Chapter 15

Possible End Games in the European Postal Market

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1. INTRODUCTION

The aim of the liberalization of the European postal markets, as laid down in the European Postal Directive 2002, is to achieve more competition in its postal markets. A competitive market will result in lower costs of resources used to deliver services, lower market prices, higher quality of services and thus an increase in overall value created. At first sight, the incorporation of state postal services, then the privatization of those corporations, and next the partial liberalization of postal markets, did have a tremendous beneficial effect on costs, quality of service, and the development of postal service firms like Deutsche Post in Germany and TPG Post in the Netherlands. This liberalization is aimed at introducing competition in local markets. New entrants in local markets may be new firms starting from scratch, e.g. Sandd in the Netherlands, or they may be a subsidiary of a postal firm having its home market in another country, e.g. TPGPost in the UK. This phenomenon of incumbents taking footholds in each other markets, adds a new dimension in the market dynamics of the European postal markets. These footholds are to be interpreted as a change from the competition in national postal markets to a competition for the European market. This change from competition in markets to competition for markets may have different effects for large and for small countries: the first having a natural advantage over the latter. Add to this that postal services, as part of the wider business of logistic services, by its very nature
have L-curve relations between average costs and volume, as a result of which large companies have an advantage over smaller companies. The L-curve relations suggest that in the end the result of the liberalization of the European postal markets is not that the market structure will develop into a state of pure competition, that is, a large number of players, but that most likely the outcome will be that a few players dominate this market. The unfolding of this scenario is supported by the phenomenon of asymmetric liberalization, as this presently is the case in Europe. Even more, the process of liberalization of postal markets has entered a new phase in its development, in which some players to compete for the European postal market deliberately use asymmetric liberalization. To present our argument we summarize in Section 2 the main argument for liberalization and explain why the benefits of liberalization are not naturally distributed equally across countries and companies of different sizes. Section 3 briefly describes the current state of the postal liberalization process, showing the asymmetry between the member states. Section 4 explains the changing nature of the business of postal services and the strategies the key market players are pursuing. Section 5 introduces the concept of strategic supremacy, which we will subsequently use in section 6 to analyze the present situation in four major postal markets. In Section 7 we describe the new phase of development in European postal markets, suggesting that asymmetric liberalizations deliberately is used in strategies to compete for markets. In Section 8 we formulate several conclusions on the basis of the analysis presented.

2. THE TRUE NATURE OF FREE TRADE AND LIBERALIZATION

The policy of privatization (this is, transferring ownership of state run postal services to private ownership, be it closely held or in public corporations) and liberalization (that is lifting regulatory restrictions and monopolies in postal services) is pursued to increase the general welfare in a country: lower consumer prices, higher economic growth, minimizing externalities with respect to the environment, etc. The results of the liberalization of markets in the western world after the Second World War by and large have proven the neo-classical economic theory to be true (Turner, 2001; Yergin & Stanislaw, 1998). Liberalization of markets may however also lead to counter-intuitive results: increasing prices and lower quality of services (as in the case of the liberalization of the Dutch taxi-