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### The world's ailing postal services

## Dead letter

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### Letter volumes are plummeting around the world, highlighting stark differences among national postal services

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ON OCTOBER 28th Japan's new government ousted the president and almost the entire board of the country's postal service. It now plans to reverse the privatisation of Japan Post, along with its enormous banking unit—the previous government's central economic reform. Postal services are in turmoil elsewhere, too. America's is deep in the red and has had to defer payments to its pension fund. Britain's Royal Mail is poised for a second round of nationwide strikes. In France, lawmakers are about to consider a change in the legal status of La Poste from a government body into a corporation, which is prompting opposition because it could open the way to privatisation.

Until the recession hit, the business of delivering printed material looked old-fashioned, but it was at least still thriving in rich countries. Electronic substitution, in which businesses and individuals shift billing and communication onto the internet, was reckoned to be inevitable in the long run, but was happening at a manageable speed. Letter volumes were falling by just a few percentage points a year, allowing sufficient cost savings to be found to maintain profit margins. A private-equity firm had snapped up stakes in some postal services, but for most sleepy operators, propped up by lucrative monopolies, it was business as usual.

The recession, however, has tipped the industry into full-scale crisis. Companies, which account for 80% or more of revenue from letters at postal firms, have slashed direct-mail advertising budgets and embraced substitution as a way to reduce costs. They are increasingly offering customers incentives to do business online, such as discounts from utilities for customers who opt to receive bills electronically. Many also worry that printed material is bad for the environment.

Personal mail, a small slice of letter volumes, has proven more resilient in the crisis but is also migrating to e-mails, text messages and social-networking sites. Adam Crozier, the boss of Royal Mail, frets that the strikes could prompt even more people to send e-Christmas cards this December instead of the old-fashioned kind. As it is, the number of letters sent is shrinking far more rapidly than the economy in Britain (see chart).

Overall, many postal firms now expect total letter volumes to fall by 5-10% or more in 2009. America's postal service saw a drop of almost

14%, or 28 billion items, in the year to September. Menno Sanderse, an analyst at Morgan Stanley in London, predicts that European postal services could lose half their mail volume over the next ten years. In Europe, postal services also face the prospect of more competition, since from 2011 all remaining monopolies on delivering letters will end. Japan, ironically, is not suffering quite as much: volumes fell by only 2% last year.

The industry's high fixed costs make profits vulnerable. In November 2008, badly battered by the recession, America's post office announced its second successive annual loss, of \$2.8 billion, and it expects to lose more this year. European postal services have improved profitability since the beginning of the decade when many were barely in the black, but would quickly start losing money if revenues continue to fall at recent rates. Swiss Post's letter division, for instance, says its profit margin will fall from 8.5% in 2008 to 3.3% in 2009, due mainly to a drop in volumes.



What should the postmen do? Junk mail, at least, is expected to return to growth once the economy recovers. Another hope is to take advantage of the internet by delivering items ordered on eBay, Amazon and other websites. National postal operators currently dominate this segment of the market and are well placed to benefit. But parcel specialists such as Hermes in Germany are also muscling in, and competition will be intense. A third strategy is to develop more secure versions of e-mail. Next year, for instance, Deutsche Post will start selling electronic "letters", which it says will be safer and more reliable than e-mails.

Automation, which reduces labour costs, will be essential to compensate for declining volumes. Royal Mail, the only big western European postal service which is making a loss as a result of falling volume, is much less automated than its peers. Its workers order all their letters by hand before setting off on their delivery rounds, whereas more efficient operators, such as Deutsche Post and the Netherlands' TNT Post, sequence 85% of their letters by machine. Basic modernisation would give it a profit margin of 8%, according to a 2008 study.

Over time, if large losses and public bail-outs are to be avoided, more radical changes may be required. Some senior postal executives reckon that next-day delivery will have to go, at least for business customers. For the moment, next-day delivery is the main benchmark of quality in the industry. But some people argue that it is unnecessary, since e-mail easily outpaces even the fastest kind of snail mail. Eliminating next-day delivery would cut costs substantially, since postal services could cut down on flights and night-time sorting. The number of post offices is hard to reduce for political reasons, but if operators could cut the number of days of the week they deliver mail, and thus their staff, costs would fall. America's postmaster general, John Potter, has asked Congress to consider allowing the postal service to cut deliveries from six days to five, and others may follow suit. Unloading huge pension liabilities onto governments would be another boon to postal services, especially in Britain and America. But all these changes depend on the whims of politicians.

Many postal companies have successful businesses beyond letters: Deutsche Post and TNT Post, for instance, both have big parcels and express arms, and Deutsche Post has a logistics unit. This will help these privatised groups offset the decline of letters. For other struggling postal firms, another field, banking, looks ripe for expansion and could over time subsidise loss-making mail divisions. For a few national operators, such as Poste Italiane and Japan Post, which owns the biggest bank in the world by deposits, revenues from financial services already exceed income from mail. During the crisis, postal banks in France, Switzerland and Italy benefited strongly as depositors sought a haven. At Swiss Post, the banking unit's profit margin is expected to increase from 10% in 2008 to 17% this year, and the firm now wants a full banking licence so that it can offer consumer and business loans directly instead of through partners as at present. La Poste wants to expand La Banque Postale, and the US Postal Service hopes Congress will let it offer financial services too.

The Swedish and Danish services merged this year in the postal industry's first-ever cross-border tie-up, spurred by uncertain future prospects and by competition from Norway Post, which had started doing business in Sweden. Industry executives in many countries are now wondering whether further mergers between national postal services are likely in future, says Paul Needham of ITA Consulting in Germany.

For the moment, the industry is sharply divided between slow-moving government-owned services which have mainly stayed at home, such as La Poste, and more efficient privatised firms which have aggressively expanded beyond their borders, such as TNT Post and Deutsche Post. Liberalisation in 2011 will help the latter, though they too are suffering from the decline of letters. Rain or shine, postal services around the world look certain to deliver lots of controversy in coming years.