PART 3

Postal sector

PART 3
CHAPTER I

Postal markets according to the postal activities observatory

3

A. *Market segmentation and overview*

B. Observatory findings by market

In preparing to assume the postal regulatory mission conferred on it by the law dated 20 May 2005, ARCEP conducted various studies[1] and in 2005 met with sector businesses, particularly those that would become authorised operators.

In order to engage in dialogue with the sector players and obtain a clearer picture of the future of the sector, the Authority dedicated its 10th Meeting to postal regulation and related issues. More than 200 delegates, including representatives of several European regulatory bodies, followed the four roundtable debates held on 6 October 2005 at the Université Paris-Dauphine. Led by members of the Authority, these discussions provided a forum for addressing various issues relating to the evolution of postal markets, innovation in the sector, and universal postal service and its regulation[2].

The lack of clear and current sectoral information in Europe has been underscored by several[3] studies on the postal sector. Moreover, the European Commission has asked the Member States to begin gathering statistical data in this area again. Therefore, the Authority decided to create an observatory for French postal activity using the electronic communications markets observatory as a model. The aim of this observatory is to make sector indicators available to sector players and the public once again.

1 Evaluation of user expectations for single-piece mail, conducted by TNS-Sofres for ARCEP and audit of La Poste D+1 letter service quality measurement, conducted by Ernst & Young for ARCEP. These two studies were presented in the section relating to universal postal service.

2 A report of this 10th Meeting is available on the ARCEP website.

3 Synergies sectorielles dans le domaine du courrier, BIPE study of sectoral synergies in the mail domain, August 2005 and "Main Developments in the European Postal Sector", WIK-Consult, 2004.

A. Market segmentation and overview

Postal activities are complex in form and content. The core postal items market is covered by the universal service obligation and is still highly monopolistic in the segment for correspondence items. It is surrounded by several "related" markets (delivery of newspapers and periodicals, express items and unaddressed advertising). Technological change and the opening of markets to competition mean that the postal market is interacting more and more with related markets.

1. Postal items market

Article L.1 of the CPCE *(Code des Postes et des Communications Électroniques)* defines postal services as "the clearance, sorting, routing, and distribution of postal items in the course of regular rounds". A postal item necessarily bears an address and may be correspondence, printed matter, or a parcel.

La Poste has a reserved area of activity to compensate for its universal service obligations. The scope of this monopoly was reduced on 1 January 2006 from correspondence items of 100g (letters and addressed advertising) to those of 50g (or 2.5 times the base rate). The monopoly also includes incoming cross-border mail weighing less than 50g.

Outside of this monopoly, the following are open to competition:

- correspondence items weighing more than 50g (or charged at more than 2.5 times the base rate);
- outgoing cross-border mail (export mail);
- newspapers and periodicals;
- registered mail;
- parcels.

The table below provides an overview of the various postal item markets based on observatory findings (described further in the following paragraphs):

	2004 values	
Postal items	**Volume** (millions of articles)	**Turnover** (€ billions)
Correspondence and catalogues:	**16.71**	**7.60**
1. Single-piece and bulk mail		
• Single-piece mail	7.71	Unavailable
• Unaddressed bulk mail	3.90	Unavailable
• Addressed bulk mail	5.10	Unavailable
2. Reserved and liberalised areas		
• Reserved: Domestic and incoming cross-border correspondence ≤ 100 g	15.00	6.60
• Liberalised (apart from export): Correspondence >100g and catalogues	1.23	1.00
• Export	0.48	Unavailable
Registered mail	0.23	1.00
Newspaper and periodical delivery to subscribers by post	2.00	0.80
Domestic parcels	0.35	1.44

Source: ARCEP Postal Activities Observatory.

The proposed breakdown of correspondence traffic and turnover reflects several types of postal use.

"Industrial" or "bulk" mail designates multiple items of the same format that are sent by a single user from a single site , and applies to mail that is computer-generated in large quantities, such as bills, bank statements, addressed advertising and periodicals. Thus, bulk mail is fully prepared (pre-sorted) and sent by a relatively small number of major senders to a large number of households.

Major senders may choose between preparing their bulk mailings themselves and subcontracting the activity to a mailing house.

Since production dates for such mail are regular and predictable, customer expectations with regard to transit time are focused more on reliability than on urgency. Given the characteristics of this type of postal traffic, it can be commercialised and distributed at costs significantly lower than those of single-piece mail and express mail. Depending on the country, bulk mail accounts for 50% to 70% of the correspondence traffic of incumbent operators.

Single-piece mail[4] is sent per unit or in small quantities by individuals, business persons, and even major senders. It does not require any special preparation and may be deposited in collection boxes found in public places or near sorting centres, or indeed at any La Poste point of contact.

4 For further details, see the study performed by ARCEP on postal practices and user expectations for single-piece mail in the section on universal postal service.

2. Other markets analysed in the observatory

Several "related" markets exist around the core postal delivery market described previously:

- Newspaper and periodical delivery provides an alternative to postal distribution. In fact, certain periodical and newspaper publishers have created their own distribution networks. According to the *Direction du Développement des Médias (DDM[5])*, the directorate for media development, subscriptions account for an average of 27% of the circulation of newspapers and periodicals in France. Despite some significant differences between different types of publication, newspaper and periodical delivery is still relatively underdeveloped in France compared to other countries. In the Netherlands, it represents 88% of daily newspaper circulation, in Germany 60%, and in the United Kingdom 50%.

5 The DDM reports to the prime minister and is managed by the government Secretariat General.

- The market for distribution of unaddressed mail (messages without a personal reference, with no address or name) is totally competitive. Under the law regulating postal activity, unaddressed advertising is not a postal item. In contrast to the economics of "addressed mail", this type of mail does not require collecting, sorting, or daily delivery rounds. The economics of unaddressed advertising are suitable for geomarketing techniques based on precise prospect segmentation and close targeting in the chosen sales area. This market is an interesting one to study because users of unaddressed advertising rely on the distribution of unaddressed printed matter to develop addressed distribution services.
- Finally, the ARCEP observatory monitors domestic express services in the letter and "light" parcel (up to 30kg) segments. Express transport refers to the delivery of items with guaranteed routing times and point-to-point distribution from the sender's door to the receiver's. Services offered by integrators rely particularly on air transport. Customers of express courier services benefit from automated tracking and proof of delivery for their items. All of these services explain why a customer might pay up to about €30 to send an item weighing less than 100g by express rather than pay €1.22 to send the same item by priority mail.

B. Observatory findings by market

This publication summarises the results of ARCEP's initial data-gathering effort, conducted from October through December 2005 and covering the main operators currently engaged in authorised activities (which at the time were the seven operators "to be authorised").

Operators falling outside the scope of this authorisation scheme were contacted through their industry associations[6]:

- APEM and SNELPD for mailing houses.
- UFEX for express operators.
- FEVAD for remote sales businesses (parcel market).

Six of the seven companies solicited responded to the statistical questionnaire and were consulted for the next statistical survey in 2005. The associations, to the extent that they responded, made estimates for all of their particular market.

1. Distributed postal items and related markets

Distribution is a labour-intensive activity in which networks specialised in handling certain types of items (newspapers and periodicals, unaddressed advertising, residential parcel, business-to-business parcel, express, etc.) coexist with a multi-purpose universal network - the postal network - that is present everywhere and distributes a great variety of items that are generally addressed.

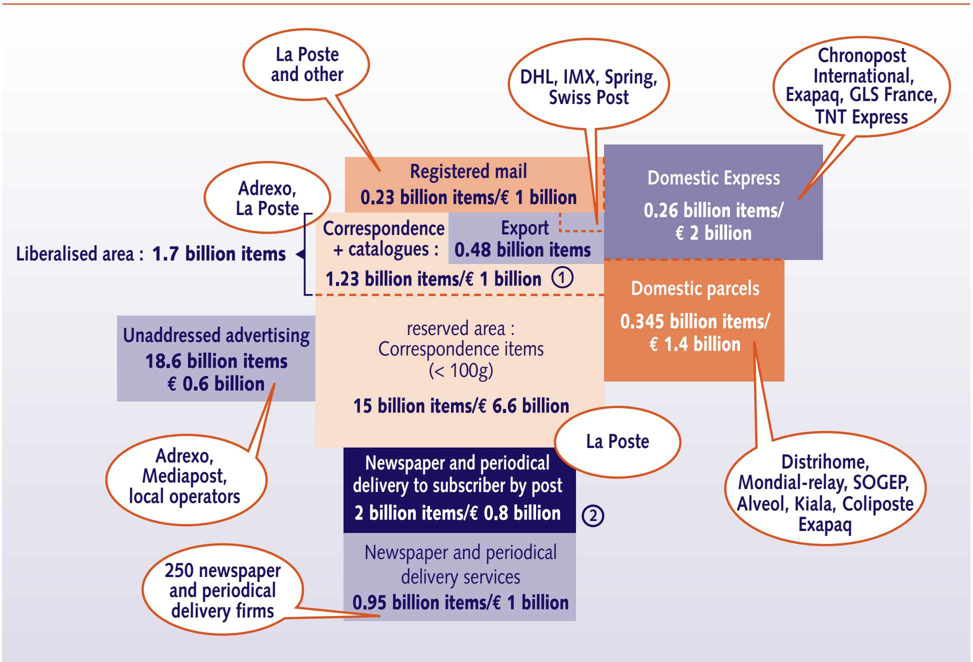
The following graphic provides an overview of French postal markets and provides examples of companies engaged in the various markets being monitored.

6 SNELPD: *Syndicat national des entreprises de logistique de publicité directe.* FEVAD: *Fédération des entreprises de vente à distance.* APEM: *Association des Prestataires de services en Editions Multi-Média.* UFEX: *Union française de l'Express.*

Postal markets (delivered items) in France in 2004

Volume and turnover:

Volume is expressed as billions of items, and turnover is expressed as billions of euros. Rectangle size does not correspond to volume or turnover.



Source: ARCEP, UFEX, FEVAD, DDM, UPU.

① Under the law regulating postal activities, catalogues are not considered correspondence items.

② Postal services offered as a public service for the transportation and distribution of newspapers and periodicals, the State's contribution included.

This diagram first of all shows the volume of items distributed or handled for the most part by the various operators surveyed: unaddressed items[7] alone (18.6 billion items) are practically as great in number as addressed items, which are broken down here by letters, newspapers and periodicals, parcels, registered mail and express items.

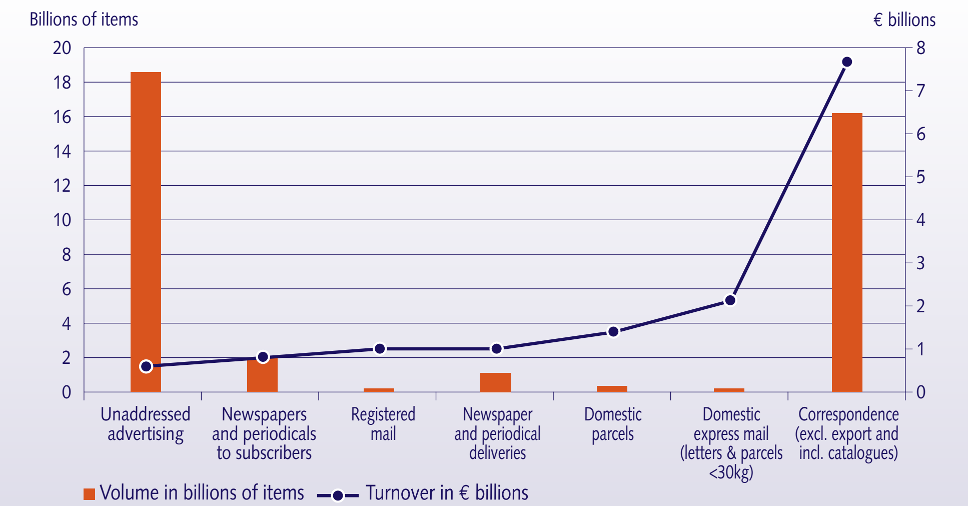
The reserved area, with the monopoly in correspondence items weighing less than 100g[8], still accounts for a high proportion of total correspondence items - 15 billion out of 16.2 billion items.

The diagram also reveals the different modes of distribution: point-to-point distribution with guaranteed routing time and proof of delivery of the express item and "conventional" distribution to letter boxes. The latter can be provided by newspaper and periodical delivery firms using subscriber lists.

7 Unaddressed items are not postal items either in terms of the law regulating postal activities or in terms of the Postal Directive as amended in 2002. It is not as clear where INSEE's NAF nomenclature is concerned, since unaddressed direct mail can be considered either Class 74 (distribution of advertising circulars and samples) or Class 64 (distribution of unaddressed items in volume).

8 On 1 January 2006, the La Poste monopoly weight limit was lowered to 50g and the price was lowered to 2.5 times the base rate.

Turnover and volume per product studied in 2004



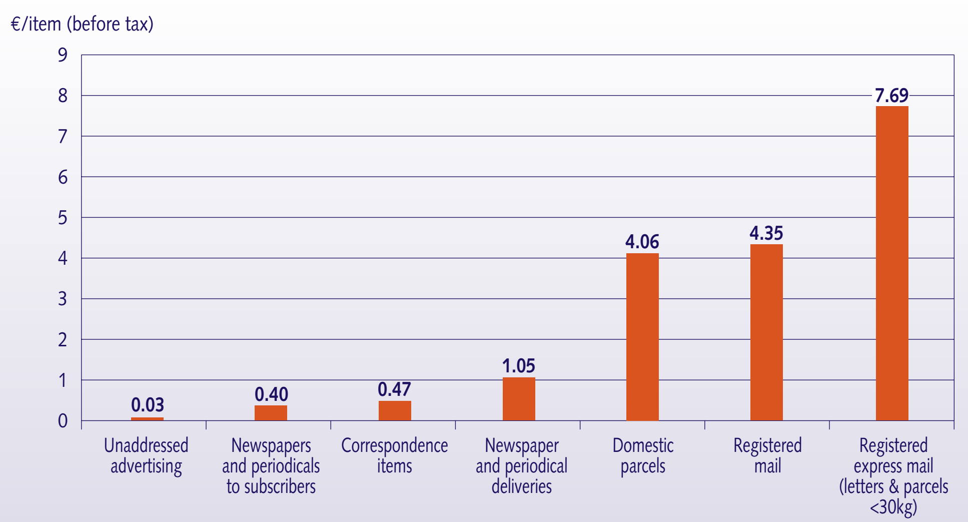
Source: ARCEP.

9 Both of these are value-added services requiring a signature for delivery and involving special handling.

10 The ways in which the two segments differ are not always clear: weight limits, delivery-time guarantees, etc.

Differences in the average price per product are driven particularly by differences in the cost of the distribution technique employed. The least costly distribution mode is unaddressed (€ 0.03 per item of unaddressed printed matter) and the most costly distribution modes are parcel, registered mail (about € 4 per item), and express (about € 8 per item). The boundaries between the registered and express delivery markets[9] and between the express and parcel delivery markets[10] are not entirely clear and will probably change.

Average price per product in 2004.
(revenue divided by volume)



Source: ARCEP.

1.1. Delivery of correspondence items

Correspondence (including catalogues) accounted for 16.7 billion items. This figure includes export mail and volume handled by La Poste's competitors for domestic delivery and export. The largest part of this is accounted for by the postal monopoly - 90% of total correspondence items (excluding registered mail).

ADREXO is the leading competitor to La Poste in this domain. The principal activity of this Spir Communication subsidiary is the delivery of unaddressed printed matter aimed at developing addressed distribution services.

The outgoing international (export) mail segment is open to competition in all weight categories. With the exception of IMX, alternative operators for the most part are subsidiaries of other European postal administrations (Deutsche Post Global Mail, Swiss Post, Spring, etc.) and have only sales offices in France.

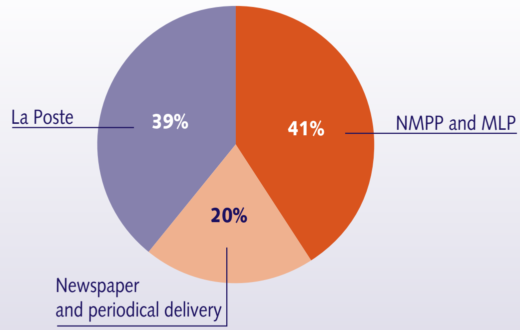
1.2. Delivery of newspapers and periodicals

Newspapers and periodicals are delivered via three channels:

- Urban newspaper and periodical delivery services (NMPP and MLP[11]) supply retail distribution points (such as news-stands).
- Newspaper and periodical delivery: Periodical and newspaper publishers distribute their daily newspapers themselves or make their own arrangements for distribution.
- Delivery by La Poste.

11 *Nouvelles Messageries de la Presse Parisienne and Messageries Lyonnaises de Presse*

Newspaper and periodical distribution, by volume 2004
(by volume)



Source: ARCEP.

Only the newspaper and periodical delivery services (some 250) and La Poste fall within the scope of the observatory. Newspaper and periodical delivery is in effect an alternative to postal delivery. It involves the use of networks created by newspaper and periodical publishers to distribute their daily publications without going through La Poste.

Apart from the portion distributed by NMPP and MLP, home delivery of periodicals in 2004 (both via newspaper and periodical delivery and via postal distribution services) represented about 2 billion delivered items - two-thirds carried by post and one-third by newspaper and periodical delivery services - for total turnover of about € 1.8 billion[12].

12 According to ARCEP's surveys and the 2003 estimate of newspaper and periodical delivery turnover. Traffic estimates are based on ARCEP's 2004 survey and the 2004 Mass Media Observatory.

1.3. Domestic parcels market

Coliposte, the division of La Poste in charge of parcels, is positioned in all segments of the domestic parcel market (B2B, B2C, C2B and C2C) but faces competition particularly in:

- The B2B segment notably from Exapaq.
- The B2C segment: in this segment mail-order groups (3 Suisses, La Redoute, and Yves Rocher) have established their own home-delivery networks with Mondial Relay, La Sogep, and Distrihome. Moreover, remote retailers in conjunction with Alvéol, Kiala and La Sogep are offering delivery for pickup at third-party locations since traditional home delivery no longer satisfies the needs of consumers who increasingly want delivery via a method that suits their lifestyle especially if they are working.

In 2004, this market accounted for a total of 345 million items and turnover of € 1.4 billion.

1.4. Domestic express market

The domestic express market is divided among letter, "light parcel" (for parcels weighing less than 30kg, which constitute the core of the express market), and "any weight" services. The leading express carriers, Chronopost International, Extand, GLS (General Logistics Systems) and TNT Express focus on the "light parcels" segment.

According to a UFEX estimate, the observed market (the "light parcels" segment) in 2005 accounted for about 260 million items and turnover in the order of € 2 billion.

1.5. Distribution of unaddressed advertising

This market is particularly well-developed in France because of the size of the mass retailing sector and the number of specialised hypermarkets using this medium. But sector players are expecting changes following the amendment of the decree[13] which prohibits television advertising in various sectors, including mass retailing.

13 Decree of 27 March 1992 on televised advertising and prohibited sectors, as amended by the Decree of 7 October 2003.

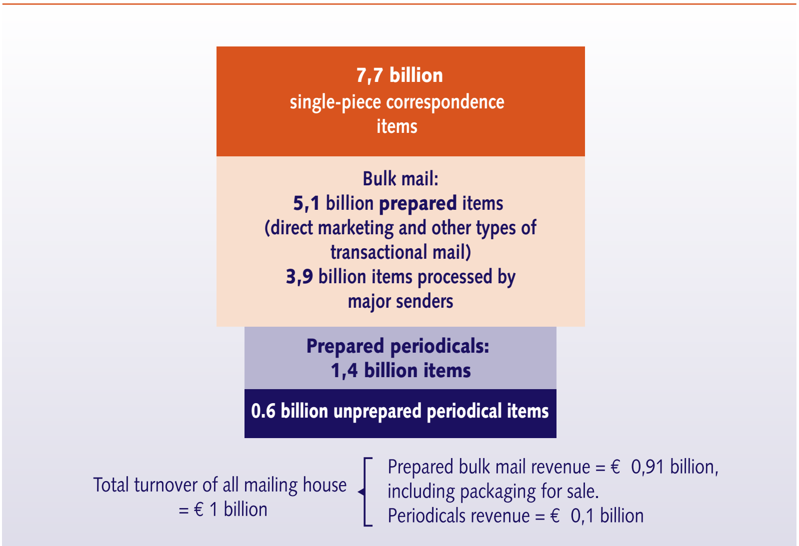
This market is already dominated by two major national operators: in 2004, more than 18.6 billion unaddressed items of printed matter were delivered in France by Mediapost (a La Poste subsidiary), Adrexo and countless small local operators, with turnover totalling an estimated ¤600 million.

2. Upstream activities: the mail-preparation market

In 2004, bulk mail (volume items sent by major senders) accounted for about 50% of total correspondence items sent. Bulk mail is addressed advertising and transactional mail (bills, bank statements) sent in large quantities. The remainder is single-piece mail from private individuals, small businesses, and also major senders who send single-piece mail.

The percentage of bulk mail compared to the total number of correspondence items is determined by the La Poste tariffs and is subject to change.

Bulk Mail Share of Postal Items in France in 2004



N.B. : Parcels may be prepared also, but the observatory has not studied this market.
Sources: Estimates from ARCEP, SNELPD, and the *Étude Triangle 2004* study conducted on behalf of ARCEP.

Many firms (mailing houses) are involved in printing, enveloping and preparing volume mailings and thus introduce a form of competition into the postal sector. These activities upstream of postal services deal with the production of mail before it is submitted to La Poste or another postal operator. Major senders may also take on responsibility for these activities themselves.

The mail preparation activity leads to relationships being established between the sender-advertiser and the mailing house on the one hand and between the mailing house and La Poste on the other.

According to SNELPD statistics, mail preparation services in France are provided by about 200 specialised firms. There are mailing houses specialised in direct marketing and transactional mail and others specialised in newspapers and periodicals.

Mail preparation

A firm (or mail sender-advertiser) can arrange its volume mailings to be prepared, upstream of delivery, by calling on a mailing house. Not all markets lend themselves to the mail preparation activity: unaddressed advertising, because it does not need sorting, and registered mail, because it requires secure handling and therefore cannot be subcontracted.

Customarily, mailing houses carry out several types of pre-posting operation upstream of La Poste's activities: postal item packaging (collating, folding, addressing, enveloping or polywrapping and packing), sorting (batching in bundles and postal sacks by destination) and stamping.

Today, mailing houses[14] are becoming even more diversified in their activity, some offering a comprehensive portfolio of services, thanks mainly to computer automation:

- list brokering and data processing;
- order fulfilment and shipping.

Diversification efforts can be grouped in eight major domains: direct marketing, mail-order fulfilment, printing, warehousing and transportation, electronic document storage and management (for transactional mail), information technology and customer relationship management (for direct marketing).

Mailing houses are thus able to position themselves not only upstream of La Poste's traditional activities but also downstream.

14 SNELPD *(Syndicat National des Entreprises de Logistique de Publicité Directe)* lists some 200 mail-preparation businesses that regularly deposit mail with La Poste and for that reason may be considered active in this market.

2.1. Mail preparation of direct marketing and transactional mail

In 2004, 56% of bulk mail was processed by mailing houses, accounting for 5.1 billion direct-marketing and transactional mail items. The rest was processed directly by major senders before being deposited with La Poste.

According to SNELPD, 80% of total addressed advertising traffic was processed by mailing houses in 2004; 15% of this traffic originated as small mail flows that were consolidated by aggregators.

There are mailing houses that specialise in laser-personalised production of transactional mail (bills, bank statements, receipts, etc.). This activity is different from conventional direct-mail preparation in that it uses more sophisticated machines, more highly skilled labour and – above all – a different way of processing the mail (in order to satisfy requirements concerning the privacy, confidentiality and integrity of the printed matter). This segment is essentially dominated by major industrial groups, which have multiple production sites throughout the country.

According to SNELPD, 35% of total transactional mail traffic was processed by mailing houses in 2004.

2.2. Newspapers and periodicals

The preparation of newspapers and periodicals for delivery to subscribers is carried out by specialised companies that work in close and constant collaboration with publishers and La Poste; they oversee the packaging, stamping, sorting, and shipping of daily and periodic publications.

According to SNELPD, 76% of the newspaper and periodical traffic delivered to subscribers by La Poste in 2004 was processed by these mailing houses, accounting for 1.4 million copies. Of the newspapers and periodicals delivered to subscribers by La Poste, mailing houses processed two-thirds of urgent newspaper and periodical deliveries and all non-urgent newspaper and periodical deliveries.

3. Operator positioning by mail-handling phase

Differences in sender requirements and type of article result in differences in the type of processing and preparation required and - as shown by the preceding paragraph describing mail preparation activities - operators may choose to participate in all or part of the correspondence or newspaper-and-periodical delivery “value chain”.

The value chain illustrated in the following table is a simplified representation of the general components of the production process from sending to receiving party, encompassing the phases of packaging, sorting, stamping, collecting, sorting, transportation, and delivery.

This diagrammatic representation of the various ways that different operators process postal items for delivery can be extended to all of the markets studied in the observatory.

The opening of competition in the correspondence delivery market, the tendency of operators to diversify and the sophistication of operator offerings (such as customised services for publicity campaigns) are shifting the boundaries between upstream markets (before submission to La Poste or an alternative distributor) and those phases generally considered to be downstream.

		Production and packaging	Routing	Distribution
Correspondence 16.71 billion items	Single-piece	Sender or subcontractor	Routing and distribution by La Poste	
	Volume	Production and pre-processing sender or subcontractor (mailing house)	Final routing and distribution by La Poste	
	Volume	Production and routing by sender or subcontractor		Authorised operators
Registered mail		Sender	Routing and distribution by La Poste	
230 million items		Sender	Routing and distribution by another operatorr	
Newspapers and periodicals 2.95 billion items		Sender or subcontractor	Routing and distribution by La Poste	
		Production and pre-processing by sender or subcontractor (mailing house)	Final routing and distribution by La Poste	
		Production and routing by sender or subcontractor		Home delivery
Parcels		Sender	Routing and distribution by La Poste	
345 million items		Sender	Routing and distribution by another operator	
Express		Sender	Routing and distribution by an integrator	
Unaddressed printed matter		Sender		La Poste
18.60 billion items		Sender		An operator

Source: ARCEP.

This analysis could be broken down by the handling processes specific to each type of item and by the level of competition in a given market:

- Addressed mail moves along a value chain that varies in complexity depending on whether the sender is a major account or a private individual:

  - Briefly, volume items sent by major senders (banks, EDF, France Telecom, the *Direction Générale des Impôts* tax authority, etc.) involve a large number of players each with their own specialty in the upstream chain (packaging, pre-sorting and sorting, stamping) or downstream (collection, sorting, transportation, distribution). In the preceding table, the cut-off between upstream and downstream varies from one row to the next.

  - Single-piece mail (dissimilar items sent in small quantities) is not attractive to players other than those providing postal collection and delivery services.

- The economics of express transport presume integrated production resources. Therefore, a single[15] operator is responsible for routing through to delivery and several major express operators offer a range of service options based on whether the customer is an individual or a major account.

15 This does not prevent certain phases from being subcontracted.

PART 3
CHAPTER II

3

Authorisations

Working together with the businesses concerned, the Authority has begun to define the technical content of the obligations that will be associated with authorisations awarded to postal service providers.

A. Authorisation regime applicable to activities recently opened to competition

3

The law regulating postal activities instituted an authorisation regime with a voluntarily limited scope: the market for internal correspondence items, including scheduled delivery[16], and the market for cross-border items.

Indeed, it did not seem useful to extend the system beyond these mail activities. In France, there has never been a regulatory framework established for sectors such as parcel delivery and unaddressed mail. On the other hand, liberalisation of addressed mail distribution (correspondence and advertising) is still in its infancy. Because of this, it is important to monitor the evolution of this market and clearly define the obligations imposed on authorised operators so that operator dependability and reliability are ensured.

Studies[17] show that countries vary in how they choose to authorise competitors to universal service operators, some electing general authorisation and others individual licences (which require prior approval from the regulator). They do not differ so much with respect to their objectives, which include provisions for essential requirements, market knowledge and monitoring, transparency in service provision, and rights of access to resources owned or controlled by the universal service provider and essential for conducting postal activities. Rather, they differ in the scope of authorisation (universal service or non-universal service, for certain postal services only or for the entire postal sector, inclusive or exclusive of express, collection and delivery, etc.) and in the specific modes of implementation (*ex ante* controls, *ex post* controls, or sanctions).

The following table illustrates the variety in scope of application found in the regimes adopted in several countries of the European Union. Several countries employ both an authorisation regime and for all postal activities not requiring an authorisation, a declaration system. Except for Sweden, all countries shown in the table have chosen a very much more comprehensive scope of application than that adopted by France.

16 The law specifies that distribution is performed "by regular rounds". Express operators and local courier services therefore are *a priori* excluded from the scope of application of the authorisation system.

17 WIK Consult, *Main developments in the European Postal Sector*, July 2004. Available at http://europa.eu.int/comm/internal_market/post/studies_fr.htm#sector2004. Also, the July 2002 BIPE study of postal authorisation and enforcement systems conducted for La Poste, *Bilan des systèmes de licences postales et des dispositifs de contrôle existants*, Juillet 2002.

Scope Country	Declaration	General authorisations or individual licences
Belgium	Non-universal service postal services (such as non-universal service parcels catalogues, periodicals, parcels, etc.)	Universal service (including parcels)
Denmark	All addressed postal items not reserved for the Danish post (express, catalogues, periodicals, parcels, etc.)	
Germany	No authorisation required (letters >1000g, newspaper and periodical delivery, courier services)	Letters <=1000g (including routing, collection and delivery, distribution to German post-office mailboxes, and express mail) No authorisation required for the German post office only
Portugal		Universal service Non-universal service (including express)
Spain	Non-universal service	Universal service
Sweden		Letters <=2kg With fee-based regular rounds
United Kingdom		Letters <=350g except for outgoing international mail, express, or runner For a fee of >£1 per item. However, includes routing and consolidation and document exchange.

Source: ARCEP.

*Routing services already are subject to authorisation in Germany, where they are considered value-added, or "D-licence", services. There are five "D-licence" categories, D1 through D5. Routing is a D5 (integrated logistics) service.

In France, the authorisation regime creates a balanced framework of rights and obligations for operators participating in the internal correspondence distribution market and the cross-border correspondence market.

The objective is to establish a regime that will be accessible to the vast majority of entrants and will pose no barrier to entry. In order to protect postal users, the authorisation mechanism must provide the Authority the means of obtaining sufficient information to allow it to exercise its responsibility for monitoring the activity and imposing sanctions in the event that an operator fails to meet its obligations.

Both the decree specifying the ways in which this authorisation system would be implemented and the order[18] of the minister of Posts specifying the nature of authorised operator obligations were published on 5 May 2006.

18 Order concerning the Authority's proposal, as provided for in the draft Decree concerning authorisation, following deliberations in the *Conseil d'État* on 31 January 2006.

Rights and obligations of authorised operators

- Mail routing must respect the confidentiality of items and the integrity of item contents.
- Operators entrusted with mail must offer certain guarantees covering both the structure of their operations and situations where malfunctions occur. In particular, this implies that they be easily identifiable and that they make procedural provisions to guarantee the reliability and quality of the implemented activity and to handle complaints.
- Operators must respect the postal monopoly.
- The regulatory and political authorities must be in a position to determine the status of the market and market trends in order to be able to modify the regulatory framework and regulatory practices; to that end, operators will be called upon to provide data concerning their activities.
- Authorised operators must be able to obtain transparent and non-discriminatory access to certain resources that are essential for the conduct of postal activities and are owned or controlled by the universal service provider (Article L.3-1 of the postal law).
- Operators authorised for internal correspondence distribution shall have access to private mailboxes as defined by decree in the *Conseil d'État* (Article L.5-10 of the postal law).

B. Operator characteristics

Even though markets are being opened differently from one country to another, it is striking that the entry strategies are quite similar. They involve targeting mail flows that are concentrated at the collection point and distributed in densely-populated areas, especially:

- bulk mail
- local mail (business-to-business flows, addressed local advertising, addressed newspapers)
- B2B mail

Many operators start up their activity in addressed printed matter distribution by leveraging their distribution network for unaddressed advertising and/or newspapers and periodicals. In general, they begin by distributing heavy and/or bulky items (catalogues, magazines) that exceed reserved area price and weight limits.

Thus, in the future, authorised operators could have quite varied profiles. Between an operator offering national delivery services and an international mail operator, either of which could be a major European postal administration, the possible activities are countless. One of the unknowns is the number of "small" local operators that will be tempted to take advantage of liberalisation.

In Sweden, authorisation requests were numerous during the first two years after the authorisation system was established. Many operators subsequently disappeared.

In Germany, the regulator awarded 1 746 authorisations between 1998 and the end of 2004 (the German authorisation regime has a vast scope of application) but only 1 088 operators are reported to be active in the markets requiring authorisation.

ARCEP has already received several requests for information about the authorisation regime from urban couriers, express operators and local delivery operators wishing to establish regular delivery rounds for the transactional and advertising mail of their largest customers.

C. ARCEP's work with the sector

The constraints attached to awarded authorisations are proportional to the issues and activity concerned. These vary since the service categories for which authorisation is required are very different.

The postal regulation law lists the following situations:

- Cross-border items: this activity consists of routing and arranging for distribution of items to and from foreign destinations.
- National distribution activities conducted by the incumbent operator and new entrants to the market, including the newspaper and periodical delivery services already operating in the home-delivery market.
- Services covering registered items used in administrative and legal proceedings; a *Conseil d'État* decree will define the characteristics of these services.

Regular distribution activities, which are in the process of being liberalised, require the establishment of a structured and planned organisation as well as having access to mailboxes. Therefore, obligations associated with this activity must take these specific aspects into account.

It is also likely that the distribution of registered items used in administrative and legal proceedings will require the establishment of certain controls, for example relating to the addressee's identity, and that these controls will require that authorised operators have specific capabilities and be able to deliver certain guarantees.

Similarly, from the proportional obligation perspective, authorisations awarded to outgoing cross-border mail operators in already-competitive markets should pose no barrier to entry.

Therefore, the Authority is endeavouring to work together with the operators concerned to define and clearly break down the obligations established by law and by decree for each postal activity requiring authorisation.

ARCEP has also undertaken discussions with the international mail operators active in France concerning implementation of the authorisation regime. It is conducting the same type of work with several correspondence distribution operators so that when the authorisation decree and order are published it will be ready to deliver the first postal authorisations.

PART 3

CHAPTER III

3

Universal postal service

A. Study of user expectations

B. Audit of La Poste D+1 letter service quality measurement

Under the postal regulation law, ARCEP is the legal and regulatory watchdog for universal postal service. In this capacity, it has chosen to begin its activity by conducting a study of user expectations and ordering an independent study of mail routing times.

A. Study of user expectations

ARCEP chose to focus its analysis on an area about which little is known or understood: user expectations concerning single-piece mail. This affects households and businesses, and SMEs in particular. Indeed, although postal spending can account for a significant share of budget for such users, they have no power to negotiate with operators. TNS-Sofres was commissioned to perform this study[19].

The findings will allow the Authority to determine which universal service characteristics are most important to users.

1. Postal practices

The study first explores the "postal behaviour" of businesses and households. This is done for three products - letters, parcels, and registered items - and from the perspectives of the sender and then the addressee.

1.1. Letters

The study shows that households and businesses are basically addressees. Owing to the influence of major senders[20], the households and businesses surveyed receive more letters than they send (94% of businesses and 57% of households receive at least one letter daily or close to daily while only 68% of businesses and 6% of households send mail out daily or close to daily).

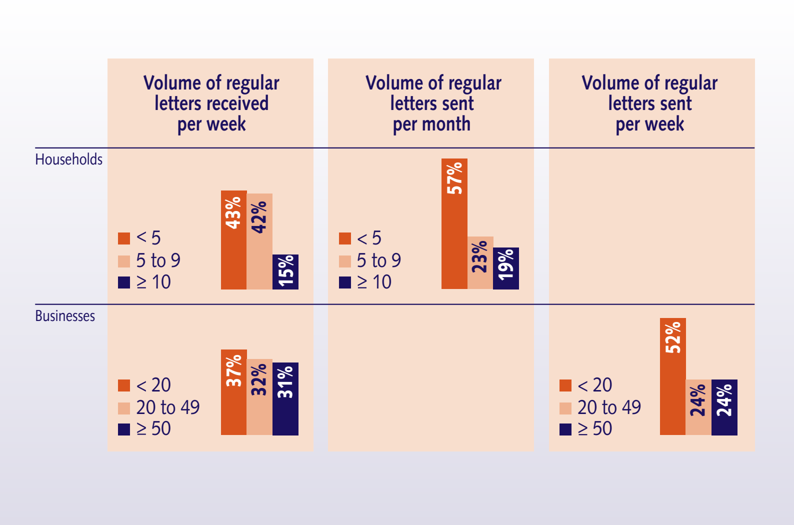
With respect to households, the most important senders and receivers are those in the greater Paris area (24% receive more than 10 letters per week and 24% send more than 10 letters per month) as well as those in the CSP+ high social-occupational group (where the corresponding figures are 24% and 23% respectively). At the opposite end of the spectrum, households associated with the 65+ age group receive the fewest letters (59% receive fewer than 5 weekly)[21].

19 A telephone survey conducted over the period from 19 September through 17 October 2005 and involving 1,334 households and 1,022 businesses. The first sample comprised representative French households with fixed telephone lines. The second comprised businesses representative of merchant and non-merchant sectors with at least one employee. User preferences were surveyed using the “trade-off” method, which involves evaluating consumer selection criteria when faced with certain alternatives and asking that a given number of points be divided among multiple attributes, which are considered two by two. The objective of this method is to place preferences in a hierarchy in order to weight them in household and business value systems.

20 This was outside the scope of the study. Unlike households, they do not send out “single-piece” mail but “volume” mail and do so under contract to La Poste.

21 Businesses that are major senders of single-piece mail (and are often large receivers also), appear mainly in the insurance and financial services sector (58% receive more than 50 letters per week and 68% send more than 50 letters per week), the legal services sector (51% and 49%), companies that provide business services and some non-merchant sectors (51% and 41%), particularly those in public administration (70% send more than 50 letters per week).

Letters sent and received



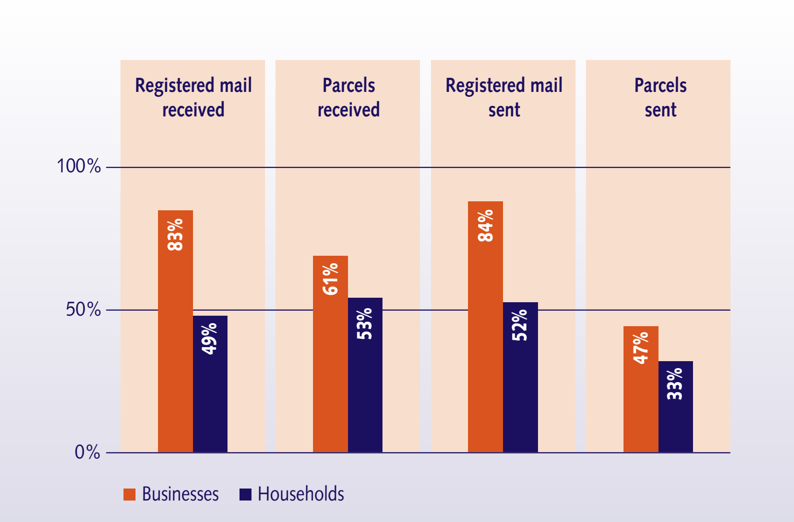
Source: ARCEP/TNS-Sofres.

1.2. Registered mail

Registered mail is used less often than conventional letters. In terms of volume, households and businesses generally send slightly less registered mail than they receive. Registered mail is used more often by businesses than by households. Within this group, certain types of businesses are heavy users: those engaged in legal services activities (79% receiving at least 4 per month and 75% sending at least 4 per month), financial brokers (72% and 81%), and realty services (49% and 69%). Major senders are usually major receivers also.

Approximately one out of every two households reported having sent and/or received a registered item during the preceding 12 months. The main senders and receivers using this service are the CSP+ high social-occupational group (68% reported receiving and 67% reported sending at least one registered item during the preceding 12 months), Internet users (66% and 68%), and households in the greater Paris area (64% and 64%). The behaviour of users 65 and older is noteworthy. They use registered mail less often (41%). However, when they do use the service, they do so at a rate higher than that of the average household (23% of users over 65 versus 16% of all households surveyed reported sending 6 or more registered items).

Packages and registered mail received/sent by user group



Source: ARCEP/TNS-Sofres.

1.3. Parcels

In all groups of respondents, parcels are used less extensively and less frequently than letters and registered mail. As is the case with letters, households and businesses receive more parcels than they send. Only 47% of businesses reported having sent a parcel during the preceding 12 months while 61% reported having received one. Similarly, 33% of households reported having sent at least one parcel during the preceding 12 months while 53% reported having received at least one.

Among business users, a small number of major senders – particularly those in the transportation sector (where 29% send at least 4 per month) and the trade sector (where 27% overall and 33% in wholesale trade send at least 4 per month) – account for most of the use. The vast majority of businesses send parcels only occasionally. Business persons receive parcels mainly from other business persons. Some 76% of parcels are sent via the Colissimo service.

Even though households as a group are minor senders of parcels, a noteworthy subset includes significant users of parcel service. Of the households that are parcel senders, 40% send at least four per year, and of those that are parcel receivers, 50% receive at least four per year. The development of online commerce, including trading between individuals who buy and sell via Internet sites such as eBay, may account for this phenomenon. In addition, households usually send their parcels to other households (up to 82%). However, the parcels they receive come mainly from businesses (up to 61%). The heaviest users of parcel service are the *CSP+* high social-occupational group (63% reported receiving and 44% reported sending at least one during the preceding 12 months), Internet users (64% and 41%), and households in the greater Paris area (57% and 38%).

2. Particularly significant aspects of user expectations

For each product (letters, registered mail, parcels) survey participants were asked to rank certain characteristics (delivery times, reliability, ease of submission, etc.) in order of preference and then for each characteristic, identify the level of service they expect (for example for transit time, delivery on D+1, 2 or 5)[22] regardless of price. In effect, this greatly influences the results and thus biases the perception of users' intrinsic expectations concerning other characteristics that make up the core of the study.

22 Or, in the case of households, for convenient pick-up in case of absence:
- second home delivery attempt by mail carrier;
- held at the post office, as is the case today;
- option to pick up at a third-party depot.

The preference ratings for the various characteristics are summarised in the following table. Household preferences appear in ochre and business preferences in black.

Further insight into these preferences is provided by the more detailed analyses of levels of service chosen by respondents. The plus and minus signs indicate the strength of user expectations for the referenced characteristic. A minus sign does not indicate lack of desire to use the referenced service or lack of interest; it means that the characteristic is less important than characteristics assigned a plus sign. The comparative rating is independent of the monetary value that postal service users might attribute to the characteristics.

Representation of customer preferences

	Sending			Receiving		
Characteristics	**Mail**	**Parcels**	**Registered items**	**Mail**	**Parcels**	**Registered items**
Convenience of drop-off location	++	++ +	- +			
Latest clearance time	++	-	--			
Convenient retrieval in case of absence					++	+
Convenient delivery					+	+
Number of delivery days				+++ ++	- +	- -
Time of delivery				++		
Transit time	+++ +++	+++ ++	++ ++	+++ ++	++ ++	+ +
Assurance of 100% reliability			++ +			+ -
Tracking information	- +	- --	-- +	- --	-- --	-- --

This indicates that across all customer types (households and businesses) and all sending and receiving characteristics, expectations are quite homogeneous for each service evaluated.

Transit time, which is always expressed in the form D+1, is the essential parameter for formulating expectations. Tracking information does not emerge as an important criterion in customer expectations, except as concerns registered mail sent by businesses. Finally, the number of delivery days per week is an important criterion for mail reception. Both types of customer are totally in favour of delivery six days a week.

2.1. Overwhelming importance of delivery time in public expectations

This is by far the most important criterion for households and in particular, for businesses as concerns sending letters. For businesses, it is close to twice as important as the second-ranked criterion, which is latest posting time. As concerns receiving, D+1 remains the leading criterion for businesses, and D+1 delivery comes in a close second behind delivery 6 days a week for households.

2.2. Importance of D+2 delivery for parcels

D+2 parcel delivery would satisfy 80% of households and 60% of businesses. However, this tolerance should not obscure the fact that transit time is the overall most important criterion.

Ease of use also is an important aspect in both sending and receiving. Convenient retrieval in case of absence is even the leading criterion for households receiving parcels; it is second for businesses. Convenience of drop-off location is the second criterion for businesses sending parcels.

2.3. Latest posting time for letters

Two-thirds of businesses would like the last posting time for letters to be later than it is today. This is the second leading criterion after transit time. This dovetails with the expectation for speedy mail processing by La Poste, indicated by the importance attached to D+1 delivery.

It is worth noting also that mail reception practices also seem to translate into a need for speed. Some 20% of businesses have access to distribution processes other than delivery by a postman. This might be collection by a member of the company in close proximity to the post office (14%), La Poste delivery via special round (5%), or delivery by a company other than La Poste (1%). A person in the company going to the post office to pick up the mail generally does so before 10am (83%) and mostly does so before 9am (54%).

2.4. Reliability a very important expectation for registered mail

Households and businesses indicate different reasons for using registered mail. The main expectation of households using registered mail to send or receive items has to do with reliability: "I want to be sure it arrives" (50%). The case is different for businesses, which purchase registered mail mainly for the proof of delivery and/or the addressee's signature (48%).

With respect to service characteristics, the expectation for speed is again the leading concern when sending; by contrast, convenient delivery is the most important when receiving, with transit time nevertheless ranking second in order of importance.

2.5. Perceived incident rate

The number of respondents reporting a loss in reception may seem relatively significant at first glance: 22% of households and 31% of businesses reported that during the preceding 12 months they had failed to receive an item they were expecting or had received an item damaged. On the one hand, it is worth noting that these reports concern perceived losses. On the other, a quick review of the figures shows that they greatly need to be put into perspective[23]. Finally, 11% of households and 16% of businesses reported having filed a complaint with La Poste. In terms of the rate of perceived incidents, this could indicate relative tolerance or it could indicate problems in gathering the information necessary for the claim case file.

2.6. Convenience criteria important above all for parcels and registered mail

Households and businesses are of one mind when it comes to their leading concern, which relates to transit time. However, they also consider ease of use of postal services to be important. Thus, when it comes to criteria for sending letters, households rank convenient collection second in order of importance. Similarly, when it comes to criteria for receiving packages, households consider convenient retrieval in case of absence to be the most important and businesses rank convenient delivery second in importance. With respect to receiving registered mail, convenient retrieval is the first criterion for businesses and convenient retrieval in case of absence is second for households. The results are practically identical with respect to receiving registered mail.

Convenience criteria carry more weight in receiving than in sending.

Generally speaking, when it comes to receiving parcels and registered mail, households display greater sensitivity to convenience criteria than do businesses, which always give priority to speed.

23 Lost letters.
- 9% of households reported that they had failed to receive a letter they were expecting. If we assume that each of them was concerned only about the loss of a letter and that the number of French households is 23.8 million (based on the 1999 census), the aggregate number of losses for households is 2.1 million letters.
- 18% of businesses reported having never received a letter they were expecting. Assuming that there are 2.97 million businesses (2004 INSEE statistics) and that each is concerned only about the loss of a letter, the aggregate number of losses for businesses is about 535,000 letters.

Total letters lost therefore would be 2.67 million. Considering that La Poste handles about 17 billion correspondence items annually (based on the 2004 findings of the Postal Markets Observatory), the cumulative aggregate loss for businesses and households suggests a rate of 1.57 per 10,000.

B. Audit of La Poste D+1 letter service quality measurement

In Europe, postal service quality is measured principally by the percentage of letters delivered the day after the day of deposit[24]. In addition, the 1997 Postal Directive requires Member States to assign a measurable objective for universal service operators. Objectives applicable to cross-border items are established in an annex to the Postal Directive and are reviewed in consultation with the Postal Directive Committee.

24 Of course there are other postal service quality measures besides D+1, for other service attributes and for other products.

Under the *Contrat de Plan État-La Poste 2003-2007*, the five-year-plan contract between the French government and La Poste, La Poste is committed to meeting a service quality objective of 85% D+1 in 2007. The contract does not specify what results are to be achieved each year but under the terms of the Postal Directive these are reported to the European Commission, which publishes Member State objectives annually. In its 2004 annual report, La Poste stated that in 2004 an average of 75.7% of priority letters were delivered on D+1 against 65.7% in 2003. The figure announced for 2005 is 79.2%.

	Germany	United Kingdom	Italy	Netherlands	Sweden	Belgium	Denmark	Portugal
D+1 objective (2003)	80%	92.5%	87%	97%	85%	92%	97%	93.2%

Source: European Commission

1. Service quality measure

La Poste polls for these measures through a market research firm[25] (currently IFOP), which is required to employ a standard methodology Europe-wide: that is the purpose of the EN 13850 standard, "Measurement of transit time of end-to-end services for single piece priority mail and first class mail," adopted 16 February 2002 by the European Committee for Standardization and ratified by French standards association, AFNOR *(Association Française de Normalisation)* on 5 May 2003.

25 Since 1974, La Poste has established various service quality measures. Since 1999, these have been of the "end-to-end" type and are taken by an independent body.

EN 13850 was made mandatory by the Postal Directive Committee: quality measures and published results as specified in the standard should be mandatory from now on throughout the European Union.

The EN13850 standard

This standard defines the principles and requirements to be implemented for the measurement of transit time for national and cross-border mail. It specifies methods for measuring the quality of "standard" services offered to persons, households and businesses, expressed as a percentage of mail delivered within D+n days.

The standard provides for an end-to-end measure, representing the distance between the point where the mail is introduced into the collection/acceptance system under the responsibility of the postal operators responsible for collection and the final delivery point under the responsibility of the postal operators responsible for distribution.

The measurement system is based on test mailings sent between panellists who record the dates and times of deposit and receipt. The results are then weighted with reference to real flows to arrive at an estimate of service quality at the national level.

2. Measurement audit

As part of its responsibilities for controlling universal service, ARCEP has selected Ernst & Young to conduct an audit of how well La Poste's D+1 service-quality measure for domestic letters complies with the EN 13850 standard.

The audit is based mainly on:

- An examination of the statistical methodology (construction of a representative sample, studies of real mail, geographic representation, geographic distribution of the panel, estimators, data-gathering, results, parameter stability, etc.) to ensure that this measure provides a faithful representation of actual end-to-end transit times.
- Supervising the management of the panel of senders and receivers of test mailings, which are the responsibility of the service provider producing the measure.

The Authority also has elected to include in this audit a comparative review of the approaches taken by other European countries as concerns publication of service quality results and the reliability of the D+1 measure.

This audit will allow the Authority to:

- ensure that the approach adopted by La Poste complies with the EN 13850 standard;
- guarantee that the La Poste D+1 letter service quality measure is reliable;
- possibly provide information on the degree to which the La Poste D+1 letter service quality measurement is accurate.

At the end of the audit, it will be clear which points need to be monitored annually in order to validate the latest D+1 service quality measures.