



Postal Report

Reigniting Competitiveness In Postal Operators To Unlock Profitability





Current Context and Challenges

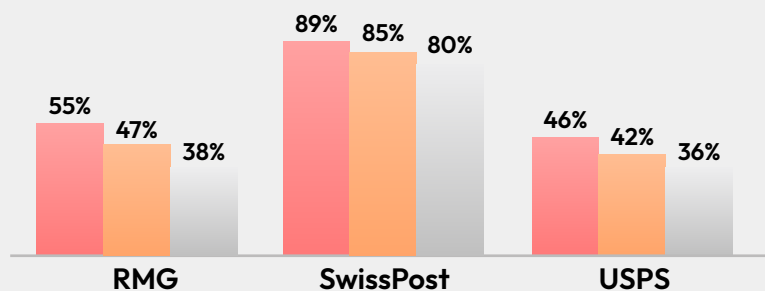
Postal organizations are facing significant challenges. The annual reports of postal companies in the last decade indicate that very few posts are on a path to profitable growth. According to a recent Accenture report¹, postal revenues are shrinking as compared to how they were a decade ago, considering inflation.

A key observation from a recent industry report² is that postal players have lost significant parcel delivery market share despite having a perceived advantage in delivery density from mail volumes.

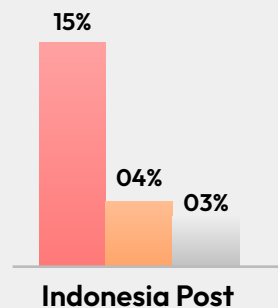
How can postal operators improve their competitiveness and revenue growth?

We believe that there is an opportunity for postal operators to leverage the ongoing disruption and available technology to better meet customer needs, drive new revenues and lower operational costs, all at the same time. In this perspective, we would like to share with you how we believe the industry will evolve, what opportunities this represents, and the capabilities required to enable this.

Revenue Share



Volume Share



2016 2019 2020

Market Share 1, 2

Royal Mail lost 17 pps of parcel volume market share between 2016 - 2021, while Swiss Post lost 8 pps.



A view of FarEye:

Based on multiple postal customers and interactions with experts across 100+ postals

1: Accenture 2023 Post & Parcel Industry Trends. 2: Accenture 2023 Post & Parcel Industry Trends, Pitney Bowes Parcel Shipping Index 2023.





Disruptions Impacting Delivery

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Arguably, the most common trend is the **decline in mail volumes**. Royal Mail, for example, used to delivery 20 Billion mail pieces in 2005. Today, that volume is down to 7 Billion and is expected to decline further to 4 Billion in 4 years³. Inevitably, this means fewer letters per address on an average and many more homes and offices that are skipped with daily delivery of mail, while on the other hand, the number of delivery addresses keeps growing.

Meanwhile, new models have disrupted the **eCommerce B2C delivery space**. In the past, it was common to use one carrier for national or regional door-to-door delivery. Postal players were strong players in this model. Today, inventory is placed closer to urban centers, and sortation, linehaul, and delivery is often done by separate players in a **fragmented supply chain**. This has led marketplaces such as Amazon, TikTok, and Shopee to enter last mile delivery directly and the proliferation of low-cost regional players and delivery service providers (DSPs) focusing primarily on urban deliveries.

Parcel lockers and PUDOS (pick-up and drop-off locations) have gained popularity. Although the adoption of parcel lockers varies widely by country, they are growing in number and will represent a growing percentage of delivery stops. Whether open or closed, these networks change the way deliveries are made because of the high drop density.



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3: Royal Mail – The Future of Letter Deliveries.



Many postal operators are seeking revenue diversification opportunities, and what comes up is the need to offer more services to the home. Trends such as the need to cater to **an older and less mobile segment** and the need to be better prepared for the next pandemic-led **disruption to the last mile delivery model**. Delivering a letter or parcel versus having to check on a resident have different time values when calculating letter carrier workload.

Sustainability requirements at the national and municipal levels are also disrupting delivery in two ways. On a national level, there is a push for Electric Vehicles, from large vans to assisted cargo bikes, to reduce carbon emissions. At the municipal level, we see urban choices such as those in Paris and London⁴ to **limit car traffic** in general and to manage the number of delivery vans.



A view of FarEye:

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4: Urban Institute - How Cities Can Use Paris as a Model for Implementing Safer Street Infrastructure

Reignite Competitiveness And Profitable Growth



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The aforementioned disruptions represent opportunities for postal operators to lower costs, drive increased revenues and improve customer experience. Below are some ways to achieve this – and let's be clear – not all of these ideas make sense for every postal operator.

Merge Mail and Parcel Delivery:

As mail volumes & frequencies are shrinking, merging them with parcel networks makes sense to lower per unit costs and maximize revenue per stop. An increasing number of posts, such as Posti, Posten Norge, and Australia Post, are moving to mail delivery every other day⁵. The concept is to treat mail as a parcel operationally and deliver it once to each address. This is common on rural routes but should be extended to urban and suburban deliveries. Last mile delivery will be made daily, with mail being part of a route every other day or, eventually, once a week.

New Urban Parcel Products:

To address the fragmentation of the supply chain, postal operators could propose new urban last mile products. The postal operator would become a last mile consolidator for B2C deliveries, with items pre-sorted and inducted in the last mile depot by 3PLs, merchants, and marketplaces. Postal operators could command even higher route densities, thus lowering the overall unit cost and price, making it affordable for all. The best comparable example is USPS' Parcel Select product⁶. This could also position a postal operator as the preferred vendor should a city decide to restrict local deliveries to a single provider.



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5: Posti, Posten Norge, Australia Post. 6: USPS – Postal Bulletin



Upgrading Mail Products:

By going beyond the current IMB (Intelligent Mail Barcode) technology used at USPS⁷ and offering unique tracking for each piece, postal operators will be able to innovate with mail. They will be able to launch a faster time-definite tracked mail product with greater visibility and control that will command a higher price and delivered as a parcel. A recent study entitled Strategies and ways for developing the traditional letter-post market⁸ highlights the need to merge mail and parcel deliveries together. Postal operators will also be able to maintain a slower eco-friendlier traditional mail service as well.

Proposing Alternative Delivery Models:

We anticipate that postal operators will expand **their use of Community Mail Boxes (CMB), Parcel Lockers, and a network of PUDO locations** (typically independent shops). While consumers still prefer home delivery, this is not always possible. Secondly, CMBs and PUDOs will help substantially increase the drop density and help unit economics. From a delivery perspective, it is plausible and likely that some routes will cater exclusively to PUDOs and would require a fleet of larger vans with very few high-volume stops.

Offering Value-added Services:

Building on the trend of an aging population and home services, postal operators could drive additional revenues through home services such as collecting and delivering prescription drugs, meal services, wellness visits, and equipment installation. La Poste⁹ already offers some of these services. Since these services typically take much longer than a typical parcel delivery, postal organizations will need to pivot to more dynamic models to optimize letter carrier/driver utilization throughout the day.



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7:USPS – Postal Pro. 8:UPU – Strategies and ways for developing the traditional letter-post market. 9:Le Groupe La Poste

Capabilities To Help Drive Profitable Growth

There is no doubt that in the future, delivery will require greater flexibility, may require alternative delivery models, and will be dominated by parcels over mail. We believe there are four enablers for postal operators to seize the opportunities.



Data-driven Approach:

A consideration for postal operators is the need to leverage already captured information to run operations better. Assuming all products are barcoded, it will be possible to know as soon as a label is created (capturing origin, destination, speed, item size, and weight) the recommended trajectory through the network and the density of the last mile by the route. This can be a powerful tool to help determine, from several days in advance to as little as hours prior, how many parcels and mail items will be delivered on a given day from all depots.

Faster Adaptability & Agile Culture:

Aversion to risk, organized labor conditions, making bold moves, and changes to regulations – all topics that will need to be managed and mitigated. For instance, making changes to routes could face significant resistance from letter carriers. The regulator must also rethink USO (Universal Service Obligations) for postal services. Nevertheless, change may come faster if postal operators suddenly face financial challenges that force a change, and perhaps the path forward will consist of a series of step by step changes.

Operational Changes:

Currently, mail and parcels run in parallel, across the network. Postal operators will need to better align sortation and processing between mail and parcels. For those posts with low mail volumes, that may already be a reality. For others that use delivery route sequencing for mail, merging of mail and parcel networks will also come in steps when mail starts to be sorted as parcels and co-mingled together with parcels, as upstream as possible. For instance, the use of AGVs (automated guided vehicles) can enable some of these changes in

New Dynamic Capabilities:

Postal operators will need to move from static to dynamic routing to enable almost all revenue growth opportunities. As mail begins to be treated as parcel, new delivery models are contemplated, and new products and services are launched, dynamic routing is critical to making the new last mile a reality. Moving parcel-only routes to dynamic routing first can be a good starting point for this shift. Subsequently, more capabilities can be added phase by phase.



“We believe that the above strategies will help postal operators strengthen all 4 Rs (Reliability, Reach, Relevance, Resilience) of the UPU’s 2IPD¹⁰ (Integrated Index for Postal Development) score as well as drive revenues, competitiveness, and profitability.”

Kushal Nahata,
CEO & Co-founder, FarEye

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10: UPU State of the Postal Sector 2023, Berne, October 2023





Want To Know More?

Reach out to FarEye to set up a workshop to define together how to design your future of last mile delivery.

Reignite postal competitiveness and profitable revenue growth.

www.fareye.com

