POSTAL SERVICES

The economic crisis as reinforcement of electronic-substitution in mail

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Electronic substitution is crucial for postal operators. While the effect in Austria has been limited in the past, the current economic downturn is a trigger for its reinforcement.

Electronic substitution—the replacement of physical mail by electronic alternatives—is crucial for postal operators. In the early years of this millennium due to the Internet Bubble, the view on the future of physical mail had been very pessimistic. As opposed to this assumption in a range of countries the volumes stayed stable or even grew in the following years. Because some research results showed an optimistic view of the future the concept of a prosperous coexistence of physical mail and electronic communication channels lived on. Furthermore, the decrease in volumes that some Postal Organisations observed is influenced by multiple reasons. "Postal researchers and strategists have found these terms refer to a host of factors in addition to substitution, including: cutbacks in business-originated mail volumes due to economic pressures on mailers; market share shifts due to emerging competition from market liberalization; product substitution (for example, to a lower-priced class), and general changes in the underlying drivers of mail." (Nader, Lintell, 2008). Thus, till the end of 2007 the postal world was predominantly considering that e-substitution has more effects on the structure in the mail stream than in the reduction of volumes.

In the last five years research focus changed to regulatory items due to the significance of these regulations. In most countries of the EU the full market opening is planned for 2011. As the national new regulatory framework is still under construction in the majority of these countries, only the future can show how deep the impact of these directives on the future circumstances of the mail markets will be. However, in 2008 and even more clearly in 2009, most of the postal organisations noted a significant reduction in mail volumes. A McKinsey Survey (2009) shows that in the first half of 2009, six out of eight participating Postal Organisations report a decrease of four or more percent in transactional mail volumes and seven out of eight in direct mail Volumes. Two Posts even stated a downturn of more than twenty percent in direct mail.

The trade-off between customer relations and electronic substitution

Clearly enough, the recent big changes in the economic development are the reason for these often-dramatic reductions in volumes. The question is, however, if the missing volumes will start to increase again after the end of the economic crisis. In many statements, Postal Organisations argue that the economic crisis is considered as being the trigger for a lasting and sustained reduction. To know if this is true one should consider the characteristics of the market.

The paying party in most cases is the sinding party, not the receiving (Eisenmann 2006). For the senders (mostly business customers) reducing costs is of the essence and the least cost manner to communicate is aimed for, but they also have to consider the wishes of the recipients, not to impair the quality of customer relations. The influence of the recipient's wishes differs according to the various causes of communication as they have different impact on the relationship. For example, in Austria research showed that private households have little acceptance for receiving transactional mail such as bills and bank statements via e-mail. Therefore, the senders are always in the situation of pondering whether cutting cost or putting at risk the relationship with their customers is more relevant to them.

Because of this area of tension between cost-cutting and customer-relationship the senders start to distinct between different parts of their mail volumes. A broad survey in 2005 showed that in the eight Austrian industries with the highest mail volumes 44 different businesses originated mail streams could be separated (Koppe, Bosch; 2006). Invoices, account statements and as well as payment forms had been the largest streams. The growth potential and the effect of e-substitution greatly differ according to the different forms of mail. Some smaller studies carried out later in Austria did indeed prove the existence of the streams and the big differences between these mail streams.

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The future of mail

To understand the future development of the whole mail volume, one has to understand the trends in the different streams. A forecast of the future mail volumes is only meaningful as aggregate of the separated forecasts for the streams.

In the analysis of 2005, a Linear Statistical Relation model has been applied in order to explain the different influences (Koppe, Bosch 2006). The results show that the electronic substitution had a much smaller influence on the development of mail volumes than expected. The analysis of the conditions leading to e-substitution illustrated unexpected results: the most important influence on e-substitution is the economic situation of the sending company. The negative coefficient between exogenous and endogenous variables of minus 0.95 shows that in economically better times, there are stronger tendencies to saving postage costs by switching to e-substitution than in times of economic crisis.

This connection seems paradoxical, but it is clear that companies would need to invest some money into new e-substitution systems, which hardly would be done in economically difficult times. The expectations for the current situation, therefore, would be that in the current crisis companies would not invest in new electronic communications channels. This is obviously not true in most markets. The years 2005 to 2007 have been economically very successful for most of the companies and new systems had been installed. At the same time, companies from those industries that have high postage costs were able to make experiences in the field of exchanging physical mail with electronic communication.

For the acquisition of detailed knowledge, interviews with experts from big volume senders had been conducted in Austria. An interesting example is the largest cellular phone provider. In 2008 this company selected one third of their private customers, which had been rated as e-mail affine because of their purchase pattern, demographic and psychographic description. Consequently, these customers got a letter stating that, unless they wanted to inform the call centre about their wish to keep receiving physical invoices, they would have to use the new electronic accounting. Eighty percent of these persons stayed with the electronic system after the transfer, due to the increased features and higher convenience. The company is not planning to expand this approach to all their customers, as they believe that in other customer segments the acceptance will be much lower. They are following strictly the theory of market segmentation (Kotler 2007) and combine the affirmative usage of their electronic account system only with offers for specific online orientated customers.

Approaches like the one described above lead to a reduction of volumes, not as a continuous, but rather as a stepwise trend. The experiences in other businesses could help to forecast the development in the mail industry. A good example is the implementation of electronic tickets in the airline industry. This example shows that when the initial difficulties have been overcome and a significant customer group starts to prefer the electronic channel because of higher convenience, the market diffusion rate will accelerate. In Austria two forms of electronic communication have the potential to become enabler for such a hastened electronic substitution of mail: electronic banking (e-banking) and electronic government (e-government).

Eelectronic banking is widely used in Austria for paying invoices; but as a communication channel it plays a lateral role. Each bank established its own online-banking system and there is no possibility for business companies to send invoices directly to this banking system. Once the biggest banks will generate a standardised system where customers can control their invoices directly and pay with one mouse click, there will be a high potential for rapid acceptance of such a system.

Opposite to e-banking, e-government has, until now, only been accepted by a small group of private persons. Although the usage rate is low, the system is being developed constantly. The reason for these efforts is that e-government is used for an ‘image' effect, while the Government does not have to fear a worsening of the relationship with its citizens. Even a compulsory introduction to electronic communication seems conceivable, like it had been done in some parts of the governmental communication with business ‘customers'. The more offers of electronic office channels are provided the stronger will be the demand in general. The higher acceptance will probably attract other senders to use the channel as well. So it is very likely that one day, for example, insurance companies will start to send their policies via this channel too.

The role of the economic crises in this development is like a transmission belt. The economic situation forces numerous companies to shift more volumes onto the established electronic channels faster than planned before the crises. A survey conducted in May 2009 with two independent samples—more than one hundred key account customers of Austrian Post on one hand and 300 SMEs (small and medium enterprises which are served by the use of the outlet network)on the other hand—seems to proof this consideration. The Key Accounts had been interviewed via an announced online questionnaire, the SMEs in computer assisted telephone interviews. Weighted by their share of postal turnover both studies have been aggregated to a common database. The results of this survey show that the assumption of increasing e-substitution is quite reasonable. Forty nine percent of all business cus-

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tomers of the Austrian Post are currently working on measures to reduce portage costs.

Conclusions

The bulk of post send today will nearly disappear in the future because of e-substitutions. The crucial question is if other streams will increase sufficiently to dampen the effect of the fall of these volumes for the postal services. Even though a wide range of measures are applied, e-substitution plays a leading role. Currently, 29% of all business customers are moving communication items from physical mail to electronic channels.

The second frequently used alternative to reduce post volumes (11% of all business customers) is the cleaning up of the customer database. The question for the future is wether or not volumes will be shifted back to the physical mail streams. If the companies will not experience a significant impairment in the relation with their customers, we can expect that volumes will recover. It is conceivable that the current economic crises will be remembered as the trigger for the decline physical post. Therefore most of the postal organisations focus on participating in e-businesses. A shift in attention to the management of messages that can not be send through e-mail and the growing parcel volumes becaus e of electronic commerce can be noticed. The electronic revolution is a Janus faced development for the traditional postal services; on the one hand postal volumes decrease and on the other parcel deliveries increase. ★

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