



Since British Prime Minister Thatcher's privatisation revolution in the 1980s, the liberalisation of state-owned sectors has been booming business. On 1 April 2009, the Dutch postal market was fully liberalised, preceding the 2011 deadline imposed by the EU Postal Directive. Developments in other public sectors would suggest a move towards perfect competition and, in the longer-term, a consolidated postal market, but there are many factors influencing the success of privatisation and deregulation. Just how is the Dutch postal market likely to evolve?

# Postal markets *on the move*

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**Towards  
and beyond  
liberalisation**

## The 'cowboy' phase

The situation was fairly transparent before and immediately after the privatisation of the Dutch public sectors. Markets were still highly regulated and former state-owned enterprises could maintain their monopoly in the domestic market, usually being vertically integrated and offering a complete range of services. Liberalisation, however, opened the door to a whole host of new entrants – all of whom, whether supported by private investors or not, were fighting for their bit of market share.

Such 'cowboy' markets (Figure 1) are usually very volatile; there is a coming and going of players and prices fluctuate widely. Often the new entrants, the 'cowboys', offer a less-than-complete service

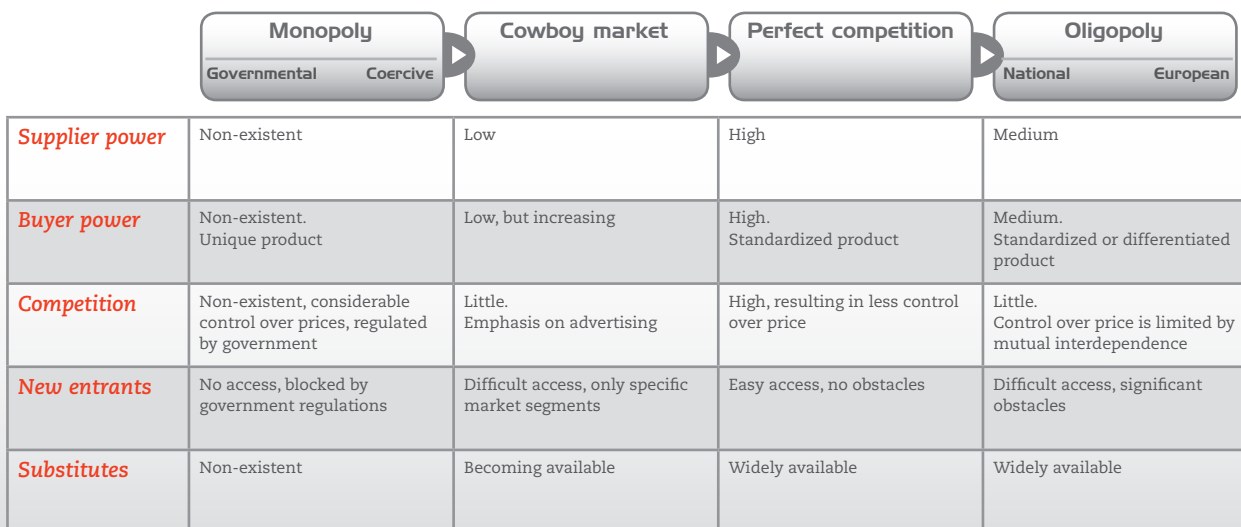
(for instance, in the early days, mobile phone operator Ben only provided coverage in highly urbanized areas), and are accused of 'cherry picking'.

## Towards stability and consolidation

As markets mature, the situation usually becomes more stable, creating something approximating 'perfect' competition. The business models applied by competitors converge and, as companies' operations often overlap, mergers or acquisitions of regional players take place. This allows the acquiring company to expand into areas in which it was not active, and provides advantages such as economies of scale and the ability to mechanise operations.

This market consolidation results in the formation of an oligopoly, where only the 'vital few' can operate and entry barriers are high. In the longer term, cross border mergers and acquisitions will consolidate the situation further and lead to a 'European oligopoly', as we can now see evolving in the telecom segment.

Figure 1: development model for utilities & other public sectors



In recent years, the postal market has seen a reduction of mail volume mainly due to the use of e-mail and the reduced transfer of paper copies of invoices, tax declarations and bank statements. In the coming years, the mail segment will suffer further. TNT is expecting a reduction in mail volume due to substitutes of around 6% per year in the period to 2012<sup>1</sup>. However, while the mail segment has declined, the parcel and logistics segment has become revenue and profit generating for postal operators.

## Success factors of privatisation

The Dutch privatisation of PTT in 1989, resulting in PTT telecom and PTT post, was the start in the Netherlands of a trend in privatisation, deregulation and liberalisation. Other public sectors such as Public Transport and Energy followed shortly after, with the Dutch Railways, NS, being privatised in 1992, and the privatisation & deregulation of electricity and gas starting in 1998 and 1999 respectively. Although privatisation in the various segments took place over a period of no more than one decade, we see large differences in their current state of development (figure 2). The Dutch telecom and railways sectors are actually on opposite sides of the spectrum.

Part of this diversity can be assigned to the rate and conditions of deregulation. However, the main reason seems to be the nature (i.e. the costs and available capacity) of underlying infrastructure. Sometimes,

as in the electricity sector, privatisation is difficult or only possible under certain conditions. In other cases, huge investments are needed to create the necessary infrastructure and/or the technology does not allow for duplication of the network. In the latter case, which is true for the railways sector, there is an intrinsic or natural monopoly where no fair competition between service providers is possible.

## Postal markets here and now

### European lessons learned

Studies of previously liberalised markets such as in Germany, the UK and Scandinavia, show that for the postal market, in addition to the possibility, or impossibility, of creating the necessary infrastructure, the actual terms and conditions for access are important to the emergence and viability of competition. ▶▶

Figure 2: situation overview for the public sector in the Netherlands (2009)

	Monopoly		Cowboy market	Perfect competition	Oligopoly <sup>2</sup>	
	Governmental	Coercive			National	European
<b>Telecom</b> • Phone • Cable				X		X
<b>Public transport</b> • Railways • Bus		X		X		
<b>Electricity/gas/water</b> • Producers & distribution • Traders			X		X	
<b>Post</b>			X			

1 Source: TNT, Update TNT Post's strategy: next steps in redefining its (mail) markets, Analysts' meeting, 4 December 2008.

2 Following consolidation towards a European oligopoly, we would expect new, local competition to arise due to the development of technology, resulting in opportunities for new propositions. In addition, the potential inflexibility and inefficiency of the remaining large organisations could contribute to this movement and lead to a defragmentation of the market. In the energy market, where consolidation is still ongoing, we already see the emergence of local start-ups, offering new services such as sustainable energy.



◀◀ The access conditions in Germany for example are regulated at a minimum wage for postal company employees. These wages, being higher than the usual average rate paid by competitors of Deutsche Post, make it hard for newcomers to offer their services at a competitive price. In the UK, the access conditions are even less favourable, reflecting the underlying cost structure of Royal Mail. As such, although the British postal market has been fully open since January 2006, 88% of the market still belongs to Royal Mail, and over 99% of all letters continue to be delivered by Royal Mail over the 'final mile'.

A clear example of the potential problems regarding infrastructure can be found in Sweden. Although the market has been open for 16 years, only 9% of its market share belongs to Citymail, the competitor of Posten AB, Sweden's national postal operator. It is Sweden's very low population density of only 22 inhabitants/km<sup>2</sup> (compared to 484 in the Netherlands) that pushes up the investments necessary for meeting the national geographic profile.

### *Leaving the monopoly behind*

Despite privatisation in the Netherlands in 1989 resulting in the national postal operator focusing more on entrepreneurship and internal restructuring, it took until the year 2000 for the market to open up to competition and really shake up business.

Today, postal operators are facing a highly competitive environment in the B2C segment. Newcomers on the market, such as Sandd and Selektmail, have developed innovative propositions and models, matching their services to specific customer needs (e.g. non-time-critical delivery of high volumes of addressed mail for a lower price). As can be expected in a 'cowboy market', these new entrants do not offer all product-market combinations and are only active in segments where entry barriers are low at the time of entry, i.e. business mail.

In response to the competitive pressure, we see the services offered by newcomers being copied and a diversification of traditional postal services, such as direct marketing and document handling.

### *On the move...*

Now that liberalisation is complete and the major bottlenecks, such as labour regulations, have been negotiated, the road has been paved for a more stable, purely competitive environment. The Dutch postal market seems to meet all the requirements, in terms of access conditions and infrastructure, for competition to flourish. In the longer term, we would expect consolidation at an international level, as we have seen in other public sectors and in Scandinavia<sup>3</sup>.

The reality however is that at this stage we are not even close to a stable, competitive environment. In the past few months we have seen continual price dumping, resulting in lower than expected average prices even in the profitable segment. The current margins are so low that better labour conditions, which were a condition to liberalisation of the market, are in danger of becoming unaffordable. Furthermore, given the national disparities, the current European postal market appears to be more of a juxtaposition of national markets than even an approximation of a single market<sup>4</sup>.

Although developments in other public sectors may suggest a movement towards a perfectly competitive and, in the longer-term, consolidated postal market, the various access barriers and the current price-developments in the Dutch market indicate that such a development is unlikely to take place any time soon. As such, current postal operators might want to reconsider their strategy. It's time for mobilization! ■



3. E.g. Swedish Posten AB merged with Post Danmark to form the new holding company Posten Norden AB, and Posten Norge acquired Swedish Citymail.

4. Source: Eurogroup, The positioning of European post offices related to the liberalization of the postal market, 16 March 2008.