



# A WHIRLWIND OF CHANGE FOR POSTAL SERVICES

POSTAL SERVICES TODAY operate in markets that are changing at an ever-increasing pace. They may feel as if a house had fallen on them, given declining letter volumes, deregulation of markets, increased competition, and an explosion of business-to-consumer parcel volumes. But there are more changes yet to come that will radically impact postal services around the world and create a strange new landscape that they must learn to navigate. Choosing the right road will lead to relevancy and profits; choosing the wrong one will lead to disintermediation and decline.

## LETTERS AND PACKAGES, OH MY

The story for mail and parcel volumes is one of continuing divergence: We now expect mail volumes to decline through 2025 before leveling off. Parcel volumes will continue to increase; our market model for the US and Europe forecasts that by 2025, online purchases could account for 60 percent of all parcel-size goods and non-grocery purchases. Even still largely offline businesses like fresh/grocery could see online penetration of 25-30 percent.

For postal services, these additional parcel volumes are not an automatic “get,”

however. In many countries, large integrators, such as UPS, FedEx, and DHL, as well as regional firms, have ruthlessly optimized express and parcel products and continue to push the innovation envelope.

On the other side of the market, major e-commerce companies, as part of their never-ending hunt for differentiation and customer convenience, are making increasing demands for service improvement and pushing down prices. Further complicating the picture is that Amazon is becoming a true end-to-end logistics player and has already targeted the most profitable element of parcel services – urban deliveries – through acquisitions, its own delivery logistics services, and Uber-like programs (AmazonFlex).

## BEHIND THE CURTAIN

We believe that three major innovations have the power to completely change the postal industry’s structure: Crowdsourced delivery, autonomous vehicles, and drones. By untangling network economics, these innovations could alter the cost structure of parcel delivery, giving less weight to density, drop factors, and ultimately the utilization of large fixed assets, in

favor of smaller, more flexible assets. As these structures evolve, the traditional advantages of incumbents will become less important.

Most critically, large online companies continue to roll out new solutions across multiple countries with ease, while many postal and express parcel firms find themselves continuously playing catch-up and are often limited to national solutions. They also in some cases must deal with regulatory requirements and bureaucratic and political hurdles that are making it difficult for them to invest and change faster. Clearly, postal services will need to get better at innovating from an end-customer perspective and behave more like their new competition.

## NOT IN KANSAS ANYMORE

Traditionally, postal services and parcel companies worried mainly about costs and often engineered solutions from this perspective; cost concerns thus drove “old innovation.” But new forces are setting the pace now:

**End customers are convenience driven**, which means that “new innovation” must focus to a much greater extent on removing existing customer hassles, even

to the point of creating convenience where the customer does not yet expect it.

**Combining technology solutions** has become the enabler of customer convenience. Customers expect to be able to route parcels to where and when they want them, and track the process every step of the way in real time. Technology means that parcels can meet consumers, while platforms linked to operations are enabling crowdsourced delivery and curbside pickup services.

**The retailer mindset and focus are changing.** Online and omnichannel retailers have increasing expectations when it comes to the quality of delivery and return services. Securing a trusted one-stop logistics chain has become vital even for non-traditional and niche retail platforms like Ebay, Google, and others. In these cases, postal and express parcel networks become a valuable asset, one that cannot (yet) be duplicated by software engineers in Silicon Valley.

## THE YELLOW BRICK ROAD

We believe that there are a number of high-caliber options for postal services

to remain relevant and competitive, but given the rapid pace of change, options will not remain open for long. Specific opportunities will depend on each postal service's unique situation within its geography, regulatory regime, and decision-making culture. As well, understanding end customers, technology, and the retailer mindset will be critical.

The base for letter mail in most OECD countries is still enormous – and letter mail likely will still be 30-40 percent of revenues ten years out. In response, postal companies will need to develop more flexible cost structures, while leveraging their networks and new technology (just as on the parcel side). There is certainly plenty of room to innovate: On the one hand, reducing physical service levels as mail volumes fall can reduce costs (examples: Canada and Italy). On the other, adding customer friendly hybrid solutions, such as daily digital plus on-demand physical delivery, can increase revenues.

On the parcel side, competing effectively will require continuous focus on understanding customer hassles better than Amazon and where customers are willing to pay to reduce those hassles. Cost

management and operational excellence will be underlying requirements, rather than differentiating factors. Strategic partnering and favorable e-commerce contracts will be important to bring innovations to the table and secure the postal service role in the logistics chain.

And let us not forget that some of the largest e-commerce companies and consumer goods manufacturers globally, like Alibaba, are eagerly looking from Asia toward European and US markets, seeking distribution (and possibly one-stop-shopping) partnerships. That alone is a whole new game and could lead to a new industry structure. Unlike Dorothy in the *Wizard of Oz*, postal services can't go home again. They do have a future, but it's one they must create for themselves.

---

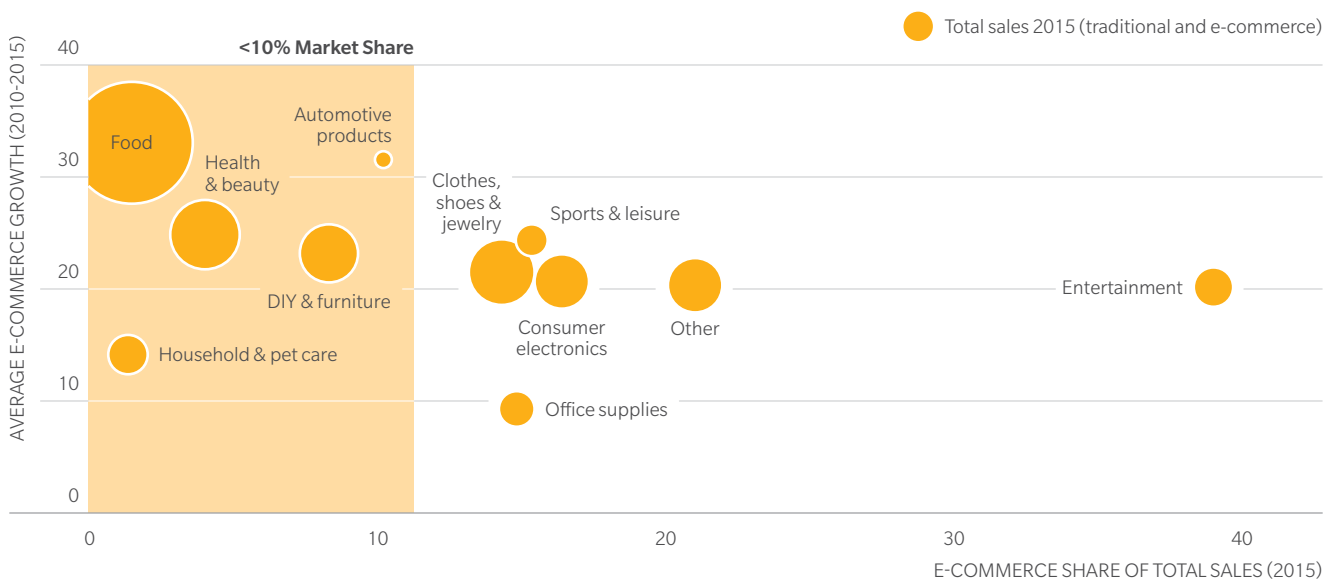
SEBASTIAN JANSSEN

Principal  
sebastian.janssen@oliverwyman.com

MICHAEL LIEROW

Partner  
michael.lierow@oliverwyman.com

MATURITY OF E-COMMERCE MARKET SECTORS  
US, GERMANY, FRANCE, GREAT BRITAIN



Source Planet Retail, Oliver Wyman analysis