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CORPORATE STRATEGIES  
ADAPTED TO MARKETS  
TYPOLOGY –APPLICATION  
ON POSTAL SERVICES  
SECTOR

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**Abstract**

*Nowadays the market of postal services faces a period of reconfiguration due to the process of liberalization. The changes that come along with this process are affecting providers and public regulatory authorities.*

*Based on a documentary research, this paper presents the results of an analysis made on the EU28's postal services' markets, with a special emphasis on the liberalization of those markets. The second part represents an economic analysis of postal services' coordinates and highlights the main considerations about the universal postal service, from the competition point of view.*

## Introduction

Postal services' market has a special regime due to the fact that the players on this market are entities, which are part of ministries, or state owned legal persons (Mägli et al, 2010). Organizationally speaking, what is characteristic to postal companies is the use of labor force to a great extent; some of these companies are among the largest ones, although their revenues are quite low (Clifton and Díaz-Fuentes, 2010).

This market has to comply with the basic goals of the European Union, that is the liberalization of all services in order to create a single market. (Sepp and Ernits, 2012) In Europe, the beginnings of the 1990s have witnessed the actions previous to creating a single postal market (Kujačić et al, 2011). The Green Paper on the development of a single market of postal services represents an important evolution of this sector, just like the year 1997, when was issued Directive 97/67/CE (of the European Parliament and the Council) on common norms needed for the development of postal services, Community internal market and improvement of the service quality, twice amended later by Directives 2002/39/EC and 2008/6/EC. Further more, the Treaty of Lisbon has three new provisions that might have an impact on the postal services' market by: assigning new responsibilities to the European Council and Parliament in setting the rules that would govern the market of general interest economic services and a new approach on general interest services by including them in the category of common values (Fratini, 2011).

The current trend on the postal services' national markets is determined by the process of complete liberalization which led to a market reconfiguration (Lăzărescu, 2011). This trend is supported by previous examples that have revealed the multiple, positive effects of this process on consumers. In this context, the examples of Germany, Holland, France or Great Britain, on the complete liberalization of postal services' markets are clear, highlighting the positive effects of these measures on the users of such services, and implicitly on the final consumer. Liberalized market leads to challenges that affect both providers and public regulatory authorities (Calzada et al, 2009).

## Postal Service Market Liberalisation

The liberalisation of EU's postal services' market has been done according to the community regulations, while the applicable legislation is mainly concentrated in the Treaty, postal directives and the Notice from the Commission on the application of the competition rules to the postal sector and on the assessment of certain state measures relating to postal services.

Following the Treaty provisions, the European Commission and national competition authorities

have to ensure that the monopolies on postal services comply with the competition rules, so as to provide maximum benefits for consumers and limit any distortion effects that might affect them. Applying article 102 from the EU Treaty, the European Commission, acting as a guardian of it, will ensure that the monopoly power will not be used for extending a protected, dominant position also on liberalised activities or for unjustified discrimination, in favour of large clients and against small users. In the same time, the monopolies on postal services, granted for crossborder services, must not be used in the purpose of creating or maintaining unlawful agreements on rates, that lead to prejudices of the economic agents' interests and those of the European consumers. Having in mind these considerations, any behaviour of one or more economic agents, that might negatively affect the trade between Member States, is incompatible with the common market, which refers to preventing, constraining, distorting competition and/or abuse of dominant position on internal market or on a significant share of it. From the point of view of delivering internal correspondence, as well as from the perspective of national distribution of incoming, external correspondence, the territories of Member States represent distinct geographic markets, mainly due to the exclusive rights of the economic operators and the restrictions imposed on providing postal services. Each of these markets represents a significant part of the internal market. In what the product markets are concerned, the differences in practice between Member States show that is absolutely necessary to acknowledge the existence of more distinct markets in some cases. The distinction between the product different markets refer, among others, to special or exclusive granted rights. Based on different market conditions and regulations from Member States and also on the harmonized frame created by the Postal Directive, in assessing actual cases it is considered that there is a certain number of distinct markets for the product, such as collecting, sorting, transporting and distributing correspondence, advertisements by mail and external correspondence. These markets may be totally or partially liberalised in a certain number of Member States.

High speed delivery service is different from the traditional services, included in the definition of the relevant product market, due to its added value. High speed delivery service has more characteristics, beside collecting, transporting, faster and more reliable distribution of postal sendings, such as providing some or all the additional services: guaranteeing delivery to a specific date; collecting from the sender's address; direct delivery to the recipient; possibility of changing destination and recipient during

transportation; delivery confirmation to the sender; controlling and checking the track of sendings; customized service for clients and providing a service range adapted to the clients' needs. Usually, clients are willing to pay more on such kind of service. As defined by the Postal Directive, the reserved services may include high speed delivery of national mail sendings within the established price and weight limits.

### **Customer-based strategies**

Without prejudicing the definition of reserved services, as defined by Postal Directives, in the case of general mail service, different activities that are acknowledged and answer to different needs should be considered as distinct markets, that is: collecting and sorting correspondence market, correspondence transport market and, at last, correspondence distribution market (incoming internal or external correspondence). A similar approach took place in the USA, by making a clear distinction between the correspondence transport market and the one of exclusive access to persons' mailboxes (Andrews, 2011).

In this context, there is a clear need of making the distinction between different categories of clients. Private customers ask for different products or services as a single integrated service. Commercial customers are actually looking for replacing different components of the final service by other solutions that, in some cases, are provided by different economic operators or subcontracted to these. Commercial customers want to make the right balance between the advantages and disadvantages of self-provided services, in comparison to those provided by postal service provider. The existing monopolies limit the offer of such special services, that otherwise would be individually offered, according to the market conditions. This market reality supports the idea according to which collecting, sorting, transporting and distributing postal sendings represent different markets. From the point of view of competition law, the distinction between these markets is highly important. That is the case of external correspondence, whose collecting and transporting are carried on by a postal services' provider, other than the one that provides distribution. It is also the case of internal correspondence – the majority of postal services' providers allow to their important clients to do the sorting of bulk correspondence, in exchange of price cuts, based on their public rates. In these conditions, depositing, collecting and payment way also vary a lot. Nowadays, large companies' internal correspondence is carried on by dealers, that prepare and sort the correspondence before sending it to the postal services' provider, for final distribution. It is acknowledged that all postal services' providers allow certain types of downstream access, to their postal network,

allowing or even asking that the (sorted) correspondence is stored in a shipping or sorting center. In most cases, this activity allows a greater reliability (the service quality), bypassing all the failure sources in the postal network from upstream.

### **Corporate strategies on the Postal Market**

Due to exclusive rights granted to a provider, in most of the Member States, this is the entity that controls the whole territory of that particular state and holds a dominant position on the national market of correspondence sendings' delivery. Distribution is the user oriented service, that allows important savings and the operator that provides such a service is also on a dominant position on correspondence services' (which includes collecting, sorting and transporting), in the majority of cases. Beside that, the company that provides delivery service, especially when the same company also uses the buildings of the postal office, is easily seen and thus, it represents the first choice. In Member States, the dominant position also includes services like recorded sendings or special distribution services and/or certain segments of packages market.

Even more, an abuse might be limiting the efficiency of that particular service on the consumers' expense. When a Member State grants exclusive rights to a particular service provider and this provider does not offer those services or does not meet the required standards and thus it does not bring satisfaction to the customers, as its competitors would do; in this case, by granting exclusive rights, the Member State prevents the competitors of that service provider from delivering that specific service, because they are not in the position of doing that. That is especially the case of high speed delivery services' market, because of the measures taken in order to protect the postal service, that induce restrictions in providing other distinct services on distinct or neighbouring markets. Thus, the European Commission has asked more Member States to remove the restrictions that rise from granting exclusive rights on providing high speed delivery services by the large, international high speed delivery companies. Another possible type of abuse refers to providing a poor quality service and not making use of the latest technological updates in the field. This affects the customers, natural or legal persons that do not have the possibility of choosing a specific offer that meets best their needs, according to the quality of the provided service. For example, a report drafted for the Commission (UFC — Que choisir, Postal Services in the EU), by external experts, has revealed that without competition, the public postal services' providers have not managed to make any significant progress in setting standards for dimensions and weights. This report

has clearly shown that certain postal services' providers made use of hidden, cross-subsidies between reserved and unreserved services; according to this study this fact explains the major differences in price range in the case of different Member States, which affects private law users, most of the times, that use reserved services and whose prices are higher than necessary; these companies do not meet the criteria for getting price cuts.

All these examples have clearly shown that when postal services' providers benefit from granting special or exclusive rights, they might decrease the service quality and they do not take all these measures that would improve the quality standards of that particular service. Decades ago, in many Member States, the customers could count on receiving in the afternoon the letters had been previously sent in the morning. Since then, we have witnessed a continuous degradation of this service quality – this is clearly shown in the number of postmen' daily shifts that decreased from 5 to 1 (or two, in some Member States). The exclusive rights granted to postal services' providers led to poor quality services, because it prevented other companies from entering on this market and thus stimulate competition. Unlike the companies open to competition, those postal services' providers have not managed to compensate wage increases and working time partial reduction, by making use of the new technologies. In what the international postal services are concerned, this study has shown that these need a significant quality improvement in their services, so that they would meet the needs of their clients, especially of those that cannot afford to use messaging or sending by fax services, provided by other companies. Independent assessments have revealed an improvement in the quality standards in the case of the priority correspondence.

The Treaty provisions state that an unjustified refusal of providing a service represents an abuse that the Treaty forbids. Such a behaviour would lead to a service limitation, and in the event it would be applied only to certain users, it would result in discrimination – applying unequal conditions to equal performances. In the majority of Member States, the providers of postal services allow dealers the access to different access points in their postal networks. The access conditions and especially the rates are often confidential and might lead to applying discriminating conditions. In what the postal services are concerned, Member States have to make sure that their legislation does not encourage postal services' providers to make unjustified differences in applying conditions or exclude certain companies.

In the case in which a company holds a dominant position on the market, it has the right to defend its position, by competing with its rivals, and it has an

incredible responsibility – not to supplementary decrease the competition level that still exists on the market. Exclusion practices may be targeted against existing competitors on the market or have the intention of preventing the access of new competitors on the market. Examples of such illegal conduct include, on behalf of a company that represents the unique or the dominant source of providing a product or controls the access to a technology or essential infrastructure: refusal of selling, as a way of eliminating a competitor, ruining prices and selective price cuts, delivery agreements, as a means of eliminating competitors, discrimination, as part of a larger frame of monopoly behaviour oriented towards excluding competitors and the systems of exclusion refunds.

### **Economic coordinates of EU28's postal services**

Competition is also distorted by subsidizing open competition activities, more exactly by cutting costs, out of reserved services. This behaviour may be equivalent to an abuse on behalf of a company that holds a dominant position in the EU. Beside that, the users of monopoly regulated activities have to bear the costs that do not strictly derive from providing such services.

Comparing the existing data, at the level of the EU, we might state that there are 2 very important aspects when customers have to choose a specific service included in the area of the universal postal service, that is: the time needed for sending correspondence and the actual rates. The situation registered in the case of these 2 indicators, at the level of EU 28, is presented in Table no 1 and Table no 2. From the information presented above, it is clearly shown that Romania, as a Member State, has the lowest rates in delivering envelopes of less than 20 g in weight. Customers are satisfied with the delivery time registered in countries like Luxembourg, Holland, Slovakia, Finland and Germany, that rank the first positions in their preferences.

A study from Norway has revealed that households and small firms prefer to pay higher prices than accepting Saturday as a day-off in postal services, which means a longer period of time, needed for delivering correspondence. (Lindhjem and Pedersen, 2012)

Most of the times, distorting competition on postal services' market has direct and immediate effects on the quality of the services offered by providers and customers are the ones affected the most, no matter if they are natural or legal persons. In this sense, the decision practice of the European Commission and the competition authorities from the Member States gives clear examples on sanctioning the abusive behaviour of universal services' providers, so that competition is restored. In Romania, where the postal services' market is running the liberalisation process, the national

provider of postal services makes use of its dominant position which might cause negative effects on the final consumer. The competition on Romanian market was restored in the moment when Romanian competition authorities sanctioned the abusive conduct of the national company - Poșta Română (Romanian Post) (the Decision of the Competition Council no. 52/2010).

### Conclusions

Concluding, we consider useful to state that new economic operators will have the opportunity of providing their services once the postal services' market will open to competition, even if the market liberalisation means certain efforts, at national level. In practice, liberalisation proved to be useful, because it led to pressure on competitors, that had to improve the quality of their standards. Positive effects are obvious in the case of consumers from the countries that liberalised the market. Further more, all the obligations derived from providing the universal service will ensure full coverage of the national territory and the customers' access to reasonable prices.

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Appendices

Table No. 1

*Letters' delivery in time (universal postal service area) – percentage indicator in EU 28*

Country	2006	2007	2008	2009	2010
<b>Belgium</b>	92.0	92.5	93.8	93.2	93.3
<b>Bulgaria</b>	:	:	68.8	84.2	83.6
<b>Czech Republic</b>	94.1	89.2	90.6	92.1	93.2
<b>Denmark</b>	94.1	93.2	93.7	95.7	93.3
<b>Germany</b>	95.0	95.6	95.0	94.0	94.0
<b>Estonia</b>	90.5	90.6	91.5	93.8	92.7
<b>Ireland</b>	72.0	77.0	79.0	84.0	85.0
<b>Greece</b>	77.7	78.9	79.9	81.5	87.7
<b>Spain</b>	87.0	88.9	90.4	92.5	91.2
<b>France</b>	81.2	82.5	:	:	83.4
<b>Italy</b>	88.1	88.6	:	:	:
<b>Cyprus</b>	63.6	68.3	76.3	89.9	90.0
<b>Latvia</b>	92.5	95.6	96.1	96.3	97.3
<b>Lithuania</b>	67.8	57.9	75.6	74.6	65.0
<b>Luxembourg</b>	97.3	97.4	98.1	97.9	98.0
<b>Hungary</b>	91.8	92.3	92.7	93.1	93.7
<b>Malta</b>	93.4	95.0	93.9	95.3	:
<b>Netherlands</b>	96.6	96.3	96.2	95.2	:
<b>Austria</b>	95.9	96.1	96.3	:	95.4
<b>Poland</b>	68.2	77.2	66.3	52.7	53.4
<b>Portugal</b>	92.6	94.7	95.0	95.2	94.7
<b>Romania</b>	66.2	71.8	19.5	46.2	52.6
<b>Slovenia</b>	88.0	88.4	92.0	93.9	95.5
<b>Slovakia</b>	96.5	96.2	96.1	96.0	96.8
<b>Finland</b>	96.0	95.0	95.0	93.5	91.1
<b>Sweden</b>	94.2	94.5	94.9	95.7	93.7
<b>United Kingdom</b>	93.7	85.2	93.0	87.9	87.9
<b>Croatia</b>	98.0	71.8	72.1	76.7	86.9

Source. Eurostat

Table No. 2

*Rates in EUR for delivering letters that weigh less than 20 g in EU 28*

Country	2004	2005	2006	2007	2008	2009	2010
<b>Belgium</b>	0.50	0.50	0.52	0.52	0.54	0.59	0.69
<b>Bulgaria</b>	0.23	:	:	:	0.46	0.51	0.51
<b>Czech Republic</b>	0.20	0.25	0.26	0.27	0.40	0.38	0.40
<b>Denmark</b>	0.60	0.60	0.64	0.74	0.74	0.74	0.74
<b>Germany</b>	0.55	0.55	0.55	0.55	0.55	0.55	0.55
<b>Estonia</b>	0.28	0.28	0.28	0.35	0.35	0.35	0.35
<b>Ireland</b>	0.48	0.48	0.48	0.55	0.55	0.55	0.55
<b>Greece</b>	0.49	0.50	0.52	0.54	0.57	0.58	0.58
<b>Spain</b>	0.27	0.30	0.30	0.30	0.31	0.32	0.34
<b>France</b>	0.53	0.53	0.54	0.54	:	:	0.57
<b>Italy</b>	0.60	0.60	0.60	0.60	:	:	:
<b>Cyprus</b>	0.34	0.34	0.35	0.34	0.34	0.34	0.34
<b>Latvia</b>	0.23	0.22	0.32	0.29	0.31	0.50	0.56
<b>Lithuania</b>	0.29	0.29	0.29	0.45	0.45	0.45	0.46
<b>Luxembourg</b>	0.50	0.50	0.50	0.50	0.50	0.50	0.53
<b>Hungary</b>	0.36	0.36	0.34	0.38	0.40	0.36	0.38
<b>Malta</b>	0.16	0.16	0.19	0.14	0.19	0.19	0.19
<b>Netherlands</b>	0.39	0.39	0.39	0.44	0.44	0.44	0.44
<b>Austria</b>	0.55	0.55	0.55	0.55	0.55	0.55	0.55
<b>Poland</b>	0.42	0.50	0.51	0.55	0.60	0.45	0.49

<b>Portugal</b>	0.45	0.45	0.45	0.45	0.45	0.47	0.47
<b>Romania</b>	0.12	0.14	0.14	0.24	0.27	0.24	0.38
<b>Slovenia</b>	0.20	0.20	0.20	0.23	0.26	0.29	0.27
<b>Slovakia</b>	0.37	0.39	0.43	0.47	0.51	0.60	0.60
<b>Finland</b>	0.65	0.70	0.70	0.70	0.80	0.80	0.75
<b>Sweden</b>	0.60	0.59	0.59	0.60	0.57	0.57	0.63
<b>United Kingdom</b>	0.44	0.44	0.47	0.50	0.45	0.44	0.48
<b>Croatia</b>	0.31	0.31	0.31	0.31	0.32	0.48	0.43

*Source.* Eurostat