Postal Observatory: 2004

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Preamble

In 2005, *Autorité de régulation des communications électroniques et des postes* (ARCEP) decided to create a Postal Observatory, based on the model of its Electronic Communications Market Observatory. So, it established a survey in order to collect data on the postal market, as required by the law of 20 May 2005 on the regulation of postal activities (article L.135 of the Post and Electronic Communications Code).

The aim of the Observatory is to provide sector players and the public with major sector indicators (revenues, traffic volumes and number of access points). To provide a sufficiently complete view of the markets in question, the Observatory is not limited to those activities requiring an authorisation (distribution of items of correspondence, including cross-border), but also covers mail preparation, express mail and parcel activities[1]. This is why we also questioned firms which are outside of the scope of application of the authorisations regime, and the federations representing them.

This publication presents the results of the initial collection of information covering the activity of firms in France in 2004. It is an initial approach to postal markets.

I. Range of markets

The graph below presents the volumes of postal items processed and corresponding sales. It also gives examples of active firms on the different markets studied.

[1] Cf. Appendix.

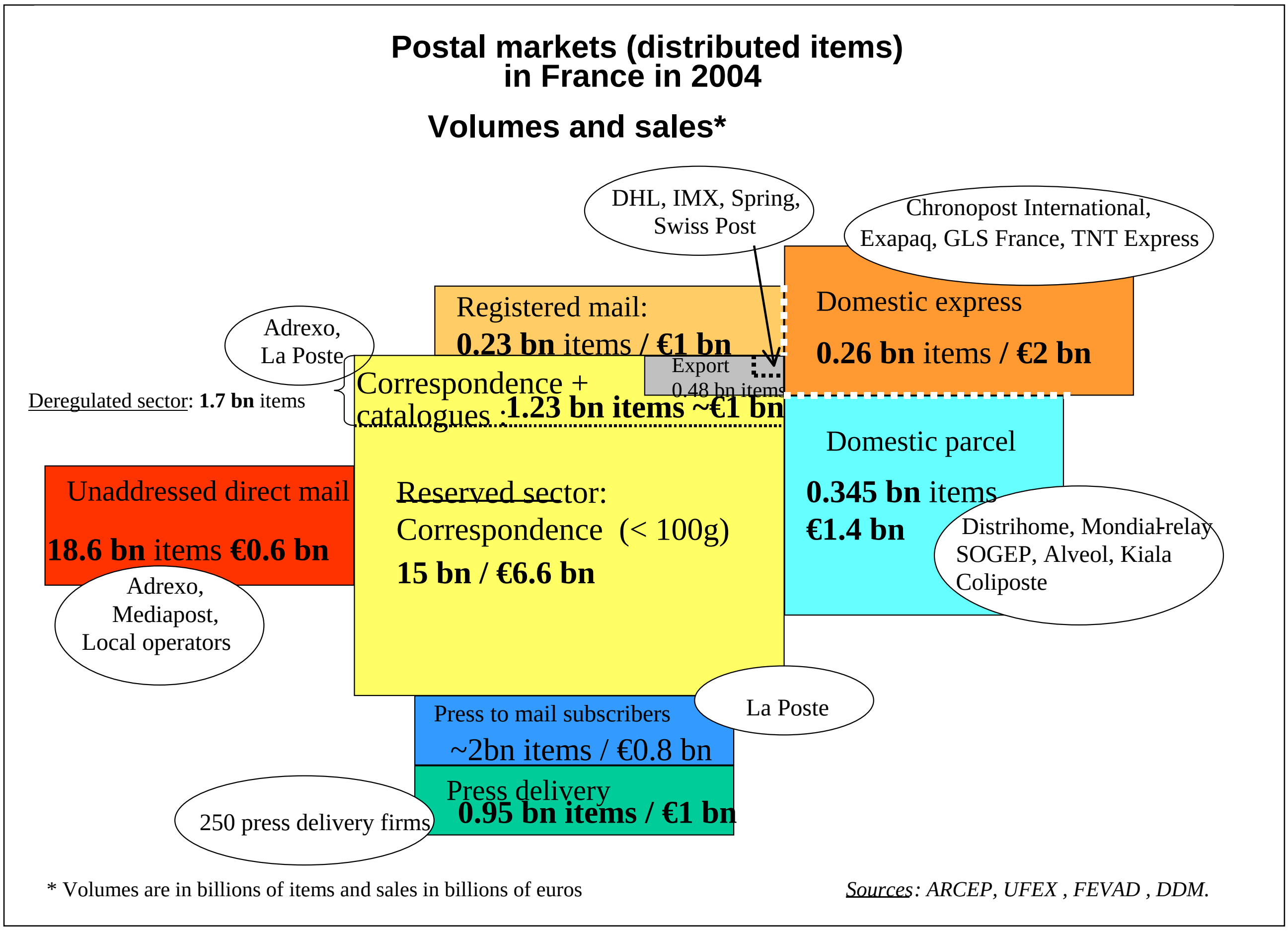

Diagram no.1

The diagram shows the volumes of items most commonly distributed or processed by the operators surveyed; there are almost as many unaddressed items[2] alone (18.6 billion) as addressed mail, broken down here between letters, publications, parcels, registered mail and express mail.

A large share of items of correspondence (15 billion out of 16.2 million items) is covered by the reserved area with a monopoly on items of correspondence weighing less than 100g[3].

The diagram also shows the different means of distribution: point-to-point express delivery with guaranteed delivery times and proof of delivery, and “traditional” distribution to mail boxes. This second form of delivery can also be used for press delivery based on subscriber lists.

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[2] Unadressed items are not considered to be postal mail under the postal activities regulation law or under the postal directive modified in 2002. However, the distinction is less clear in INSEE’s nomenclature (NAF), since unaddressed direct mail can be classified under 74.4 as “Advertising” for “the distribution of advertising leaflets and samples”, or under 64.1 as “Post and mail activities” for the distribution of “unadressed bulk mail”.

[3] La Poste’s monopoly weight limit was lowered to 50g on 1st January 2006.

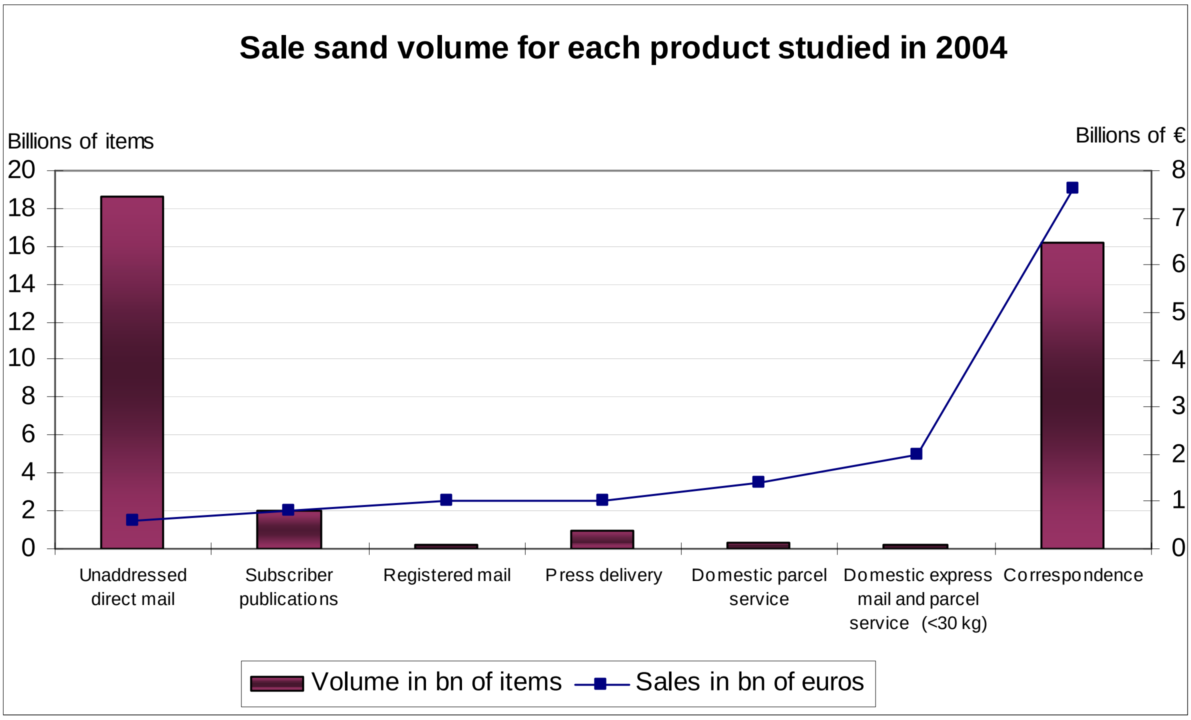


Diagram no.2

The broad range of average prices for each product reflects the dispersion of costs for the distribution techniques used. The least costly is direct mail (€0.03 for unaddressed items) and the most costly are parcels, registered mail (about €4.00 per item) and express mail (about €8.00 per item). The lines between the registered and express mail markets[4] and between the express and parcel markets[5] are not totally clear and could change.

[4] Both are "value added" services involving delivery with signature, and both require specific processing.
[5] The discriminating criteria between these two segments are not always clear either: weight limits, guaranteed delivery times, etc.

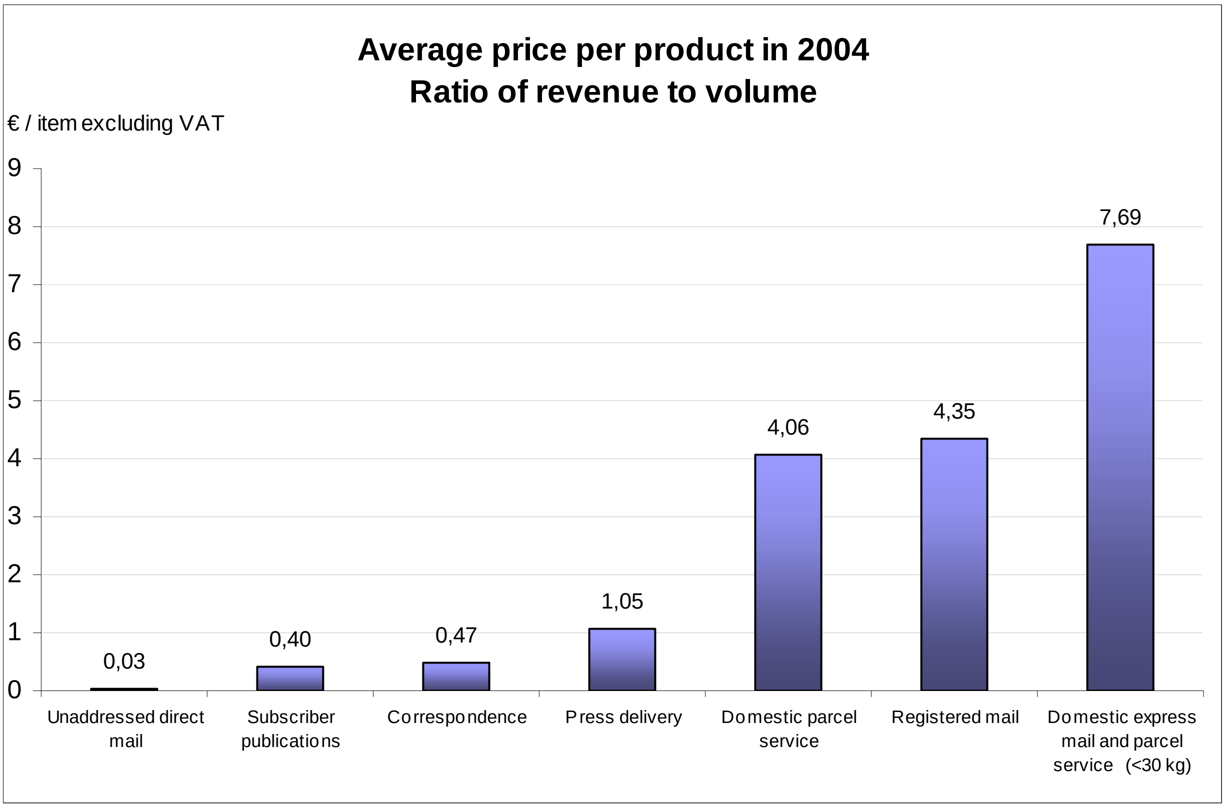


Diagram no.3

1) <u>The distribution of items of correspondence</u>:

Correspondence represent about 16.7 billion items, including export. The majority—about 90% of all items of correspondence (excluding registered mail)—is covered by the postal monopoly.

In November 1998, the firm CTcon conducted a study for the European Commission[6]: *"Study on the Weight and Price Limits of the Reserved Area in the Postal Sector"*. In this study, it analysed total mail flows for 11 European countries. The graph below illustrates the breakdown of mail flows in volume in 1998:

[6] For the study, CTcon analysed close to 38.55 million items of correspondence and 14.107 million mass mailing items addressed in 11 European countries: Belgium, Germany, Denmark, Greece, Luxembourg, France, Austria, Italy, Portugal, Ireland and the UK.

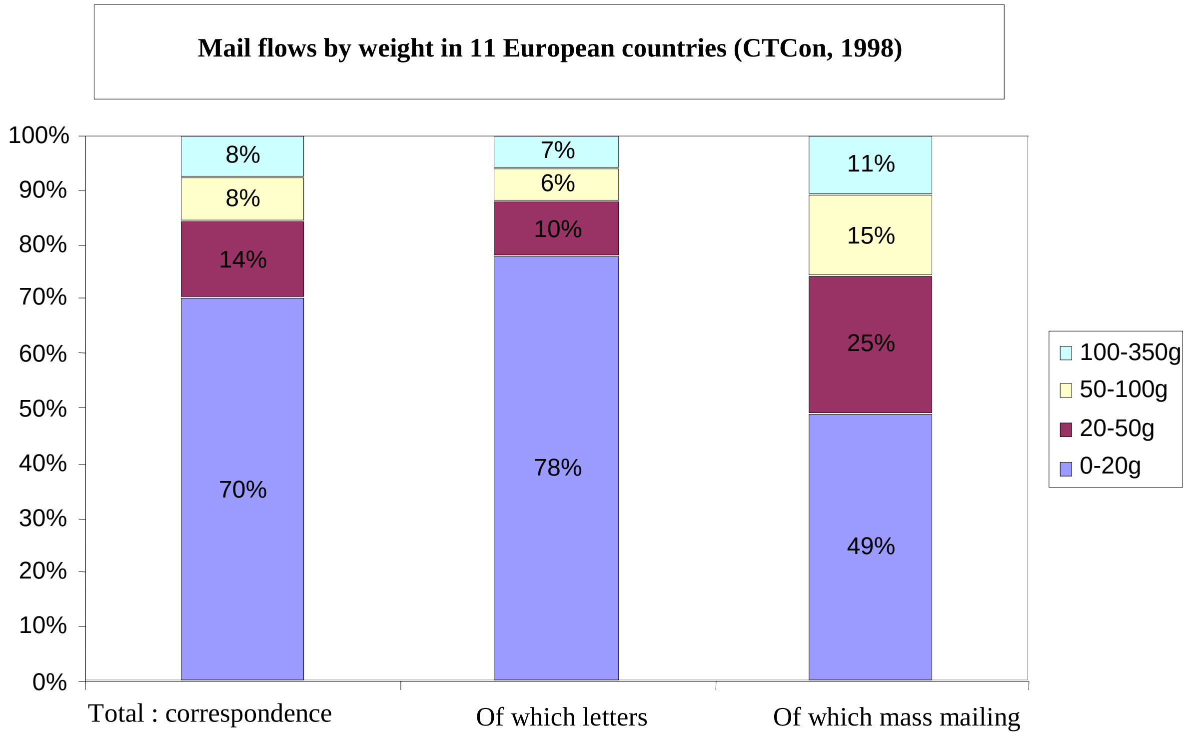


Diagram no.4

According to this study, in 1998 in the 11 countries studied, the market open to competition represented 8% of mail flows, that is, 7% of letter flows and 11% of mass mailing flows. If the limits of the reserved area had been lowered from 100g to 50g in 1998, it would have doubled the volume of the market open to competition (from 8% to 16% for all items of correspondence).

In this area, ADREXO is La Poste's main competitor. This subsidiary of the Spir Communications group uses its primary activity of unaddressed printed matter distribution to develop an addressed mail distribution service offer.

The special case of international mailing:

All weight brackets of the outgoing international mail segment are open to competition. Most of the alternative operators are subsidiaries of European postal operators (Deutsche Post Global Mail, Swiss Post, Spring)—except for IMX—and have only sales offices in France.

2) Publication distribution:

Publications are distributed by three channels:

- Urban press messenger services (NMPP and MLP[7]) make deliveries to newsstands
- Publications delivery services: publication publishers deliver their daily publications themselves or have them delivered
- Distribution by La Poste

[7] *Nouvelles Messageries de la Presse Parisienne* and *Messageries Lyonnaises de Presse*.

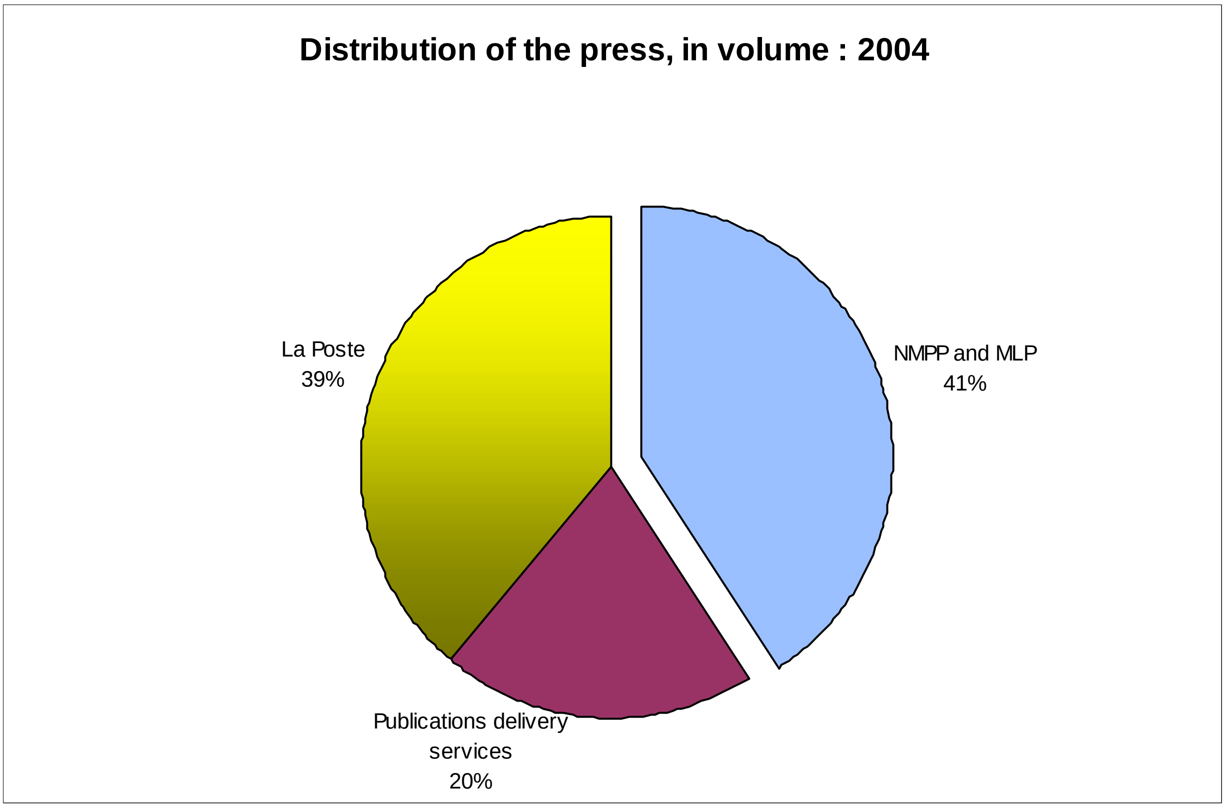


Diagram no.5

Only publications delivery services (about 250) and La Poste are covered by this Observatory. Publications delivery represents an alternative to postal distribution: these are networks for the distribution of daily newspapers created by publishers, without using the services of La Poste.

Excluding distribution by NMPP and MLP, home publication distribution (publications delivery services and distribution by the La Poste) represents about 3 billion items, of which two-thirds is distributed through the postal circuit and one-third through publications delivery services, for about €1.8 billion[8] in total sales in 2004.

3) <u>The domestic parcel market</u>:

The parcel market (0 to 30kg) is characterised by much longer delivery times than express mail. It is completely open to competition but is partially regulated: universal service guarantees a parcel offer up to 20kg available across the entire country. ARCEP’s observatory does not cover “heavy” messenger services.

[8] According to a 2003 estimate by the *Direction du Développement des Médias* for publications delivery sales. Corresponding traffic is an estimate of SNELPD and *l’Observatoire de la Presse Grand Public* (2004).

Coliposte, La Poste's parcel division is positioned on all segments of the domestic parcel market (B-to-B, B-to-C, C-to-B and C-to-C), but has real competition on only two segments:

- B-to-B: especially with Exapaq
- B-to-C: mail order groups (Les 3 Suisses, La Redoute and Yves Rocher) have set up their own home delivery networks: Mondial Relay, SOGEP and Distrihome. Plus, since traditional home delivery is not always an appropriate response to the needs of consumers, who increasingly want delivery in phase with their active lifestyle, mail order sellers also offer delivery at collection points with Alvéol, Kiala and Sogep.

In 2004, the market observed concerned a total of 345 million items, for sales of €1.4 billion.

4) The domestic express market:

Express transport is the delivery of objects and postal items with guaranteed delivery times and point-to-point distribution, from the sender to the recipient. For international traffic, integrators offer services based on air travel. Express courier services offer their clients computer tracking and proof of delivery for their items. The existence of all these services can explain why a customer can pay upwards of €30 for a domestic item weighing less than 100g sent express compared with €1.22 for the same item sent by priority post.

The French express market is marked by an extreme segmentation of offers with different delivery times but also a vertical segmentation of offers by industry. Couriers constantly introduce new services in order to set themselves apart on a particularly competitive market.

The domestic express market is divided between offers for postal items and "light parcels" weighing less than 30kg (which is the core of the express market) and "all weights" offers. The main express couriers—Chronopost International, Exapaq, GLS (General Logistics Systems) and TNT Express—are positioned on the "light parcels" segment.

According to a UFEX estimate, the market observed (the "light" parcel segment) concerns about 260 million items, representing sales of about €2 billion in 2004.

5) Distribution of unaddressed direct mail:

The market for the distribution of unaddressed postal items (with no address or name) is fully competitive. According to the regulation of postal activities law, unaddressed direct mail is not considered a postal item.

Unlike "addressed mail", unaddressed direct mail does not require collection, sorting or daily delivery routes. Unaddressed direct mail uses geomarketing techniques based on a clear segmentation of prospects with a fine definition of the target area.

This market is particularly well developed in France because of the size of the supermarket and department store distribution sectors, which are major users of this media. However, sector players expect to see changes because of modifications to the decree[9] which formerly prohibited television advertising for several sectors, including supermarket distribution.

This market is now dominated by two major national operators: in 2004, over 18.6 billion unaddressed mail items were distributed in France by Mediapost (subsidiary of La Poste), by Adrexo and by a myriad of small local operators. Total sales are estimated at €600 million.

II. Activities upstream of distribution

Mail preparation is defined by the European Commission as "an activity upstream of acceptance of the items by La Poste as part of the services it provides within the reserved area." (decision no.2002/344/EC of 23 October 2001).

Historically, mail preparation firms perform several types of preparatory operations, upstream of La Poste's activities: making up of postal items (binding, finishing, addressing, enveloping or plastic wrapping and "parcelling"), sorting (grouping in bundles and mail bags by destination) and franking.

Large originators of mail (banks, insurance companies, major corporations) have their mail (bank statements, receipts, invoices, etc.) prepared by specialised mail preparation firms, according to varying levels of sophistication depending on the type and volume of mail sent.

The activities of mail preparation firms[10] have become more diversified; some of them offer a whole range of services, through the use of computerisation:

- sale of files and processing of computer data
- order preparation and dispatching

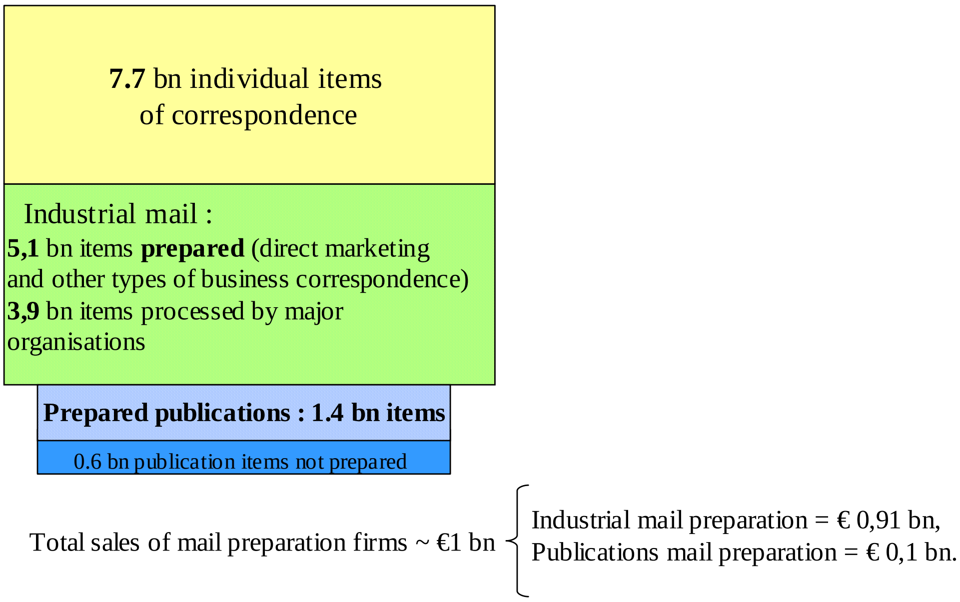
There are eight major areas of diversification: direct marketing, mail order logistics (fulfilment), printing, storage and transport, archiving and electronic document management (for business correspondence), computing, customer relations management (for direct marketing). So, mail preparation firms can intervene either upstream or downstream of La Poste's traditional activities.

Mail preparation establishes relations between the advertiser-originator and the mail preparation firm, and between the mail preparation firm and La Poste.

So, mail preparation introduces competition on markets upstream of the postal sector (collection, sorting and transport on the one hand, and mail preparation and consolidation, on the other).

[9] Decree of 27 March 1992 modified by the decree of 7 October 2003 on television advertising and prohibited sectors.
[10] SNELPD includes about 200 mail preparation firms which regularly deposit mail with La Poste and which can therefore be considered as being active on this market.

Share of industrial mail in postal items in France in 2004



Sources : ARCEP estimated, SNELPD, Triangle study 2004 commissioned by ARCEP.

N.B. : Parcels can also be prepared, but the Observatory did not study this market.

Diagram no.6

In 2004, industrial mail (bulk mail sent by major originators) represented about 50% of all items of correspondence sent. This is bulk mailing of addressed direct mail and business correspondence (invoices, bank statements). The share of industrial mail depends on La Poste’s commercial offer for this type of mailing.
The rest is individual mail from consumers, small businesses, as well as from major originators which also send mail individually.

According to SNELPD figures, mail preparation is provided by about 200 specialised firms in France. There are mail preparation firms specialising in direct marketing, in business correspondence and in publications.

1) Mail preparation for direct marketing and business correspondence:

Fifty-six percent of industrial mail (direct marketing and business correspondence)—or 5.1 billion items—is processed by mail preparation firms. The rest is prepared directly by major originators before being dropped off at La Poste.

According to SNELPD, 80% of all addressed direct mail (or direct marketing) traffic was processed by mail preparation firms in 2004; 15% of this traffic comes from small mail flows consolidated by bundling firms.

Laser printing preparation firms are mail preparation firms specialising in desktop publishing of business correspondence (invoices, bank statements, receipts, etc.).
This activity is different from direct marketing mail preparation because it requires more sophisticated equipment, a more qualified workforce, and above all, different treatment of mail (guaranteeing the security, confidentiality and integrity of the item).
This segment is dominated primarily by large groups which have several production sites across France.

According to SNELPD, 35% of all business correspondence traffic was processed by mail preparation firms in 2004.

2) Publications mail preparation:

Subscriber publications are prepared by specialised firms working in close collaboration with publishers and La Poste. These firms are responsible for making up postal items, franking and sorting, and for shipping daily newspapers and other periodicals.

According to SNELPD, 76%, or 1.4 billion copies, of subscriber publications distributed by La Poste was processed by mail preparation firms in 2004.

Of all subscriber publications distributed by La Poste, mail preparation firms handled two-thirds of urgent publication mailing and all non-urgent publication mailing.

III. Breakdown of traffic and sales for all postal activities represented

Based on diagrams 1 and 6, we can summarise all the results as follows:

	2004 values	
Activity	**Volumes (billion)**	**Sales (€ billion)**
Correspondence and catalogues*	**16.71**	**7.60**
- Individual mail	7.71	N/A
- Industrial mail (non prepared)	3.90	N/A
- Industrial mail (prepared)	5.10	N/A
Registered mail	**0.23**	**1.00**
Subscriber publications	**2.95**	**1.80**
Circuit postal	2.00	0.80
- *Prepared*	*1.40*	N/A
- *Non prepared*	*0.60*	N/A
By publications delivery	0.95	1.00
Domestic parcel	**0.35**	**1.44**
Domestic express	**0.26**	**2.00**
Unaddressed direct mail	**18.60**	**0.60**

* This product category can also be broken down as follows:

-	Reserved area	15.00	6.60
-	Liberalised sector (excl. export)	1.23	1.00
-	Export	0.48	N/A
	Total	**16.71**	**7.60 (excluding export)**

IV. Access points to postal network

Access points are physical facilities, including letter boxes provided for the public either on public roads or at the premises of the universal service provider, where customers can deposit postal items for processing.

In Metropolitan France at end 2004, there were:

- 13 722 post offices managed by La Poste
- 3 225 postal outlets, municipal postal outlets and retail postal outlets
- 140 500 letter boxes ("yellow boxes")

To these access points, should be added:

- 33 800 tobacconists and department stores which sell stamps or pre-stamped envelopes for La Poste
- About 270 000 firms which frank their own items, using a postage meter, printing the meter impression by the type of product and weight step

In 2004, 125 000 mail carriers or distributors delivered mail to 26 million individual mail boxes.

APPENDIX

Operators surveyed for the 2004 data collection:
- Adrexo
- Belgian Post International
- DHL
- IMX France
- La Poste
- Spring
- Swiss Post International

Professional organisations surveyed for the 2004 data collection:
- Association des Prestataires de services en Editions Multi-Média (APEM): mail preparation
- Syndicat national des entreprises de logistique de publicité directe (SNELPD): mail preparation
- Union Française de l'Express (UFEX): express market
- Fédération des entreprises de vente à distance (FEVAD): parcel market