Prospective study of the postal sector

- results of the Megatrends Stakeholder Workshop and Survey

Brussels, 01-12-2023

GROW C.3

Megatrends and the postal sector

- *The European Commission is preparing a prospective study of the European postal sector, which will explore possible scenarios for the development of the EU postal sector in the next two decades.*
- *In preparation of this study, the Commission organised a workshop on 14 June 2023 to get postal stakeholders' opinions on the most relevant societal, political, and economic trends (Megatrends) for the EU postal sector.*
- *In July 2023, the Commission published the conclusions of the workshop and launched an online survey in order to develop the conclusions and to give more stakeholders the opportunity to contribute and express their opinions.*
- *The survey was open between 24 July and 22 September 2023 and gathered 123 contributions, summarised below.*
- *In addition to their responses to the questionnaire, a number of respondents sent additional comments: four regulators (two NRA and two ministries), one association and one universal service provider.*

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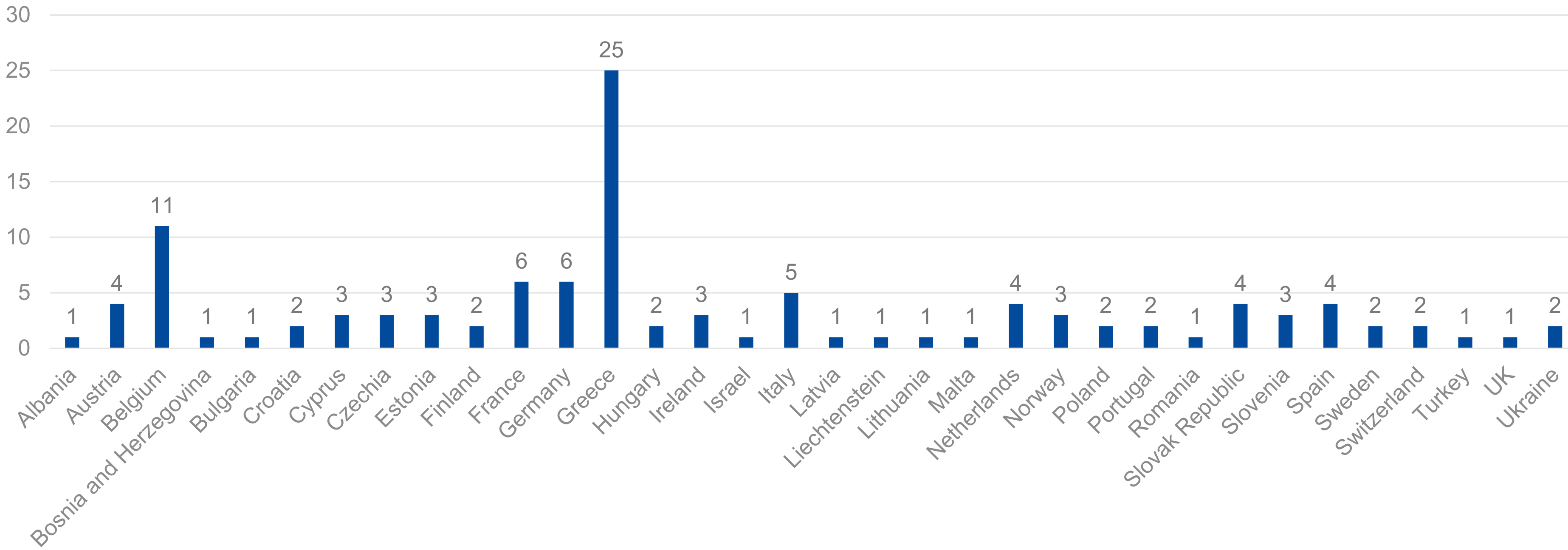
Survey results

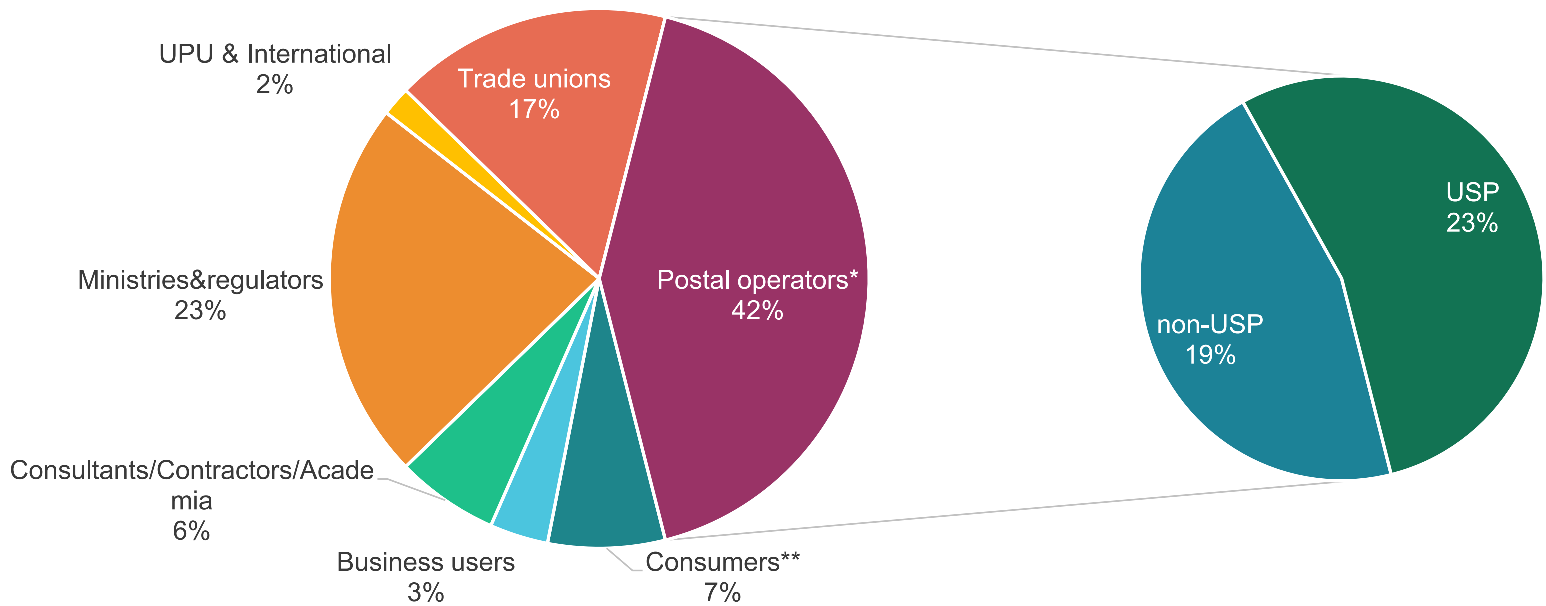
Survey respondents by country of residence



Note: 101 of the total 123 responses indicated the country of residence. According to these most respondents reside in EU and EEA Member States.

Survey results

Survey respondents by stakeholder group



*including business associations such as PostEurop or the Nordic Postal Union (Posti, PostNord Sweden, PostNord Denmark, Posten Bring and Iceland Post)
** including associations and the European Consumer Centre Germany

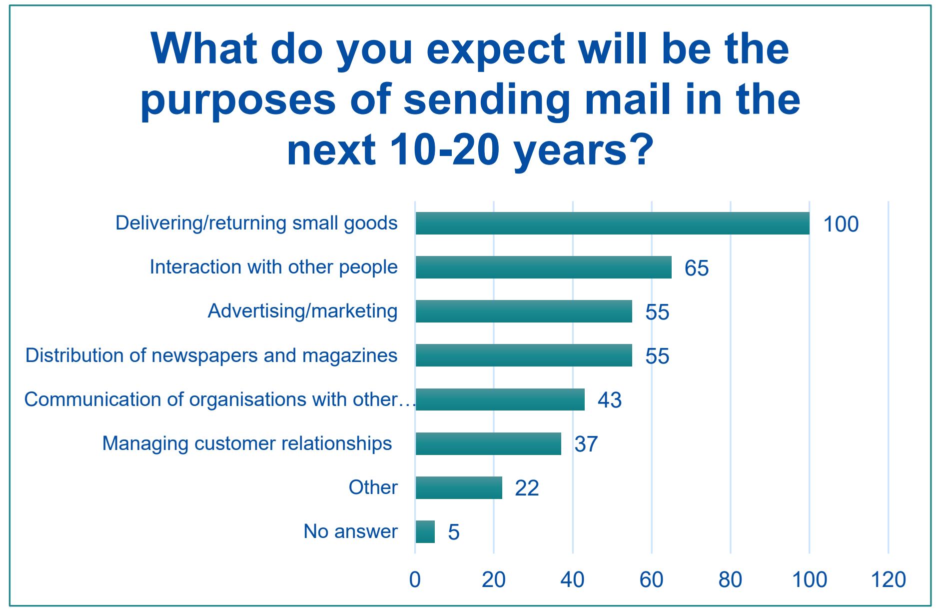
Workshop conclusions

Demand for postal services

- Hyperconnectivity and developments in technology will continue to **reduce demand for letter mail**, including for the remaining mail activities, for instance consumer mail advertising and business marketing mail.
- Growing consumption will lead to more e-commerce, which will generate **more parcel delivery**, quadrupling the number of package deliveries by 2025.
- In terms of quality of service for parcels, **same-day delivery may become the expected standard,** but it is unlikely that further acceleration of delivery (e.g. within hours) will become widespread.
- On the contrary, more consumers may be willing to choose, or would have to accept "slow consumption", namely **less frequent and slower deliveries**, longer times between buying online and receiving the goods, and change to more local sourcing and deliveries, as an effect of the pressures to reduce carbon emissions.

Survey results

Demand for letter mail



Note: Multiple choice question. The numbers indicate number of times each option has been selected

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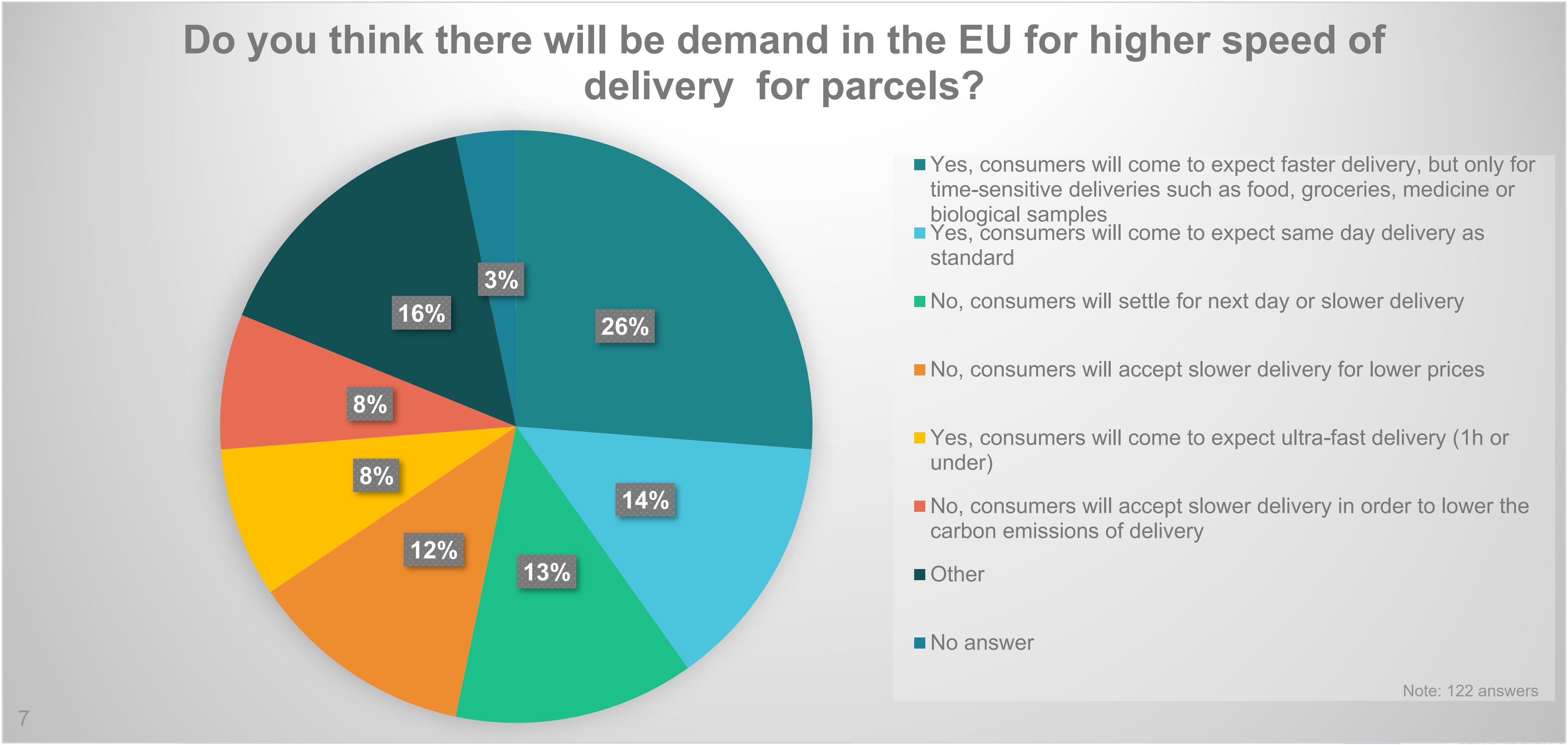
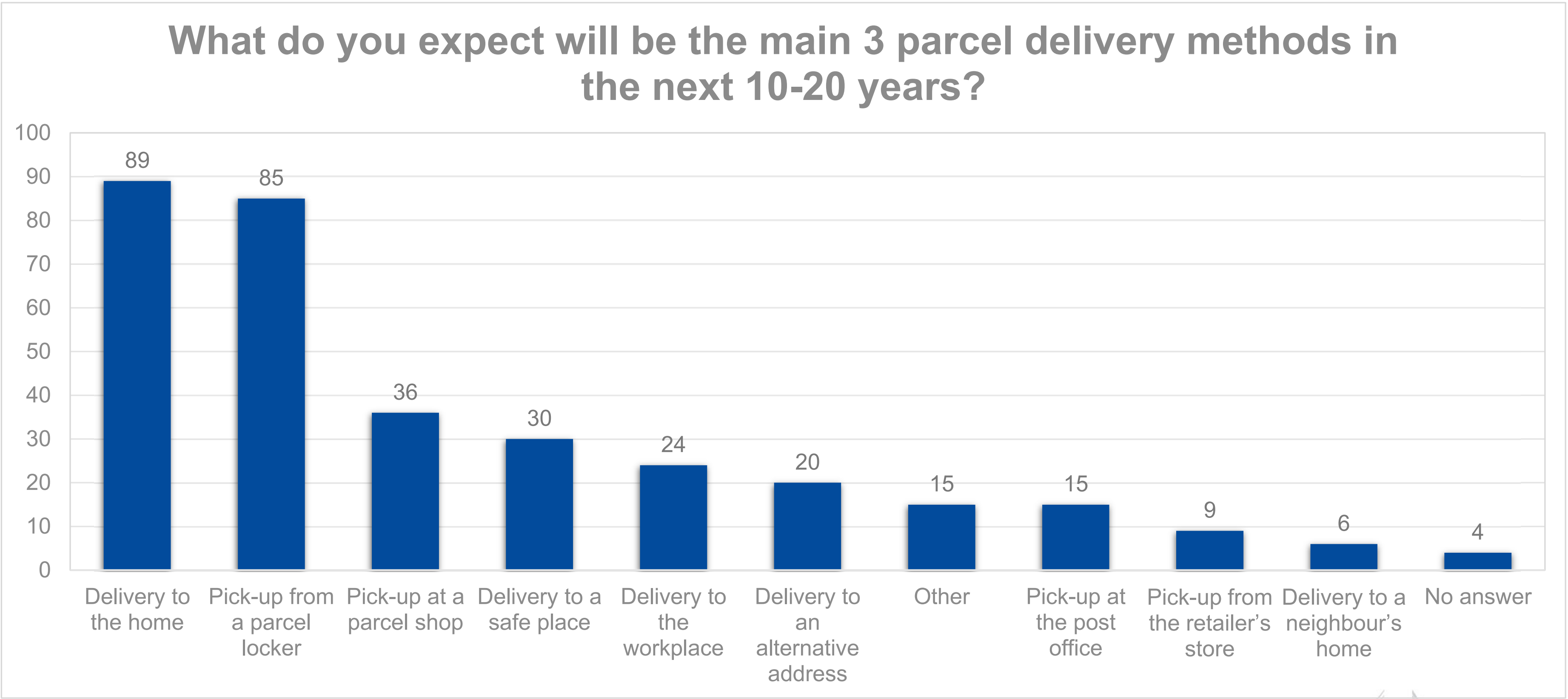
Survey results

Speed of parcel deliveries



Survey results

Place of delivery for parcels



Note: Multiple choice question – the numbers indicate the total number of times each option was selected

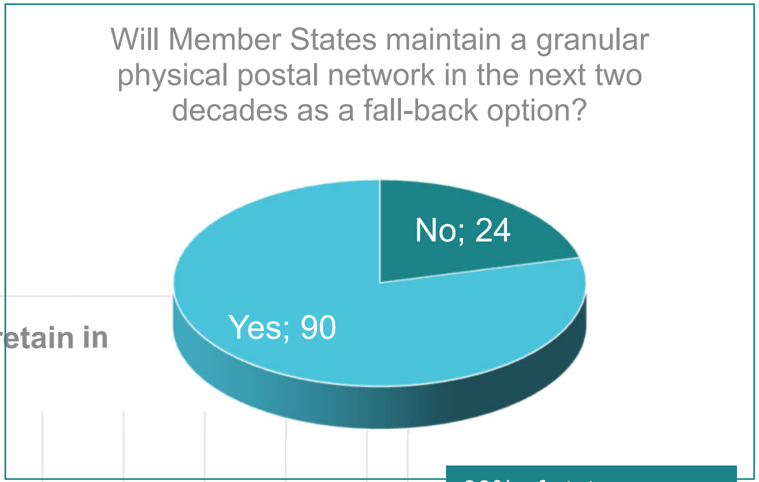
Workshop conclusions

Universal Service Obligation

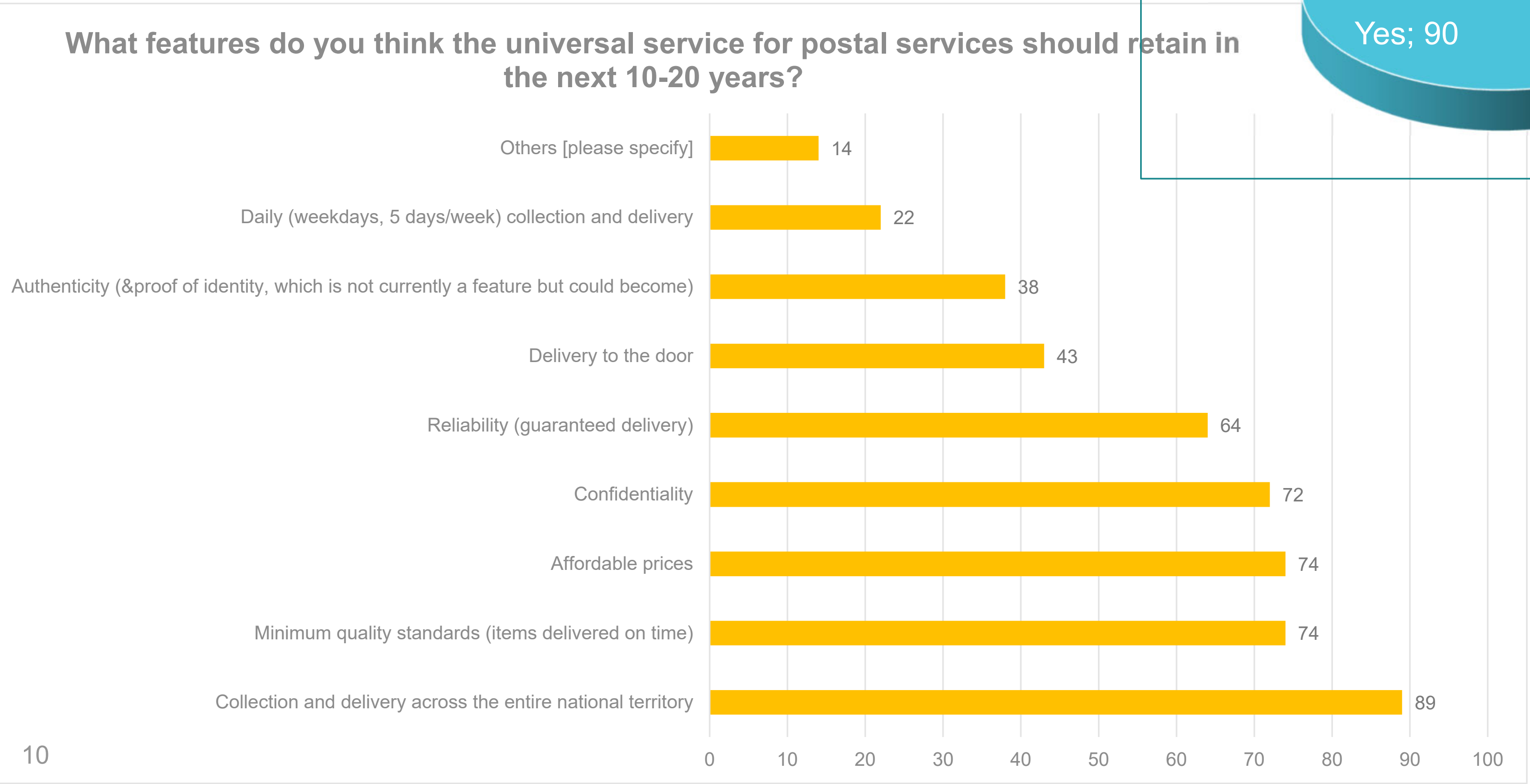
- The evolution of demand for postal services will have an important impact on the universal service obligations for postal services. The decrease in letter mail volumes will make the **universal service obligations both more costly and less necessary** if part of essential communication continues to become increasingly digital.
- On the other hand, **the vulnerable population**, notably people with limited access to electronic communications, will still need postal services.
- The postal sector could also be seen as a "**last resort network**", a critical means of reaching people anywhere on the territory in the event of a catastrophe.

Survey results

Universal Service Obligation



80% of state institutions (regulators and ministries) have voted “Yes” on maintaining a postal network as a fall-back option. So have the vast majority of USP’s.



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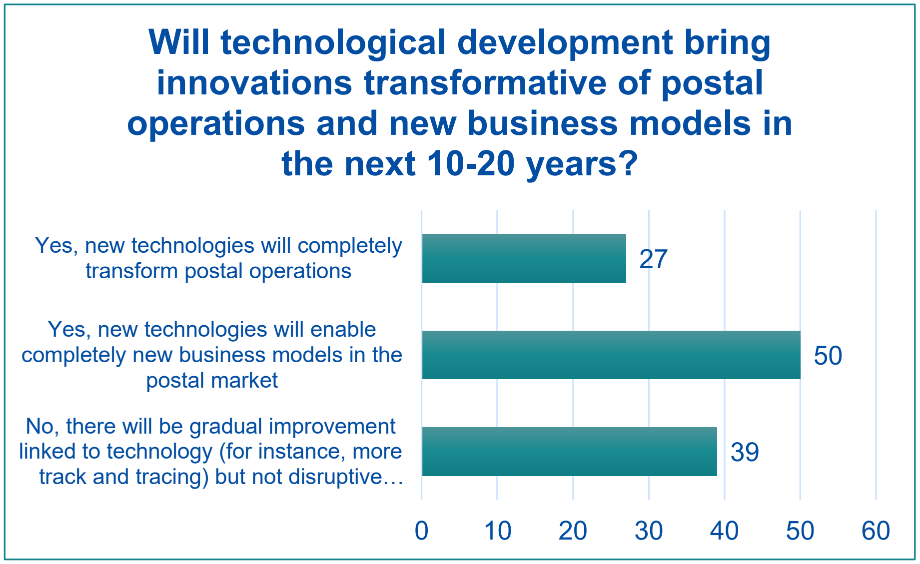
Technology in the value-chain & markets

Workshop conclusions

- Automated or semi-**autonomous vehicles** will be used in postal operations, back-office roles will become more automated. Deeply integrated technology will play a role in the **safety** of postal operations. New **automated delivery means**, such as drones, might be a solution for rural or difficult to reach areas, but not for densely populated areas.
- Because of urbanization and hyperconnectivity, **data will be used more in postal operations**, supply chains will shorten by placing goods **closer to consumers**. This will lead to new partnerships and **more integration between postal operators**, enabled by exchanges of information about excess capacity on certain routes and leading to collaboration on those routes.

Survey results



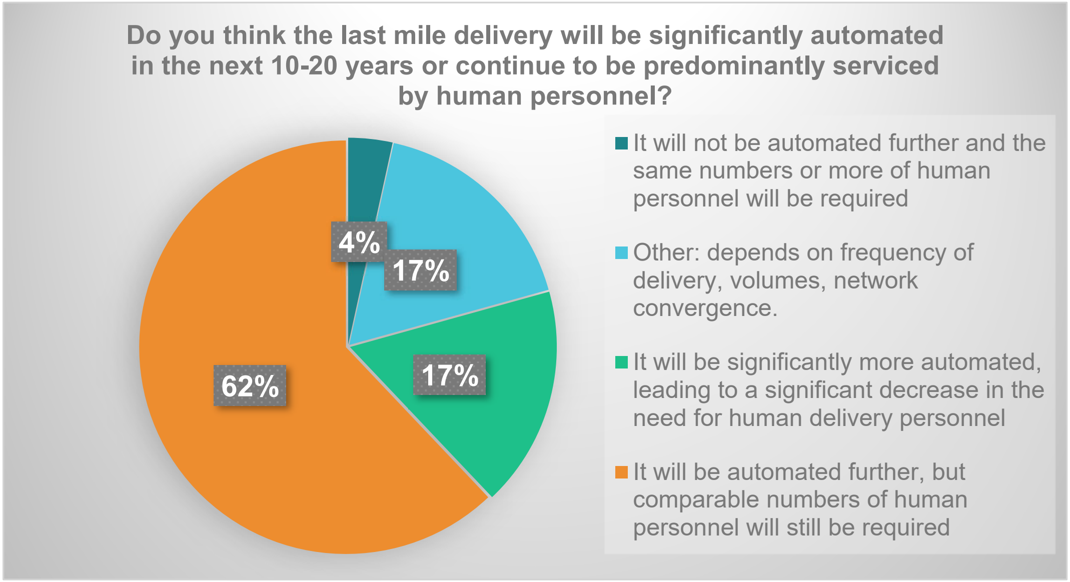
Half the postal operators that responded selected “gradual improvement”, only 23% think new technologies will “completely transform operations” and 27% chose “completely new business models”. None of the trade unions representatives believes in “gradual improvement”.

Employment in the postal value chain

Workshop conclusions

- An important part of the postal value-chain activities that could be automated with new technologies have already been automated. The final distribution, **'the last mile' will likely remain serviced by human employees** for at least the next 20 years.
- The changing nature of work, along with the increasing demographic imbalances and migration may lead to **difficulties to find employees** for the postal operators and put pressure on working conditions and wages.

Survey results



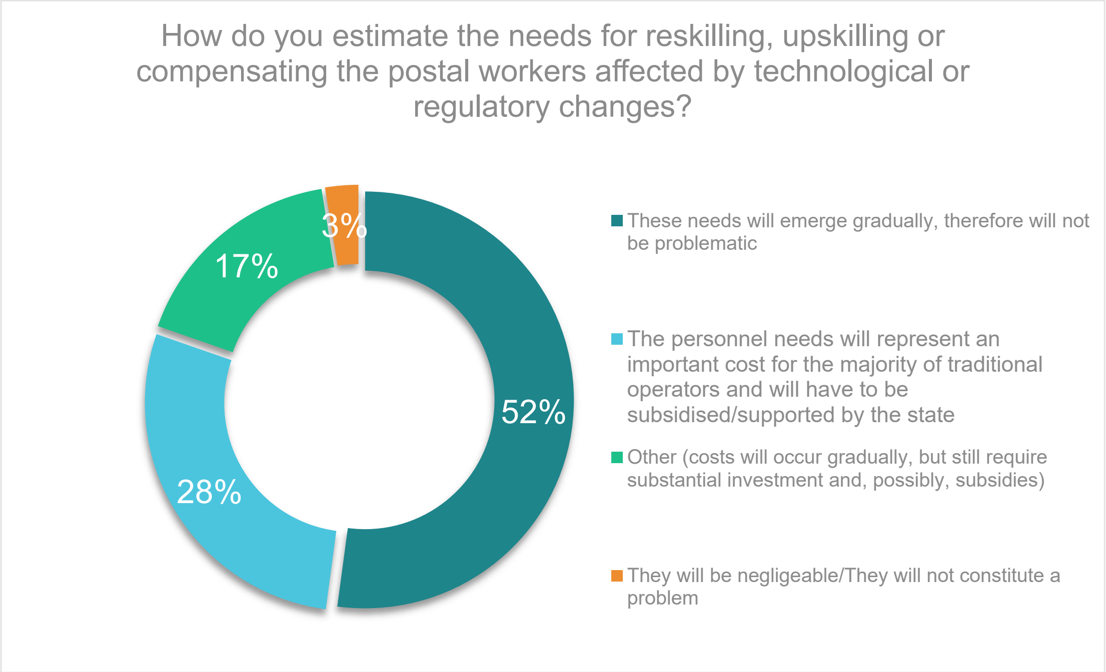
Many respondents commented that decreasing volumes and frequency of delivery will impact personnel numbers in the last mile delivery more than automation. Most trade union representatives responded that last mile delivery is still likely to be further automated, but comparable numbers of personnel will be required.

Employment in the postal value chain

Workshop conclusions

- The universal service obligation has a direct impact on the number of jobs in the postal sector. The postal services are the biggest employers of low skilled workers in Europe and **impacts on these jobs may affect the social fabric** in some EU Member States or regions. Alternatively, **reductions in the quality of the working conditions in the sector will cause complaints from the sector workers** and scrutiny by society.
- There will be a need to **finance reskilling and upskilling of existing workers** to help them adapt to new technologies and new activities in the postal sector.

Survey results

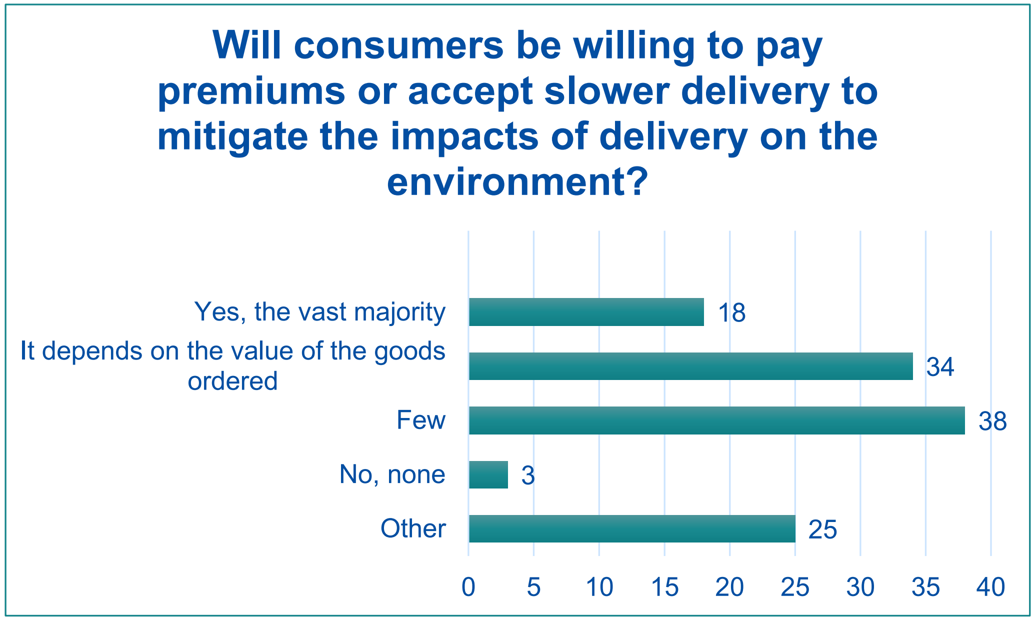


Environmental concerns

Workshop conclusions

- **Technology** may mitigate the effects of postal operations on the environment but will not solve them all.
- Consumers may have to accept **"slow consumption", namely less frequent and slower deliveries**, longer times between buying online and receiving the goods, and change to more local sourcing and deliveries, as an effect of the pressures to reduce emissions.

Survey results



Most of those who selected "Other" also believe that the willingness of consumers to pay for greener delivery is low. Some pointed out that slower delivery does not necessarily have a lower environmental impact.

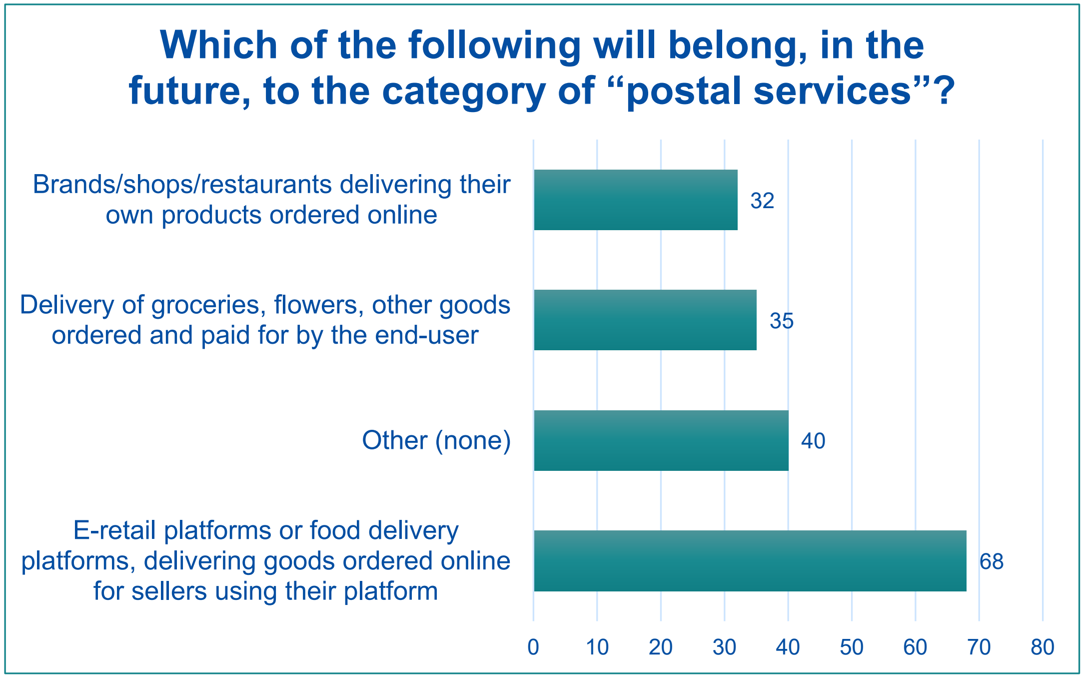
Survey results

Limits of the postal sector

Workshop conclusions

- The postal market may evolve into a delivery market, that would include **delivering all goods** from pizza to groceries.
- More **convergence between post and logistics** may occur, potentially leading to a "delivery sector", encompassing postal, freight and logistics. It is not clear whether the focus will be on a "taxi" business model (transport of individual items from one point to another), or a "bus" model (pickup and transport of multiple items from multiple points to multiple destinations or "stops").

Survey results



Most of those who selected "Other" would prefer that the limits of the sector remain as they are. Some of the opinions expressed:

- Delivering of own products should not be included in term "postal service". - Term postal service should be reserved for services provided by third person.
- Postal regulation should remain centered around postal items.
- None of the above qualifies or should qualify as postal services. Those are completely different categories of services, business models, logistics and employment base.
- The Postal Sector must remain cognizant of customer preferences and remain responsive to their needs.

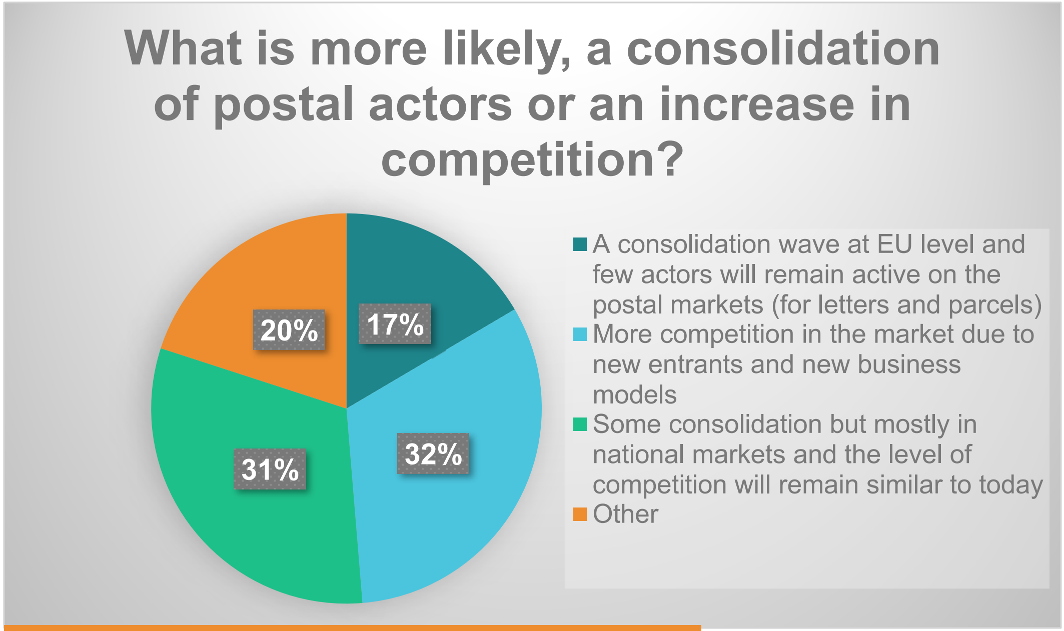
Survey results

Competition in the postal sector

Workshop conclusions

- Climate change will **require massive investments from the sector** to comply with the imperative to become carbon neutral – electrifying the transport fleet, insulating the buildings.
- For the postal operators, these investments will **compete with the investments for innovation**, for instance, or those necessary for meeting the Universal Service obligation.
- There is a possibility that the massive investment needs towards more environmentally-friendly operations could lead to a **consolidation of the postal sector**, in order to gain in efficiency.

Survey results



Most of those who chose “Other” differentiated between letter and parcel markets, pointing out that letter market is in decline, so not interesting for competitors, while parcel market is growing and will continue to be competitive.

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Environmental drivers of competition

Workshop conclusions

- Increasing urbanisation will lead to higher density delivery areas, which are more profitable, subsidizing to an even greater extent delivery in rural areas. Depending on how the universal service obligation is defined, increased urbanisation will increase competition in urban areas, leading to cream skimming/cherry picking.
- More and more dynamic, mostly **digital-based new-entrants** will appear in urban areas, gate platforms interconnecting customers and stores through digital platforms and enabling "hyper-cooperation" via the **interconnection of networks that cover different parts of the city**.
- Increased urbanisation will apply pressures from a sustainability standpoint, there may be a need for access restrictions, which will affect the competitive dynamic. As a possible solution, operators may split in **smaller operators that cover parts of the city**, so as not to have numerous operators overlapping in the same geographical areas.
- Potentially, regulation will change so that there are **new obligations to share delivery schedules**, in order to limit the carbon emissions in the cities.

Survey results

What potential cooperation or access models do you think will emerge in urban areas prompted by the need to decrease emissions? *(extracts)*

- **Parcel lockers - shared deliveries * symmetrical access to the parcel lockers * cooperation between small courier companies * Single supplier of mail/ecommerce in dense urban area * unified delivery stations in large urban centers * Urban consolidation centers, traffic exclusion zones, timed access * Autonomous vehicles and self-driving technology * Green Delivery Zones, Micro-Fulfilment Centers, Electric Vehicle Charging Infrastructure, Drone Delivery**
- Some companies will split the cities activities in **small Urban areas** and use ECO vehicles to decrease the emissions * Operators may split the business to subsidiaries that cover parts of a city and may use carbon neutral methods (eg electric cars, bicycles etc)
- Corporate GHG reduction commitments coupled with the legislative proposals for the uptake of zero emission vehicles will effectively help curbing emissions. In parallel, there are already **collaborative projects** underway in cities across Europe where **local authorities, shippers and transport operators work together** to drive innovation and more sustainable logistics. E.g. SEUR in Spain partners with Madrid City Council on an urban hub to facilitate more sustainable last mile deliveries.
- Interoperable or joint use of logistics solutions/infrastructures should become predominant in urban areas. The goal for operators would be to achieve **efficiency gains**. As cities will become stricter in limiting/regulating city access to reduce emission, more public-private cooperation will be need at local level. Last mile delivery should be fully electric in the next decade and the use of alternative delivery points could represent the only example of efficient consolidation model to adopt.
- Our continuous strive for efficiency will no doubt lead to different future market solutions. It is important to understand that **we deliver in city centres at full capacity**. Our sector is a frontrunner in reducing GHG and air pollutant emissions. A lot of regulation on reducing carbon emissions is already being implemented. **Our sector represents a small part of commercial traffic in city centres (less than 10%)**. Sectoral regulation on this issue makes no sense.
- The **abolition of parallel delivery networks would only make sense if those networks do not operate on full capacity**. No emission savings are made if five individual vans are replaced by five "white label" vans. **Cooperation should only happen on a voluntary basis**, not by legal obligation
- Delivery must be regulated through strong environmental and public health imperatives. **Competition in urban traffic zones must be limited**, as it raises the number of vehicles. To improve air quality, restrictions on traffic and low emission zones need to be introduced. Channelling delivery to one carrier, establishing alternative access points for parcels or local post offices, can reduce traffic and emissions. Combining delivery modes into one stream can be achieved by the postal network.
- New access models are already emerging. Post offices, parcel shops and parcel boxes are often being relocated into shopping malls and to other busy places. **These pick-up points and parcel boxes should be placed in locations where recipients can easily reach them** without having to use cars or other forms of transport that produce additional emissions. Bicycles and electro bicycles are being

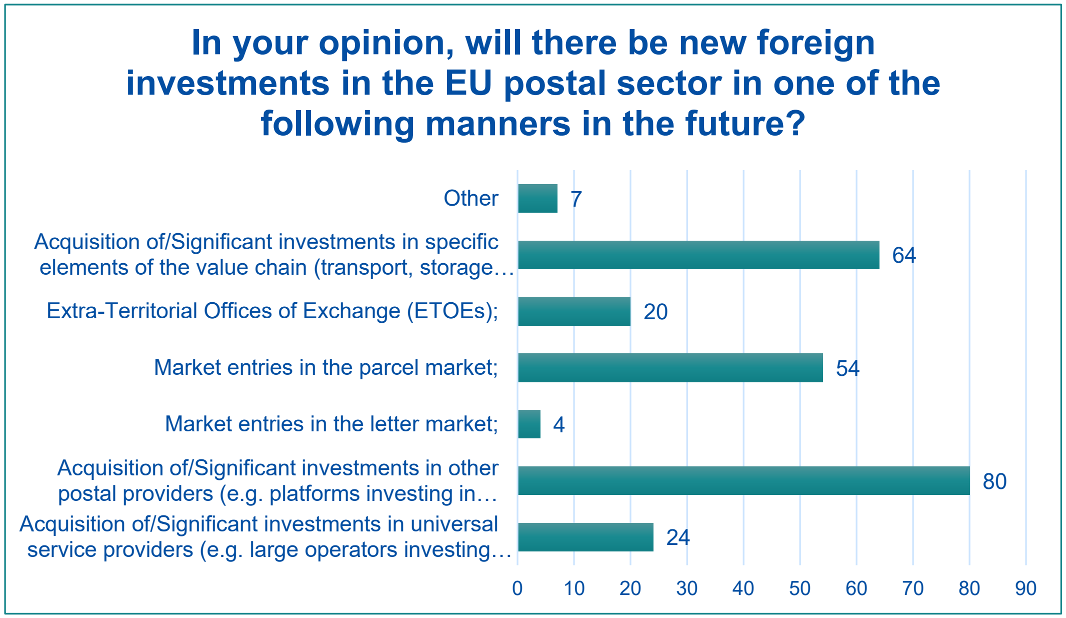
Survey results

Competition in the postal sector

Workshop conclusions

- Because of the expanding influence of countries in the global East and South (e.g. China and India), there may be **strategic investments from non-EU countries in the postal sector**.
- **Custom rules** on both sides will have a strong impact on the exchange of goods and the postal flows.
- Non-EU powers may increasingly try to influence postal standardization indirectly, through adjacent industries, such as logistics.

Survey results



Other ideas proposed by stakeholders:

- Market entries in the parcel market are probably the only scenario still likely. National postal companies are almost impossible to acquire.
- Non-EU countries will move stock to EU to prevent delivery delays, but there will be no further integration as it would be too risky investment
- Contracts of USPs or other postal providers with platforms like Aliexpress.

Thank you

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