



LETTERE

STRATEGIES AND WAYS

FOR DEVELOPING
THE TRADITIONAL LETTER-POST
(DOCUMENTS) MARKET

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ABBREVIATIONS

DO	Designated operator
EBIT	Earnings before interest and taxes
EMS	Express Mail Service
IBRS	International business reply service
IPC	International Post Corporation
IT	Information technology
ITU	International Telecommunication Union
J	Date of posting
NRA	National regulatory agency
UPU	Universal Postal Union
UPU PDR	UPU Postal Development Report
UPU PEO	UPU Postal Economic Outlook

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EXECUTIVE SUMMARY

Task and methodology

The volumes of documents sent by international letter post have been experiencing a sharp decline over an extended period, posing significant challenges for the postal industry. Against this background, the Universal Postal Union (UPU) commissioned Swiss Economics to carry out a study on strategies for developing the traditional letter-post (documents) market. The study is aimed at developing recommendations that help designated operators (DOs) to adapt their international letter-post (documents) services to current and future trends, as well as helping the UPU to support DOs.

To achieve these objectives, we reviewed relevant existing studies and reports, analyzed UPU data on volumes from 1980 to 2021, and conducted and evaluated a survey completed by a sample of DOs and national regulatory authorities (NRAs). Augmented by own considerations, the insights drawn from these methodologies constitute the basis for the development of the strategy and regulatory recommendations. The main insights, as well as the most important recommendations, are summarized below.

Volumes in the outbound and inbound letter-post markets are declining

In line with existing studies and reports, the survey results indicate that both standard and add-on services have experienced a similar decline of approximately 50% between 2012 and 2022. The decline in volumes varies across regions, with Africa experiencing the largest, and Europe showing the smallest declines.

Our hypothesis is that e-substitution is the main driver of the decline in standard services (letters),

as these services typically involve non-sensitive and non-urgent information that can easily be replaced by electronic alternatives. Conversely, value-added services often deal with more sensitive and valuable documents. These services provide additional security, proof of delivery, and insurance coverage, which electronic alternatives may not offer to the same extent. Therefore, the decline in value-added services might to a larger extent be attributed to direct competition from other postal providers.

Volumes are too low and service is not ubiquitous enough to offer track and trace

Only half of the surveyed DOs offer a track and trace service, as opposed to 91% according to the UPU (2019b). The main reported reasons for not offering a track and trace service for letter-post items are that volumes are too low, and track and trace is not sufficiently available among destination DOs.

Drivers of outbound letter-post usage are official documents, trust, and traditional choice

The main reasons reported for using outbound letter post are the need for official documents to be sent using registered mail, the absence of an electronic substitute for a physical letter, the age of customers, and the trust in the postal service.

Tracked items are very price-sensitive

The largest price elasticities are reported for tracked items, particularly in Europe. A possible explanation is the more intense competition in value-added services, leaving customers a choice among different service providers.

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Competition is fiercer in the outbound than the inbound letter-post market

Competition is reported to be less fierce in the inbound letter-post market than in the outbound one. DOs are the postal incumbents in their respective countries, benefiting from well-established networks and a deep understanding of the local market.

The most important strengths of DOs compared to their competitors are prices and global reach; their main weaknesses are speed and reliability

The identified strengths and weaknesses of the DOs, as well as the opportunities and threats in the document market, are summarized in the table below, which also includes a selection of our strategy recommendations for DOs derived from a "SWOT analysis".

Table 1: Traditional letter-post SWOT analysis with strategy recommendations for DOs

	Strengths <ul style="list-style-type: none"> • Standard products • Lower prices than competitors • Global reach • Universal service obligation • Customer trust • Regulatory support 	Weaknesses <ul style="list-style-type: none"> • High-value services (tracked products) • Speed of delivery (priority mail) • Reliability, quality • Universal service obligation • Agility, marketing • Cost of labour
Opportunities <ul style="list-style-type: none"> • Global international network • Value-added services (tracking, confirmation) • Digital transformation • Synergies with EMS/parcels • Sustainability • Price elasticity 	Matching strategies <ul style="list-style-type: none"> • Use synergies with EMS/parcel networks • Diversify services: grow parcel services [not a letter-post strategy – beyond the scope of the study] • Invest in sustainability • Increase prices moderately 	Transformation strategies <ul style="list-style-type: none"> • Invest in value-added services/ offer tracking • Invest in digitalization • Enhance reliability • Increase speed of delivery
Challenges/Threats <ul style="list-style-type: none"> • E-substitution • Intense competition in high-value services • Shift in customer needs • Increasing average costs, cost recovery 	Neutralization strategies <ul style="list-style-type: none"> • Cut costs • Form partnerships, mergers 	Defence strategies <ul style="list-style-type: none"> • Optimize operational efficiency • Focus on certain customer segments

To strengthen the support it provides to DOs to help them address the various challenges faced in the letter-post (documents) market, the UPU could consider implementing the following regulatory strategies:

- **Prioritize** the development and enhancement of services related to **documents that are less likely to be substituted by electronic alternatives**. This can include official and legal documents, as well as sensitive information.
- **Enable and require consistent tracking throughout the delivery** process, from collection through to delivery to the recipient.
- Grant DOs greater **flexibility in setting terminal dues** for international mail.
- Establish a **maximum permitted delivery time** for international mail services.

1 BACKGROUND

The task of conducting the product development and e-commerce market research, as outlined in the Abidjan Business Plan approved by the 27th UPU Congress in 2021, was mandated to POC Committee 2 and assigned to the Physical Services Development, E-Commerce and Integration Group in 2022. The UPU Convention divides letter-post items into basic services and three categories of supplementary services (optional, mandatory, and those with both optional and mandatory parts). The limits of weight and size of the various letter-post items are also defined.

For decades, postal operators worldwide have been confronted with the same challenges of declining letter volumes – mainly driven by the digitalization of services – and changing market needs and consumer behaviour. In this regard, the rate of decline in social mail has been higher compared to business mail, owing to the ease of electronic substitution and the fact that, in some countries, certain types of documents (such as contracts) are legally required to be physically signed, with proof of delivery. In 2018, domestic letter-post volumes shrank by approximately 4.9%,¹ and in 2020 by 13.6%.² International letter-post volumes have continued to decline in line with the 10-year trend of -3% per year. Though the proportion of revenue from letter post has continued to fall – dropping from an average of 35.4% in 2019 to 32.7% in 2020, the lowest average proportion ever observed – the letter-post segment (including small packets containing goods) remains the largest source of revenue for postal operators. However, the proportion of income stemming from parcels and logistics continues to grow (30% of postal operators' overall revenue).

The growth of e-commerce and the associated shift of focus towards physical postal services containing goods may have the potential to undermine the development of the traditional letter-post (documents) market. The COVID-19 pandemic further intensified the long-term downward trend of letters. It is therefore imperative that postal operators find strategies for developing the traditional letter-post (documents) market by continually innovating with new features, products and services.

To strengthen the support it provides to DOs to help them address the various challenges faced in the letter-post (documents) market, the UPU could consider implementing the following regulatory strategies:

- **Prioritize** the development and enhancement of services related to **documents that are less likely to be substituted by electronic alternatives**. This can include official and legal documents, as well as sensitive information.
- **Enable and require consistent tracking throughout the delivery** process, from collection through to delivery to the recipient.
- Grant DOs greater **flexibility in setting terminal dues** for international mail.
- Establish a **maximum permitted delivery time** for international mail services.

1 "Postal Economic Outlook 2020 – Navigating accelerated change during an unprecedented crisis", UPU.

2 "Postal Economic Outlook 2021 – The difficult road towards profitable growth", UPU.

1.1

TASKS AND SCOPE OF THE STUDY

Against the above background, the UPU commissioned Swiss Economics to carry out a study on strategies for developing the **traditional letter-post (documents) market**. It is aimed at elaborating possible development scenarios and future trends for each of the letter-post services defined in the UPU regulations by analyzing current products, trends, customer needs and competition for the different regions³ and DOs. The study should help DOs to adapt their international letter-post (documents) services, and enable the UPU to support DOs in the best way possible.

The study focuses on the types of letter-post documents that are listed in Table 2:

- **Standard letter-post items (P, G, E) and M bags;**
- **Added-value services**, namely **tracked**, **registered**, and **insured items**, as well as the international business reply service (**IBRS**);

The Express Mail Service (EMS), electronic postal services, parcels, items for the blind and small packets (format E) containing goods, are all **beyond the scope** of the study.

Table 2: Services falling within the scope of the study – i.e. letter-post items containing documents

Type of service	Current UPU name	Weight	Mandatory/Optional	Electronic tracking	Delivery standard
UPU letter-post (P, G, E) contain-ing documents	Letter post	0–2 kg	Mandatory		J+5
Delivery confirmation	Tracked	0–2 kg	Optional	Yes	J+5
Signature	Registered	0–2 kg	Mandatory Optional	Yes	J+5
Insured	Insured	0–2 kg	Optional	Yes	J+5
M bags (documents)	M bags	0–30 kg	Mandatory		
Return service	IBRS	0–50 g 50 g–2 kg	Mandatory Optional	Yes	

³ The regions are Africa, the Arab countries, Asia-Pacific, the Caribbean, Europe, Latin America, and North America; classification according to the UPU's development cooperation (as of 2023).

1.2 APPROACH

To achieve the main objectives of the study, we:

- **evaluate relevant existing studies and reports:** The research enables us to identify potential trends and their drivers within the letter-post market. It also enables us to recognize challenges and opportunities that might be currently present, or might emerge in the foreseeable future. In the available literature, we also find strategic decisions recently taken by DOs to position themselves in the changing market environment.
- **analyze UPU data on reported volumes** from 1980 to 2021: The data analysis enables us to identify regions in which international mail traffic is concentrated, as well as trends in the development of dispatched items over the last 40 years.
- **conduct and evaluate a survey** completed by a sample of DOs and NRAs: Based on the results, we gain a more thorough picture of the international letter-post market and its related services. Of particular interest are the DOs' views on drivers, challenges and opportunities, as well as the strategic decisions they have taken.
- **summarize the findings, add own considerations, and develop recommendations:** Based on the findings, we develop recommendations for both DOs and the UPU to develop outbound letter-post documents.

1.3 STRUCTURE

This study is structured as follows:

- In section 5, we summarize key findings from previous studies and reports;
- In section 6, we show how international letter-post volumes have developed over time;
- In section 7, we document the survey results;
- In section 8, we present a synthesis of all findings and outline our strategic recommendations for DOs.

A summary of our findings is presented in the Executive Summary in section 3.

2 REVIEW OF EXISTING STUDIES AND REPORTS

The first part of the study contains a review of recent reports and other literature on the international letter-post market. We find that there is relevant work on recent trends, drivers, challenges, opportunities, and strategic decisions of DOs. The focus of the literature is, however, often on domestic mail – presumably because domestic mail volumes are much larger than international volumes.⁴ Nevertheless, the literature provides some insights into cross-border markets, as the underlying challenges are similar. Hence, findings on domestic mail services are

included in this review. We first outline main trends and drivers in the letter-post market. Then, we discuss challenges and potential opportunities identified in the literature. Finally, we summarize strategic decisions taken by postal operators to adapt their services to a changing environment.

⁴ As of 2018, according to the UPU Postal Economic Outlook (2020), the volume of international letter post was estimated at 3.55 billion letters globally, compared to an estimated total of 296 billion letters sent domestically.

2.1

TRENDS AND DRIVERS

Global and regional trends

The **global decline** in mail volumes has been ongoing for many years. Between 2008 and 2018, international and domestic letter-post volumes⁵ declined each year by an average of 3.12% and 2.82% respectively (UPU, 2020). According to International Post Corporation (IPC), aggregate mail volumes in advanced economies have decreased by roughly a third since 2011, and for some postal operators have even fallen by over three quarters (IPC, 2022). When extrapolating past trends in the European Union into the future, it is estimated that the letter-post segment will experience a decline of approximately 12% in revenue and 32% in volume by 2025⁶ (European Commission, 2021).

Parallel to the decline in the letter-post market, there is an increase in the parcels market. Specifically, the global volume of letters to parcels is expected to reach a 1:1 ratio by 2025 in the overall market. DOs are uniquely exposed to this development. As the dominant players in mail today, their usual mail-to-parcel volume ratios, which are higher than the global average, can be expected to drop from close to 10:1 as of 2015 to around 3:1 by 2025 (McKinsey, 2019).

Driver I – “e-substitution”

The key driver for the decline in mail volume is **digital substitution**. Internet connectivity is steadily increasing (ITU, 2022), introducing

new modes of communication. Businesses and governments are shifting more and more towards substituting physical letter post with digital alternatives.⁷ The number of Internet users is steadily increasing, amounting to over 60% of the worldwide population in 2022, with major differences between richer and poorer countries, urban and rural regions, generations, and educational levels (ITU, 2022). The pandemic further accelerated the digital adoption rate of individuals, governments, and businesses alike (see, for example UN, 2022 or ITU, 2022).

While electronic means have already supplanted a large share of traditional mail, **some forms of communication seem to be more resistant** to this development. Advertising mail, for example, is sometimes expected to remain predominantly physical owing to its higher response rates.⁸ However, it is worth noting that roughly 60% of global advertising expenditure in 2021 was allocated to digital media, and this share is expected to rise further.⁹ Similarly, for governmental purposes, e-government services are evolving, potentially further increasing substitution of official letters (see, for example, UN 2022). These shifts towards digital communication channels are likely to have widespread implications for individuals and businesses alike.

Driver II – COVID-19 pandemic

The **COVID-19 pandemic** has further exacerbated the downward trend in letter-post items. The overall mail volumes in the second quarter of 2020 fell by over 20% for many member postal operators of IPC (IPC, 2022). International mail was hit especially hard, since the grounding of international air traffic in early 2020 caused major disruptions in the delivery of mail (UPU, 2021b). It is estimated that international letter-post volumes in 2020 amounted to only 72% of the 2019 level (UPU, 2021b).

⁵ It is important to note that the UPU's statistics regarding international letter post include small packets, which fall outside the scope of the present study.

⁶ Among DOs and competitors in EU member states.

⁷ Thereby, the historically positive relationship between mail volume and economic growth is likely to persist; however, it is overlaid by electronic substitution, a result of indirect competition with alternative means of communicating. See, for example, Trinkner and Grossmann (2006) or KPMG [10 March 2023].

⁸ Even though a longstanding decrease in domestic advertising mail has been detected in some countries (UPU, 2019).

⁹ This does not necessarily imply lower revenue for postal operators as advertising spending increases overall, but it indicates that digital advertising is becoming increasingly important to businesses worldwide. See Zenith: www.zenithmedia.com/global-ad-market-on-track-for-8-growth-in-2022/ [10 March 2023].

The **uncertainty following the pandemic** put further pressure on the sector since many crisis-hit businesses greatly reduced their use of transactional, marketing and international mail, causing mail revenue and margins to shrink further (IPC, 2022). Overall, IPC members faced a drop of almost 6.5 billion EUR in 2020 (IPC, 2022). The impact of the crisis differed considerably between regions. Letter volumes dropped the most in Africa and the least in Asia-Pacific¹⁰, whereas the market overall remains highly concentrated in the industrialized countries (UPU, 2021b). At least, in 2021, a rebound in mail volumes for some of the largest Posts within IPC could be observed, which led to an overall increase of 1 billion EUR in mail revenue. A rebound effect has also been observed on a global scale. According to the UPU, letter-post volumes increased by 0.5% in 2021 compared to 2020, which represents the largest increase in the last 15 years (UPU, 2022). The same report does, however, predict that this rebound effect will be short-lived, with volumes expected to decrease again in 2023.

2.2 CHALLENGES AND OPPORTUNITIES

These developments create a series of challenges and opportunities for DOs.

Challenges

One major issue faced by postal operators is **cost**. Maintaining an extensive postal network comes with high fixed costs. Moreover, as mail volumes decrease, designated operators face the challenge of higher average cost per item sent. Recent geopolitical turmoil, coupled with disruptions in supply chains, has pushed inflation to high levels in many countries. These further strain postal operators and their letter-post services. According

to a survey conducted by IPC, the biggest concerns for postal operators in 2023 are higher fuel prices and wage inflation (IPC, 2022). The same survey also indicated a decrease in industry optimism by 12 basis points compared to the previous year's survey in 2021. Most respondents believed that an economic recession was likely to occur in 2023.

Postal services are not only confronted with cost-related challenges, but must also operate in **increasingly competitive markets**. Market liberalization in many countries in the 1990s has had a notable impact on the letter-post market. Although DOs still maintain an estimated global market share of 78% in the letter-post market (UPU, 2021b), their competitors are often specialists that target key services such as business mail, advertising mail and periodicals, and restrict their activities to densely populated areas.¹¹

Opportunities

In many industrialized countries, letter post continues to be a major source of **revenue** for postal operators, despite its declining overall importance (UPU, 2021b). However, the significance of letter post varies considerably between regions. As of 2017, the share of total revenue derived from letter post in industrialized countries was 49%, whereas in Africa and the Arab countries, the shares were 27 and 25%, respectively (UPU, 2019a). Despite these variations, there is still an economic interest for postal operators to continue offering these services. In addition, letter-post services remain important for those without Internet access or lacking digital literacy. In the European Union, it is anticipated that mail will continue to be relevant in the next five to ten years, particularly for vulnerable groups (European Commission, 2021). Thus, even though digital literacy and internet connectivity are increasing worldwide¹², it is reasonable to expect that letter-post services will remain relevant in other parts of the world for the foreseeable future. Last but not least, **sustainability concerns** are gaining importance among customers and postal operators alike. According to respondents to an IPC survey, there is an opportunity to create

¹⁰ The regional classification used in the UPU's Postal Economic Outlook differs from the one used in this report. For further information, consult the Postal Economic Outlook (2021), Annex 2 on p. 26.

¹¹ See e.g. KPMG [10 March 2023].

¹² Access to digital means of communication is highly uneven across the globe (ITU, 2022).

brand value, establish a competitive position, and improve customer loyalty by reducing carbon emissions (IPC, 2022). However, it is important to note that this transition will require time and incur costs.¹³

2.3 STRATEGIC DECISIONS BY DESIGNATED OPERATORS

Basic strategies

Further declining letter-post volumes and the increasing importance of parcels indicate a shift in customer needs. Postal operators worldwide are adapting to this new reality. The UPU identifies **four strategies** that postal operators adopt in response to these changes (UPU, 2021b):

1. **Developing** the parcels segment, while **reducing** emphasis on letter-post activities;
2. **Adapting** to the growing parcels segment while **maintaining** focus on letter-post activities;
3. **Diversifying** services beyond parcels and logistics, such as offering financial services or issuing official documents;
4. **Acquiring** other delivery companies or competitors in different segments to achieve synergies, economies of scale, and market power.

While these strategic choices depend on country-specific circumstances, some may prove more successful than others. For instance, IPC finds that highly diversified Posts (strategy 3) tend to outperform their peers, showing higher average EBIT margins (IPC, 2022). However, prioritizing parcel services over letters (strategy 1) could have a negative impact on global international letter-post services, potentially accelerating the downward trend in cross-border mail.

Reducing costs

To maintain competitiveness in the letter-post market, many postal services are focused on **cost reduction**.

One of the major cost drivers in the postal sector is **labour**, accounting for up to 70% of total production costs according to UPU estimates (UPU, 2021b). Furthermore, most postal incumbents have structurally uncompetitive labour costs that are 20% to 40% higher than those of their new competitors (McKinsey, 2019). In response to this, Posts worldwide have been reducing their staff numbers. Between 2019 and 2020, Posts implemented staff reductions globally (UPU, 2021b).¹⁴ Additionally, in 2021, IPC members experienced an average decrease in staff numbers of 2.1% (IPC, 2022).

Nevertheless, it is important to note that not all Posts are solely reducing staff as a means to increase efficiency. In certain regions, staff reductions are accompanied by **reductions in postal infrastructure** (UPU, 2020). For instance, in Europe, some postal operators have fully outsourced their customer contact points to reduce costs (UPU, 2021b).¹⁵ Nonetheless, postal services are also actively pursuing reorganization efforts to **enhance efficiency**. IPC identifies active reorganization¹⁶ as a contributing factor to the increase in average mail EBIT margin observed among its members in 2021 (IPC, 2022).

¹³ The IPC survey finds that almost 60% of respondents expect limited investment capacities to be a barrier to sustainability strategies in the next five years (IPC, 2022). This might be especially true for the letter-post market, being faced with ever-declining volumes.

¹⁴ According to the UPU's Postal Economic Outlook (2021), Japan and China (People's Rep.) were primary drivers of the downward trend. The only countries that did increase employment between 2019 and 2020 were the United States and Germany. But the overall decline in staff numbers has been going on for over a decade (see UPU PEO, 2019).

¹⁵ According to the UPU's Postal Economic Outlook (2021), Japan and China (People's Rep.) were primary drivers of the downward trend. The only countries that did increase employment between 2019 and 2020 were the United States and Germany. But the overall decline in staff numbers has been going on for over a decade (see UPU PEO, 2019).

¹⁶ According to IPC, the reorganization involved streamlining the networks to focus on consolidating facilities, simplifying products, and seeking synergies with parcel networks. A more extensive proposal in this regard can be found in McKinsey (2019).

Reorganizations within the postal sector often require investments, but some postal operators may lack the capacity or willingness to invest in efficiency improvements specifically for the letter-post segment¹⁷, especially considering the ongoing decline in volumes. Consequently, postal operators, particularly those with limited budgets, prefer to invest in sectors that offer greater growth prospects. Even so, a shift in investment priorities, as indicated by survey results in Escher (2021), does not necessarily have negative consequences for the letter-post segment. Increased digitalization, for instance, can lead to spillover effects that lower technological barriers within the letter-post segment.¹⁸

Another option for cost reduction is to offer **slower (cross-border) mail services**, while maintaining a focus on reliability, alongside an express option for urgent deliveries (as recommended in EC, 2021). At the domestic level, countries like Denmark and Italy have already implemented reduced delivery frequencies as a cost-saving measure.¹⁹

Adapting services to shifting customer needs

In addition to costs, it is crucial to consider **customer needs** to prevent further decline in letter volumes and loss of market share to competitors. Experts agree that customer preferences will continue to shift towards **digital solutions** (as seen in Deloitte, 2015). In response, postal operators are striving to combine traditional physical letter post with digital services, creating what is known as “digitalized mail service”. An example of such services is the French operator La Poste, which enhances its traditional mail delivery with digital innovations such as the option to print stamps at home, the introduction of hybrid mail, and a tracking service for domestic and international letters.²⁰

In the early 1990s, in a context of fast-growing mail volumes, **mail tracking** was introduced for high-end express items. Over time, it was extended through large-scale projects such as the intelligent mail barcode in the United States.²¹ As the digital transformation reshaped the postal industry, the demand for transparency and visibility in the delivery process surged, and DOs recognized the need to enhance their IT capabilities to remain competitive (UPU, 2019b).

To meet the evolving customer expectations, postal services have invested in developing mobile apps that enable senders and recipients to track their items throughout the delivery process. In fact, according to a 2019 UPU survey, 91% of postal operators worldwide have implemented digital track and trace, making it the most widely adopted digital postal service (UPU, 2019b). Recognizing the importance of innovation and efficiency, the UPU and IPC agreed in 2017 to collaborate on promoting these aspects and improving postal services worldwide.²² One of the key initiatives outlined in the agreement is the aim of offering an interoperable radio-frequency identification (RFID)²³ global tracking network, facilitating end-to-end tracking across borders and the calculation of terminal dues.

17 Asked about investment priorities in the coming years, only 0.1% of respondents placed the letter-post market at the bottom of the list (Escher, 2022).

18 Improved digitalization in management might enable a postal operator to improve its planning schedules.

19 According to the European Union (2021), consumers in both countries consider the new level of service to be acceptable.

20 See offerings on the website of La Poste Group website www.laposte.fr.

21 postalpro.usps.com/mailing/intelligent-mail-barcode#:~:text=The%20Intelligent%20Mail%20barcode%20is,provides%20greater%20mail%20stream%20visibility

22 [www.upu.int/en/News/2017/6/The-Universal-Postal-Union-\(UPU\)-and-International-Post-Corporation-\(IPC\)-agree-on-an-enhanced-coope](http://www.upu.int/en/News/2017/6/The-Universal-Postal-Union-(UPU)-and-International-Post-Corporation-(IPC)-agree-on-an-enhanced-coope).

23 www.ipc.be/services/rfid/rfid-network.

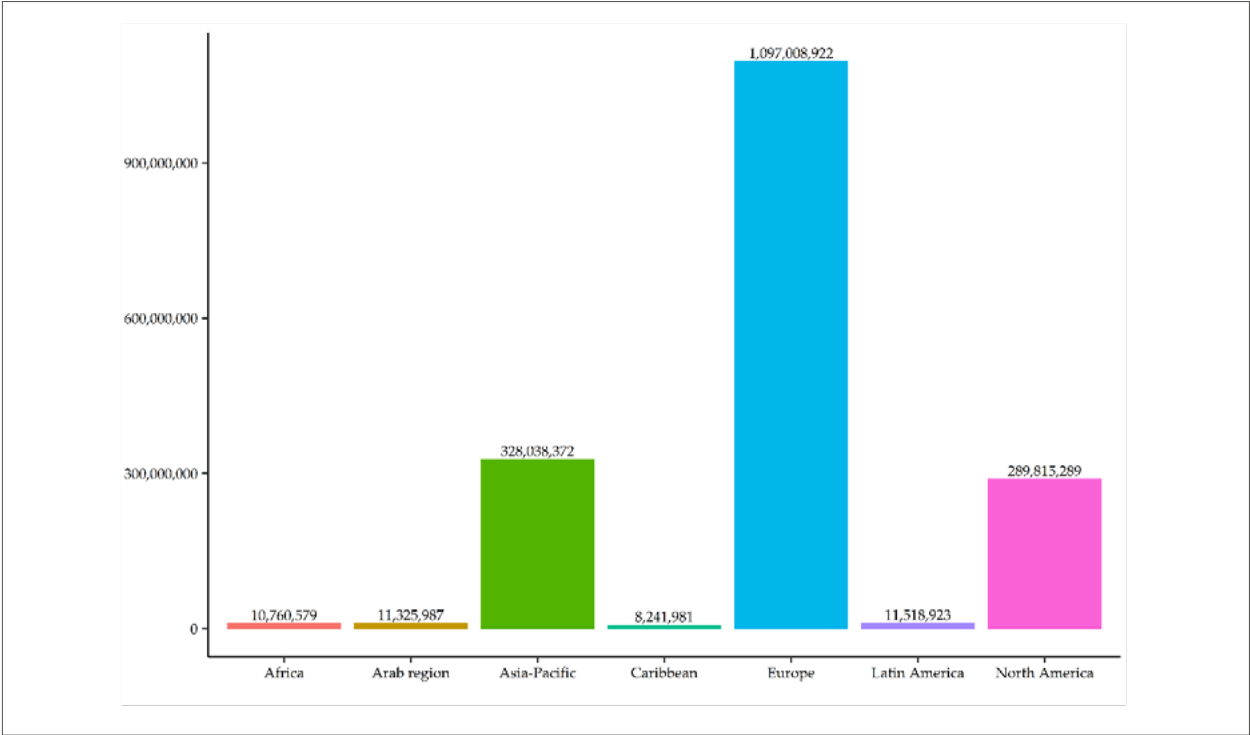
3 DEVELOPMENT OF UPU INTERNATIONAL DOCUMENTS

In this section, we analyze the development of international letter-post volumes from 1980 to 2021, based on UPU data. The variable examined is “outbound international letter post”. It represents the smallest granularity available. It is important to note that this variable also encompasses small packets (format E), which fall outside the scope of this study. Nonetheless, analyzing this variable can provide insights into regional and temporal trends.

3.1 DISTRIBUTION OF VOLUMES ACROSS UPU REGIONS

As depicted in Figure 1, we find striking variations in the distribution of letter-post items across regions. Europe represents the largest share, accounting for 62% of outbound international letter-post items. The Asia-Pacific region and North America follow with 19% and 17% of total items sent, respectively. In contrast, Africa, the Arab countries, Latin America, and the Caribbean collectively contribute only around 2% of the total items sent.

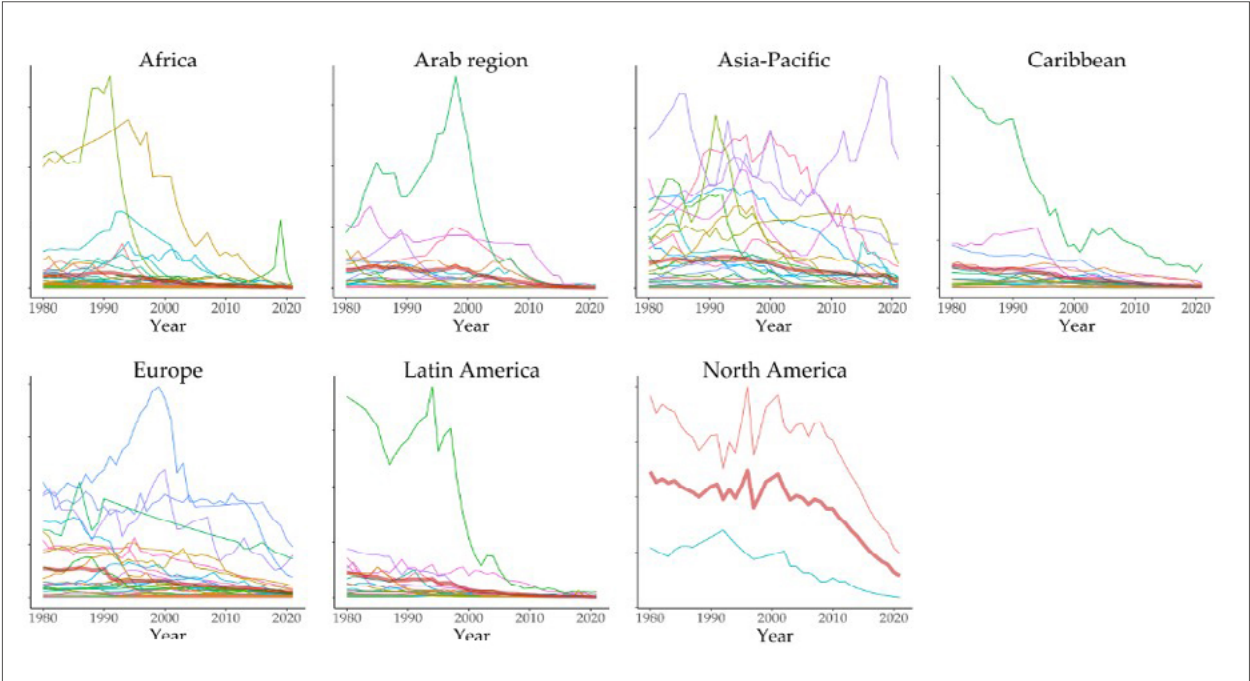
Figure 1: Distribution of estimated international letter-post items 2021



Source: UPU database; estimated data.

Note: The reported international letter-post items represent the smallest granularity of the UPU database (UPU letter-post items P, G, E). The figures therefore include some products that fall outside the scope of the study, e.g., small packets (format E) and items for the blind.

Figure 2: Outbound volumes per region and country (1980–2021)



Source: UPU database; estimated data.

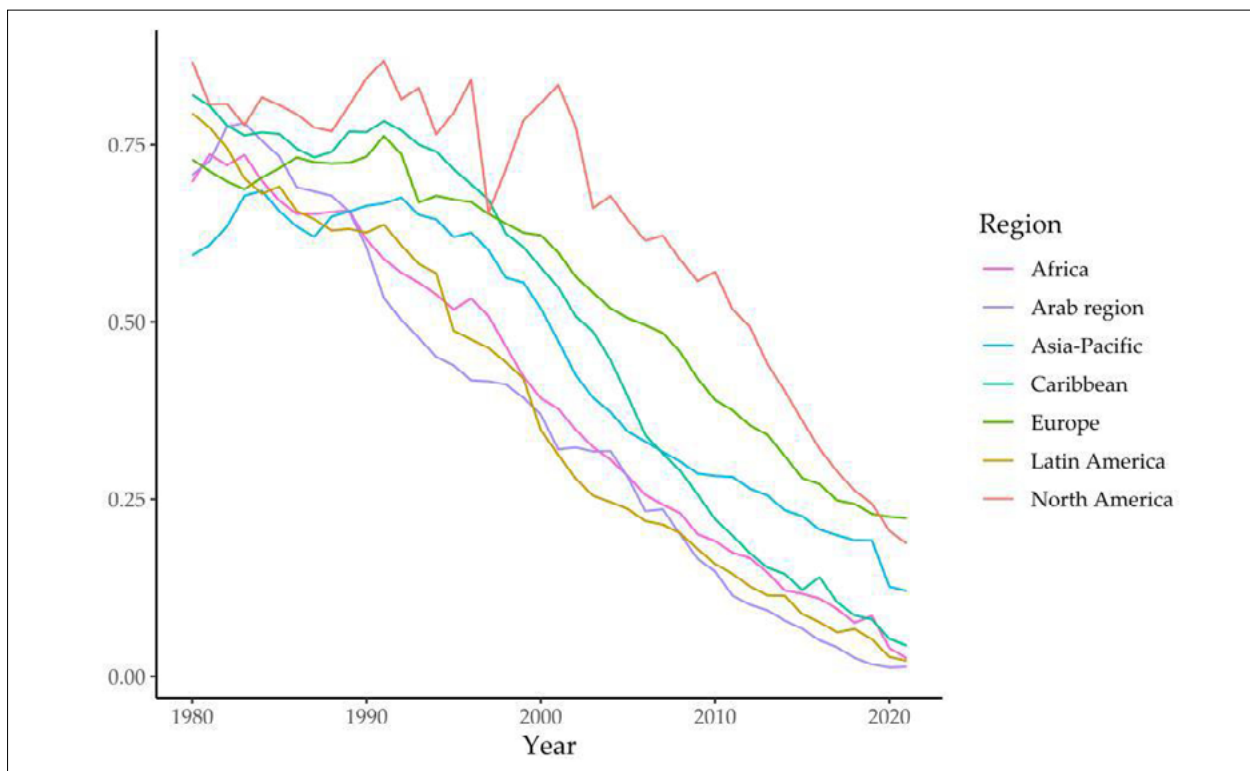
Note: The thick red line represents the normalized average over all countries, with every country normalized to its own maximum value. All other lines represent country-specific volume developments.

3.2 DEVELOPMENT PER REGION

Within each of these low-volume regions, we find varying trends across countries (see **Figure 2**). Most countries show a strong decline over a long period of time.²⁴ In particular, regional leaders have often experienced substantial decreases. For example, in one region a DO experienced a volume decline of 91% within seven years of reaching its peak.

Figure 3 reveals that the overall normalized, unweighted tendency in each region is clearly decreasing. The starting points of declining volumes of international letter-post differ from region to region. The decline in Africa, the Arab countries and Latin America began as early as the 1980s. A decade later, volumes started declining in the Asia-Pacific region, the Caribbean, and Europe.²⁵ In North America, international letter-post volumes started declining in the early 2000s. There are some signs of a slowdown in the decline in the Arab countries and Europe. This raises doubts as to whether digital substitution was a main issue in countries that experienced early letter-post declines. An alternative explanation might be low reliability and low reach (see, for example, UPU, 2022). This could have induced customers to opt for competitor services (in particular, express services), or to rely on informal exchanges of physical documents (e.g., using bus networks).

Figure 3: Development per region (normalized, unweighted)



Note: The value of a given year per region is calculated as the (unweighted) average of normalized country volumes. As such, every country has been normalized by its own maximum value.

²⁴ For some exceptions, the inclusion of small packets in the data might be an explanation. See, for example, UPU Postal Economic Outlook (2019).

²⁵ It is unclear how the collapse of the Soviet bloc in the early 1990s has affected the European figures.

4 SURVEY

4.1 SURVEY STRUCTURE AND SAMPLE SIZE

Survey structure

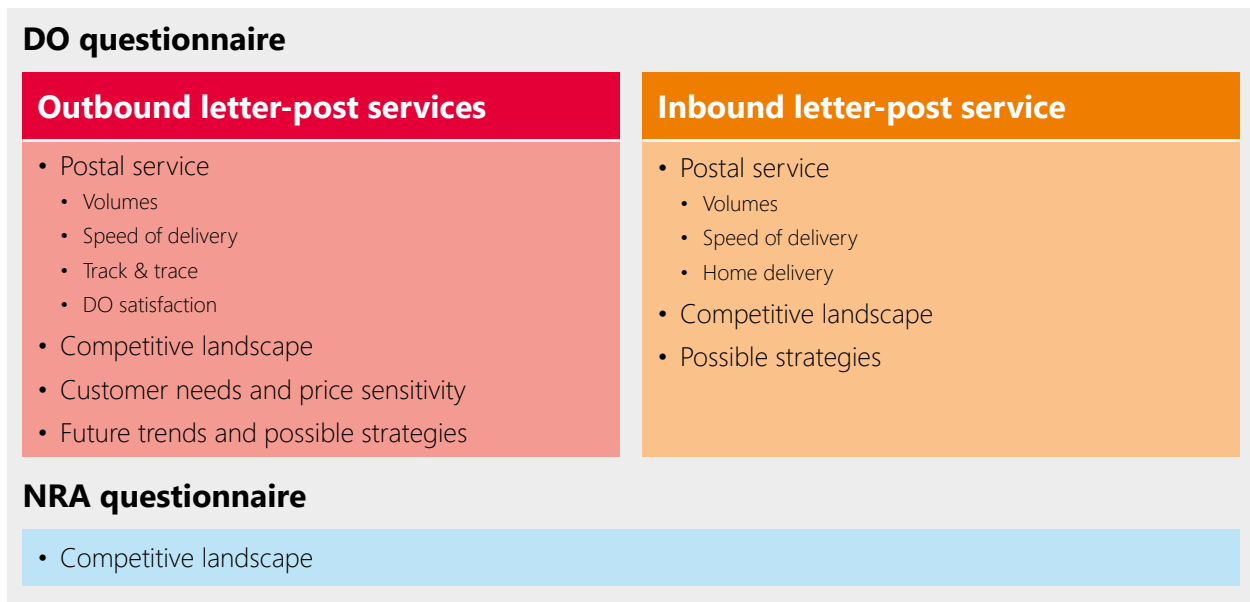
A survey was developed and aligned with the UPU in several rounds. It consists of questions related to outbound and inbound letter-post (documents)

services,²⁶ and is documented in **Annex A.1**. The survey structure is illustrated in the figure below.

Sample size

The survey was sent by the UPU to a sample of 100 DOs in PDF format, as well as online. The sample of countries was aimed at ensuring representation of the diverse characteristics of different regions. The selection was based on: i) postal development level based on the UPU Postal Development Report 2022; ii) international outbound letter-post volume per capita; iii) population density; and iv) the UN/UPU development category of the countries where the DOs are located.²⁷

Figure 4: Survey structure



Source: Swiss Economics.

²⁶ The services include small letters (P), large letters (G), bulky letters (E), M bags, and added-value services such as tracking, registered mail, insured mail and IBRS (see Table 2).

²⁷ More precisely, the least developed countries (LDCs), the industrialized countries (ICs), and the remaining countries.

Table 3: Composition of the sample

Region	Sample size
Africa	7
Arab countries	5
Asia-Pacific	2
Caribbean	2
Europe	12
Latin America	5
North America	1
Total	34

Source: Swiss Economics.

The survey was completed by **34 designated operators (DOs)** from around the world, resulting in a response rate of 34%. The resulting final data set was delivered to Swiss Economics in early June 2023. The sample size was relatively small, with varying response rates ranging from 4 to 33 answers per question from DOs, and 5 to 14 answers from NRAs. Given the number of responses, the analysis may not fully represent the entire market or the specific regions. The final sample is shown in **Table 3**.

Additionally, we attempted to gather information by requesting contact details of DOs’ biggest customers and competitors, in order to conduct direct surveys. Mainly due to privacy concerns, most DOs did not share the necessary information. While pointing out these limitations, we discuss the results of the survey in the following sections.

4.2 RESULTS FOR OUTBOUND LETTER-POST ITEMS

4.2.1 Volume development and service features

Outbound volumes

Data on outbound volumes was, in many cases, not shared with us. Despite receiving limited responses, we conducted an analysis based on the available data. It is important to note that, given the small sample size and the quality of the answers, the analysis is of limited value. The data gathered from the surveys confirms the overall trends discussed in **section 6**. According to the data, **small letters (P) decreased the most**. In 2022, we calculate that they accounted for approximately one third of their volume in 2012.

The largest decline in outbound volumes can be observed in Africa, the Arab countries, and the Caribbean. In Europe and Latin America, volumes decreased to a lesser extent. We have no data on Asia-Pacific and North America.

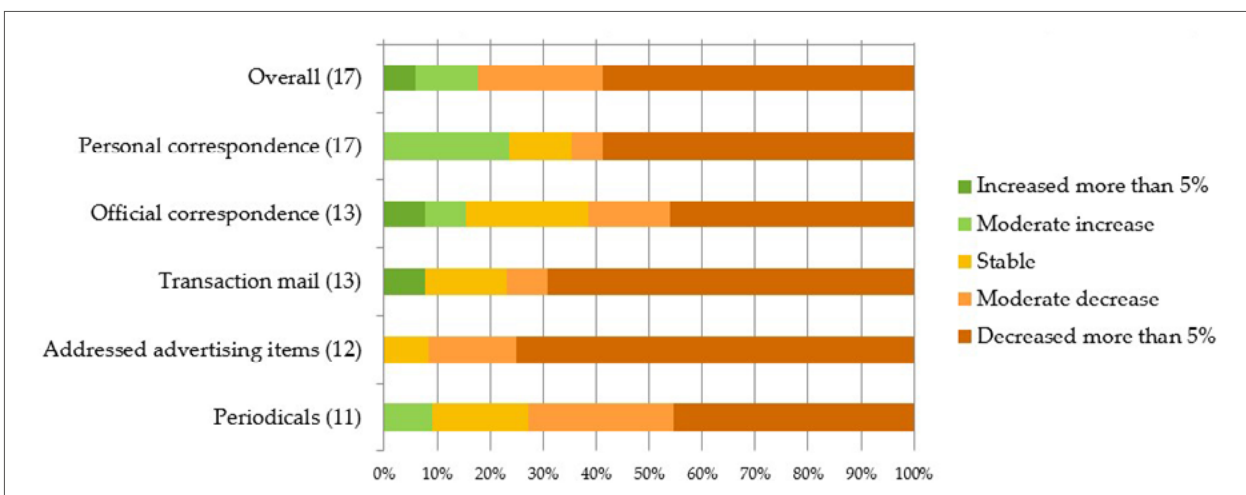
In the survey, we also included questions regarding the development of different content types over the past year. The answers are shown in **Figure 5**. The response rate per content type was similarly low as, in many cases, the information was not available to DOs.

- **Over 80%** of DOs reported **at least a moderate decrease in overall outbound volumes over the past year**, while only **15%** reported an **increase**.
- The decrease was particularly noticeable in transactional mail (e.g., bills, bank statements, and contracts) and addressed advertising items.
- The results for personal correspondence were more varied, with half of the DOs that provided an answer reporting a decrease, but approximately one fifth reporting a moderate increase.
- **Personal** and **official correspondence** by and with government entities, as well as **periodicals**, were reported to have experienced the **least decline**.
- Among the African DOs, one reported an increase over the past year in personal and

official correspondence, as well as transactional mail, while the other five indicated decreasing trends. This positions Africa as the region with the most pronounced decreasing trend, particularly noticeable for addressed advertising and periodicals.

- Among the DOs of the Arab countries, two reported an overall moderate increase, primarily driven by personal and official correspondence, as well as periodicals, while the other three all indicated decreasing trends.
- The Asia-Pacific DOs also reported decreasing trends.
- In the Caribbean and Latin America, the trend remains unclear.
- In Europe, half of the DOs that provided answers reported a stable trend, and the other half reported a decrease of more than 5% for all content types.
- Unfortunately, we lack information on North American DOs and are unable to provide any meaningful insights.

Figure 5: Outbound volume evolution in the past year for different document content types



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

Speed of delivery outbound

Table 4 presents the average outbound international letter-post delivery speed to the partner DO in destination countries by region. Fifty percent of the DOs indicated that they differentiate between priority and non-priority products, while 12% did not specify whether they make such a distinction.

The fastest priority delivery service is reported in Europe and North America. However, there is insufficient data available for other categories to provide a comprehensive comparison. Nonetheless, the available answers are summarized in **Table 4**. It is important to note that these values provide a general snapshot only.

Track and trace outbound

In our survey, **56%** of the DOs indicated that they **provide a tracked delivery service** for outbound international letter post, while 12% did not specify whether they offer this service. For those that do not provide tracked delivery, we asked about the main challenges preventing them from doing so. Their responses highlighted the following issues:

1. **Volumes** of international/domestic letter-post items that are **too low** to justify offering a tracked delivery service.

2. **Insufficient availability** of tracked delivery service **among destination DOs**.
3. **Limited sharing of tracking events by destination DOs**.

A North American DO added to these issues the absence of market needs. Interestingly, reasons for not offering tracked delivery do not stem from a lack of in-house knowledge, infrastructure, or financial resources.

There is no recognizable trend among regions regarding these responses.

DO satisfaction

The satisfaction with the services provided by destination DOs for the different regions is presented in **Figure 6**.

- Overall, DOs rated the service of postal operators in **North America** and **Europe** the **highest**. The responding DOs were the **least satisfied** with **terminal dues**, but appreciated speed of delivery and reliability in these two regions.
- **Africa** exhibited the **lowest levels of satisfaction**, closely followed by the Caribbean, the Arab countries, and Latin

Table 4: Average speed of outbound letter-post delivery by region

	Priority deliveries		Non-priority deliveries		No distinction	
	Airmail	Surface	Airmail	Surface	Airmail	Surface
Africa	J+9.75 (4)	J+12.5 (2)	J+20 (1)	J+20 (1)	J+3 (1)	J+2 (1)
Arab countries	J+7 (1)	J+7 (1)	J+7 (1)	J+7 (1)	J+4.3 (3)	J+5 (2)
Asia-Pacific	–	–	–	–	J+9 (1)	–
Caribbean	–	–	–	–	–	–
Europe	J+4.5 (1)	J+2.8 (1)	–	–	J+2~4 (1)	J+6~9 (1)
Latin America	J+9 (1)	J+9 (1)	J+9 (1)	J+12 (1)	J+9 (1)	–
North America	J+4~7 (1)	–	–	J+28~42 (1)*	–	–

Source: Swiss Economics, based on survey answers.

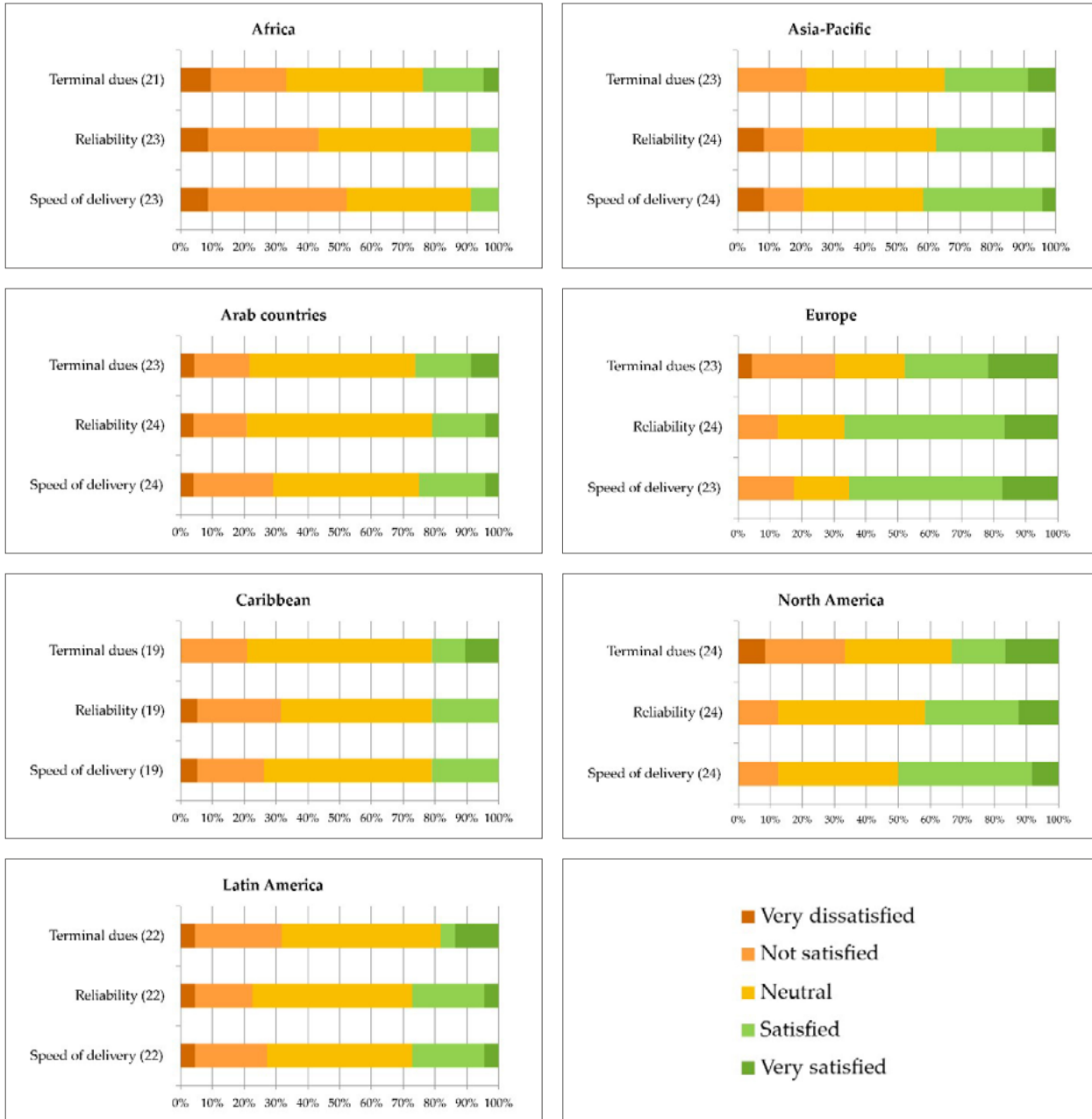
* Exact answer in the survey: "Published guidelines for surface 4–6 weeks".

Notes: The number of answers considered in each case is indicated in parentheses. When several DOs in the same region provided an answer, the mean of those answers has been calculated. Given the small sample size, the analysis may not be completely accurate or representative of the respective regions.

America. In Africa, respondents were **most satisfied** with the **terminal dues** (albeit at rather low levels), and least satisfied with the speed of delivery and reliability.

- The Asia-Pacific region scored somewhere in between the aforementioned regional groups.

Figure 6: Satisfaction with destination DOs on UPU international letter-post items per region



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

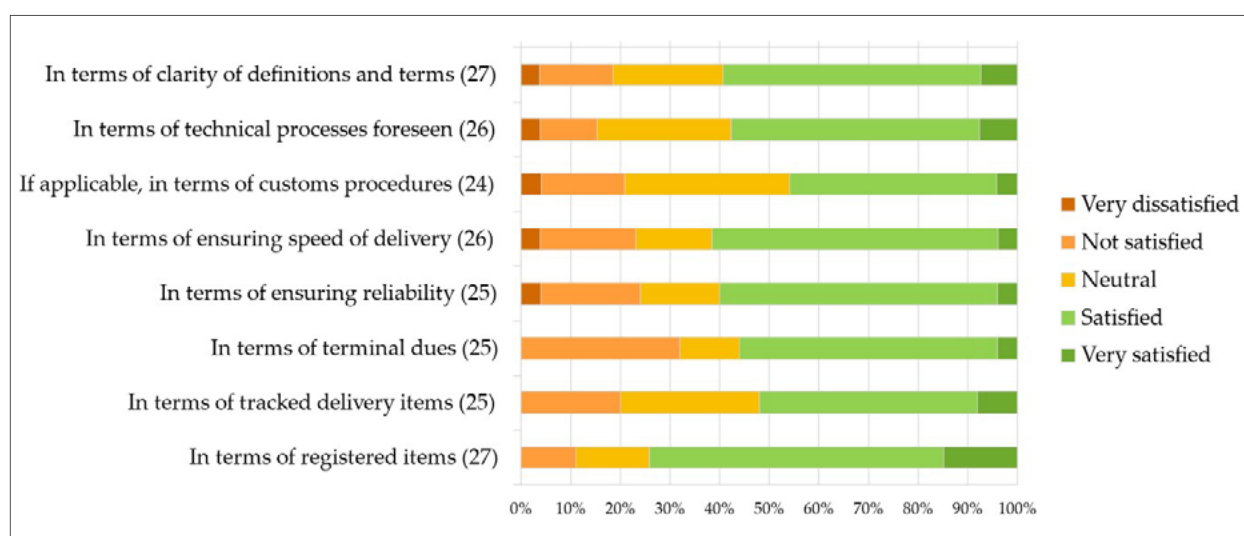
The questionnaire also included questions regarding the DOs' satisfaction with UPU regulations. The results are presented in **Figure 7**.

- Overall, the respondents expressed the **lowest satisfaction** with **customs procedures** and the **highest satisfaction** with **registered items**.
- In general, more than half of the DOs that provided answers indicated that they are at least satisfied with the applicable categories.
- The DOs of Arab countries were the most dissatisfied with the procedures.

Competitive landscape

The outbound letter-post (documents) market is **open**, at least partially, to competition in 71% of the surveyed DOs' countries; 15% did not provide an answer. The percentage of open markets per region is summarized in **Table 5**.

Figure 7: Satisfaction with UPU regulations for outbound international letter-post items



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

Table 5: Percentage of open outbound markets per region

Africa	Arab countries	Asia-Pacific	Caribbean	Europe	North America	Latin America
100% (7)	60% (5)	100% (2)	100% (2)	75% (8)	100% (1)	75% (4)

Note: The number of answers considered in each case is indicated in parentheses.

Source: Swiss Economics, based on survey answers.

In most countries, the opening up of the letter-post market is a result of market liberalization. In these open markets, the main competitors for outbound letter post (documents) are DHL, FedEx and UPS, as illustrated in **Figure 8**.

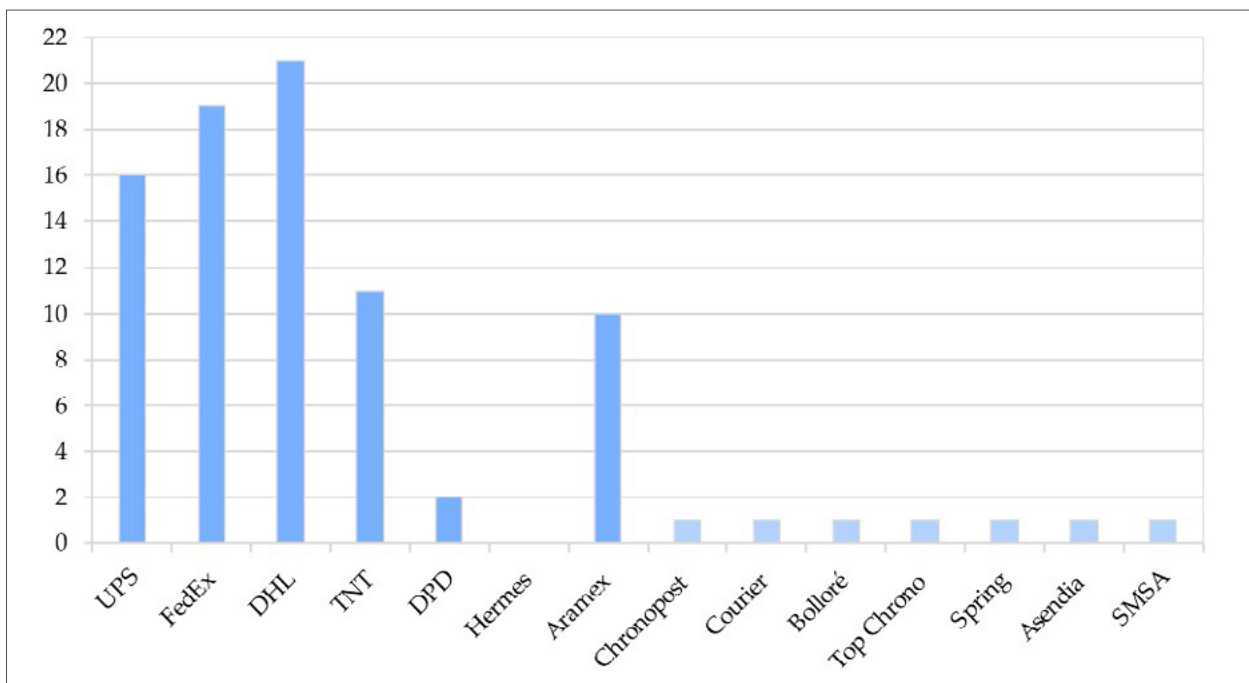
DOs were also asked to share their respective market shares for standard and value-added services. Unfortunately, only two DOs shared these numbers with us:

- One DO reported no change in its market shares between 2012 and 2022, maintaining

a 100% market share throughout the entire period;

- The other DO reported a linear decrease in market share, from 45% in 2012 to 40% in 2017, further declining to 35% in 2022 for standard services. For value-added services, its market share fell from 25% in 2012 and 2017 to 20% in 2022.

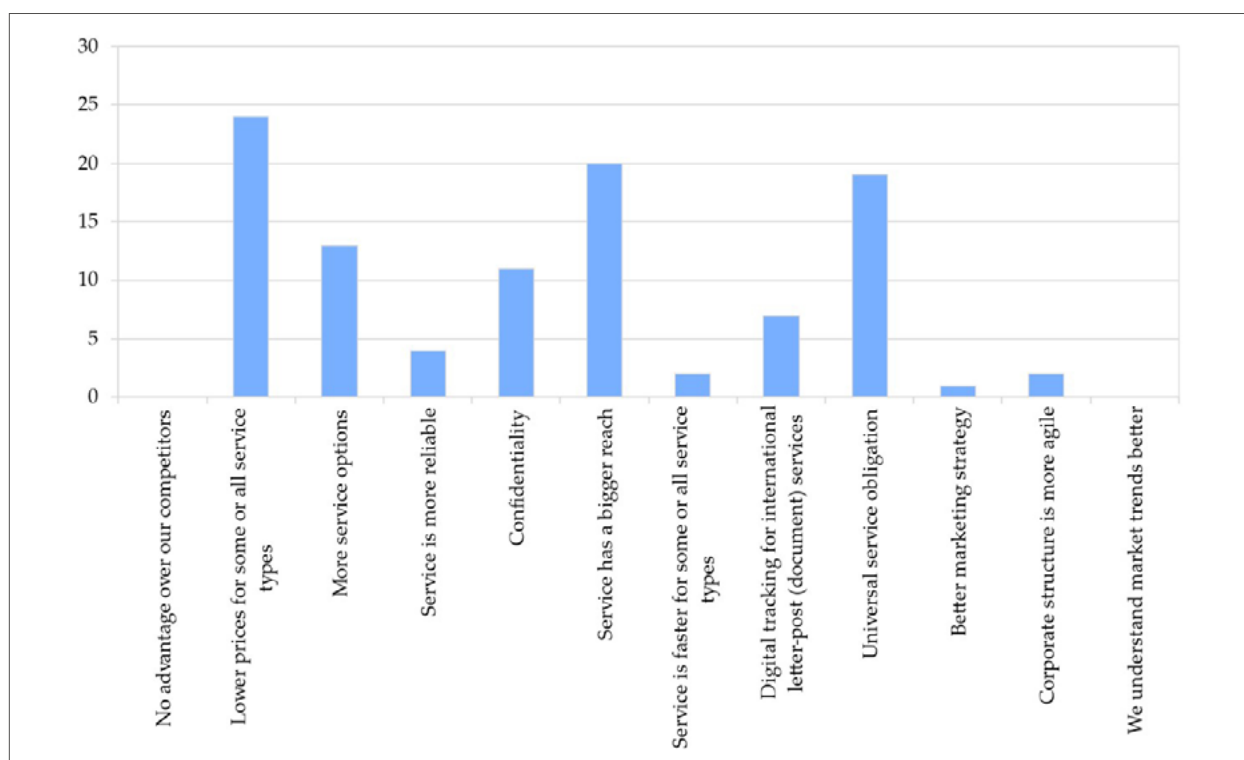
Figure 8: Main competitors for outbound international letter-post deliveries



Note: The lighter bars are names added under the "other" category.

Source: Swiss Economics, based on survey answers.

Figure 9: DO advantages over their competitors in the outbound letter-post market



Source: Swiss Economics, based on survey answers.

Competitive advantages

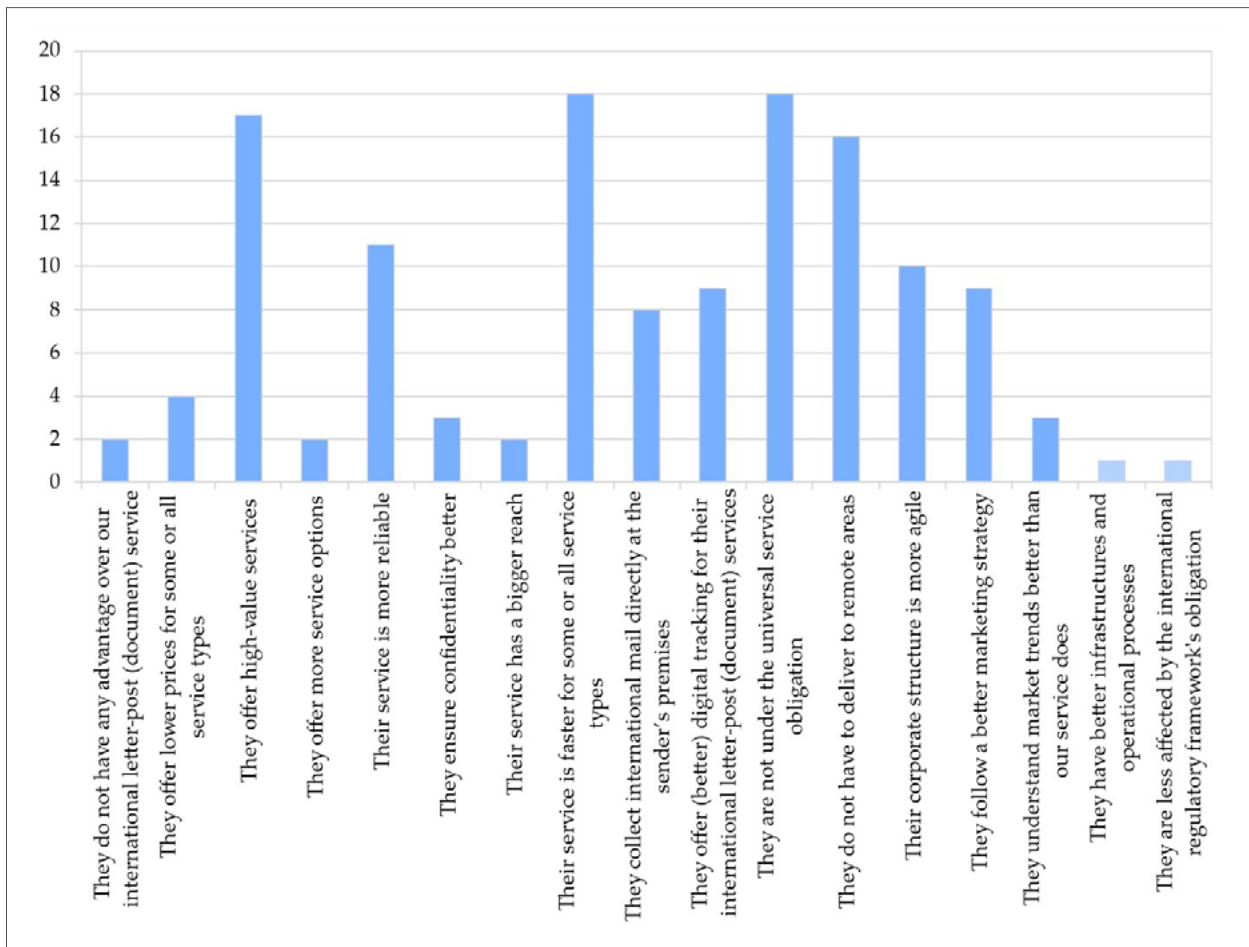
Most of the surveyed DOs identified **lower prices, broader reach, and universal service obligation** as their **main advantages over their competitors**. None or only very few see their advantage in terms of reliability, speed, marketing, agility and understanding of market trends. The detailed results are shown in **Figure 9**.

- Notably, North America and the Asia-Pacific region did not mention lower prices as an advantage, unlike all other regions (except for one in Europe).
- Only the Arab countries specifically cited faster service as an advantage. Interestingly, when asked, the other DOs did not rank speed of delivery as the aspect that provided the highest satisfaction in this region (see **Figure 6**).
- Additionally, the Arab countries were the only regions that mentioned a better marketing strategy as being an advantage.

DOs were also asked to identify the main advantages of their competitors over themselves. Their responses are shown in **Figure 10**. The majority identified **higher-value** and **faster services**, as well as not being bound by the **universal service obligation**, and **not having to deliver to remote areas**, as the **main advantages enjoyed by their competitors**.

- Only two Arab countries' DOs stated that their competitors had no advantage over their international letter-post service.
- Other than that, no clear regional trend is apparent.

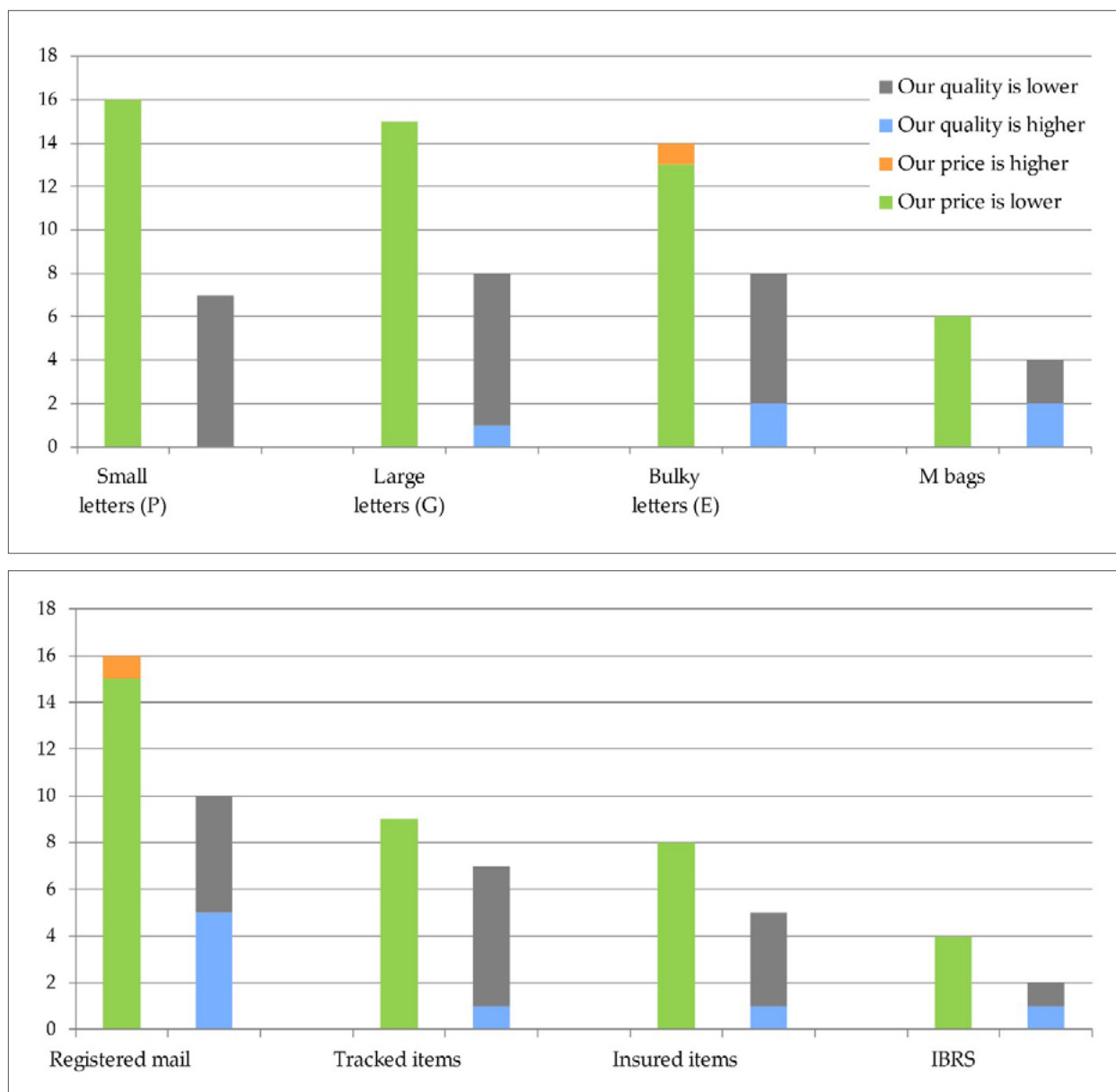
Figure 10: Competitor advantages over DOs in the outbound letter-post market



Note: The lighter bars are advantages added under the "other" category.

Source: Swiss Economics, based on survey answers.

Figure 11: Outbound documents retail rates and quality of service relative to largest competitors.



Source: Swiss Economics, based on survey answers.

With the exception of two DOs, most DOs rated their **retail rates** as **lower** than their competitors. However, they acknowledged that the **quality of their service** is also **lower**. Interestingly, one DO rated its registered items as having a lower price but a higher quality of service, while another DO rated its IBRS items similarly.

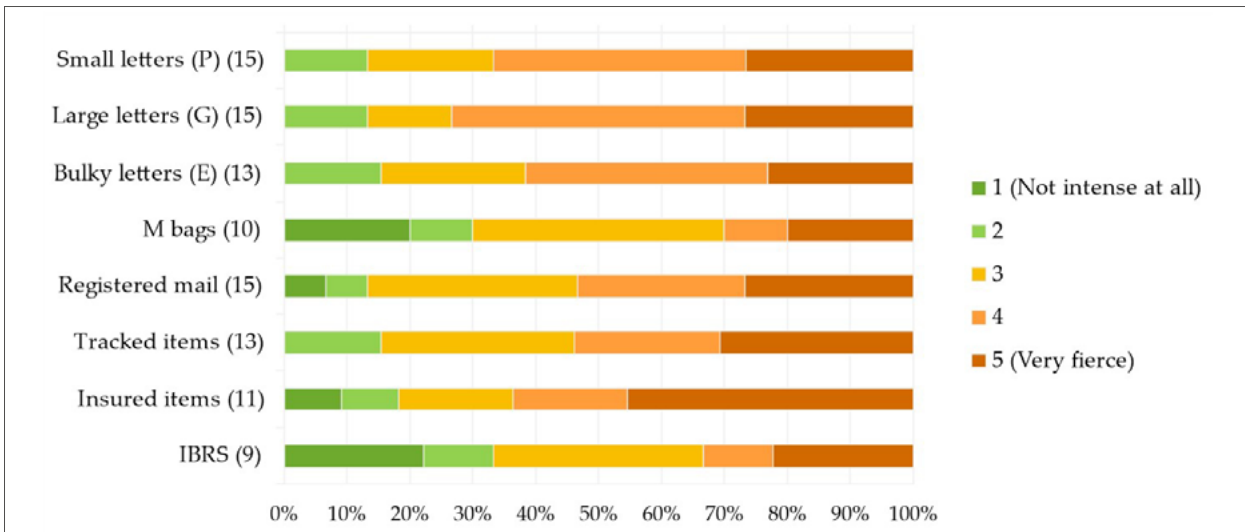
Intensity of competition

The intensity of competition was rated on a scale from 1 (not intense at all) to 5 (very fierce) for several **product types**, as shown in **Figure 12**.

- The competition was rated approximately **as fierce for all types of letters and value-added services**, with at least half of the respondents ranking the competition intensity at 4 or above.
- M bags and IBRS were reported to be subject to the least intense competition, with only one third of the respondents ranking the competition intensity at 4 or above.

The intensity of competition was also rated for different **content types**, as shown in **Figure 13**.

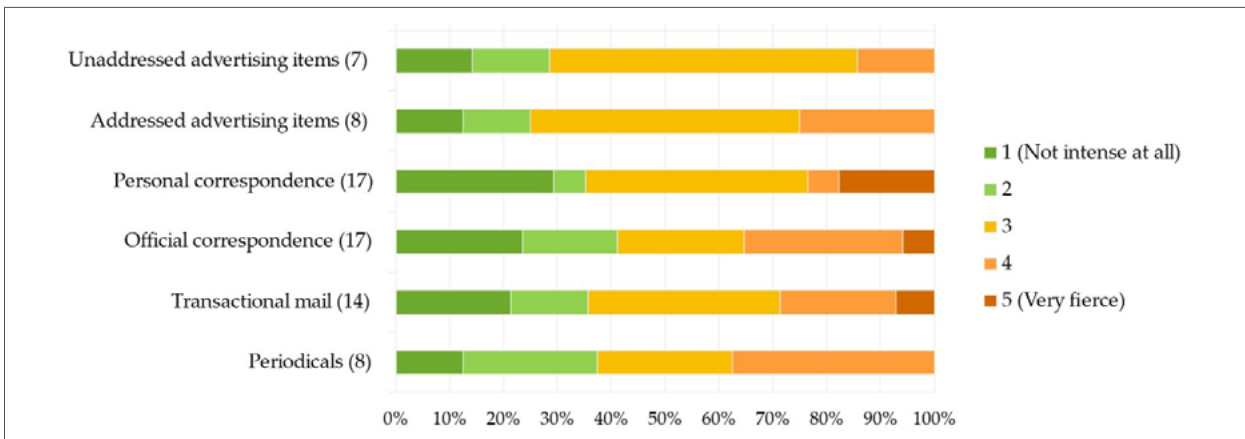
Figure 12: Intensity of competition for outbound letter post by product type



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

Figure 13: Intensity of competition for outbound letter-post by content type



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

A large portion of the results is missing because no information was provided. Despite the small remaining sample, some trends can still be observed:

- African DOs reported the fiercest competition for personal and official correspondence, while they rated other content types at a medium level of competition.
- Europe was the only region that rated competition as over 4 (fierce, very fierce) for both addressed and unaddressed advertising.
- In contrast to Africa, Europe rated personal

mail as the least competitive of all the categories.

- Most DOs in both Arab countries and Europe rated official and transactional mail, as well as periodicals, as highly competitive.
- Asia-Pacific and the Caribbean rated competition for all categories between not intense and a little intense.
- DOs from the Americas did not share enough information for interpretation.

Overall, interpreting the intensity of competition for different product and content types is

Figure 14: Outbound letter-post segments where competitors have an advantage



Source: Swiss Economics, based on survey answers.

challenging due to the small sample size, and it is **difficult to find a correlation** with the previously mentioned **market openness**.

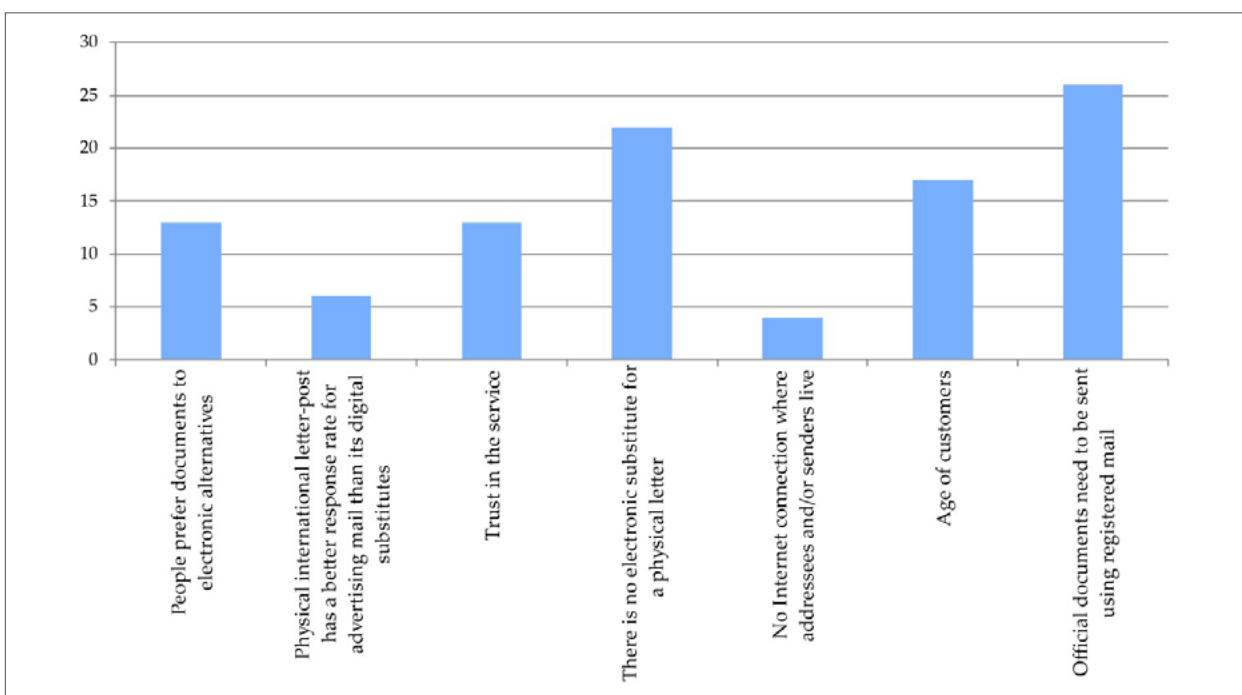
Figure 14 illustrates the outbound international letter-post segments in which competitors have an advantage over the surveyed DOs. The main segments mentioned are **priority mail** and **tracked items**. No clear regional pattern can be discerned.

Customer needs and price sensitivity

Customer needs

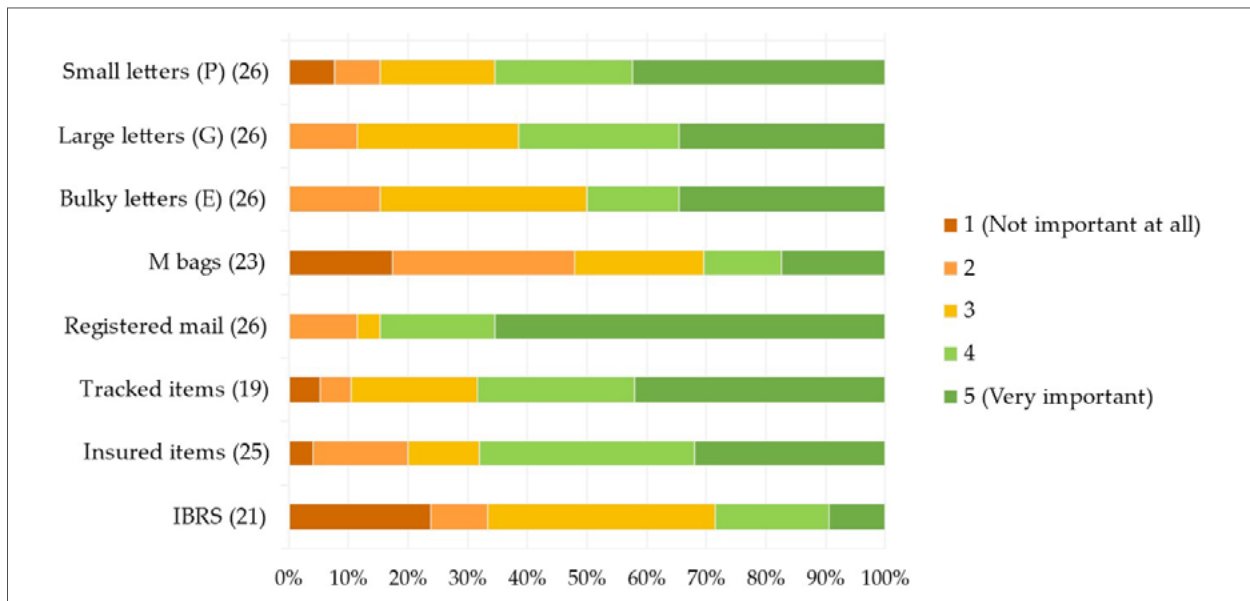
DOs were asked for which purposes customers still use international outbound letter post. Their answers are summarized in **Figure 15**. The most frequently mentioned purposes were:

Figure 15: Primary purposes for which customers still use outbound letter-post



Source: Swiss Economics, based on survey answers.

Figure 16: Importance of outbound products and services to customers



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

- the **need for official documents (i.e., business mail) to be sent using registered mail**;
- the **absence of an electronic substitute** for a physical letter.

In addition to the list provided, DOs added factors such as low price, standard delivery, and easy access to the post office as reasons for which customers still use outbound letter post. No clear regional pattern can be discerned.

The importance to customers of particular products and services was rated, and the results are shown in **Figure 16**.

- The **most important product types** to customers are **small letters**, followed by large letters, bulky letters, and finally M bags.
- **Registered items** were rated, on average, to be the **most important add-on service type**, followed by **tracked and insured items**, and finally IBRS.
- In comparison, **registered, tracked and insured items were considered to be at least of equal importance to the standard products**.
- No clear regional pattern can be identified.

Product features' importance to customers was also rated, and the results are shown in **Figure 17**.

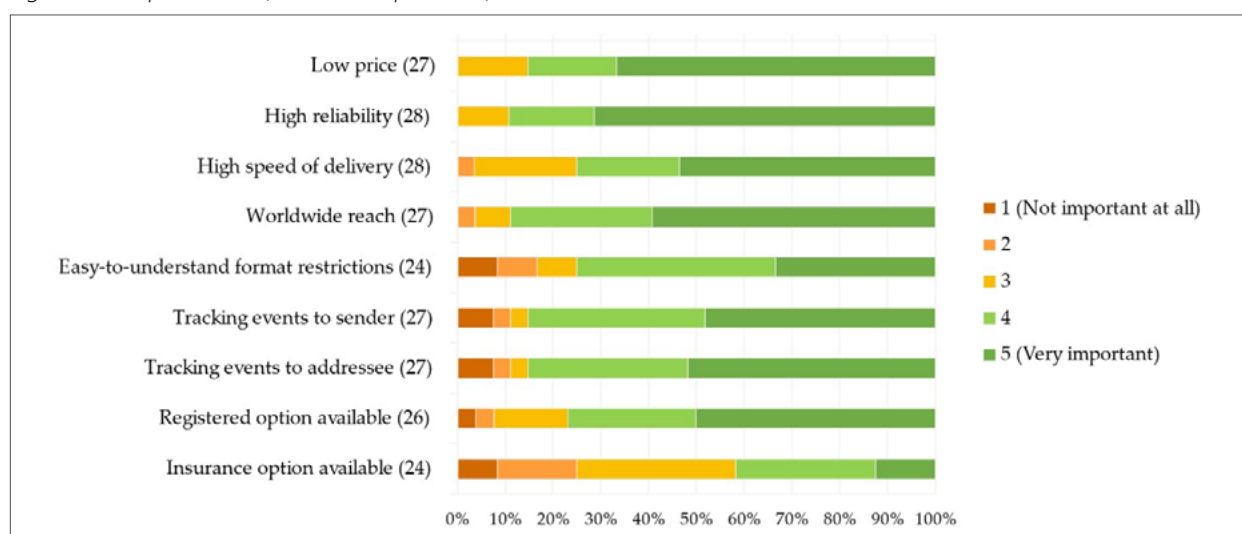
- The **availability of an insurance option** was rated as **not very important** by the majority of DOs. This is surprising, considering that insured items were rated as important by almost 70% of DOs in the previous question.
- All other product features were rated important **or very important** by at least 75% of the DOs. This includes high reliability, low tariffs, tracking events, worldwide reach and speed of delivery (the latter being the least important).
- No clear regional pattern can be identified.

Price sensitivity

In order to estimate price elasticities, DOs were asked to estimate by how much demand would drop after a 10% increase in customer-facing prices for outbound documents. The findings are presented in **Table 6**.

- The price elasticities for all three types of letters are **generally similar**, with the exception of one Arab DO reporting no decrease in demand for small and large letters, but a 5% decrease for bulky letters.
- Overall, **M bags** exhibit the **smallest price elasticities**, while **tracked items** have the **largest price elasticities**.

Figure 17: Importance of outbound product features to customers



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

- The Latin American DO reported the smallest decrease in demand following a price increase, followed by Africa.
- The **Arab countries**, the **Caribbean** and **Europe** reported the **largest price elasticities**.
- Unfortunately, we did not receive data from any DOs in the Asia-Pacific and North America regions.
- Overall, roughly, a 10% increase in price is expected to result in a 5% decrease in volumes

How demand changes after a 10% increase in customer-facing prices for outbound documents:

Table 6: Price elasticity vs evolution of demand (in percent)

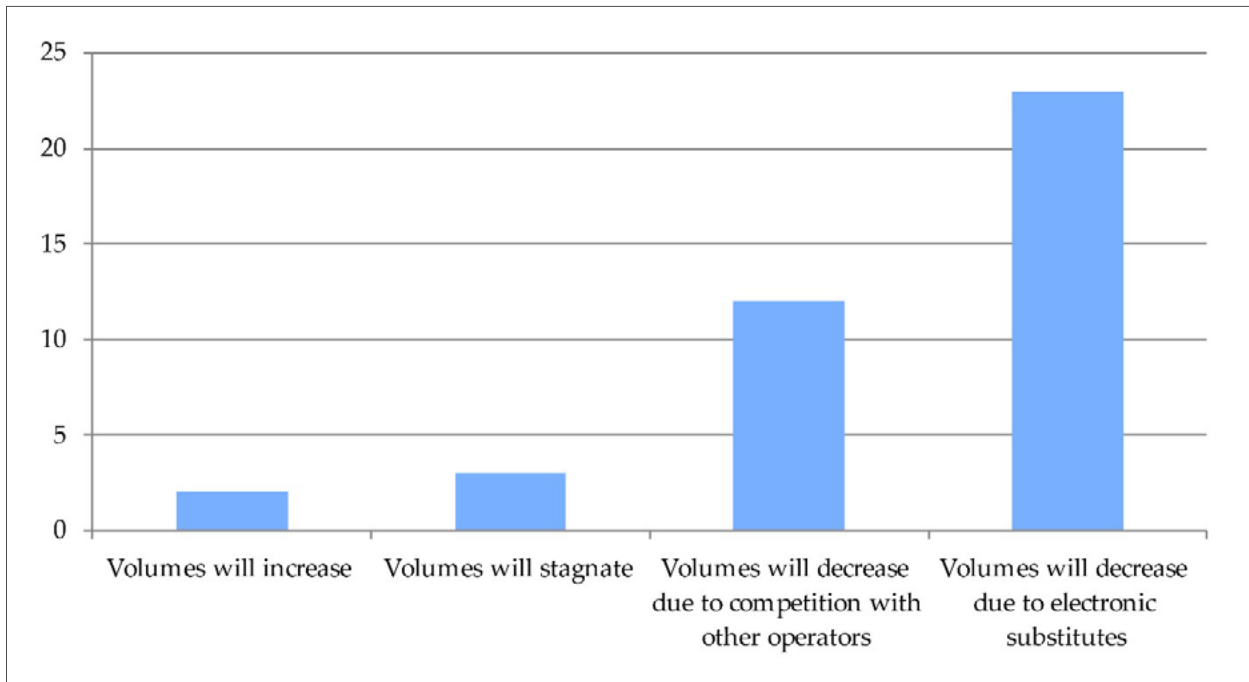
	Small letters (P)	Large letters (G)	Bulky letters (E)	M bags	Registered items	Tracked items
Overall	-4.8 (12)	-4.8 (12)	-3.7 (11)	-3.6 (8)	-3.7 (10)	-6.7 (7)
Africa	-3.6 (5)	-3.6 (5)	-1.75 (4)	- 2.0 (4)	-3.2 (5)	-3.7 (3)
Arab countries	-5.0 (2)	-5.0 (2)	-7.5 (2)	–	-5.0 (1)	–
Asia-Pacific	–	–	–	–	–	-8.0 (1)
Caribbean	-6.5 (2)	-6.5 (2)	-6.5 (2)	-10.0 (1)*	-6.5 (2)	-10.0 (1)*
Europe	-7.5 (2)	-7.5 (2)	-7.5 (2)	-5.0 (2)	-6.5 (2)	-9.0 (2)
Latin America	-1.0 (1)	-1.0 (1)	-1.0 (1)	-1.0 (1)	–	–
North America	–	–	–	–	–	–

Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. Some answers were given in positive terms. We made the assumption that an increase in prices always results in a decrease in demand. Given the small sample size and varying response rates between categories, the analysis may not be completely accurate or representative of the entire market and the different regions.

*The values provided are the same for all categories of outbound documents. The difference in means is due to missing values.

Figure 18: Expected trends in outbound volumes of standard letter-post over the next 10 years



Source: Swiss Economics, based on survey answers.

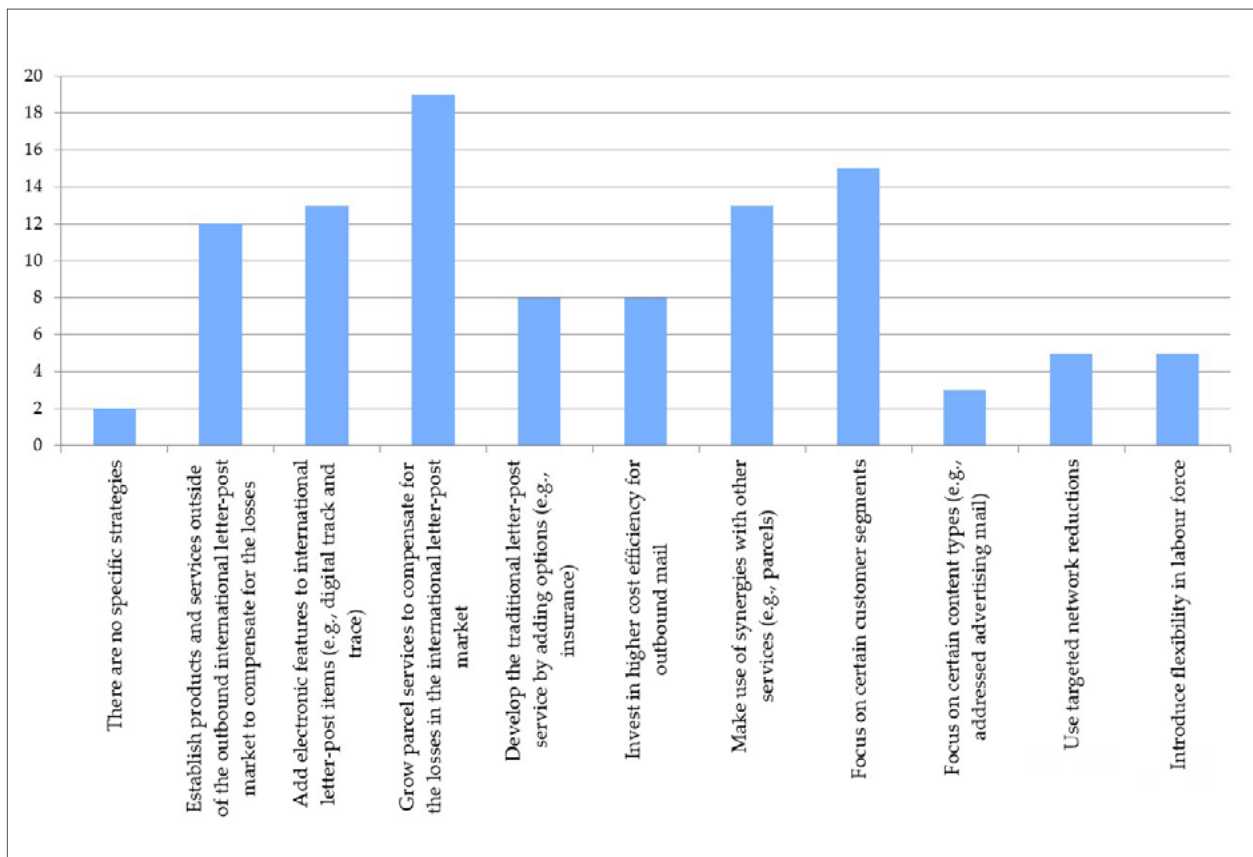
Future trends and possible strategies

Future trends

In the survey, we also included questions regarding DOs' expectations in terms of future trends over the next 10 years, as shown in **Figure 18**.

- Only **7%** of DOs expect an **increase** in volumes, while **10%** expect them to **stagnate**.
- Meanwhile, **80%** anticipate a **decrease** in volumes due to the continuing rise of **electronic substitutes**, and **41%** due to **competition with other operators**.
- No clear regional pattern can be identified.

Figure 19: DO strategies for remaining competitive in the outbound international letter-post market



Source: Swiss Economics, based on survey answers.

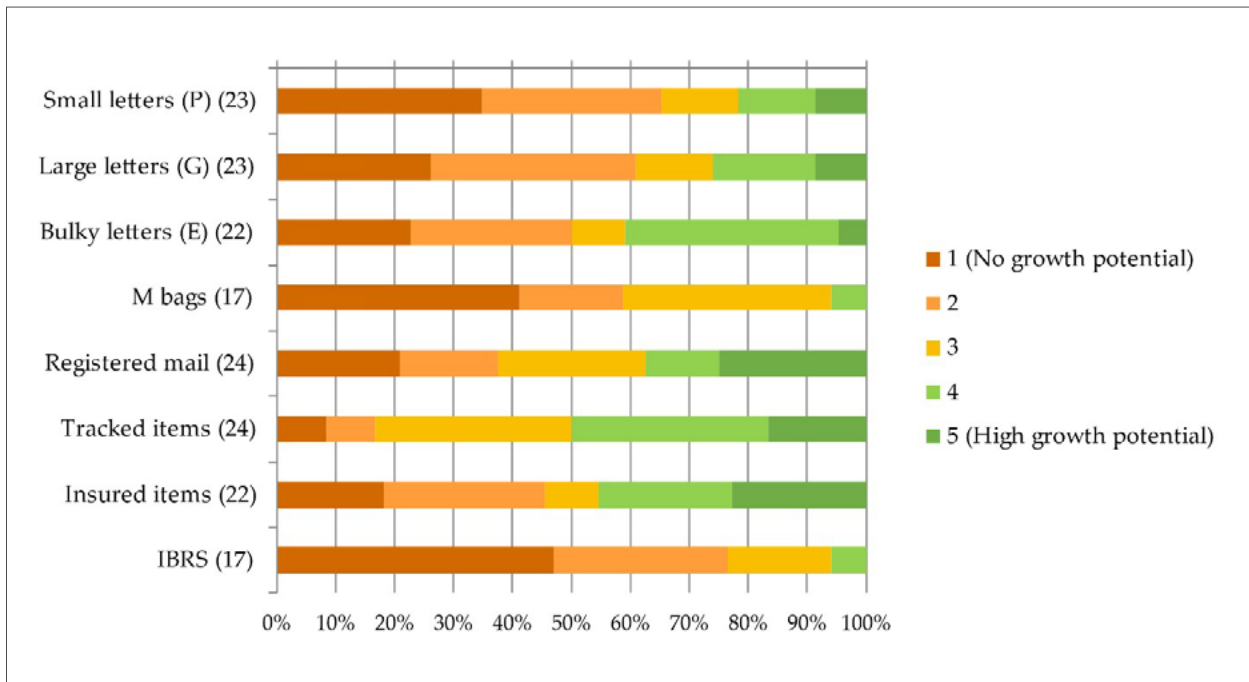
Possible strategies

In total, 70% of DOs aim to actively develop outbound international letter-post products further. Their strategies are set out in **Figure 19**, and are fairly diverse. They consist mainly of:

- **growing parcel services** to compensate for the losses in the international letter-post market;
- **focusing on certain customer segments** (i.e., businesses, governments or private customers);
- making use of **synergies with other services** such as parcels;
- **adding electronic features** to international letter-post items, such as digital track and trace; and
- **establishing products and services outside** of the outbound international letter-post market to compensate for the losses.

Of the surveyed DOs, 76% are planning or have already implemented at least one strategy. No particular regional trend can be discerned.

Figure 20: Growth potential for outbound letter-post product and services types



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

Growth potential

According to the survey, DOs perceive the **greatest growth potential** to be for add-on services, particularly for tracked items, followed by insured and registered items. Meanwhile, they perceive the **lowest potential** as being for **M bags** and **IBRS**, as depicted in **Figure 20**.

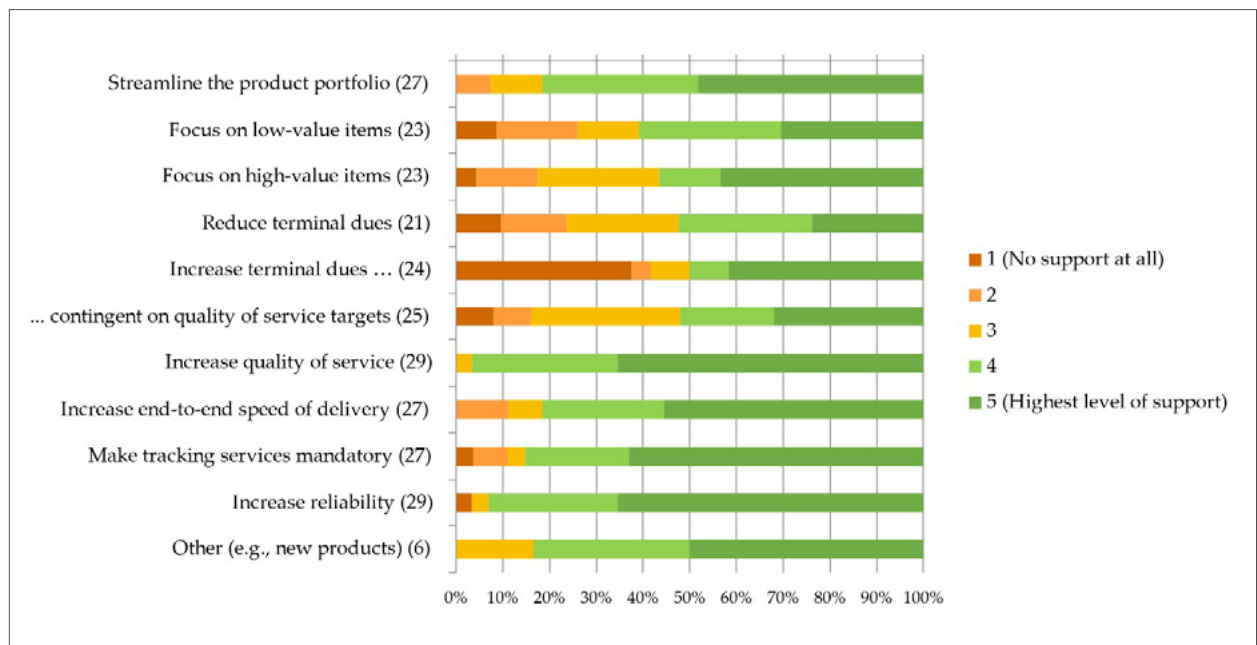
- The only North American DO that provided an answer to this question indicated no growth potential for any product type or service.
- Europe and the Asia-Pacific region also appear to see limited growth potential.
- In contrast, Africa, the Caribbean and Latin America seem to hold the most optimistic views regarding overall potential growth.

UPU postal network strategies

Finally, DOs were asked if they would support a series of UPU postal network strategies; their answers are shown in **Figure 21**.

- The strategies that receive the **highest level of support** are the **increase in quality of service and in reliability**.
- **Streamlining the product portfolio, increasing end-to-end speed of delivery, and making tracking services mandatory** are also **widely supported strategies**, aligning with the expected growth potential of tracked item services.
- However, increasing terminal dues, either contingent on quality of service targets or not, would not attract such widespread support, especially not from Europe.
- Reducing terminal dues, and focusing on low- or high-value items, were also less-supported strategies.
- Only one DO provided a detailed answer for the “other” category. It indicated its support for introducing a mandatory tracked small packet product and discontinuing the admission of goods in registered items.
- On average, DOs would support all UPU strategies to at least a moderate extent.

Figure 21: Support of UPU strategies



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

4.3 RESULTS ON INBOUND LETTER-POST SERVICES

Volume development and service features

Inbound volumes

Data on inbound volumes was also not shared with us in many cases. Despite receiving limited responses, we have conducted an analysis based on the available data. The inbound volumes showed similar trends to outbound volumes, with

slight regional differences. On average, all product types have experienced a substantial decrease. In 2022, we calculate that they account for **less than one half** of their volumes in 2012. The largest decline in overall inbound volumes can again be observed in Africa.

Speed of delivery inbound

Table 7 presents the average inbound international letter-post delivery speed after the item arrives in the country, both overall and by region. The **fastest** delivery service is consistently reported in **Europe**. On the other hand, the **slowest** service is reported in the **Asia-Pacific** region and **Latin America**.

Home delivery

Overall, **73%** of the surveyed DOs **offer home delivery** for inbound letter-post services to at least 95% of the population. Meanwhile, 12% did not provide an answer.

- Among the regions, **Africa** has the **lowest number** of DOs offering home delivery, with only one out of the seven that answered this question providing that service.

Table 7: Average speed of inbound letter-post delivery by region

Average delivery speed	
Overall	J+4
Africa	J+3.9 (7)
Arab countries	J+3.6 (5)
Asia Pacific	J+7 (1)
Caribbean	J+3 (2)
Europe	J+2.3 (5)
Latin America	J+9 (2)
North America	Local: J+2, regional: J+3, national: J+4 (1)

Source: Swiss Economics, based on survey answers

Notes: The number of answers considered in each case is indicated in parentheses. When several DOs in the same region provided an answer, the mean of those answers has been calculated. Given the small sample size, the analysis may not be completely accurate or representative of the respective regions.

- Four of the African DOs that responded negatively to this question indicated that 90%, 80%, 20%, and 10% of the population respectively does not receive home delivery.
- The Arab DO that does not offer home delivery indicated that this applies to 75% of the population.

The biggest challenges in offering home deliveries for the vast majority of DOs are (see **Figure 22**):

- Unlike their international and national competitors, the surveyed DOs are required to meet the universal service obligation.

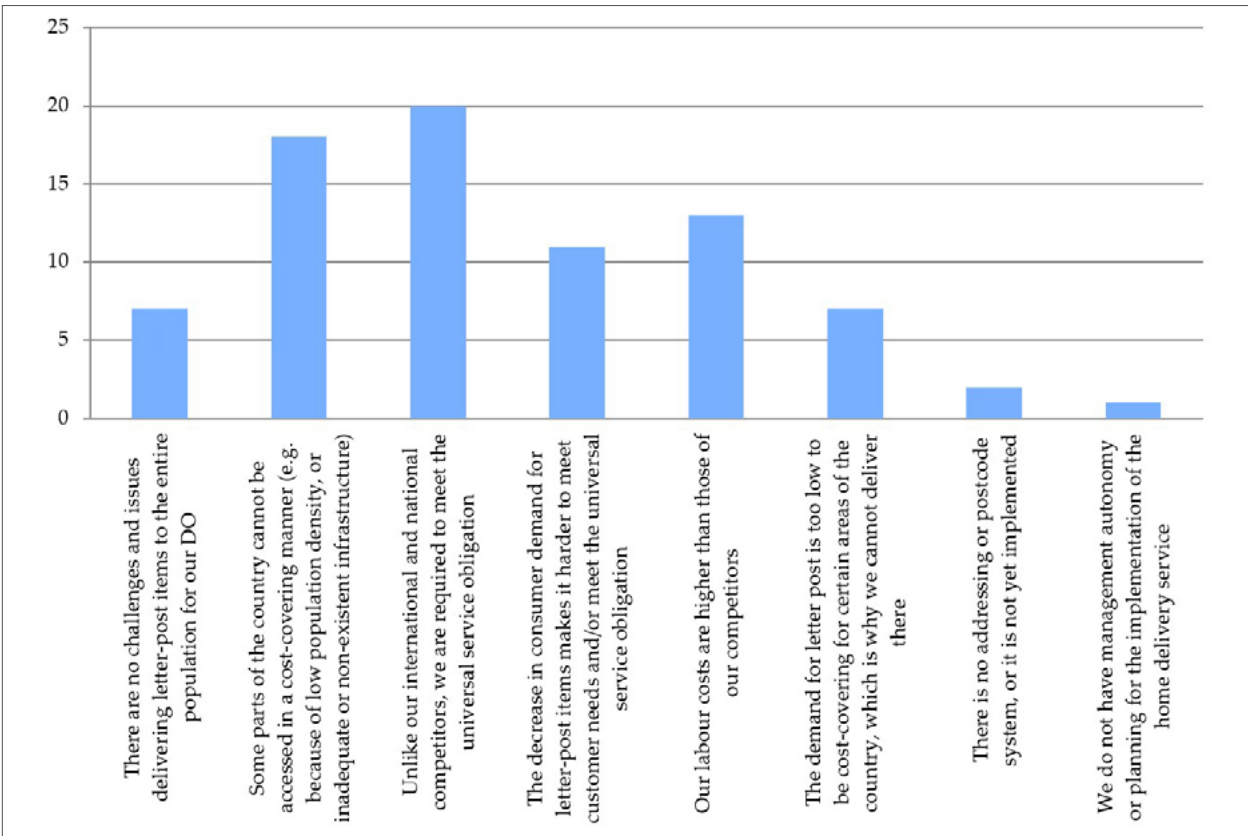
- Some parts of the country cannot be accessed in a cost-covering manner (e.g. because of low population density, or inadequate or non-existent infrastructure).

There was no discernible regional pattern.

Competitive landscape

The inbound letter-post (documents) market is **open**, at least partially, to competition in 72% of the surveyed DOs, which is very **similar to the outbound market**, with a total of 71%. Meanwhile, 17% of DOs did not provide an answer. The percentage of open markets per region is summarized in **Table 8**.

Figure 22: Challenges in offering home delivery of letter-post items



Source: Swiss Economics, based on survey answers.

Table 8: Percentage of open outbound markets per region

Africa	Arab countries	Asia-Pacific	Caribbean	Europe	North America	Latin America
86% (7)	80% (5)	0% (2)	100% (2)	75% (8)	0% (1)	75% (4)

Source: Swiss Economics, based on survey answers

Note: The number of answers considered in each case is indicated in parentheses.

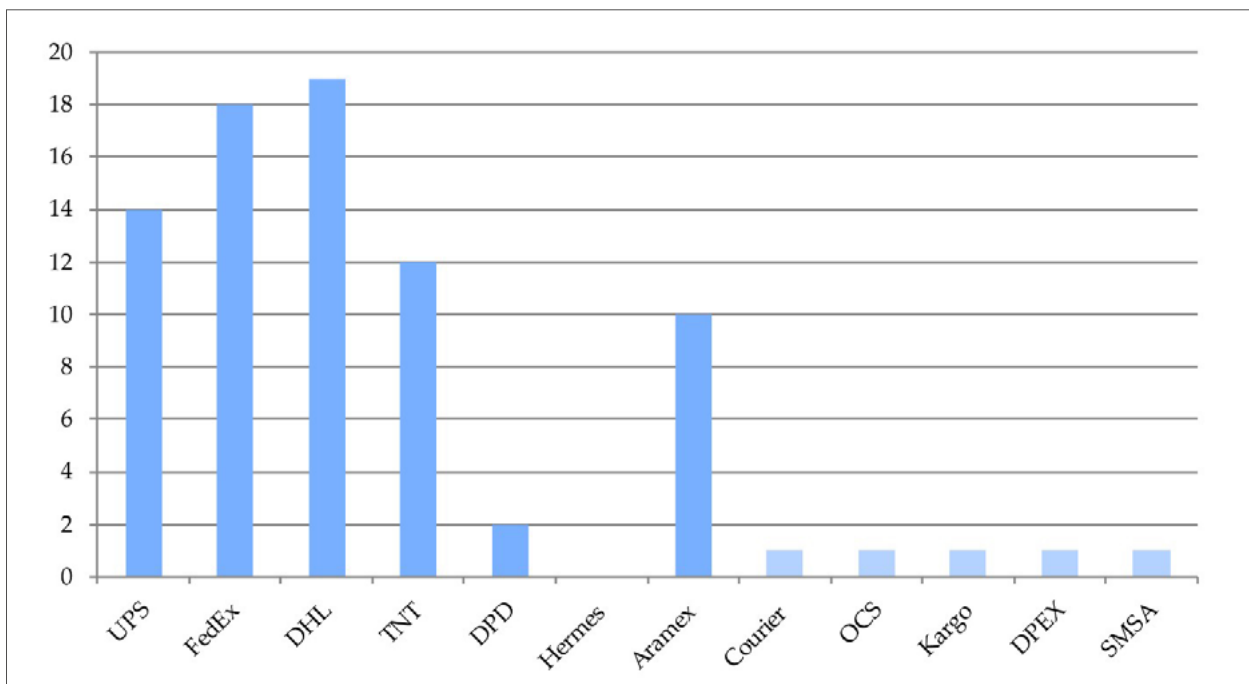
- In both North America, the Arab countries and Asia-Pacific, the same DOs reported an open outbound market but a closed inbound market.
- In contrast, one African DO reported a closed outbound market but an open inbound market.

In the open markets, the main competitors for inbound letter post (documents) are the same as for the outbound market, namely DHL, FedEx, and UPS, as illustrated in **Figure 23**.

DOs were also asked to share their respective

market shares for the overall market, as well as for standard and value-added services respectively. Unfortunately, only a limited number of DOs shared these numbers with us, specifically one Arab DO and two Caribbean DOs. This limited response hinders our ability to draw meaningful conclusions. Nevertheless, the results of the available data are shown in **Table 9**.

Figure 23: Main competitors for inbound international letter-post deliveries



Source: Swiss Economics, based on survey answers.

Note: The lighter bars are names added under the "other" category.

Table 9: Percentage change in DO inbound market shares

Segment/Type of service	Change 2017 vs 2012	Change 2022 vs 2017
Overall	-5% (3)	-3% (3)
Standard services	-11% (1)	-13% (1)
Value-added services	-20% (1)	0% (1)

Source: Swiss Economics, based on survey answers.

Notes: Results are exclusively based on answers of those DOs that provided data for both relevant years. The number of answers considered in each case is indicated in parentheses. Standard services include small, large and bulky letters, as well as M bags. Value-added services include registered, tracked and insured items. Owing to the small sample size, the analysis may not be representative of the respective regions.

Competitive advantages

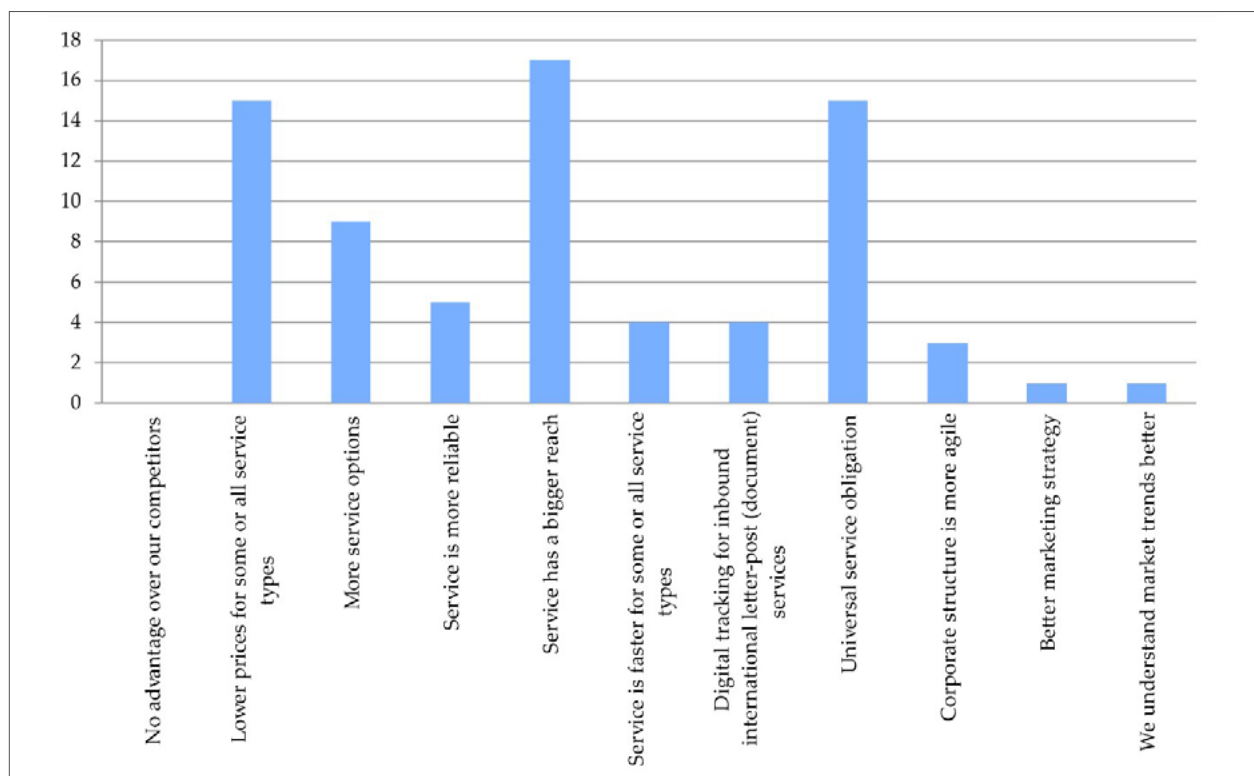
As for the outbound market, the majority of the surveyed DOs identified **lower prices, broader reach** and **universal service obligation** as their **main advantages over their competitors**. These rated advantages are depicted in **Figure 24**.

- Lower prices were mentioned by fewer DOs, and were no longer considered the primary advantage.
- The Americas did not mention more service options as an advantage.
- The North American DO mentioned only universal service obligation as an advantage over its competitors.
- The Arab DOs were the only ones that specifically mentioned having a better marketing strategy (as for the outbound market), and better understanding of market trends.
- Additionally, the Arab countries and Africa were the only regions that claimed that their service was faster than their competitors for at least some services.

DOs were also asked to identify the main advantages of their competitors over themselves. This is depicted in **Figure 25**. Similar to the outbound market, the majority identified faster services, as well as not being bound to the **universal service obligation, and not having to deliver to remote areas**, as the **main advantages of their competitors**.

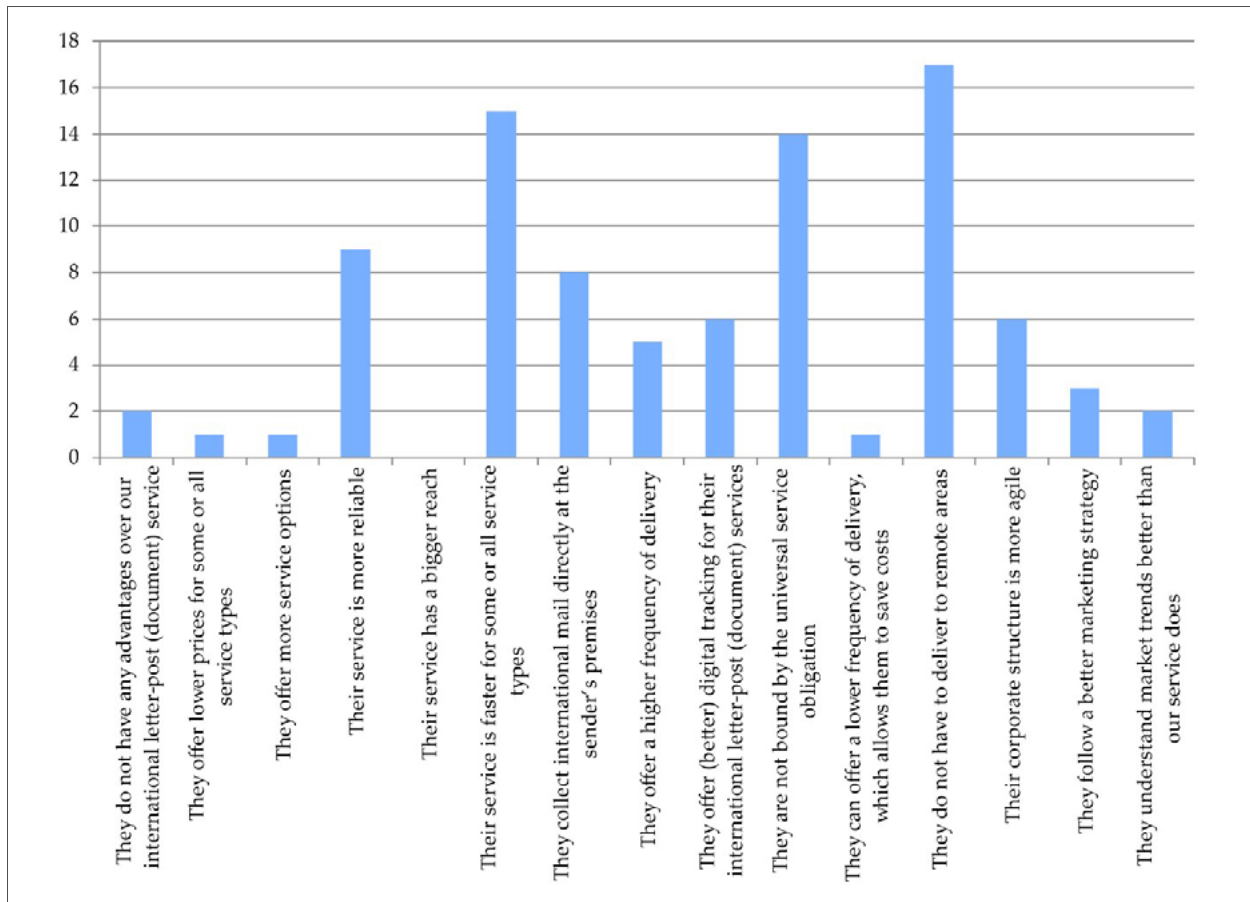
- The same two Arab countries' DOs stated that their competitors had no advantage over their international letter-post service.
- All African and Caribbean DOs answered that their competitors' service is faster and that they do not have to deliver to remote areas.
- Other than that, no clear regional trend is apparent.

Figure 24: DO advantages over their competitors in the inbound letter-post market



Source: Swiss Economics, based on survey answers.

Figure 25: Competitor advantages over the DOs in the inbound letter-post market



Source: Swiss Economics, based on survey answers.

Intensity of competition

The intensity of competition was rated on a scale from 1 (not intense at all) to 5 (very fierce) for several **product types**, as shown in **Figure 26**. The results are similar to those of the outbound market.

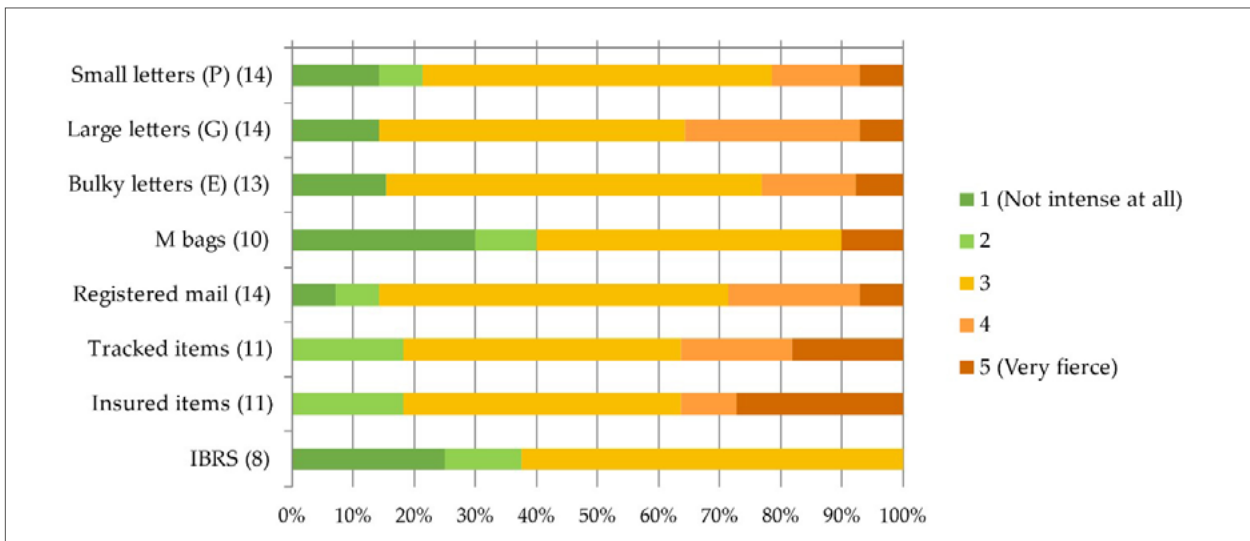
- As for the outbound market, all types of letters and value-added services seem to be subject to a similar level of competition, with slight regional differences.
- M bags and IBRS were reported to be subject to the least intense competition.
- Overall, competition for all product types was rated as less intense than in the outbound market, with an average rating about 0.5 points lower.
- The Arab countries were the region that gave the most categories a rating of 5, indicating very fierce competition.

The intensity of competition was also rated for different content types, as shown in **Figure 27**.

- The Arab countries are the only region that gave categories a rating of 5, indicating very fierce competition.
- Advertising items and periodicals were rated more competitive in the inbound than in the outbound market.
- Transactional mail was rated less competitive in the inbound than in the outbound market.

As for the outbound market, a large portion of the results is missing because no information was provided. Overall, interpreting the intensity of competition for different product and content types is challenging given the small sample size, and it is **difficult to find a correlation** with the previously mentioned **market openness**.

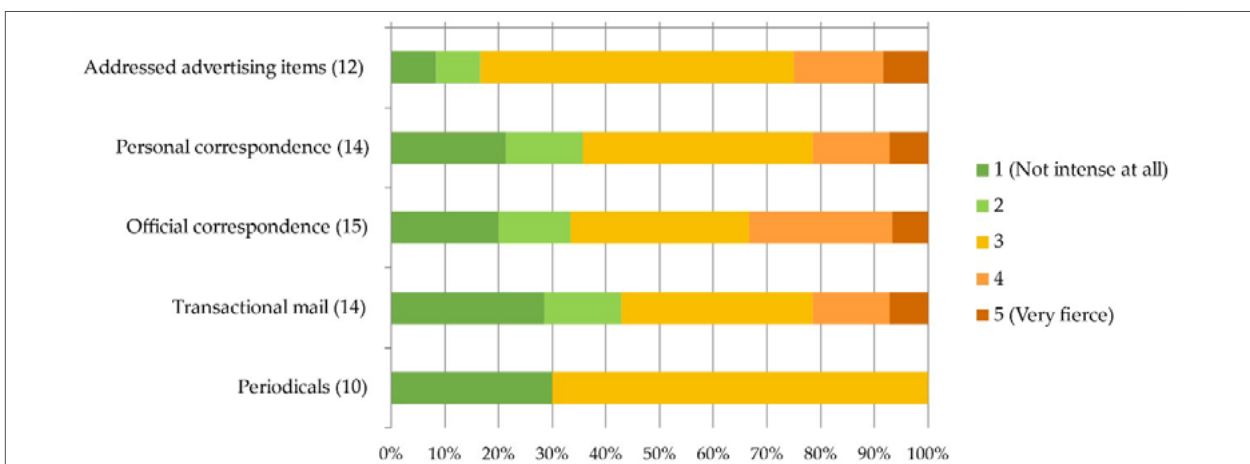
Figure 26: Intensity of competition for inbound letter-post by product type



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

Figure 27: Intensity of competition for inbound letter-post by content type



Source: Swiss Economics, based on survey answers.

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

Possible strategies

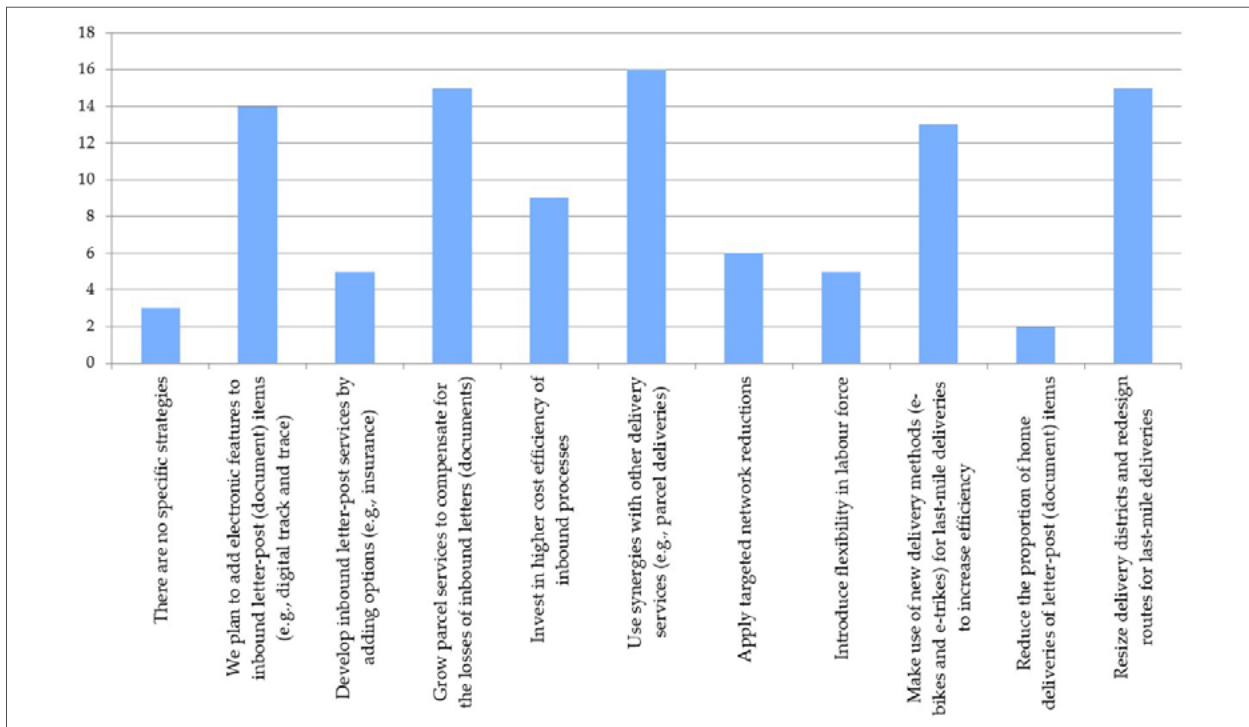
DOs were asked what strategies they have to remain competitive in the inbound letter-post market. These strategies are shown in **Figure 28**, and are fairly diverse. They consist mainly of:

- making use of **synergies with other services** such as parcels;
- **growing parcel services** to compensate for the losses in the international letter-post market;

- **resizing delivery districts** and **redesigning routes** for last-mile deliveries;
- **adding electronic features** to inbound letter-post items such as digital track and trace;
- **making use of new delivery methods** such as e-bikes and e-trikes for last-mile deliveries to increase efficiency.

The Arab countries were the only regions that mentioned reducing the proportion of home deliveries as a possible strategy. No other regional trend can be discerned.

Figure 28: DO strategies for remaining competitive in the inbound international letter-post market of competition for inbound letter-post by product type



Source: Swiss Economics, based on survey answers

4.4 RESULTS FROM NRA SURVEY ON COMPETITIVE LANDSCAPE²⁸

The letter-post (documents) market is **open**, at least partially, to competition in 32% of the surveyed NRAs. However, as 59% of the NRAs did not provide an answer, this value may not be very representative. Those NRAs that indicated that the market is open were asked to evaluate the performance of their country's DO in comparison

to its competitors in the international letter-post market:

- African, Caribbean, and Latin American NRAs consistently responded that their DO performs at least somewhat worse than its competitors (i.e., option 3, 4, or 5).
- Only one Arab NRA expressed a positive evaluation, indicating that it felt that its DO performs much better than its competitors, with an evaluation of 1 for outbound market.
- However, the only other Arab NRA that provided an answer evaluated its DO's performance as being much worse than its competitors, giving an evaluation of 5 for both the inbound and the outbound markets.

²⁸ NRAs were supposed to receive a separate questionnaire than the one sent to the DOs. However, the questions intended for the NRAs were sent to the DOs and in some cases transferred to the NRAs. As a result, the sample size is even smaller here than before, and we cannot be certain whether the responses came from the NRAs or the DOs.

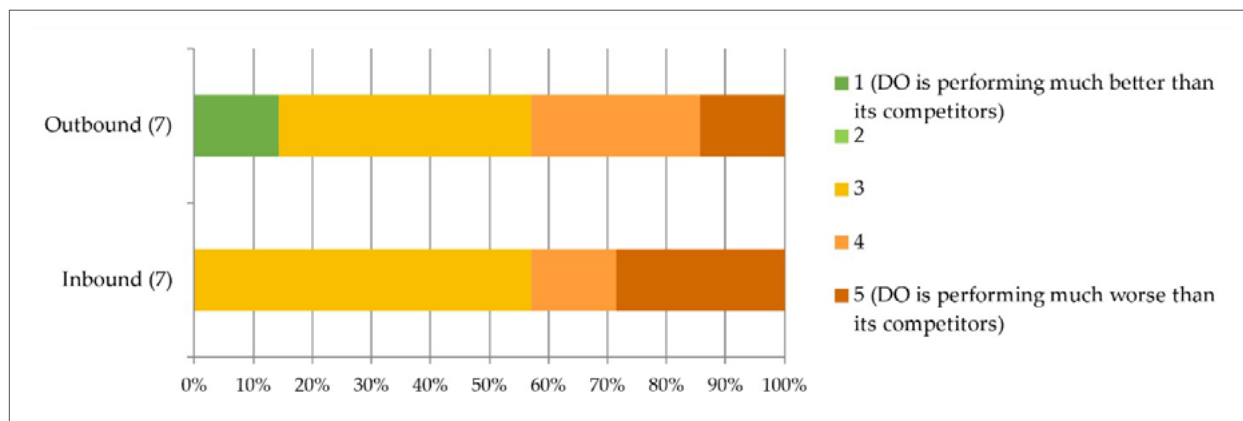
Competitor volumes and revenues

In the open markets, the main competitors for letter post (documents) are in line with previous results (see **Figure 8** and **Figure 23**). Unfortunately, only one NRA provided the relevant numbers for competitor volumes and revenues for any consecutive years. As a result, we cannot conduct any meaningful analysis.

DO market shares

NRAs were also asked to share their respective DOs' market shares for the overall market, as well as for the outbound and inbound markets. Unfortunately, only a limited number of NRAs shared these numbers with us, specifically one Caribbean and two European NRAs. This limited response hinders our ability to draw meaningful conclusions. Nevertheless, the results of the available data are shown in **Table 10**.

Figure 29: Evaluation of DOs performance in comparison to its competitors



Source: Swiss Economics, based on survey answers

Notes: The number of answers considered in each case is indicated in parentheses. N/A answers have been excluded to facilitate the interpretation of the results.

Table 10: Percentage change in DO market shares

Segment/Type of service	Change 2017 vs 2012	Change 2022 vs 2017	Change 2022 vs 2012
Overall	0% (2)	-5% (3)	-7% (2)
Outbound	-7% (2)	+8% (2)	0% (2)
Inbound	-4% (2)	0% (2)	-2% (3)

Source: Swiss Economics, based on survey answers

Notes: Results are exclusively based on answers of those NRAs that provided data for both relevant years. The number of answers considered in each case is indicated in parentheses. Owing to the small sample size, the analysis may not be representative of the respective regions.

5 SUMMARY OF RESULTS AND RECOMMENDATIONS

5.1

SUMMARY OF RESULTS

In this section, we provide a summary of the review of the existing studies and reports, the development of UPU international documents, and survey results. Additionally, we present recommendations on strategies for the development of the traditional letter-post (documents) market.

Volume development and service features

Volumes in the outbound and inbound letter-post markets are declining

The key findings are as follows:

- The survey results indicate that both standard and add-on services have experienced a similar decline of approximately 50% between 2012 and 2022;
- The decline in volumes varies across regions, with Africa experiencing the largest decline, and Europe the smallest.

The findings regarding standard services align with the IPC 2022 report, which indicates a decline of around one third in aggregate mail volumes in advanced economies. For certain postal operators, the decline is even more significant, exceeding three quarters. Our hypothesis is that e-substitution is the main driver of the decline in standard services (letters), as these

services typically involve non-sensitive, non-urgent information that can be easily replaced by electronic alternatives.

Conversely, value-added services often deal with more sensitive and valuable documents. These services provide additional security, proof of delivery, and insurance coverage, which electronic alternatives may not offer to the same extent. Consequently, we would expect a lower e-substitution rate for value-added services, resulting in a lesser decline over the years, as customers prioritize the security and reliability provided by physical mail. As a result, the decline in value-added services can to a larger extent be attributed to direct competition from other postal providers. As the standard service letter-post market is declining, the market does not attract competition, shifting competition to the value-added services segment.

According to the surveyed DOs, the content types that experienced the most significant decreases over the past year were transactional mail (e.g., bills, bank statements, contracts) and addressed advertising. Interestingly, these segments were previously considered the most resilient to e-substitution, indicating a recent shift towards digital communication. The acceleration of this shift might be explained by the COVID-19 pandemic, which led to increased reliance on digital communications among businesses and governments.

Volumes are too low and service is not ubiquitous enough to offer track and trace

Only half of the surveyed DOs offer a track and trace service, as opposed to 91% according to the UPU (2019b). According to the respondents, the main reasons for not offering a track and trace service for letter post items are the following:

- Volume of items is too low;
- Track and trace is not sufficiently available among destination DOs;
- Destination DOs do not share tracking events enough.

Accessibility of certain areas is limiting home delivery services

Three quarters of the surveyed DOs provide home deliveries to at least 95% of households, with Africa being the region where home delivery

is least widespread. The primary reason reported for not offering home deliveries is the inability to access certain areas in a cost-covering manner. Satisfaction with destination DOs: North America and Europe outperform; Africa lags behind

Satisfaction levels of DOs with the DOs of destination countries vary as follows:

- North America and Europe receive the highest satisfaction ratings, with the best service perceived overall. Terminal dues are reported to be the least satisfactory aspect for DOs.
- Africa is identified as having the lowest satisfaction levels, particularly in terms of speed of delivery and reliability.

DOs are satisfied with UPU regulations

Overall, the respondents expressed the least satisfaction with customs procedures.

Customer needs and price sensitivity

Drivers of outbound letter-post usage are official documents, trust, and traditional choice

The main reasons reported for using outbound letter post are as follows:

- Need for official documents to be sent using registered mail;
- Absence of an electronic substitute for a physical letter;
- Age of customers;
- Trust in the service;
- Preference for documents over electronic alternatives.

Letters, as well as registered mail, tracking, and insurance, are important to customers

Only M bags and IBRS are not considered important by most customers, according to the DOs.

All product features are important to customers

According to the DOs, the availability of an insurance option is the only feature not considered important by most customers. All other product features (in particular reliability, price, and tracking events) are rated as important or very important by at least 75% of the surveyed DOs.

Tracked items are very price-sensitive

The largest price elasticities are reported for tracked items, particularly in Europe. A possible explanation is the more intense competition in added-value services, leaving customers a choice of different service providers. Digital track and trace services are facilitated by mobile applications. These apps, often provided at no cost to the users, have made tracking more accessible. As a result, customers might have become more sensitive to price changes in tracked item services, as they have readily available alternatives from competitors.

Competition is fierce in the outbound letter-post market

DOs perceive fierce competition in particular for letters (P, G, E), registered mail, tracked items and insured items. Competition for M bags and IBRS is reported to be somewhat less fierce. By content type, in comparison, and although ultimately mirroring the same products, competition is perceived to be somewhat less fierce overall, with varying perceptions across DOs in particular for personal correspondence, official correspondence, and transactional mail. Meanwhile, in the inbound letter-post market, competition is reported to be less fierce. DOs are the postal incumbents in their respective countries, benefiting from well-established networks and a deep understanding of the local market. This advantage can discourage competitors from entering the market.

Strengths are prices and global reach; weaknesses are speed and reliability

The assessment of the respective advantages of DOs and competitors can be summarized as follows.

Competitive landscape

Main competitors for letter-post items are DHL, FedEx, and UPS

According to the DOs, the main competitors for letter-post items are DHL, FedEx, UPS, TNT, and Aramex.

Table 11: Strengths and weaknesses of DOs

Strengths	Weaknesses
<ul style="list-style-type: none"> • Standard products • Lower prices than competitors • Global reach • Universal service obligation • Customer trust • Regulatory support 	<ul style="list-style-type: none"> • High-value services (tracked products) • Speed of delivery (priority mail) • Reliability • Quality • Universal service obligation • Agility • Marketing • Cost of labour relative to competitors

Source: Swiss Economics

Table 12: Opportunities and threats

Opportunities	Threats/Challenges
<ul style="list-style-type: none"> • Global international network • Value-added services (tracking, confirmation) • Digital transformation • Synergies with EMS/parcel products • Sustainability • Price elasticities between -0.5 and -1 	<ul style="list-style-type: none"> • E-substitution • Intense competition from private companies in high- value services • Shift in customer needs • Increasing average costs, cost recovery

Source: Swiss Economics.

Future trends and possible strategies

DOs expect more decreases from e-substitution than from competition

Eighty percent of DOs expect a decrease in volumes due to the rise of electronic substitutes; 41% due to competition with other operators. This trend, as well as the results of the review of existing studies, leads to the following opportunities and threats for DOs:

DOs are responding actively to these trends

The main strategies listed by the DOs to counter decreasing volumes and competition are summarized in the table below.

Table 13: Strategies most frequently listed by DOs

Outbound market	Inbound market
<ul style="list-style-type: none"> • Grow parcel services • Focus on certain customer segments • Make use of synergies with other services • Add electronic features • Establish products and services outside of the letter-post market 	<ul style="list-style-type: none"> • Make use of synergies with other services • Grow parcel services • Resize delivery districts and redesign routes • Add electronic features • Make use of new delivery methods

Source: Swiss Economics based on survey data

5.2

RECOMMENDATIONS

Based on the desk research (section 5), past developments (section 6), the survey results (section 7) and our own analysis, we conclude as follows:

DOs/Business: strategic, commercial, IT

In order to adapt to the changing landscape of the postal industry, DOs can adopt several strategic, commercial and IT strategies. Based on the identified Strengths and Weaknesses as well as Opportunities and Threats (SWOT), the following generic strategies can be derived ("combined SWOT"):

- Matching strategies leverage strengths on opportunities;
- Transformation strategies minimize weaknesses by taking advantage of opportunities;
- Neutralization strategies address threats in areas of own strengths;
- Defence strategies minimize weaknesses and avoid threats.

Table 14 matches possible strategies to these generic strategies:

	Strengths <ul style="list-style-type: none"> • Standard products • Lower prices than competitors • Global reach • Universal service obligation • Customer trust • Regulatory support 	Weaknesses <ul style="list-style-type: none"> • High-value services (tracked products) • Speed of delivery (priority mail) • Reliability, quality • Universal service obligation • Agility, marketing • Cost of labour
Opportunities <ul style="list-style-type: none"> • Global international network • Value-added services (tracking, confirmation) • Digital transformation • Synergies with EMS/parcels • Sustainability • Price elasticity 	Matching strategies <ul style="list-style-type: none"> • <u>Use synergies</u> with EMS/parcel networks • Diversify services: grow parcel services [not a letter-post strategy, – beyond the scope of the study] • <u>Invest in sustainability</u> • <u>Increase prices moderately</u> • Hybrid services • @UPU: not listed: opt for public compensation 	Transformation strategies <ul style="list-style-type: none"> • <u>Invest in value-added-services/ offer tracking</u> • <u>Invest in digitalization</u> • <u>Enhance reliability</u> • <u>Increase speed of delivery</u> • Increase agility • Improve marketing
Challenges/Threats <ul style="list-style-type: none"> • E-substitution • Intense competition in high value services • Shift in customer needs • Increasing average costs, cost recovery 	Neutralization strategies <ul style="list-style-type: none"> • <u>Cut costs</u> • <u>Form partnerships, mergers</u> 	Defence strategies <ul style="list-style-type: none"> • Optimize operational efficiency • <u>Focus on certain customer segments</u>

Source: Swiss Economics.

Of these strategies, we recommend focusing on the ones that are underlined in **Table 14**:

- **Cost-cutting measures and strategic price adjustments** will help to offset the decline in volumes due to e-substitution and competition, and will be important to maintain financial balance (unless the services receive public compensation).
- Digitalization serves to enhance the traditional mail experience; **investments in digitalization** should therefore be sought. For example, DOs can allocate resources to develop (hybrid) online platforms for collection and delivery and provide means to follow the delivery status of items in real time.
- To address shifting customer needs, DOs should consider **investing in value-added services, particularly tracking**, which can increase the competitiveness of services, provide customers with enhanced options for transparency and control, and enhance reliability. They should also consider expanding express delivery services to cater to the growing demand in this segment (EMS services are beyond the scope of the study).
- Use should be made of **operational synergies with other service lines (EMS, parcels)**, and possibly also with **other service providers**, through **partnerships or mergers**. Partnerships can further extend DOs' service offerings and strengthen their market position.
- Customer dissatisfaction with **service quality** is a critical issue that DOs must address. To overcome competitors' advantage in terms of quality and reliability, DOs should prioritize **operational optimization**. Inbound, this involves analyzing and optimizing delivery routes as well as implementing more efficient sorting systems. Additionally, leveraging IT solutions to read handwritten addresses and minimize errors can further improve operational efficiency. By automating tasks, DOs can streamline their operations and improve efficiency and reliability.
- DOs that are not able to meet the UPU's **inbound speed-of-delivery standards** may streamline their processes. More generally, for the international letter-post (documents) market to compete with electronic means of communication it is crucial to maintain a certain quality as stipulated by UPU standards. It is thus in the DO's interest to make an effort

to adhere to these standards.

- Competitors' advantage in offering high-value services may require DOs to find their niche and **focus on certain customer segments**. DOs can then tailor their services to meet those demands effectively.
- Furthermore, **investing in sustainability initiatives**, such as energy-efficient practices and sustainable delivery methods, e.g. last-mile delivery using e-vehicles, not only attracts environmentally conscious customers, but also aligns with the growing global focus on sustainability. This can help DOs create brand value and offer higher-value services.

UPU/Regulation

To address the various challenges faced in the postal market and strengthen the position of DOs, the UPU could consider implementing the following regulatory strategies, which are summarized in Table 15:

- The UPU could **prioritize** the development and enhancement of services related to **documents that are less likely to be substituted by electronic alternatives**. This can include official and legal documents, as well as sensitive information. These types of documents are often of particular value to senders and recipients; thus, price is less of an issue compared to reliability and tracking. By focusing on these types of documents, DOs can differentiate themselves from digital alternatives and provide added value to customers.
- The UPU could **enable and require consistent tracking throughout the delivery process**, from collection through to delivery to the recipient. Consistent tracking would improve the overall quality and reliability of standard services, increasing customer satisfaction and trust in the postal system.
- The UPU could also consider granting DOs greater **flexibility in setting terminal dues** for international mail. Allowing commercial flexibility in setting these fees would enable postal operators to align their prices with market demand, encouraging fair competition and efficiency in the market.
- The UPU could establish a **maximum permitted delivery time** for international mail services. This would ensure that all DOs strive to meet a certain level of quality and speed in their service offerings. Setting a standard maximum delivery time means that customers can have reasonable expectations, and DOs can work towards improving their delivery performance.

Table 15: Regulatory recommendations

Issues	Strategies
Product range	<ul style="list-style-type: none"> • Focus on documents that cannot be substituted
Value-added services	<ul style="list-style-type: none"> • Enable and require consistent tracking from collection through to delivery to the recipient
Prices	<ul style="list-style-type: none"> • Allow for commercial flexibility in setting terminal dues
Quality/Speed of service	<ul style="list-style-type: none"> • No priority, set maximum allowed

Source: Swiss Economics.

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UPU

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