
</tr>
<tr>
<td></td>
<td>1.4 0.6</td>
</tr>
<tr>
<td></td>
<td>26% 17%</td>
</tr>
<tr>
<td></td>
<td>GAGR –8%</td>
</tr>
<tr>
<td>Correspondence</td>
<td>0.9 0.3</td>
</tr>
<tr>
<td></td>
<td>2005 2015</td>
</tr>
<tr>
<td></td>
<td>0.9 0.3</td>
</tr>
<tr>
<td></td>
<td>9% 9%</td>
</tr>
<tr>
<td></td>
<td>–10%</td>
</tr>
<tr>
<td>Printed matter</td>
<td>0.8 0.4</td>
</tr>
<tr>
<td></td>
<td>2005 2015</td>
</tr>
<tr>
<td></td>
<td>0.8 0.4</td>
</tr>
<tr>
<td></td>
<td>15% 11%</td>
</tr>
<tr>
<td></td>
<td>–7%</td>
</tr>
<tr>
<td>Direct mail</td>
<td>1.6 1.5</td>
</tr>
<tr>
<td></td>
<td>2005 2015</td>
</tr>
<tr>
<td></td>
<td>1.6 1.5</td>
</tr>
<tr>
<td></td>
<td>31% 45%</td>
</tr>
<tr>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Small Packets</td>
<td>0.5 0.6</td>
</tr>
<tr>
<td></td>
<td>2005 2015</td>
</tr>
<tr>
<td></td>
<td>0.5 0.6</td>
</tr>
<tr>
<td></td>
<td>11% 18%</td>
</tr>
<tr>
<td></td>
<td>1%</td>
</tr>
<tr>
<td>Total</td>
<td>5.1 3.4</td>
</tr>
<tr>
<td></td>
<td>2005 2015</td>
</tr>
<tr>
<td></td>
<td>5.1 3.4</td>
</tr>
<tr>
<td></td>
<td>100% 100%</td>
</tr>
<tr>
<td></td>
<td>–4%</td>
</tr>
</tbody>
</table>

Source: Adrenale analysis based on UPU data

Direct mail is often integrated as part of a multi-channel campaign and has proven to be effective in a combination with other direct marketing channels, including online tools. According to a recent survey, public perception of direct mail is also improving, with almost half of consumers seeing it as good business communication. Data specialist Wilmington Millennium questioned 2,000 consumers in December 2015 and found 48% thought it is a good way for businesses to connect with them, a rise of 7% since a similar survey in 2014.

Another implication of Figure 10 is that the cross-border volumes of DOs returned to growth in the past two years. This is particularly significant for letter post, which had been declining at close to 4% annually. It suggests that international letter volumes have an opportunity to grow again.

In the last decade, the content of international letter post, carried by DOs as well as competing postal service providers, has changed considerably, Figure 11 that shows despite considerable declines in overall cross-border volumes, direct mail and small packets have experienced positive growth.

Research conducted by the UPU International Bureau and highlighted on its web application [www.live.post](http://www.live.post), in an article entitled “Holiday Season Market Research”, examines whether the global marketing ecosystem has replaced the traditional seasons.
E-commerce and the postal sector

Like postal services, e-commerce dynamics are uneven across the world. For example, the e-commerce revolution in Asia did not occur as dramatically in Africa, Arab countries or Latin America, where an extraordinary catch-up process could occur in the coming years. Asia Pacific is the largest e-commerce market with sales over $600 billion; and with a year-on-year growth rate of 30%, Asia Pacific has overtaken Europe as the largest e-commerce market¹ and is soon set to account for 40% of the global e-commerce market. Smartphones, mobile e-commerce and, increasingly, social commerce through Facebook and Twitter are driving this unprecedented growth. In China, the e-tail giant Tmall, which handles 7 million packages a day, is reporting growth of 100% year-on-year and this has been the case for the past five years. The trend in China today is for the digital-native generation to purchase everything online, including household products. This highlights the fact that, in most DCs, young generations will leapfrog consumption models. Indeed, consumer behaviour in emerging markets like China offers very important insights into potential trends in other regions as well.

Fully reaping this tremendous growth potential implies that Posts both maximize the value of existing services – by optimizing processes and increasing efficiency – and invest in new business areas. To realize this, Posts should have sufficient flexibility to adapt their processes, innovate and develop new business models.

Postal operators are further expanding their electronic and hybrid services to customers. According to a recent study by the UPU², which benchmarked the development of postal e-services in UPU member countries, there has been a significant progress in the take-up of postal e-services. These e-services can be classified into four groups:

1. E-post and e-government, such as: e-mailbox, online direct mail, postal registered e-mail, e-cards, online bureaufax, e-invoicing, hybrid mail, reverse hybrid mail, e-postal certification mark, digital signature, digital identity services, credential services, digital archive, e-health, e-administration and e-registration.

2. E-commerce, such as online philatelic and postal products, shopping portal, integration of postal web services and merchant sites, performance reports and analytics, virtual international address, calculation of total landed costs, and online management of documents and merchandise delivery options.

3. E-finance and payments solutions, including escrow services for e-commerce, online account management, e-bill paying, e-invoicing, and e-multi-shop/single-pay gateway, etc.

4. Support services, such as online lookups (e.g. post codes, post offices), track and trace, online change of address, holding or forwarding of mail, digital personalized postage, pick-up service, electronic notifications, online contact and customer service, etc.

These IT services have an extremely positive effect on:

- The image of the postal operator as a high-technology centre of excellence.
- The benefits that an international shipper has access to and can receive from the Post.
- The wealth of added-value services and information that often precede and accompany the cross-border mail or package.

They also have a positive, virtuous circle, effect on international letters, parcels and EMS growth because they reinforce the Posts’ market position in the growing SOHO and SME segments, which are traditionally areas of strength for the Posts. IT services further tilt the competitive scale in favour of Posts as they better meet the needs of customers who are increasingly trading off higher-priced and full-service premium and time-definite products, with lower-priced, reliable and information-supported cross-border postal services.

The postal industry throughout the world has been through radical changes over recent years, demonstrating its capacity to adapt to new realities by defending its existing business and entering new areas. Now, however, it is reaching a new unique milestone. According to the 2014 IPC Strategic Perspectives on the Postal Marke, the average contribution of letter mail to postal group revenue is rapidly declining below 50% and many Posts are reaching the tipping point at which other business segments, such as parcel delivery and other electronic, hybrid, financial and logistics services, are overtaking mail in terms of revenue. Such a transformation will have implications not only for the organization, the business models and the workforce of Posts, but also for their identities. The proximity to people, especially in rural and remote areas, through mail delivery, or access to basic financial services, has forged the postal identity and has always been one of the Posts’ key assets in increasingly competitive markets. Posts can build on this customer proximity to develop new innovative services and define new roles for themselves, such as assistance services to citizens, or further contribute to the world’s financial inclusion or trade facilitation agendas for the most vulnerable segments of the population within the framework of the United Nations 2030 agenda for sustainable development. The key challenge for Posts in the coming years will therefore be to maintain their strong identity and visibility among citizens while continuing their successful diversification.

Although significant progress has been made in the past five years, particularly in advanced economies, DCs have not lived up to the opportunity for growth in their markets, despite their strategic intent made clear by their pronouncements that postal e-commerce services are widely seen:

- as a generator of added revenues and as a key driver of long-term sustainability;
- as a tool to diversity, to protect the core, and to leverage trust and competences; and
- as a means to expand electronic services to customers.

For example, according to a recent study by the UPU, the global reach of track and trace services has increased in the Arab countries (from 64% to 86%) and all but stabilized in other regions, between 80% (Africa) and 100% (industrialized countries and Europe and CIS). In disruptive market circumstances, this is likely to be not enough to regain competitiveness.

Worrying discrepancies remain between strategic intents and reality. Two regions (Arab countries and Africa) in particular have not kept up with the opportunities in the marketplace. In the Middle East, the volume of packages (both packets and parcels) carried by DOs has experienced a double digit decline in recent years (i.e. -31.8% annual decline in international letter post in 2013 - 2014), whereas the competition has grown substantially. Aramex, for example has grown to more than 13,000 employees. Its Q3 2015 net profits increased by 7% year on year, from $18.9 million in the third quarter of 2014 to more than $20.3 million on revenues of over $937 million in Q3 2015.

1. Measuring postal e-services development – A global perspective
The opportunity in the Middle-East is considerable. A decade ago, there were barely 20 million people online in the region; now there are over 150 million, according to PayFort: a 20-fold growth in the space of 10 years. The Middle East's e-commerce market is growing an average of 29% (e.g. from $7 billion in 2011 to $9 billion in 2012), according to the report by Ipsos and PayPal.

In Africa it has also been difficult for DOs to overcome the obstacles to product diversification and the growth of e-commerce, parcel and express service. According to the UPU study, Africa displays a high level of confidence that postal e-services’ revenue can compensate for the decline of mail revenue (55%). On the other hand, they seem to question their ability to develop synergies between these services and their other lines of business (40% vs. 81% in Asia). One of the obstacles relates to the legal and regulatory environment. Regional associations such as the Communications Regulators’ Association of South Africa (CRASA) are trying to enhance the regulatory landscape in order to attain regional integration and development goals, and achieve economic growth.

Latin American DOs have also experienced strong competition. The characteristics of that region are similar to those of other developing areas in that there is a proliferation of competing operators, particularly in the major cities and border towns. Additionally, the lack of sectoral investment, particularly in technology and development and the uneven and incomplete reform processes, have led to market disorder, in terms of compliance with legislation, customer confusion and excessive fragmentation. A recent improvement regarding all these critical dimensions can be noticed, particularly after the UPU Regional Strategy Conferences (e.g. for Latin America in June of 2015).
In DCs, the DOs’ rates for packets in the cross-border letter stream face very little if any price-based competition. International letter post up to 2 kg is underpinned by UPU terminal dues and favours the flow from developing to developed countries, since the costs are usually lower than the true operational costs in advanced Posts (see Figure 12).

Consequently, the Posts in DCs that are growing their exports considerably tend to have a price advantage over other major competitors operating for small packages under 2 kg (4.4 lb), especially at very low weights.

While there is a clear postal price advantage in the lower-weight segments, competitors are instead focusing their efforts on responding to customer demands for faster, more reliable, and better-tracked service. These players successfully compete on a variety of factors like delivery time, value-added services, reliability, bulk air transport, or global brand to provide a total value proposition rather than one based solely on lower shipping prices.

**FIGURE 12 – The economics of terminal dues**

Source: The Economics of Terminal Dues, Copenhagen Economics 2015
In principle, the price advantages enjoyed by Posts in DCs can translate into low shipping and handling costs for shoppers in developed economies, buying from foreign e-tailers.

As a result, the affordable pricing in certain countries in combination with substantial e-commerce growth has resulted in a 2015 year-on-year growth of over 46%, with the priority and express segment accounting for 65% of the revenue.

This market dynamic seems to be mirrored in other emerging economies that are entering the rank of developed nations. This is important because it appears that some countries evolve in the following ways:

- From using the international letter stream to send packets under 1 kg and taking advantage of terminal dues imbalances to capture the price-sensitive exporters – they do this initially in order to support the international development SMEs;
- To better understanding and addressing the needs of exporters and e-commerce customers sending cross-border shipments; and
- To introducing tailored products, with customized service levels (e.g. speed, reliability, tracking and other technology add-ons) which are differentiated by customer segment.

Advanced postal operators have expressed the need to find an innovative solution to any pricing obstacle which might curtail the growth of cross-border volumes and revenues. If, for example, below-cost terminal dues are hindering the growth of small e-commerce packets or skewing the traffic to lighter-weight or lower-value items, they will be re-examined with a view towards meeting the needs of the marketplace. A UPU working group recently argued that Posts “should understand that sustainability will not be achieved if they keep handling and delivering [often at a loss] primarily low-weight items that private operators do not want to deliver”.

Other ongoing efforts, spearheaded by the key UPU committee overseeing terminal dues and product offerings, aim to outline a new product framework called the “Integrated Product Plan”. A framework implementation work plan may be submitted to the 2016 UPU Istanbul Congress for approval. The long-standing distinction between “letter post” (items up to 2 kg subject to terminal dues) and “parcel post” (subject to self-declared inward land rates) would be refined and perhaps replaced by two service classifications differentiated by content: (1) documents and (2) goods.

The ultimate goal is to integrate the different methodologies, with a view to reducing the obstacles to growth and eliminating the main sources of market distortion. The current thinking is that several levels of remuneration might be put in place to differentiate services according to speed and product attributes (for instance, the level of tracking or delivery confirmation).

In all these discussions of rates and prices, the principal focus should be on customer centricity. Customer needs and the resulting opportunities for sustained profitable growth should be the main driver for change.

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1. According to “China Express Delivery Market 2015”, a study conducted by the Development and Research Centre of the China State Post Bureau.
Customer characteristics and needs

Simplistically, customers’ shipping needs fall into three principal segments:

1. The basic shipping options available differ in terms of delivery time, features available (for example, tracking) and rates. The basic category includes the few products that do not have any added-value features such as tracking. However, very significant growth in internationally tracked letter-post items can be observed in the last five years, as shown in Figure 13.

2. The second segment includes more expensive products with improved service and some form of tracking. This is a crowded market, where many package products and services compete with many postal operators and consolidators. In this segment, international postal operators, for instance, aggregate small parcels from disparate shippers then fly a bulk shipment to their global or regional hub (for example, in Europe or Asia-Singapore). Next, parcels are entered into advanced economies in Europe and North America using one of two methods:

• International terminal dues channel letters, periodicals, and packets under 2 kg go through the UPU postal network and are subject to postal customs clearance and terminal dues;
• Direct entry: letters and parcels are flown as freight, cleared through commercial customs and entered directly as domestic mail, paid at domestic rates.

3. Third, the express segment, which offers a variety of more expensive, time-definite, high-value options for merchandise and documents.

One of the major evolving needs is virtual presence. Companies, even small ones, are finding possibilities for growth in new markets, often without a physical footprint. Across the world shoppers are buying more products online – in particular, on their mobile phones – so there is clearly an opportunity. Online payment options are growing more secure: Visa Token Service, which replaces traditional 16-digit account numbers with one-time-use codes, is just one example of ramped-up cybersecurity efforts. In many fast-growing emerging markets, the Internet is...
the safest, fastest way to get products from international brands. International shipping and fulfilment are also improving, with companies such as Border-free helping retailers ship products across the world while assisting with currency conversion, customs, and return issues. Several brick and mortar retailers have used e-commerce to expand over the past few years. Upscale houseware retailer Williams-Sonoma has used the Internet to expand to more than 100 countries, and the web now accounts for 44% of its sales. It has full-scale e-commerce sites in Australia and the United Kingdom and plans for expansion into Mexico. Marks and Spencer, the UK clothing seller, is embracing a “bricks and clicks” strategy, opening physical stores in a few markets while expanding online in many more. The retailer is investing about $1.5 billion in logistics, IT and systems, including a new UK distribution centre. The key to success internationally is localizing the online presence while also maintaining a unified global brand. For example, British fashion and beauty e-tailer ASOS created a dedicated team for its Russian market to ensure that its phrasing, language, and image resonated with 20-year-olds in Russia while still meeting global brand standards. Other brands, such as New Look, a teen fashion retailer, sell their products through third-party marketplaces (for example, China’s Tmall).

A rise of e-commerce IPOs can also be observed. Perhaps the best indicator of an industry’s rise is the attention paid to it by stock market investors. As private money flooded the e-commerce market over the past decade, and as some high-profile initial public offerings (IPOs) have captured big headlines, it seems likely that more IPOs are inevitable as private investors try to cash out. The past couple of years have included several examples of just how much investors are interested in e-commerce. The biggest story was the record-setting $25 billion IPO for Chinese giant Alibaba in September 2014. The sale proved the allure not only of China, but also of e-commerce retailers. Alibaba’s IPO was preceded by that of U.S.-based Zulily, an online retailer that targets parents and kids, whose late-2013 IPO valued it at roughly $2.6 billion, and JD.com, another Chinese e-tailer that raised $1.8 billion in its May 2014 IPO, thanks to its impressive growth. In Europe, Zalando was valued at about $6.7 billion in its October IPO, while Cnova (owned by France-based Casino) raised almost $200 million in its November IPO. Of course, bullish IPOs do not guarantee success. As of early March, Alibaba’s stock is trading below its IPO value, as it has missed revenue estimates and is facing several other challenges; Zulily’s stock is off by 80% from its peak, as investors worry about slowing growth. On the other hand, JD.com is recording better-than-expected revenue growth and is trading above its initial price.

The (continuously) connected consumer

A.T. Kearney’s 2014 Connected Consumer Study showed just how much consumers around the world are using the Internet, and offered many key insights for retailers. The survey included 10,000 “connected consumers” - those who say they connect to the Internet at least once a week. Of that group, more than half are “continuously connected” - that is, they check the Internet at least once every waking hour. What connected consumers buy online says a lot about consumer confidence, the adoption of e-commerce, and country-by-country evolution.

As the global business landscape continues to evolve, so do its challenges. New competitors are entering the market. Product life cycles are getting shorter. Customers are more demanding, and their expectations now extend beyond cost and service to include ethical, environmental, and sustainability concerns.

These market dynamics are driving the global supply chain to continually redefine itself. The fifth edition in a series of UPS Change in the (Supply) Chain Surveys1 finds companies looking at sourcing networks, reassessing the role of service, better leveraging product life cycles, and looking for ways to expand into new markets more efficiently. Specifically:

- Near-shoring is growing in popularity as high-tech companies look to raise their game on customer service while remaining mindful of product quality and intellectual property (IP) protection. In 2010, active consideration for near-shoring was below 10%. That percentage has climbed to over 35% in 2015.

- High-tech manufacturers2 and retailers are increasingly embracing customer centricity as the key strategy to grow their businesses. This research shows the trend of focusing on customer centricity growing substantially.

- Companies are managing the innovation end of the product life cycle well, but execute less well; as new product launches become more important, the need for flawless execution grows, with both time to market and time to volume being critical. While nearly two-third cited market leadership in managing innovation, less than half globally indicated they are market leaders in post-sales support, product launches, reverse logistics, and other key stages of the product life cycle.

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2. Including: computers and office equipment, consumer electronics, communication equipment, electronic components and accessories, semiconductors, industrial electronics, photonics and defense electronics.
Companies have moved, or are moving, aggressively into emerging markets, recognizing the demand of demographic shifts, but establishing initial operations in new markets remains a key challenge. Over two-thirds of the firms surveyed are in emerging markets or establishing a presence, virtual or physical.

The implications of these opportunities are broad, including, but not limited to, regular reassessment of sourcing networks, both in the context of cost and service; the role of service performance in driving sales and margin growth; managing both the innovation and the execution sides of the product life cycle for excellence; and leveraging partners for initial new-market capabilities.

These implications, in turn, mean that if the Posts are to better compete in the B2B and B2C logistics arena, they have to launch products and services that meet the needs of clients that tend to be not only large multinationals sending heavier equipment and parts for just-in-time production like in the 20th century, but also the increasing number of micro multinationals globalizing their activities (McKinsey, March 2016) and requiring high standards of service and delivery.

The seven principal ways that Posts can achieve excellence and be an integral part of companies’ supply chain, big or small, are:

1. **Client-focused approach**: offer the client what they really want; do not try to guess what they want.
2. **Supply chain strategy**: the objectives must guide the strategy, and the strategy must guide the tactics (and not the other way around).
3. **Sales and operations planning**: establish an effective process before defining the systems.
4. **Logistics network design**: maintain low costs and a high level of reliability while reducing handling and changes as much as possible.
5. **Sub-contracting and collaboration**: can benefit from a healthy and proactive partnership.
6. **Use of resources**: achieve better productivity with fewer resources.
7. **Performance assessment**: assess the essentials to better manage and improve them.

As postal organizations expand their value chain, they will be well positioned to create seamless cross-border solutions that exceed the needs of the marketplace, both for large and small firms increasingly active on international markets.
Postal operators in industrialized countries have partly realized the potential of the cross-border parcel and express market, particularly in the international e-commerce segment. Yet much remains to be done in terms of innovation in response to possible market disruptions and new delivery models. However, it must be recognized that they have carried out considerable market, strategic and reform work. They have introduced new products (e.g., e-packets) with added services and features to cater to evolving customer needs. Furthermore, industrial countries are holding their own, and often gaining market share, in a fiercely competitive market. As an example, Figure 14 shows how well the U.S. Postal Service fared this past holiday season.

Most other Posts in the developed world are experiencing a similar growth and share gain in the parcel market. For example, the growth of La Poste (France) was primarily driven by the success of GeoPost and its value-added delivery solutions. GeoPost’s revenues rose sharply in the past few years by over 13% annually.

Other developed countries have realized that the cross-border market is driven by availability access, service and price. The Belgian Post for example has constructed a landed cost calculator called Globify as a back-end tool for e-tailers. Bpost will clear customs, pay tax and duty and ship for e-retailers from Belgium to the rest of Europe and from the U.S. and China. It has positioned its prices between standard, non tracked mail and the integrators.

Japan Post is another example of a DO offering added-value services for cross-border e-commerce, including its international ePacket for shipments up to 2 kg. ePacket is handled in the airmail stream but is priced below registered airmail while offering the same delivery time of seven to ten days. International ePacket is positioned as economic, easy to send and secure. E-tailers can gain discounts by printing labels online and attaching them to packages inside special pouches. Volume discounts are also available. Japan Post is also making its server data available to e-tailers via an application program interface (API) that provides a simple way to generate shipping labels, electronic pre-advice, etc.

Many developing nations, however, are finding it difficult to capitalize on the e-commercial opportunities and to learn how best to meet customers’ needs. DC Posts know that the main service attributes that will be needed to serve the cross-border market successfully, particularly for the SME sector, are:

- Decent transit time
- Delivery at first attempt
- Track and trace or delivery confirmation
- Other services (e.g. returns handling, fulfilment)
- Affordable pricing

All DCs cannot be lumped together because of the great variability that exists among them (see Figure 14). However, as mentioned earlier, many DCs in Africa, Latin America and Asia have not taken advantage of the growth opportunities in the marketplace.
The e-commerce window of opportunity might close in DCs and DC DOs cannot afford to delay in rapidly obtaining the support of their national governments and the UPU’s support in achieving the regional development priorities detailed in the Doha Postal Strategy, specifically:

- **Goal 1:** Improve the interoperability of the international postal networks, including achieving the universal quality of service standard, improving security, and promoting proper addressing.
- **Goal 2:** Provide technical knowledge and expertise, including training managers, developing economic models and appropriate postal strategies, and publicizing postal activities, SME development, etc.
- **Goal 3:** Promote innovative products and services. This goal is particularly pressing in the area of cross-border e-commerce packages so as not to give other participants a further competitive advantage.
- **Goal 4:** Foster sustainable development of the postal sector. This will only occur when operators get out of the vicious circle of declining volumes, lower revenues, lower investments and lower growth, into a virtuous circle of growth.

When these goals are met, or at least are well on their way to being met by a developing nation, then that nation is likely to follow the path that was followed by DCs that have transitioned into emerging advanced economies.

Baron’s has recently reported that: “As the growth of China’s exports has slowed sharply in recent years, four nearby nations – Viet Nam, Cambodia, Laos, and Myanmar – have increased their exports by an impressive average of nearly 20% annually over the past four years, while China’s yearly export growth has been sliced by almost three-quarters, from 31% to just under 8%. Though their collective economies are much smaller than China’s, they are growing rapidly and showing manufacturing dynamism that reminds people of China in the 1990s.”

Interestingly, the evolution of cross-border mail and packages in these countries is following a similar pattern as the one followed by China, where the growth of cross-border packets under 2 kg in the airmail letter stream takes off first, followed by growth in EMS, and accompanied or followed by an increase in parcels with certain added-value services, such as predictable delivery standards and delivery confirmation.

Therefore, it is possible that postal operators in developing nations that are beginning to take advantage of e-commerce growth (see Figure 15) may not favor any increase in the terminal dues charges for cross-border packets up to 2 kg sent in the letter stream, since that will be their first gateway to growth.

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FIGURE 16 –
Global E-Commerce Sales Exceed $1.5 Trillion

<table>
<thead>
<tr>
<th>Region</th>
<th>Sales</th>
<th>Growth</th>
<th>Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>$419.53b</td>
<td>12.5%</td>
<td>72.0%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>$291.47b</td>
<td>14.0%</td>
<td>72.3%</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>$48.56b</td>
<td>20.9%</td>
<td>41.6%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>$388.75b</td>
<td>23.1%</td>
<td>44.6%</td>
</tr>
<tr>
<td>Middle East and Africa</td>
<td>$27.00b</td>
<td>31.0%</td>
<td>31.3%</td>
</tr>
<tr>
<td>Latin America</td>
<td>$45.98b</td>
<td>22.1%</td>
<td>33.0%</td>
</tr>
<tr>
<td>Worldwide</td>
<td>$1221.29b</td>
<td>17.1%</td>
<td>40.4%</td>
</tr>
</tbody>
</table>

Source: eMarketer
New cross-border services

Newer variations on the extraterritorial office of exchange (ETOE) and foreign direct entry models are taking shape to satisfy evolving customer needs and compete with DOs in the international mail and parcel and EMS markets.

Electronic substitution is often blamed exclusively for the substantial decline in international mail volumes carried by DOs, but this view does not take into account the new crop of competing “physical” service providers.

One such group of competitors is the international mail forwarders (IMF) who provide a “domestic” mailing address in the country of origin, whereby mail or packages can be collected, discarded, held, consolidated, digitally scanned, or shipped anywhere in the world, based on each customer preference. Some of these companies, such as MyUS, USABox, and USAMail1, are pure-plays that focus only on forwarding mail internationally. Others are integrators, foreign Posts or mail management firms that offer IMF as an integral part of their full set of international logistical and transportation services. One leading pure-play IMF provider generates over $100 million in annual revenue handling about 3 million items per year for about 200,000 customers.

Online and brick and mortar sellers are rapidly expanding their international footprint to capture the growing market created by foreign consumers interested in buying their goods and services. In addition, domestic consumers continue to purchase products from foreign merchants and often seek convenient ways to return unused, unwanted, damaged or unfit merchandise. To meet the growing needs of these two global markets, services have emerged that range from simple global box exchanges and straightforward international forwarding, to more complex services with features such as full-service logistics, fulfilment, distribution and value-added services. Over the years, the range of IMF services has expanded from basic redirection to include a wide variety of premium features, such as warehousing, consolidation, shopping assistance, financial services, telecommunications services (e.g. provision of a U.S. fax number), dynamic package shipping, commercial invoicing, document preparation, flexible scheduling, etc.

In most developed countries, new and traditional market participants already provide IMF services which range in features from simple cross-border box exchanges to full-service logistics and fulfilment services. The IMF service most commonly begins with a foreign address and forwarding identifier (FAF-ID) to the physical address provided to the end customer. On receipt, the service provider would look up the FAF-ID forwarding address, and the corresponding service features requested by the end customer (e.g. simple forwarding, consolidation and redirection, etc.) A coloured sticker with additional human- and machine-readable information could be affixed prior to continuing the processing the mail piece as a normally addressed international postal item.

In a recent study for the United States Postal Service, we estimated that the IMF market in the U.S. alone has reached the $1 billion mark. Moreover, the majority of the cross-border IMF volume handled by the market participants is carried by competitors of the U.S. Postal Service.

Realizing that they have to be innovative and dynamically launch new services that meet evolving customer needs and wants, DOs are also introducing novel traditional services, sometimes reacting to competitors such as in the case of international mail forwarding, and other times seizing the opportunities that the market is presenting such as in the case of “private locked bags” and “continuity shipping” and other fulfilment and logistics variations.

FIGURE 17 – Cross-border B2C market by 2020

Understanding customer needs in the postal environment

As recently as a decade ago international transportation and delivery were fairly straightforward. Businesses bought their shipping services by mode and weight. Today, transit time and total supply-chain cost, are key drivers of demand and shipping decisions.

Global supply, manufacturing and distribution networks are calibrated to work with partners that guarantee time-definite or time-specific deliveries. “Just-in-time” products and “lean” processes and value chains are some of the principal needs of customers.

Another of the major trends of the last few years has been that of outsourcing (e.g. billing, printing, distribution); and consolidation. Leading market players have helped businesses be more successful by acting as a trusted partner, and formal outsource supplier. As a consequence, much international volume, particularly in industrialized countries, is going through the hands of intermediaries: presorters, consolidators, wholesalers, etc.

Postal operators are evolving and increasingly making more efforts to understand the needs of their customers and the changes in their marketplace. Interestingly, the key clients of the Posts, particularly advertising agencies, marketers and direct mailing clients have long understood that the mining of information, sometimes called big data, drives customer engagement and loyalty, ensures marketing accountability and creates new opportunities for growth.

Data-driven marketing reflects the effect big data is having on the preferred channel choices of marketers in their engagement with the consumer. In the U.S., producers of goods and services spend over $250 billion on data-driven marketing services based on individual-level consumer data (ILCD). Not all marketing channels are perceived by consumers to be effective as shown by the findings of a major new study commissioned by Australia Post last year. To achieve true consumer-centric marketing, consumer preferences must be front and centre. Organizations need to understand which channels are appropriate for different message types and how generational differences can alter how individuals like to be communicated with. We are no longer in a world of “one size fits all”. Each customer is unique and the key to successful marketing is to treat them as such. It is then the job of marketers to translate this new knowledge into a successful multi-channel marketing mix, and it is the responsibility of the postal sector to make the direct mail channel an integral part of that mix.

New technologies are disrupting traditional norms and big data is being driven by social media such as Facebook, Twitter, Pinterest, etc. Technologies generate tremendous amounts of data which in turn enable a more detailed and comprehensive view into the passions and behaviours of customers. A recent white paper by the USPS-OIG concluded that a strong social media and big data strategy could help the United States Postal Service remain competitive in the digital age by better responding to changing communication needs, improving the customer experience, creating value through social commerce, and cutting costs.

1. Big data is somewhat of a trendy name for a discipline that has existed for some time in most organizations. At its most basic level, this could be considered a database of transactional, operational, and financial data (e.g. customer purchase amount, date, time, purchase bundle, loyalty, satisfaction, history, etc.).
Figure 18 depicts the satisfaction and loyalty of customers versus the performance of a postal operator in meeting or exceeding their needs. Customer wants and needs generally fall into three categories:

1. Threshold needs. These are the minimum requirements for considering a service provider. They tend not to increase customer satisfaction much after the threshold level is met. For example, customers expect that an item will be delivered according to the promised delivery quality. If a shipment is damaged, both sender and receiver will be upset, but as long as the item is delivered safely and in good condition, the customer is satisfied.

2. Performance needs. These are needs that, when exceeded, tend to increase customer satisfaction. Price is an example of a performance need, where the more an operator reduces costs and offers discounts as a result, the more satisfied the customer would be.

3. Excitement attributes are those innovative offers that an organization can “wow” the customer with, while at the same time, not spend an inordinate amount of resources to do. Postal operators are beginning to use big data to focus their efforts on these excitement attributes and win the loyalty of particular customer segments.

**FIGURE 18 – Customer satisfaction**

- **Excitement Attributes**
  - Innovative products and services
  - Customer advocacy

- **Performance Needs (e.g., Price)**
  - Proactive information sharing
  - Problem resolution and feedback
  - Ease of access

- **Threshold Needs (e.g., On-time Delivery)**
  - Quality products
  - Sound prices, discounts
  - Basic customer support
Focusing on meeting and exceeding the needs that excite the customer requires that postal operators rethink their approach to product or service introduction. Rather than continually chasing cost reductions and operational efficiencies, many Posts have already begun to develop a big data strategy by integrating the wealth of internal and external data available to them. They have established a presence on some of the major social media sites. But, even advanced Posts have not yet fully harnessed the power of information mining in order to reap the potential benefits of increased customer loyalty, innovative product and service creation and sustained profitable growth. Social media – along with a better understanding, through the mining of the myriad of information sources available, of customer passions and market dynamics create an opportunity for postal operators to offer new solutions to the market, examples might includecrowdshipping services, social e-commerce services, identification services, and products that help bridge the physical and digital communication worlds. Social e-commerce services, for example, could facilitate the use of social platforms as storefronts, similar to online shops on eBay or Amazon. The Posts could manage necessary back-end services such as micro-warehousing, fulfilment, and delivery.

Turning the flood of market and customer data (e.g. attitudinal, behavioural, transactional, operational, habitual) available today into a valuable source of information and insight requires an investment in advanced analytics tools in order to enable the Posts to gain a better understanding of what resonates with users and what factors are likely to lead to a more positive view of the brand or even drive sales, innovations and new postal products, services and solutions. In other words, blending the data that demonstrates the effects of customer behaviours, with the dynamic research which provide the causal underpinnings, produces better and faster decisions that yield superior business results.

The UPU itself can benefit substantially from this new insight that results from the combination of dynamic, near real-time market research, big data and predictive analytics. The traditional market research activity, which periodically polls and updates changes in the marketplace, could be improved if transformed into an integrated market insights and solutions framework that would dynamically alert the members and enhance institutional resilience to disruptive factors in global postal markets. The UPU’s live.post prototype constitutes an important step in this direction (www.live.post).
In the 2010 Research on Postal Markets, we examined the trends for lighter-weights international letter mail, and express and parcel services (E&P), under three possible scenarios:

- The pessimistic scenario assumed that the lowest historical growth and farthest decline would continue into the future.
- The optimistic scenario examined how the volumes of cross-border letter mail and E&P packages would evolve under optimistic rates of growth.
- The baseline scenario outlined our expectations of what the future would hold if the market continued its historical trends.

Now, five years later, the update of the market volume data shows that in the cross-border letter post segment, the most pessimistic expectations are coming to pass for letters while the optimistic scenario is clearly unfolding for small packets and heavier formats. In the E&P segment, the optimistic scenario is also taking shape.

Looking to the future, we expect that the following trends will continue: The decline of the items covered under UPU’s current definition of international letter-post (namely items up to 2 kg) is likely to continue, although at a less rapid rate, perhaps paralleling the baseline rather than the pessimistic scenario line. It could even be reversed provided that the heavier printed matter (e.g. direct mail) and packets pursue a two-digit growth rate trajectory spurred by the access a several million MSME to export markets worldwide (McKinsey, March 2016). The growth of E&P is likely to increase, fuelled not only by e-commerce and online shopping, but also by new flows such as return processing and off-shore reconditioning.

Therefore, by 2018, we expect the volume market for cross-border letter mail to stabilize around the four billion pieces mark, and even possibly grow over this figure under favourable circumstances, while the lighter-weight international parcels and express services volume would increase to about 0.7 billion items or more. If the DOs aggressively pursue these markets, where they have substantial strengths and core competencies, they stand to gain considerable share.