

Deutsche Post World Net

Succeed the Mail Market Liberalization in EU

Case study
Reference no 306-086-1

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DEUTSCHE POST WORLD NET

SUCCEED THE MAIL MARKET LIBERALIZATION IN E.U.

- Making strategic decisions on new markets -

“Naturally the coming full liberalization of the mail business in Germany will play a central role in our strategic reflection. In the coming year, that is, as of 1/1/2006, Deutsche Post will only have an exclusive license for letters weighing up to 50 grams instead of 100 grams. The reduction of the weight limits will open up 5% of our Mail revenue to the competition. We can no longer limit ourselves to our domestic market. [...] Considering this evolution, [...] we are until now well positioned in the most important mail markets. But it does not mean that we sit around idly. We will continually increase our market position”, said Dr. Klaus Knappik, Deutsche Post World Net’s (DPWN) board member responsible for the International Mail Business during an interview with the Deutsche Verkehrs-Zeitung (DVZ).

Dr. Peter Müller, Vice-President Strategy for DPWN, opens his electronic organizer to look for his other engagements in the afternoon. As he can observe, he expects the visit of a consulting firm at 2 o’clock. Indeed, as responsible for the business development strategic decisions, he is directly concerned with the next step of the liberalization of the mail market in the European Union (E.U.) which includes Germany. Basically, Dr. Peter Müller should soon give inputs for strategic decisions to the Board and especially to Dr. Klaus Knappik, in order to compensate the potential losses in the German mail market.

From his office on the 30th floor of the DPWN tower in Bonn, Dr. Peter Müller can enjoy a pretty nice view of the Rhine and its surrounds in the former capital city of Germany. Today, the weather is particularly rainy and foggy. Glancing through the window, he says: “I really need to have a less fuzzy view on the mail market strategic issues than the view that I can look at outside”. He expects that the consulting team, he is going to meet, will help him to identify and evaluate the right options with the upcoming liberalization of the market.

COMPANY PRESENTATION

DPWN is one of the world’s leading logistics firms providing mail communication, parcel, express, logistics and financial services through Deutsche Post, DHL and Postbank and aims to become the global leader in providing one-stop logistics services setting standards for customer satisfaction. In 2004, the Group reached a turnover of €43 billion and an

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asset base of €153 billion (including Postbank). Around 380,000 people are employed by DPWN.

Company History

DPWN has evolved from a government-controlled loss-making company to a profitable global player with a highly diversified portfolio of logistics and financial services. The first step came in January, 1990 when restructuring and commercialization of Deutsche Bundespost was facilitated through a change in law concerning the structure of postal services. The second step involved the formation of Deutsche Post AG in 1995 as a part of the second postal reform towards privatization. The next step involved modernization of the company through extensive investments in state-of-the-art logistics technology. A high level of automation and standardization helped to greatly improve service quality and productivity.

DPWN embarked upon the strategy to establish itself on an international level through acquisitions, investments, and partnering agreements and to has expanded its market position steadily by integrating services. The Group substantially increased investments in new acquisitions and partnerships to build a European business platform for express and parcel services and to accelerate the pace of its globalization. Those acquisitions helped Deutsche Post to leverage local competence to build a strong Europe-wide distribution network (**See Exhibit 1**). Another major step came in 2000 when Deutsche Post AG went public with a successful IPO, operating then under the brand Deutsche Post World Net.

DPWN's businesses are structured into four corporate divisions – Mail, Express, Logistics and Financial Services (**See Exhibit 2**).

The Mail Division

The Mail Corporate Division is responsible for the Group's national and international mail activities. It offers many services which are bundled into five business divisions:

Mail Communication includes standard postal services like standard letter delivery. Business communication i.e. mailing services for the business customers is the largest component of this business division and it accounts for 84% of the volume.

Direct Marketing provides full advertising solutions, from planning to execution of a campaign using three subsidiaries: Deutsche Post Address, Deutsche Post Direkt and Merkur.

Press Distribution offers specialized logistics solutions for the commercial transport and delivery of magazines and newspapers to DPWN's business customers.

Value Added Services provides national and international value added services along the value chain from address management to mailroom management.

Mail International provides worldwide cross-border services as well as domestic services in national market in the Netherlands, France, Spain, and in United Kingdom.

Mail Division Performance

The Mail Corporate Division has maintained strong earnings performance (**See Exhibit 3**). It increased its revenue by 2% and maintained a high return on sales of 16.4%. It was due to its focus on internationalization strategy and improved performance of Direct Marketing sub-division. The "mail communication" sub-division continued to be the largest contributor in revenue. The "direct marketing" sub-division increased its revenue by 4.3% due to

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improved and effective sales organization. As in the press sector, a slight decline was observed in the revenue earned by the Press Distribution sub-division. The “mail-international sub-division” recorded a very high growth (11%). It was mainly due to the integrated acquisitions in the UK, the Netherlands and the USA.

THE LIBERALIZATION OF THE MAIL MARKET IN THE EU

The Mail Distribution: a Monopolistic Industry

The postal service was one of the basic state-run monopoly. The business of gathering, sorting and delivering mail has been largely in the hands of the government agencies. A key reason was that the monopoly was perceived as a “natural” one. The economical framework of a national postal market was such that only a single provider could handle the complex logistics of the postal service. This monopoly was also committed to supply a continuous quality of service across a territory at a uniform tariff, generally referred to as the “universal service obligation”. Identically, postal authorities also became involved in telephony and some financial services, which were recently subjected to the process of competition and privatization. Hitherto the monopoly for distributing mails has remained largely intact.

Yet changes in technology and consumers needs, as well as the entry of new firms into some postal activities, have challenged the regulatory status quo. New technologies in managing postal products have permitted for greater market segmentation and facilitated the development of new services such as direct mail. A sophistication of the consumer demand has been observed: business requirements for ever more express services, from same-day delivery of sensitive documents to the support of just-in-time inventory systems. The growth of “logistics” and express aspects of postal activities has transformed the nature of the business and has introduced a range of new actors into the sector.

Process of the Postal Liberalization

Under some commercial pressures, the European Commission has argued strongly for liberalization of postal services in the same way as its campaign to open up the traditional monopoly activities (telecom and transports). After many years of negotiations with member states and postal stakeholders, agreement was reached in 1997. This first shy directive (97/67) called for a very limited market opening: mail products weighting more than 350g or costing more than five times the basic tariff, accounting for only around 3% of the core postal market. This was accompanied by a series of harmonization measures. **(For more details about E.U. and its economic integration process, see Exhibit 4).**

The new round of proposal aimed at continuing the market-opening process finally surfaced in May 2000, having been delayed by disagreements among those favoring more or less reform. The directive (2002/39/EC) was revised again in 2002. Theoretically, postal market deregulation should advance at an equal pace throughout the E.U. The Second Postal Services Directive established the liberalization steps binding on all E.U. member states **(See Exhibit 5)**. All EU member states, except France, Greece, Malta and Poland have already fulfilled these requirements.

Finally, the Directive set January 1, 2009 as the provisional date for realizing a unified single market in the postal sector. This date is subject to approval (or change) by the European Council and the European Parliament under the framework of the so-called, “co-decision procedure.” **(See Exhibit 6)** Thus, a definitive decision concerning the final liberalization, and the precise means by which this goal will be achieved, has not yet been made.

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THE DOMESTIC MARKET

Regulatory Framework

The Postal Act of 22 December 1997 provides a full framework for the regulation of postal services in Germany. The reduction of the weight/price limit according to the directive has been transposed into national law and is integrated in the current Postal Act. Hitherto the conveyance of letter post items weighing not more than 1000g requires a license according to the German Postal Act. DPWN currently holds an exclusive license for mail items weighing less than 100g. The Postal Act has fixed the expiry date of the existing exclusive license for DPWN as 31-12-2007. Regulation of pricing and of downstream access to the facilities of the dominant postal operator (PO) DPWN will continue after full liberalization.

The German Mail Market

With France and the U.K, the German postal market is one of the largest markets in E.U. The split of direct mail is between 35-40% of total mail volume (i.e. 87 items of direct mail per capita a year). In comparison with its neighbors, it means there is space for further growth of the market for un-addressed mail. In 2004, the national market for mail communication accounted for about €7.5 billion (**See Exhibit 7**). POs expect a decline of around 2-3% a year of the total volume of transaction mail a year the next five years, due to substitution by electronic communication (e-mail, S.M.S). Besides, the market liberalization has led to a loss of sales volume to competitors (**See Exhibit 8**), which will continue as liberalization will open up opportunities to offer an alternative to DPWN. The population density and the degree of urbanization are relatively high, so that postal delivery can be done at relatively low costs per mail item. POs focusing on the “Ruhrgebiet” and the ten largest cities outside this area can reach a big part of the entire German population (**See Exhibit 9**). Delivery in the remaining areas is less easy.

Large customers such as banks, utilities and publishers possess buying power and demand value for money. Increasing outsourcing by business mail activities and the need for value added services are the current trends. Top 100 accounts have a considerable impact on total revenues, while the Top 600 are responsible for around 80% of total mail volume.

Since 1998, an important number of POs have entered the market, mainly active at a local level but aiming at interconnected delivery networks. Faster value added services offering or advanced services compared to DPWN constitute the majority of the activities of the new operators. However, they also supply the delivery of addressed direct mail under the constraint of the exclusive license for DPWN. Many operators hand over their collected mail to DPWN for further dispatch.

The Main Competitors

A first category of competitors are the local entrants active in express and courier services expanding into mail services. These operators are active in municipalities or a set of municipalities and normally deliver value added services (delivery overnight with 100% certainty). The service offered by these entrants competes with express and courier services and is substitutable to some extent with the DPWN's service.

Several entrants are active in the local delivery of un-addressed items and have started to offer addressed direct mail and to a lesser extent items of correspondence. These companies are mainly active in urbanized areas and already possess a freelance work force of deliverers that are paid flexible in line with the number of items delivered.

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The market of press publications is mainly regional or local for newspapers. The vast majority of publishers of newspapers, based regionally distributes their newspapers themselves, via a network of local or individual subcontractors. A number of newspaper delivery organizations have started to provide distribution services for mail. Otherwise, publishers of magazines mainly used the postal service of DPWN to distribute their magazines in the past, but now gradually look at opportunities for alternative delivery.

Finally, large competitor POs have established nationwide coverage in cooperation with each other by using their distribution network. Regional newspapers delivery organizations started bundling their networks to reach a regional scope to be able to distribute mainly addressed direct mail. However, the current delivery networks of the newspaper delivery organizations together do not (yet) provide a nationwide delivery network. Other operators such as EP Europost, PIN AG and DBS try to buy small delivery organizations or use them as subcontractors to establish a more widespread network.

To offer an alternative supply-chain to their customers, competitors have chosen a different business model than the incumbent. The generation of mailing by computer has simplified the upstream phase of the production service. Some needs of customers do not require the massive technical infrastructure of DPWN. They can opt for less speed but cheaper prices of mail. In such niche market competitors have proven to be successful. On the contrary, new entrants willing to become national operators use a different strategy. For instance, EP Europost is the leader in the web of contractors and subcontractors coordinating mail streams and operations (IT, logistics and branding). The publishers use a model of interconnection of the existing networks without a coordinator (**See Exhibit 10**).

The coming part is presenting five potential European markets to enter in to compensate losses in the domestic market.

THE FRENCH MAIL MARKET

Regulatory Framework

France has been late with the implementation of the EC directives. The postal sector regulator has just been established in May 2005, setting out the regulatory framework. The incumbent La Poste is fully owned by the French state. An independent regulator is present but it still has to develop a licensing system. Direct mail is still in the reserved area (up to 100 grams). Uncertainty exists with respect to licensing and other important decision variables for entrants and existing parties in the postal market.

Features of the Market

France is a large country with a substantial per capita mail volume (**See Exhibit 7**). Approximately 25% of the population lives in rural areas that are often sparsely populated and include hills and mountainous territory (**See Exhibit 9**).

In 2004, La Poste's market share in the delivery of addressed advertising mail and domestic items of correspondence was about 100%. Its market share in the un-addressed advertising segment was 53% and had a similar market share in the delivery of newspapers and periodicals (47%).

In the coming years, administrative and consumer mail volumes are expected to decrease, whereas addressed advertising mail is expected to rise in mail volumes. Rationalization and substitution are the main reasons for the decrease of administrative mail volume. Indeed for several sub-segments such as B2B (billing, mail from public authorities) and C2C mail, a negative impact of electronic substitution is likely. Direct mail and catalogues

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are not likely to feel an impact of substitution. La Poste estimates that the total mail volume for addressed mail in year 2007 will be 10% lower than in 2003.

The development of mail volumes for un-addressed advertising mail is not well known. Not everyone likes to receive this type of mail. 10-15% of the households have stickers on their letter boxes saying that they do not want to receive this type of mail. Further, there is a new tax of 15 euro per 1,000 items to discourage (over)production and the internet is challenging this market segment. After liberalization, the delivery of addressed bulk mail will constitute a very attractive market segment (85% of the total mail stream) **(See Exhibit 11)**.

50% of the turnover of La Poste is produced by the top 500 buyers. Those buyers are predominantly interested in on-time delivery, low costs, and high quality. Hitherto competitors are not able to offer services that are comparable to those of La Poste in addressed non-advertising mail.

The Main Competitors

The main competitor of La Poste and its daughter company Media Post in the un-addressed mail, catalogues, magazines, and newspaper segments is ADREXO. A number of local companies are also active in this market segment, but their number is decreasing. The largest operator active is Kicable. Two years ago, La Poste bought the third biggest company Delta diffusion and merged it with Media Post to strengthen its activities in this segment **(See Exhibit 12)**.

THE DUTCH MAIL MARKET

Regulatory Framework

The Netherlands has been a fairly open market, especially since the delivery of letter mail above 500 gram was liberalized in 1989. Complying with the EU postal directives, all domestic and cross border mail (over 100 gram) is open for competition. The distribution of periodicals, magazines and newspapers has always been open to competition. The market will be completely liberalized by 2007.

The incumbent mail provider TNT (earlier known as TPG) is obliged to convey domestic post up to 2kg and in return gets a monopoly for letters below 100 grams, a right to place post boxes and an exclusive right to issue postage stamps. POs do not need any license to operate in the Netherlands and TNT is obliged to give access to the PO Boxes to the competitors, despite some dispute regarding the access conditions. However, they are not given upstream network access to the letter boxes.

Features of the Market:

The Dutch mail market covers 17,464 million mail items a year (approximately 380 mail items per capita). Thus it is a fairly important market to be in. Most of the mail is B2C oriented (58%) and the domestic mail between 50 and 100 grams accounts for 40.5% **(See Exhibit 7 & 11)**. The Netherlands are a well urbanized country, so that it is fairly convenient for a mail service provider to deliver mail cost effectively **(See Exhibit 9)**. The market for direct mail is already well developed, and the market for distribution of periodicals and magazines subscriptions is mature.

The mail volume in the consumer mail (C2C) is declining by 3% per annum due to substitution by email and SMS. According to a survey by TNS-Nipo, 67% of the consumers claim to have sent less mail since they use e-mail. For SMS, this percentage is 30%, while 26% of the consumers state that they send more mail since they use the Internet.

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Otherwise, the volume of addressed and un-addressed mail (B2C) is expected to rise. Top 100 accounts have a considerable impact on total revenues. Financial institutions and utilities are the largest mailers of items of correspondence and ask value for money. In addressed direct mail, retailers and publishers are the major senders. Financial institution and utilities have already switched to alternative operators in the liberalized market of addressed mail, while customers are aware of the opportunities competitors offer.

TNT is trying to sustain its competitive position in the national market by keeping up the quality standards and cutting costs to retain its customers. A one-stop shop for all postal services is the main value-proposition of TNT. Besides, TNT has strengthened its position by taking over Media Expresse, a delivery organization for magazines, from Sanoma, and has expanded into the market for hybrid mail and electronic mail via Privver. In 2005, TNT became the new brand for all postal, express and courier operations (comparable to the change to DHL global mail).

The Main Competitors

There are three major competitors in the domestic mail market: Sandd, Selekt Mail Nederland (a joint venture between DPWN and a Dutch publishing house) and Mail Merge. Sandd and Selekt Mail have similar business model and are active in downstream mail distribution of domestic letter mail, inbound cross border mail, addressed direct mail, catalogues and magazines. They have a delivery frequency of two times per week, mainly using manual sorting of addresses, making use of a flexible labor force. Both postal operators have a nearly nationwide delivery network. Mail Merge does not only distribute addressed printed matter, magazines but also un-addressed mail for the B2B segment. Mail Merge delivers twice a week to around 750 locations, equivalent to 92% of all PO Boxes. Apart from these postal operators, several publishers are active in the distribution of newspapers and magazines to addresses. At a local level, city mail operators are also active (**See Exhibit 13**). In the last few years, a decline in the tariffs for the provision of B2C and B2B postal services has been observed, mainly as a result of the entrance of the described competitors.

THE POLISH MAIL MARKET

Regulatory Framework

Poland entered in the E.U. in 2004, so that it has committed itself to fully implement the EU *acquis* by the end of 2002. It resulted in the Postal Act 2003, which precises a transition period for the weight limit in the reserved area, i.e. 350 gram until 31-12-2005, limiting the development of competition. Although government has not taken position yet on further liberalization, the national PO Poczta Polska is preparing for full liberalization in 2009. Nevertheless, most experts do not expect full liberalization before 2015.

Features of the Market

The Polish market is considered as an attractive market due to its large population (**See Exhibit 9**), the biggest among the new Member States of E.U. As of 2006, the weight limit for the reserved area will drop to 50 grams. Nevertheless, over 80% of mail volumes in Poland are below 50 grams. The postal volume rose from over 81 million pieces in 2003 to almost 326 million pieces in 2004 (**See Exhibit 7**).

The national incumbent dominates the C2C, C2B and B2C segments due to the density of its network. Competition is unlikely to occur for universal services in the coming years. The liberalization might result in the loss of a large part of market share in big cities since 80% of the revenues of the Polish Post come from 15 cities. With its growing markets for instance in mobile phone users, expanding housing market, banking, etc., Poland is

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regarded as a great potential for the development of the direct mail market (**See Exhibit 14**).

The market is characterized by a conservative attitude of managers in Polish companies who are not willing to spend money in direct marketing activities, preferring traditional campaigns. This cultural characteristic leads to lower advertising budgets and expenditures on direct marketing than in other countries. For the moment, e-substitution should not exert influence on the market in the short term but may become important in the long term.

The Main Competitors

Hitherto no competitors entered in the distribution of mail. However, several competitors are present – German, Dutch, Swedish, French and British Posts, mainly in the express and logistic sectors. The German and Dutch incumbents represent the strongest competitors as they have a big logistic infrastructure and capital. The main constraint for the competitors is the current reserved category which hampered them to undertake significant activities in the addressed mail market. As the market beyond 350 grams is small, competitors have a blurred view on the coming development of the market and have not yet set clear strategies in the long term. However, foreign incumbents may be interested in being active on this market due to the sheer size of the market. More demand for the logistic and transport services after the E.U. accession is expected, which is an opportunity for express and courier operators.

THE SWEDISH MAIL MARKET

Regulatory Framework

The deregulation of the Swedish Mail Market was done in 1993. It means that the market is fully open to any operator. Posten, the national incumbent has no monopoly anymore. In 1997, the Swedish government amended the postal law to oblige the PO to guarantee universal service, and to implement the 1997 EU Postal Directive. Since this time, POs need a license to deliver mail and correspondence items. Indeed consumer protection is guaranteed through the licensing system: requirements of reliability and protection of the sender's and recipient's personal integrity. Licenses allow postal operators to get access to the P.O. Boxes by competitors. Besides, the Postal Law requires that any operators in the postal service market must provide a universal postal service.

Features of the Market

89.9% of the population resides in urban areas, mostly in the cities of Stockholm, Gothenburg and Malmo. Per person addressed mail is 363 items (excluding newspapers), representing a total mail market of 6,330 million mail items (**Refer Exhibit 7 & 9**).

The C2C market segment is extremely small in comparison to the big B2C market (**See Exhibit 11**). The decline of the C2C market due to e-mail and SMS (**See Exhibit 15**) is balanced by the growth in the addressed mail market. Large customers such as banks, utilities and publishers are the main sources of computer-generated mailings, which is a highly competitive segment of the market. Top 50 national accounts have a great impact on the total revenues.

The Main Competitors

CityMail, operating in the urban region of Stockholm, Gothenburg and Malmo, is the major competitor of Posten. It covers 4 out of 10 Swedish households. CityMail chose a B2C segment targeting companies which are willing to establish a direct contact with their customers. Its business model aims at distributing large volumes of pre-sorted mail at low

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cost. The main competitive advantage of Citymail comes from its ability to provide customized solutions to their clients instead of the standard services of Posten. This strategy led to an increase in CityMail's market share of 5.1% in seven years, reaching 6.6% in 2004. The rest (92.9%) represents the market share of Posten, slightly declining through the years. Because of the high cost of building a parallel nationwide delivery network, many others had tried entering the market without any success. The only other potential competitors in direct mail market for Posten are the local newspaper publishers and distributors (**See Exhibit 16**).

Impact of Competition:

The main outcome of the liberalization of the market is: increase of the services provided by Posten and reduction in the price of the services now closely reflecting costs. In the same way, the prices have fallen by 30% (about 50% in real terms) for bulk mail below 50g. Competition in the market has resulted in better services at a lower cost to the customer.

THE UNITED KINGDOM MAIL MARKET

Regulatory Framework:

The liberalization of the U.K. market dates back to year 2000 with the Postal Services Act, coming into force. The provision of value added services, courier and express services were already open to competition as the delivery of un-addressed mail. Since the 1st of January 2003, the transportation of postal product weighing at least 100 grams and priced at three times the public tariff has been opened to competition. Hitherto Royal Mail, the national incumbent, is obliged to guarantee a universal service for the daily delivery of parcels and mail up to 20 kg. The regulator of the market, Postcomm distributes the license to the operators, which want to deliver mail less than 350 grams in weight and less than 1 pound in cost. For instance, Royal Mail has got a license for 15 years starting April 2001. In the licensed area, Postcomm has currently issued a license to 13 operators. The regulator has committed itself to offer a free market, which implies an obligation of cooperation of Royal Mail with competitors including purchase of the presorted mail by the competition if supplied so. Nevertheless, Royal Mail still takes advantage of VAT exempt status. In June 2005, Postcomm decided to bring forward the date for full liberalization to 1st January 2006.

Features of the Market:

With 29,445 million mail items being sent per year, the U.K. represents a large mail market where the population resides mostly in urban areas (65%) (**See Exhibit 9**). The number of correspondence items sent per person is 323. This indicator has increased at the rate of 1.8% to 2.1% recently and a growth of 2% is expected for the next 2 years. The main part of this increase comes from B2C mail whereas C2C mail is declining marginally partly because of the electronic media substitution (**See Exhibit 11**). On the contrary, the demand for direct mail has grown and is expected to grow faster than the demand for non direct mail. The top 50 accounts for 29.2% of the total number of postal items, the top 100 for 36.7% and the top 500 for 49%. These entire features make the United Kingdom an attractive mail market (**See Exhibit 7**).

The Main Competitors

Hitherto 99% of the market shares in the licensed regime are in the hand of Royal Mail. Its huge scale of operations gives it some advantages in terms of strong brand and lower unit costs. Besides, Royal Mail's zonal pricing system for downstream access led to complaints by competitors who argued that this process contravenes with the license conditions.

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Royal Mail agreed with its main competitors UK Mail, TNT Mail UK and DHL Global Mail UK to deliver their presorted mail for both domestic as well as cross border market. TNT Mail UK improved its position in the deregulated postal market after inking a contract with Lloyds TSB to handle a large share of its mail. It will take care of 100 million items for Lloyds TSB, Britain's fifth largest bank. Express Dairies, a doorstep milk distributor, contracted a deal with TNT to deliver heavier items such as catalogues and magazines to households. It used to deliver post from 100 depots, via 1,400 of its milkmen, to more than 6 million households for two years before stopping its mail operations in September 2005. Around 4,000 operators are active in express and courier services. The rest is active in the delivery of bulk mail services, consolidation, access and or niche services (**See Exhibit 17**).

Focus on a DPWN Subsidiary in UK

Speedmail International is a fully-owned subsidiary of DPWN. The entry strategy of this new entrant was based on two alternatives: to offer similar products but at lower prices or to offer differentiated products at similar prices. Taking advantage of the know-how of its parent company, it developed a strategy for operational excellence allowing it to outperform the incumbent in the operational processes for collection. In that way, it was able to attack the weakness of the incumbent experienced in sorting, delivery and meetings customer demands. However, new other entrants use more or less the same strategies primarily focusing on specific business and bulk mail customers and gradually expanding the approach to all customers, especially in the B2B and B2C markets.

Imagine that you are a member of the consulting firm who met Dr. Peter Müller today. After a complete analysis of the given data, what would you advise to do? What strategic decisions should DPWN take with regard to the different markets? What should be the company response to the liberalization issue in the domestic market?

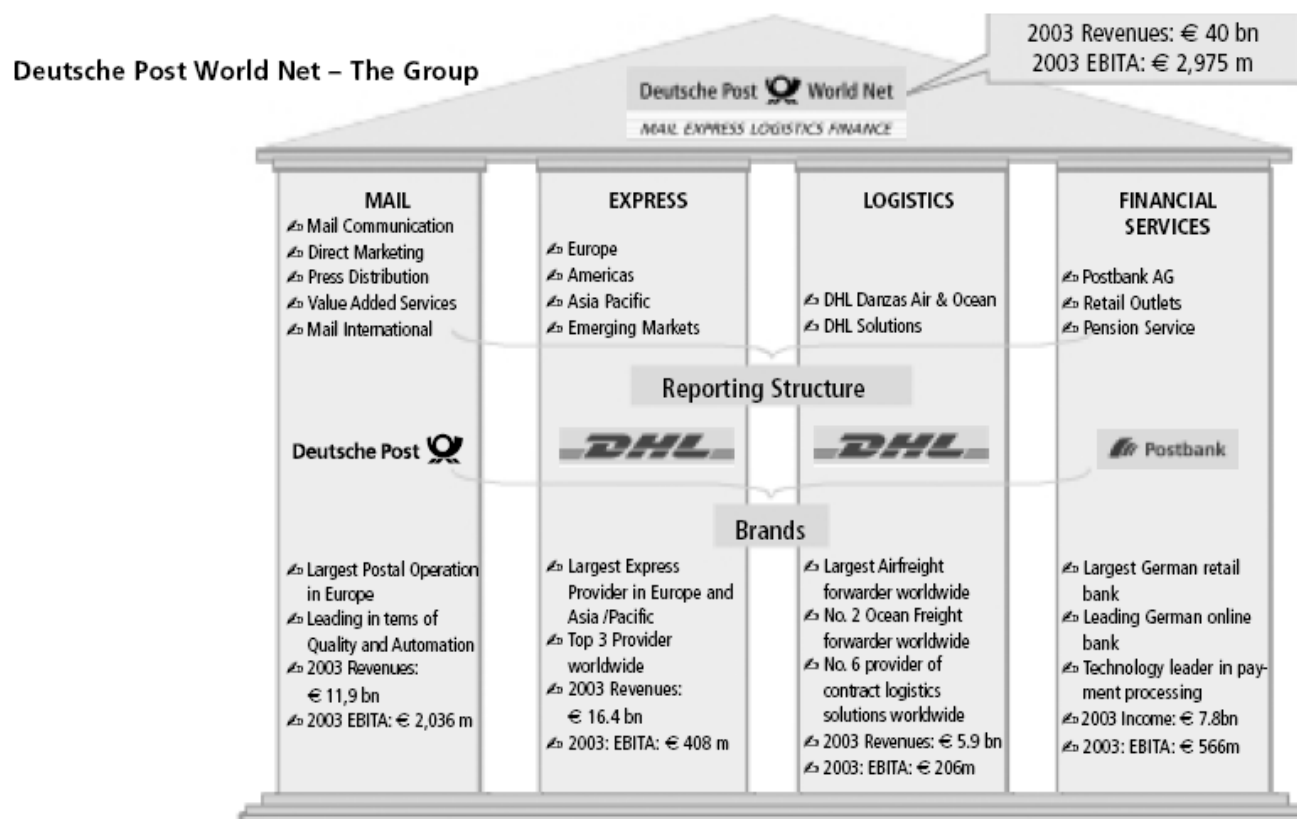
APPENDICES**Exhibit 1: Overview Acquisitions, Alliances and Partnerships of DPWN for Selected Countries**

| Country | Mail | Express | Logistics |
|--------------------|-----------------------|---|-----------------|
| France | KOBA (2004) | Ducros (1999) | - |
| Netherlands | Interlanden (2003-04) | Van Gend & Loos (1999) Selektvracht (1999) | Nedlloyd (1999) |
| Poland | - | - | - |
| Sweden | - | - | ASG (1999) |
| UK | Speedmail (2004) | Securicor (2003) | - |

Source: Annual Report Deutsche Post 2004

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Exhibit 2: DPWN Group Structure



Source: Annual Report Deutsche Post 2004

Exhibit 3: Mail Division Performance

| MAIL Corporate Division | | 2003 ¹⁾ | 2004 | Change In % |
|---|-------|--------------------|--------|----------------|
| Total revenue | in €m | 12,495 | 12,747 | 2.0 |
| Profit from operating activities before goodwill amortization (EBITA) | in €m | 2,082 | 2,085 | 0.1 |
| Return on sales ²⁾ | in % | 16.7 | 16.4 | |

¹⁾ Prior-period amounts restated due to restructuring of Mail International Business Division and other product portfolio optimization measures

²⁾ EBITA/revenue

Source: Annual Report Deutsche Post 2004

DPWN – Succeed the mail market Liberalisation in the E.U.**Exhibit 4: Politics and Economics of European Union****Short Background about European Union**

The origins of European integration date back to the end of World War II. The war had left Europe in ruins and prompted the search for a sustainable peace and, in particular, the need to bring about reconciliation between France and Germany. The first initiative was the European Coal and Steel Community (ECSC) established by the Treaty of Paris in 1951. Belgium, Italy, Luxembourg and the Netherlands joined France and Germany in gathering their coal and steel production.

In 1957, with the treaty of Rome, the six members of the ECSC formed the European Economic Community (E.E.C.) and began the process of developing a common market for goods and services. Since this time, the EEC has seen five stages of enlargement, and now brings together 25 countries in what is known as the European Union.

Another remarkable development took place in 1987 with the coming into effect of the Single European Act which set out the timetable for the creation of the Single Market by 1993. This brought about the world's largest trading area and the free movement of goods, capital, people and services.

(Refer to the next table for the main milestones of European Union)

DPWN – Succeed the mail market Liberalisation in the E.U.**Historical Milestones of European Union**

| | |
|-------------|--|
| 1951 | Belgium, France, Germany, Italy, Luxembourg and the Netherlands sign the Treaty establishing the European Coal and Steel Community (ECSC). |
| 1957 | In Rome, the six countries sign the treaties establishing the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). |
| 1968 | Customs duties on industrial goods are completely abolished, 18 months ahead of schedule, and a Common External Tariff is introduced. |
| 1973 | Denmark, Ireland and the United Kingdom join the European Communities |
| 1981 | Greece joins the European Communities, bringing the number of member states to 10. |
| 1985 | Revision of the Treaty of Rome and re-launch the European integration via a 'Single European Act', planning. This paves the way for creating the Single market by 1993. |
| 1986 | Spain and Portugal join the European Communities, bringing their membership to 12. The Single European Act is signed in Luxembourg and The Hague. |
| 1990 | The Schengen Agreement is signed, aimed at abolishing checks at the borders between member states of the European Communities. Germany is reunited (03/10). |
| 1992 | The Treaty on European Union is signed in Maastricht. A monetary union, including a single currency is launched. Creation of the European Union (EU). |
| 1995 | Austria, Finland and Sweden join the EU, bringing its membership to 15. |
| 1997 | The Amsterdam treaty gives to the European Union new powers and responsibilities. |
| 1999 | The currencies of 11 EU countries are replaced by the euro. The single currency is launched on the money markets. The European Central Bank (ECB) has responsibility for the EU's monetary policy. |
| 2004 | Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia join the European Union. |

Source: European Union

European Economic Integration

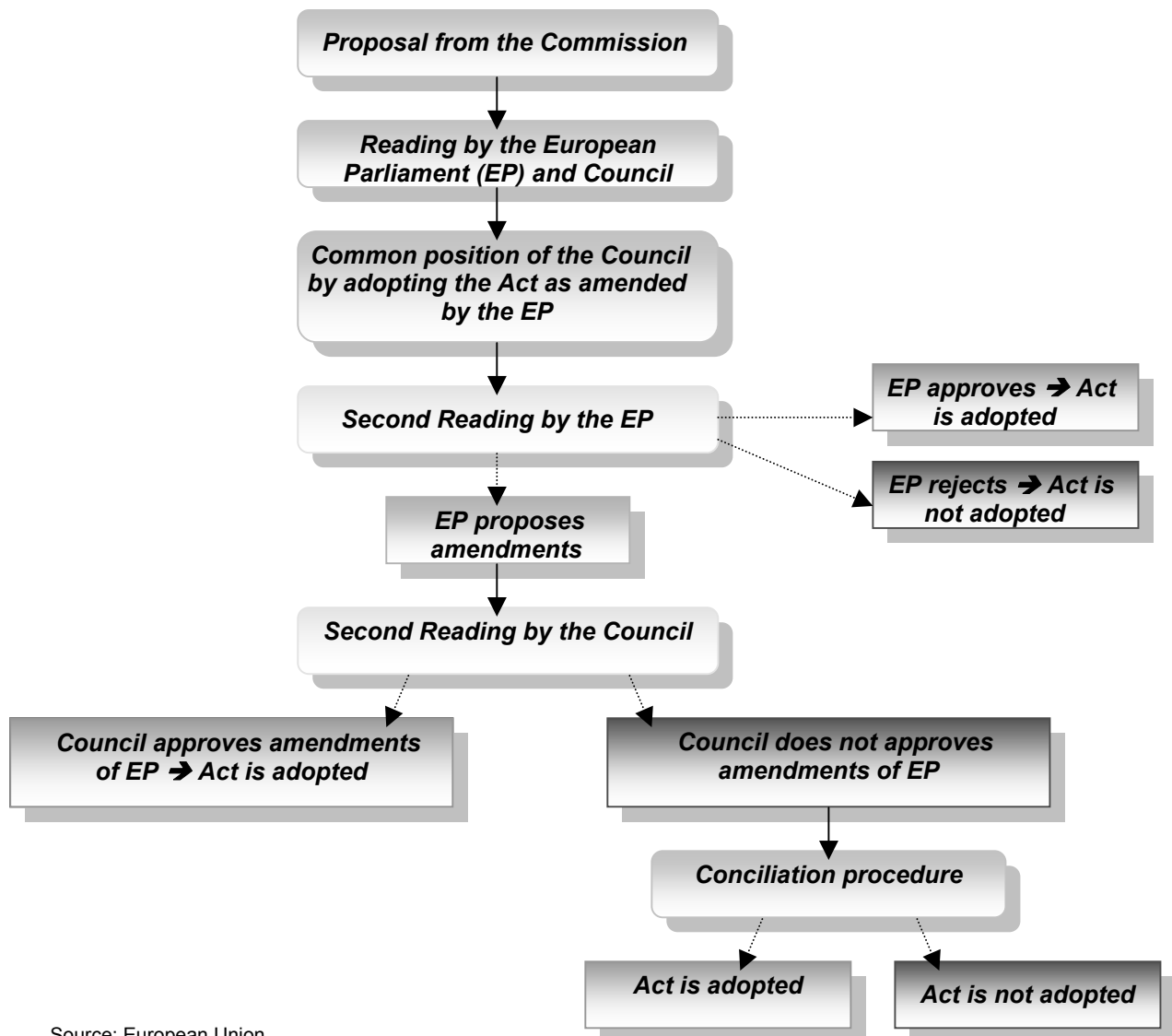
Economic integration is defined as the elimination of economic frontiers between two or more economies. This process is driven by efforts to reduce or eliminate the public role of territorial frontiers within Europe as economic borders. The rationale for economic integration is the increase of real or potential competition. From the advantage point of one country, this competition is generated both by market participants from elsewhere in the E.U. and by the participants of the country reaching out beyond the traditional borders of its domestic economy. Competition between market actors is likely to lead to lower prices for similar goods or services, to greater quality of variation and wider choice for the integrated area, as well as to a general dynamic for change. Product designs, services methods, production and distribution systems and many others aspects may become subject to potential challenge.

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Exhibit 5: Deregulations Steps

| | Letters | Addressed mail | Revenue split in Corporate Division MAIL |
|----------------------------------|---------|----------------|---|
| EU regulation until 2002 | 350g | 350g | |
| Regulation in Germany until 2002 | 200g | 50g | MAIL revenue: € 11.7bn ■ Monopoly: € 7.8 bn (67 %) ■ Competition: € 3.9 bn (33 %) |
| EU decision 1st step in 2003 | 100g | 100g | > additional 4.0 % in competition = € 0.5 bn |
| EU decision 2nd step in 2006 | 50g | 50g | > additional 4.7 % in competition = € 0.6 bn |

Source: Annual Report Deutsche Post 2004

Exhibit 6: Simplified Flow Chart of the Co-decision Procedure

Source: European Union

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Exhibit 7: Size of the Mail Markets in Physical Terms (million items)

| | G (2004) | | F (2003) | | NL (2003/04) | | PL (2004) | | SW (2004) | | UK (2003/04) | |
|--|---------------|-------------|---------------|-------------|-----------------|-------------|----------------|-------------|--------------|-------------|-----------------|-------------|
| Domestic items of correspondence <50g | 7,622 | 38,7% | 8,445 | 45.0% | 3,000 | 40.5% | 1,221 | 60,5% | 1,095 | 33.5% | 12,596 | 65,3% |
| Domestic items of correspondence 50-100g | | | 641 | 3.4% | | | 52.2 | 2.6% | 618 | 18.9% | | |
| Domestic items of correspondence > 100g | 1,788 | 9.0% | 1,604 | 8.5% | 300 | 4.1% | 54.4 | 2.7% | 206 | 6.3% | | |
| Inbound cross border mail | 500 | 2.5% | 370 | 2.0% | 200 | 2.7% | 50.6 | 2.5% | 102 | 3.1% | 469 | 2.4% |
| Outbound cross border mail | 400 | 2.0% | 415 | 2.2% | 300 | 4.1% | 62.2 | 3.1% | 115 | 3.5% | 627 | 3.3% |
| Direct Mail addressed (incl. Catalogues) | 7,201 | 36.5% | 4,400 | 23.4% | 1,500 | 20.3% | 93.3 | 4.6% | 754 | 23.1% | 5,438 | 28.2% |
| Periodicals / Magazines | 2,230 | 11.3% | 2,900 | 15,4% | 900 | 12.2% | 447 | 22.1% | 377 | 11.5% | 145 | 0.8% |
| Newspapers | | | | | 1,200 | 16.2% | 39 | 1.9% | | | - | - |
| Total | 19,741 | 100% | 18,775 | 100% | 7,400 | 100% | 2,019.7 | 100% | 3267 | 100% | 19,275 | 100% |
| Un-addressed mail (direct mail) | 15,600 | | 19,000 | | 10,274 | | 1,213.3 | | 3,063 | | 10,170 | |

Source: calculations based on ECORYS questionnaire (2005), Annual Report RegTP 2003, Fedma (2003), SEO (2003), IG&H (2003), PTS (2004,2005), Fedma (2003), UPU (2005), Postmarknad i förändring (2005), Annual Report Posten AB. The figures need to be interpreted carefully.

Exhibit 8: Mail Communication Market Share

| Market shares (volume) in mail communication in Germany | | |
|---|------|------|
| in % | 2003 | 2004 |
| Deutsche Post | 93.7 | 92.2 |
| Competition | 6.3 | 7.8 |

Source: Company estimations from Annual Report Deutsche Post 2004

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Exhibit 9: Country Information (2004)

| | G | F | NL | PL | SW | UK |
|---|---------------------|---------------------|--------------------|----------------------|--------------------|-----------------------|
| Population (in million) | 82.5 | 59.9 | 16.3 | 38.2 | 9.0 | 59.7 |
| Size of the country (in 100 square km) | 357.0 | 544 | 33.9 | 312.7 | 410.9 | 243.8 |
| Population density (number of inhabitants per km ²) | 231.1 | 110.1 | 480.8 | 122 | 21.9 | 244.9 |
| Degree of urbanization | 88.1 | 76.3 | 61.9 | 61.5 | 89.1 | 65.8 |
| Number (and percentage of inhabitants 5 largest cities) | 7,995,198 (6.7%) | 4,119,983 (6.9%) | 233,791 (14.1%) | 4,438,046 (11.6%) | 2,265,039 25.2% | 10,070,823 (16.9%) |
| Number of addressed mail items per inhabitant | 239 | 318 | 380 | 52 | 363 | 323 |

Source: Eurostat, UN, World Gazetteer, Polish Statistical Office

Exhibit 10: Strategy of the Competitors

| Main Competitors | Background | Main strategies |
|--|---|--|
| PIN AG - Berlin | Established in April 1999 in Berlin. Now subsidiary of Axel Springer Verlag, and Georg Holtzbrinck Verlag. Required 60% share in December 2004 with option to extend to 80% later on. | Focus on value added services with other service options than incumbent with currently 1,000 employees. Fast development from € 35.5 m up to € 50 m at the end of 2004. Investment € 10 m in near future to anticipate liberalization. |
| EP Europost - Hannover | Subsidiary of Dutch TNT and Hermes Versand Service Established in 2000 and active since 2001 | Targeting national volumes in B2C market with value added services for transaction mail and direct mail as well as economy mail. Focus on logistics through top down national network development approach using publishers and city couriers, use of parcel network Hermes. |
| Suddeutsche Zeitung Logistik GmbH – Munchen | German publisher Suddeutscher Verlag, publisher German newspaper Suddeutsche Zeitung. Start announced in January 2005 | Has already started delivering letters in the Munich area. The company hopes to expand its service in the next year and will aim to gain more customers, notably companies and authorities, delivering their post at the same time as their subscription. |

Source: Ecorys (2005)

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Exhibit 11: Postal Streams in the Market for Addressed Mail

| | G (2004) | F* (2003) | NL (2003) | PL | SW (2004) | UK (2004) |
|--------------|--------------------|---------------------|---------------------|-----------|---------------------|---------------------|
| B2B | 85% | 15% | 34% | - | 26% | 27% |
| B2C | | 70% | 58% | - | 68% | 61% |
| C2B | 15% | 10% | 4% | - | 3% | 3% |
| C2C | | 5% | 4% | - | 3% | 9% |
| TOTAL | 100% | 100% | 100% | - | 100% | 100% |

Source: Ecorys Questionnaire OPTA (2005), SEO (2003), Postmarknad i förändring (2005)

* Information based on view La Poste

Exhibit 12: Competitors on the French Mail Market

| Main Competitors | Products active | Volume Mail / Turnover Mail | Coverage |
|---------------------------------|--|------------------------------------|---|
| ADREXO | Direct Mail, catalogues, magazines and newspapers, un-addressed mail | 7,010 million 200 million euro | Complete territorial coverage, delivery to around 23.5 million from the in total 25 million letterboxes, 220 distribution centers |
| MEDIAPOST (76% La Poste) | Un-addressed mail | 10,003 m 350 million euro | National coverage, 170 distribution centers |
| KICIBLE | Un-addressed mail | 500 m n.a. | Active in 20 departments (2.7 million from the in total 25 million letterboxes), 38 distribution centers |

Source: Ecorys (2005)

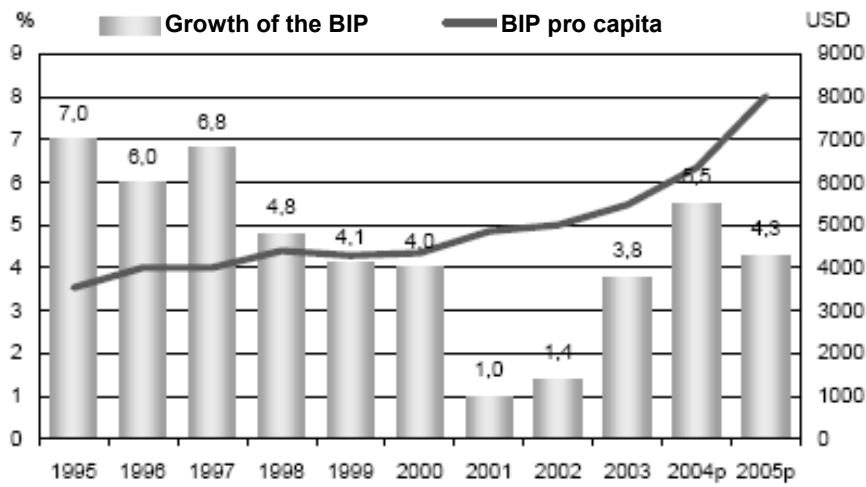
Exhibit 13: Competitors on the Dutch Mail Market

| Overview of competitors | |
|---|---|
| Domestic items of correspondence | Sandd (>100 gram), Selekt Mail Nederland (>100 gram), Mailmerge, City mail services |
| International mail | Royal Mail Nederland (inbound), Spring, TNT, DHL Global Mail, Swiss Post International, De Post... |
| Addressed direct mail / catalogues | Sandd, Selekt Mail Nederland, MailMerge, BusinessPost, Royal Mail Nederland, City mail services |
| Periodicals / Magazines | Media Expresse (TNT), Sandd, Selekt Mail Nederland, DistriQ, Audax / Betapress, MailMerge, City mail services |
| Newspapers | Wegener, PCM distributie, DistriQ, GBB de Nieuwsbrengrers |
| Un-addressed mail | Netwerk VSP, Interlanden Spreigroep (joint venture Deutsche Post and Wegerer), DistriQ |
| Upstream mail services | Mailing houses such as Mailland, Euromail |

Source: Annual Reports TNT and presentations, OPTA Annual Reports, SEO (2004), IG&H Management consultants (2003)

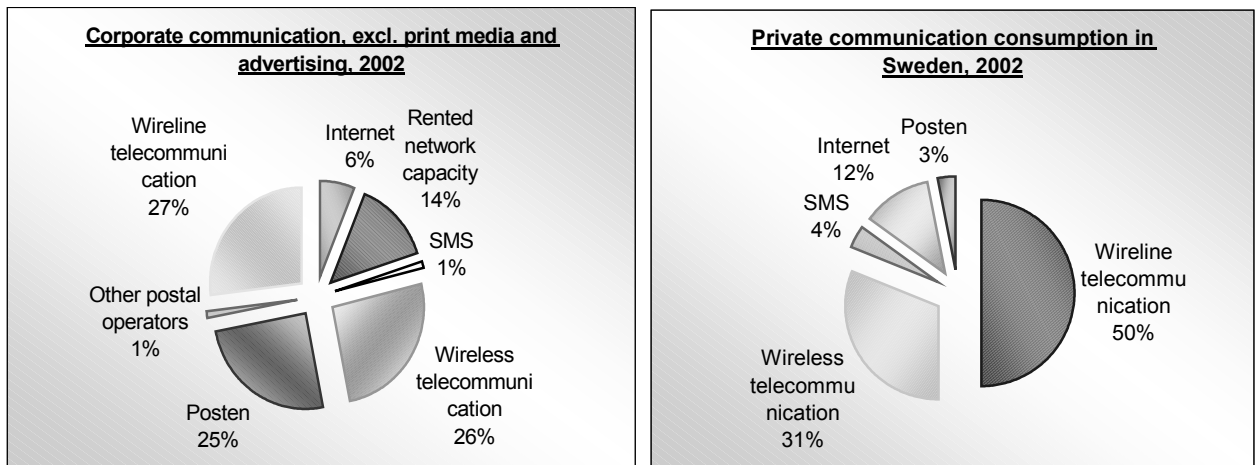
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Exhibit 14: Growth of the BIP in Poland



Source: DGTPE Statistiques "Missions Economiques" (2005)

Exhibit 15: Competition from Alternative Media



Source: Annual Report 2002 Posten AB

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Exhibit 16: Competitors in the Swedish Postal Market

| Main Competitors | Volume Mail / Turnover Mail | Service level (Number of deliveries a week) | Coverage |
|------------------------------------|--|---|-----------------------------------|
| CITYMAIL (holding OptiMail) | 428.8 mln SEK (2004) 216 millions items | 2/3 times a week | 40% (4 out of 10 households) |
| SDR | 600 mln SEK 920 millions (un-addressed) | - | 4.3 mln households, 55 franchises |

Source: ECORYS questionnaire (2005), website operators

Exhibit 17: Competitors in the UK Postal Market

| Main Competitors | Products active | Volume mail / Turnover mail | Service level (Number of deliveries a week) | Coverage |
|---------------------------------------|---|---|---|---|
| UK Mail | Upstream letter and addressed direct mail, periodicals, magazines | 33 mln items, 8.3 mln euro (end of 2004), 250 million items handled in March 2005 on annual basis | 2 times a week | Nationwide (via Royal Mail) |
| Speedmail International (DPWN) | Addressed mail (tracked B2B) | - | Daily collection and delivery, 100% guaranteed delivery | Collection 200 addresses, Delivery to 5,000 addresses |

Source: ECORYS questionnaire (2005), websites, Burke (2004), Stapleton (2005)