Launch Code

World Posts in the age of digital globalism and technical disruption

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the Postal Innovation Platform (PIP) is a unique open platform and forum that focuses on innovative postal services and studies the future of the postal industry with a solution oriented approach. It provides a conference, think tank and research platform that is unique in the postal world and shall ease the implementation of new and innovative postal business solutions.

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Over the past few years we have seen innovation and startup programs pop up in many corporations, postal and logistics companies included. Today, no company can afford to neglect innovation. Being innovative is a question of survival.

While the implementation of an innovation structure, the appointment of an innovation architect or manager or the launch of a startup program can all be part of the innovation strategy, there is a wide range of program and strategy features that can render the innovation strategy successful or completely useless.

What we have seen over the past few years are several programs that are very successful. They are build on thorough and strict processes that combine sourcing and identification of ideas and technologies with prioritizing those ideas, categorizing them, gathering of relevant data, testing, and integration, which also requires building of a team that would now be responsible to deploy the solution internally.* In other words, a thorough process guarantees that the entire organization is involved in innovation management and that an end-2-end pipeline approach brings ideas from early stage sourcing to implementation.

This all seems logical, but the truth is that beside such thorough processes a lot of innovation theater is happening as well. Top management is under constant pressure. If you don’t show that your company is innovative you are not credible, you don’t understand the market, its customers or the current industry trends. You have to do something and show that you are also understanding the importance of innovation and that your organization is innovative. Internal idea competitions, innovation days or other internal innovation events, the appointment of an innovation manager, going further sometimes even the creation of a startup accelerator can definitely help. These activities can produce pilots and prototypes that show the outside world that your organization is at the heart of innovation. Of course, it all is rather worthless if it’s done only half-heartedly, not diving in completely, if there is no end-2-end pipeline in place and innovation or new technologies hardly ever (or never) see the implementation in operational processes within the organization.

Learning from those that master the process is therefore essential. Those that are forerunners quite often are also willing to share their approach and experiences. The Postal Innovation Platform (PIP) organized its second Startup Day at Post-Expo in Hamburg this year and participants could listen to some outstanding best practice from DHL, Swiss Post, Geopost/DPD, PostNL, Plug and Play and Accenture. A few weeks later we joined Plug and Play in their European postal & logistics event in Berlin and did a deep dive into innovation/startup management and best practice to learn from some of the best.

If you are ready to engage in serious innovation and startup activities and are not interested in innovation theater join our events and activities in 2019. We would love to have you with us!

Enjoy reading our PI Newsletter!

* To learn more about this read for example Steve Blank’s article on the Innovation Stack at https://steveblank.com/
Any conversation about postal services, yesterday, today, or tomorrow, at some point reaches the obligation of universal service. This is the anchor point for people in the industry. It defines how we want to debate policy and prospects. There are two reasons why this may not be helpful. First, there is the lesser relevance of mail to a new generation and to people in developing economies where trust in the Post is a concept rather than a reality. Secondly, fixed and out-of-date views about the universal service are inhibiting necessary reforms.

The issue has been highlighted by the threatened United States withdrawal from international agreements on mail flows.

From a market perspective, this exit seems a logical economic move. E-commerce has opened global markets for everyone, buyers and sellers. However, for low value goods that depend on cross-border postal services, it is not a market. The terminal dues system is an artificial and contrived pricing system that is the outcome of slow, bureaucratic and political processes. That worked adequately for parcels in earlier times. Consider the issue in this way. With almost 200 member countries, the Universal Postal Union is juggling a 200 x 200 matrix in trying to set a fair pricing structure for international letters and parcels. It’s an impossible mathematical problem, before even getting to United Nations politics.

Where trade volumes between two countries are balanced it may not be much of an issue. Even then it may not be equitable. Delivery costs across Canada are going to be dearer than in Malta, say. The problem occurs when volumes from one country dominate. Visit any inbound international parcel acceptance centre and you will see crates and crates of small, low value parcels from China. This is great to see because it shows how e-commerce is empowering both senders and receivers. What the USA has made clear, and what many countries agree with privately, is that with their cost structures it is losing money to deliver those parcels.

A better pricing system is a bilateral one, each country negotiating prices with each other. In practical terms, 80% of international volumes of a country will involve only about 10 other countries. This is 1 x 10 matrix problem to solve. How prices are determined for the other 190 countries is immaterial. In fact, the US could probably deliver that mail for free and it would hardly be noticed.

The concern for postal policy makers is that leaving pricing to bilateral negotiation may put universal service at risk. Before exploring the implications it is worth making the observation that the concept of universal service at affordable prices had its origin in social communications, not commercial trade. And it is commercial activity that has brought about this challenge to terminal dues pricing.

What may happen if one country, the USA for example, insists that it will only deliver mail and parcels on its own terms and prices? The possible outcomes are either a negotiated agreement or disagreement. Disagreement would seem to imply a refusal to deliver mail, which is a contravention of United Nations agreements. This has happened in the Middle East, where for political reasons a number of Gulf States have combined to prevent mail transfers with the State of Qatar. Commercial and social needs to have any embargo on mail lifted will have no effect unless they carry significant political or economic weight. The UPU has shown itself ineffective in such instances.

Agreement on new, increased pricing for international mail introduces other factors. For letter mail, affordability is unlikely to be a fundamental problem. Are there communities today that depend on letters, as opposed to mobile communications? As for e-commerce, would it be a disaster if the USA, for example, refused to accept and deliver parcels from China except at its own price? In the short term of course it would be a dislocation, but who will actually suffer?
The sender, say a small manufacturer in China, now cannot sell if new higher international prices are set inside the sender country. To put it bluntly, until now those traders have enjoyed a state sponsored hidden subsidy, artificially low international postage prices. One solution, would be for the sending country to absorb the increased terminal dues fees inside the national budget. Make it an explicit subsidy. If on the other hand the fee increase is passed on to the senders of parcels, would their overseas customers pay that for low value goods? Over time, logistics solutions will emerge, as indeed happens with bulk freighting into a country then using local fulfilment. The initial dislocation to the market would be solved in other ways. But any changes will highlight the cost structures of the postal companies involved. For incoming cross-border parcels the ‘first mile’ acceptance cost is less because parcels are arriving at just one centre. Sorting, national linehaul, and last mile costs have to be covered. For domestic parcels the postal company or the regulator can arrive at what is judged a fair price. For international parcels the price is outside the hands of the postal operator. Is this really fair?

Take two extremes. Consider 1,000 parcels arriving in a large, high cost country like the USA or Canada. It doesn’t matter whether the receiving country’s cost structures are high or if there is room for productivity improvement. It is what it is and the parcels have to be delivered. Consider the same 1,000 parcels arriving in more compact countries, such as the UK or Switzerland. We would expect delivery and operational costs to be different. But why should the price paid by the sending country be the same for all? That is what the terminal dues system requires. The justification of universal service used in the past cannot work now, with e-commerce so important.

This is not a threat to universal service. It is a statement about how and who should pay for it. If a country receiving international parcels has costs higher than the terminal dues price, it is the domestic customer base that is being asked to pay the difference in delivery cost. Is that fair? This is not an argument to end universal service, it makes the case it has to be paid for by the various user sets, whether international senders or local customers. This is why bilateral contracts between major exporters and importers have to be the way of the future.

It is easier to understand this when we talk about parcels. Should the same apply to letter mail?

Universal service is a legacy from a time that mail was the dominant communication force. While all postal companies have evolved into more efficient and commercial operations, they are not all on the same cost footing. Why then should international pricing also be on the same footing?

It might be argued that if senders were forced to pay more for delivery in other countries it would lead to a faster decline in mail. That isn’t a foregone conclusion, but in the longer term that is likely to happen anyway. It should be relatively easy to determine in any one country what the cost to deliver incoming mail volumes. Technology can more easily capture data about those volumes and characteristics. Based on that, a country could specify the unit delivery price – how much the sending country should pay. In the extreme case it could mean that the international postage price will differ depending on country the mail is being sent to. However, it is the sending country that would have to decide how to manage its public pricing.

It is clear that now is the time to rethink international obligations. The USA initiative to withdraw from the Universal Postal Union pricing agreements is a price negotiation. Whether the USPS is efficient or not is not the point here. Its cost structure is what it is. The broad principle that the sender should pay for the service is the fundamental plank of postal pricing. International prices determined by political and central bodies fudge the reality of national postal cost structures. And while the problem will be solved by price negotiation, the hidden deeper issue exposed is the survivability of the universal obligation. Universal service principles are meant to ensure that cross-border mail services remain open. How those services are priced has to move away from historical definitions of country economic status.

Elmar Toime is an independent advisor to the postal and logistics sector. He was chief executive of New Zealand Post Limited from 1993 to 2003 and Executive Deputy Chairman of the Royal Mail Group from 2003 to 2004, a position that included roles as chairman of the management board and chairman of GLS, a European parcels group. He was a member of the Supervisory Board of Deutsche Post DHL, the world’s leading logistics company, from 2006 to 2016. Today he is chairman of the Postsea Group, a technology company, and a non-executive director of Qatar Post and Solution Dynamics Ltd, a listed technology and mailing company. He lives in London.
What business climate has this remarkable age of digital globalism and technical disruption created for world posts? In addition to disruption to its customers and users, the posts have been themselves disrupted, but the age has also positioned the world for new opportunity and World Posts for vital roles that enable opportunity for users and value for customers.

Here is the premise of the analysis that will be presented.

1. There are now a growing number of New Technologies.
2. These have put many new things on the table for the process of innovation.
3. Those innovations in turn enable new behaviors.
4. All of which are driving demand for new organizational and infrastructure models.
5. Therefore, this is a key moment for the World Posts to assume key roles in this new age.

So, let’s go-

1) The New Technologies
- Exhibit one of course is the Internet (webpages, market platforms, social media, data streams with filters to map the internet without drowning.
- Mobile devices-ubiquitous access to multiple functions
- The integration of all human and machine languages and intelligences - Humans speaking to each other, to machines, editing DNA, and gathering information from animals, plants and soils.
- Autonomous vehicles and coming smart highways and air lanes integrated inside a living and comprehensive digital grid map.
- 3D print manufacturing at delivery destinations
- The approaching convergence of augmented humans and humanized robots.
- Block chain technology applications.
- Cloud storage enabling unparalleled collaboration.

2) Explosion of innovations
- Platform Markets
- Globalist styled manufacturing - new technologies in optimal places gathering and dispersing temporary expert teams.
- The Internet of Things - sensing, triaging, alerting
- Crypto currency for distant and verifiable electronic transactions
- Digital assistants - searching, answering, teaching

3) Changed behaviors are enabled
- Life in democracy struggling to coexist within an invasive technocracy
- Globalism - good for the customer in you, but bad for the worker in you
- Digital Networks of diverse weak links - people that we barely know with diverse backgrounds and disciplines
- Customer profiling - anticipatory computing
- Decision-making without human intervention - finance, military systems
- Post specie era - electronic payment systems and crypto
- Mobile Workplace - anytime, anywhere work
- New attitude toward Risk management - from risk elimination to fast prototyping and not failing, but rather trying things out together, “shoot first, ask why did I miss, shoot again.”
- Evolving Human Relationships to machines
- The rise of Subversive Millennials - “nobody ever won a Nobel prize by doing what they were told,” and “I don’t need your map to yesterday, I want a compass to explore my own unfolding world.”
4) Demands for more suitable organizational models - Ten Attributes

- Client Centric - One Stop, one click, low prices
- Flat - Mammoth Command and control structures transitioning to lean automated management systems and growing expert mission support
- Data Driven - utilizing techniques for the aggregation of distributed knowledge for performance enhancement and analysis
- Weak link networked - pulsing many disciplined minds gathered around business question
- Mobile - anytime, anywhere on-demand
- Smaller - Just-in-time inventories
- Minimizing - Ownership of capital equipment replaced by leasing, subscribing, outsourcing and contracting.
- B2C supply chains - assembly line to residence not middlemen and not B2B hub and spoke
- Lean - tiny workforces
- Single use Teams using Hollywood-styled production methods - collect around a business question, do your part, pass along to another customized team, stand-by to reassemble with a new team.

5) A perfect moment for World Posts to embed products and services into these emerging organizational models

What can go digital will go digital, but it is also true, that what cannot go digital will not go digital. New postal opportunities are emerging around:

- Mega smart cities,
- Modernized Work processes and vastly increased home office/third place usage
- Migration to virtual Government, business and financial services, that still require important residual window services
- Enriched independent living solutions for the elderly
- Evolving Support for infant Splintering/ blossoming economies (Sharing, Collaborative, Sustainable, Crypto)

These challenges require a networked infrastructure with elegantly simple solutions to respond to the complex challenges of a disrupted world and the world of digital globalism. There is no map to this unknown land, so we begin this journey with a compass to find our true north, our DNA and our emergent respective support roles.

Assets

- Unparalleled Nationwide B2C network constantly refreshed and linked to the world
- Trusted 88% in a very cynical world - onto your property, into your mailbox, handling your valuables.
- Secure insuring the sanctity of mail on the eve of smart mailboxes
- Counterintuitive business model, but an elegant national infrastructure model - an immense USO cost burden, but a tiny marginal cost for additional items taken to the door
- Unconflicted business rules insuring a level playing field for everyone

But ARE WE DOING EVERYTHING TO EXPLOIT each of these assets?

Greatly Enriching the last mile by taking advantage of blue ocean services in the neighborhoods, creating value for those who trust us with their advertising, supporting businesses who have valuable assets that are challenging to make accessible to residential neighborhoods and to use our mail survey ability to enrich and increase recipient mail products that align to their needs, interests and passions.

So, what does an agile and responsive New Org model look like?

1) Carriers with trucks will become Neighborhood Logistics Managers who

- enrich last mile experience
  - support for freelance workers, elderly and challenged
  - smart mailboxes with intelligent postage stamps
- equip truck fleet and post offices to collect IOT and to provide or boost broadband signal strength
- provide Returns management at point of return
- incentivize last mile delivery consolidation exploiting our complementary business models
2) Post offices become **Universal Access Centers**

- safe exchange points for P2P and escrow services
- offering vanity addresses and virtual PO box services (micro-warehousing) and parcel lockers coupled with safe storage boxes
- ID authentication and issuance
- access to window services supporting residual window services for e-government and virtual businesses
- currency instrument exchange
- 3D manufacturing - printers linked to last mile delivery

3) Postal Areas and Districts converted to Mission Support Centers

- automate and centralize management functions
- assign leaders higher order duties and expanded customer service outreach responsibilities
- create expert mission support centers for more complex missions
- digital Network - living transport map system
- employ Block Chain Technology systems for change of address, delivery reprogramming, smart contracting, customer authentication,
- terminal dues and other international settlements, and perhaps a new service enabling the purchase of financial credits honored in local currencies by world posts for travelers and small business

**Summary**

*What can go digital will go digital, but what can’t go digital, won’t go digital, and in a world of atomic structures, that universe is and will remain immense.*

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**DAVID C. WILLIAMS**

*Vice Chairman of the United States Postal Service Board of Governors*

David Williams was confirmed by the US Senate to serve as a Governor for the United States Postal Service in 2018. He also currently serves as a Distinguished Professor at the Schar School of Government and Policy at George Mason University in Arlington, Virginia. He joined the faculty there in March 2016.

Before joining the faculty at George Mason University Williams served as the Inspector General (IG) for the U.S. Postal Service for 13 years. Williams was responsible for a staff of more than 1,100 employees — located in cities nationwide. Williams has served as IG for five federal agencies.
The rise of e-commerce has seen the demand for same-day delivery expand dramatically, with the global same-day delivery market projected to grow by 23% between 2018 and 2022.¹ What’s driving it? Consumers who increasingly view the delivery of their orders as one integrated element of their overall retail experience. That means a delivery experience which falls short of meeting those expectations reflects badly on the retailer and often means the consumer will look elsewhere in future. Research shows that more than a quarter (27%)² of shoppers will abandon their shopping cart if same-day delivery is not available. Conversely, three-quarters said that receiving same-day delivery made them more likely to make another purchase.³

**Last mile as differentiator**

For retailers, then, the last mile is increasingly critical—and they are seeking to use it as a competitive differentiator. That means paying attention to three Cs: cost, communication and cadence. In other words, consumers are looking for free/cheap, informed and rapid delivery of the goods they order. They expect things fast, they want to pay very little or nothing for the service and they want information about delivery status as close to real time as possible.

**Raising the supply chain pulse**

The speed of delivery required to meet customer expectations is also reflected in another key trend: the quickening metabolism of the supply chain. Retailers are working to increase the speed of their inventory management, so rather than holding a lot of inventory they are looking to find ways to move it faster, shipping from different locations often closer to the customer and deploying automation to drive speed at lower costs. Leading players like Amazon are investing in sales and supply chain analytics, in-house delivery, hyper-local fulfilment centers and increased bundling to drive shipping efficiency. Others, like Alibaba in China, have set up networks with partners to create a logistics information platform that links delivery partners, warehouses and merchants to make package deliveries faster and more efficient.

**The rise of strategic returns**

At the other end of the retail cycle are customer returns. These are evolving from a cost to be managed to a strategic differentiator. Eight out of ten consumers see a retailer’s returns policy to be important when making an online purchase and sixty percent will review the policy before they buy, with half saying that they did not make a purchase because of the returns policy.⁴ Customers now frequently bracket their purchases from online retailers. That means ordering several items in variations of color or size. It’s a particularly prevalent trend in fashion and clothing, but customers also bracket their purchases of products for the home and electronics, only making a final choice when the goods arrive and expecting to be able to return the unwanted items quickly and easily.

But it’s not simply that a returns policy has an impact on whether to buy or not. Analysis shows that customers who return the most are also likely to be more profitable—and by a significant margin. Effectively managed returns can increase profits per customer by between 22% and 46% on average over six months and by 29% over three years compared with a business’s normal strategy.⁵
What’s more, retailers and brands are beginning to experiment with new subscription-based models that send goods to a consumer based on, for example, their browsing activity. They can then choose to keep or return at no extra charge. New rental models are also growing in popularity, particularly among younger consumers. These cover a wide range of products from fashion to household goods and health and beauty to consumer electronics. All will require a whole new way of providing flexible and dynamic last-mile support.

**Delivering in the new world**

To help retailers win in the last mile, post and parcel organizations need to understand how they can address the cost, speed and communication of delivery that meets consumers’ needs. They must find ways to eliminate friction and improve their interactions with retailers. They need to provide real-time detailed data to achieve end to end transparency and real time insights. And they need to focus on achieving low-cost speed. The more effectively post and parcel organizations can combine speed with the lowest cost, the greater the market share they are likely to gain.

To do that means looking closely at a number of areas:

- **Advanced forecasting** – this requires the use of advanced analytics capabilities to predict collection and delivery locations, carrier capacity, product availability and the optimal fulfilment locations to increase route density, optimize inventory management and reduce transportation costs.

- **Optimized delivery** – is all about making the delivery routes as efficient as possible, providing turn-by-turn directions for precision, making workflows visible, having delivery details by order available and extending delivery confirmation capabilities to increase route density and delivery efficiency.

- **Real-time delivery tracking** – will give retailers and their customers transparency, with delivery notifications, flexible delivery windows and instant communication with the delivery driver or customer care operator to provide consumers with increased control across the delivery experience.

- **Measuring delivery performance** – by using machine learning and advanced analytics to measure delivery performance in order to identify opportunities to increase route density and delivery efficiency.

Established delivery organizations are not the only players interested in this fast-changing space. Investment in start-ups is rising, as new players seek to take on the last mile challenge with innovative new offerings. And as consumers’ expectations of cheap, fast and convenient delivery and returns continue to rise, the competition is only likely to intensify. Post and parcel organizations that make the right investments to keep their products relevant to customers who send packages as well as consumers who receive them, will have an advantage that will create greater growth and profits. The opportunity is real, and the market will go to those who can be nimble in meeting these emerging customer demands.

**Brody Buhler**

*Global Managing Director, Post and Parcel Industry, Accenture*

Brody Buhler is the global managing director of Accenture’s post and parcel industry group, leading a team of more than 1,800 postal consultants working with more than 20 major post and parcel clients around the world.

Brody has worked with leading post and parcel organizations on a variety of projects including strategy, transformation, analytics, operations and large-scale program management. He has deep experience in post and parcel operations, digital, sales, marketing, mail and parcel tracking and revenue protection programs.

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1. BisReport Analysis
2. Accenture, Adaptive Retail Survey, 2017
3. Accenture, Adaptive Retail Survey, 2017
4. Accenture Post and Parcel Industry Research 2018
New developments in the “Smart City”

Prof. Matthias Finger, EPFL

There is still a lot of hype and enthusiasm about smart cities, but the dust is slowly settling, and things become somewhat clearer. Most, if not all cities still want to become smarter, but the companies are now much more realistic as to where potential business models could lie for them. And these business models and therefore their “urban strategies” are of course very different, depending on what each companies’ core competences are. The question is whether cities and companies can ultimately meet.

The vision

The vision of a smart city somehow seems to become clear, namely the creation of a “digital urban platform”, i.e., a data mirror of the state and the activities in cities. And the implicit, but rarely clearly articulated objective is to make cities more efficient, i.e., to make a more efficient use of its infrastructures. At times, the ambition also is to create “new urban services”. This is, in my opinion, all there is to smart cities, but this is another discussion. The following figure summarizes this vision in a very simplified manner. Yet, I think that this is what both cities and companies have in mind when they talk of THE smart city.

But this is where the commonalities stop, both because of diverging interests and because of reality. Let us first talk about the diverging interests: while both parties see, correctly in my mind, the digital urban platform (the “platform” from now on) as THE tool for governing cities in a smarter way, the motivations to development and to operate them vary significantly. For cities, the platform is a public policy tool, thanks to which better urban policies can be implemented and even made. For companies such platforms must, first of all, be a business, thanks to which they can sell infrastructure and perhaps other services. Below, I will show that the only way out of this divergence is the unbundling of the infrastructure services from the platform.

How about the reality? In this regard, both the city and the companies have problems. As for cities, I am of course not talking about the classical problems of cities, such as finances and politics. Rather, I am talking about the jurisdictional challenges: the political city almost never corresponds to the reality of city life, which is basically defined by commuting, i.e., by working and housing patterns. In other words, a city can only be smart if it optimizes beyond its political jurisdiction so as to cover the entire metropolitan area. Companies, in turn, have problems because they all come from somewhere, i.e., they try to “diversify” into urban digital platforms from some prior activity. They never look at the city as a whole either.

And here is where the dust is slowly settling, as firms are starting to (more critically) assess their chances of becoming THE digital urban platform provider. And why do they want to become that provider? Simply in order to avoid to be “platformed” themselves, i.e., to avoid to become instrumentalized by another platform (provider). This is a harsh, yet extremely realistic possibility or rather threat for any services provider in the age of digitalization. Indeed, typically the companies that enter or aspire to enter into the smart city business are all companies that have something to sell, such as transport, logistics or energy services. They are also digital hard- and software companies that sell systems or analytics (to cities). Rarely, they are platforms, such as UBER or Lyft, and if they are platforms, they remain very much sectoral.
How to get to the smart city?

So, how does one get to the digital urban platform, as this is always a process that starts somewhere? Typically, this happens bottom up, i.e., from a particular (physical) service, upon which a data management and analytics platform is added. And here companies are no different from cities. Take for example street lighting: one can distinguish at least five steps in the value chain from engineering to system integration to installation to operations to maintenance. Similar value chains exist in all urban infrastructures. Cities and companies who control one or several steps in these value chains try to use their activities in the value chain in order to generate data about the state and the activities in this infrastructure and by doing so get, step-by-step, to the digital platform. This is of course a difficult process, and some of the companies—the too specialized ones—and some of the cities—the too small ones—have already given up.

Thus, can small cities ever become smart cities? And even big cities may actually never get there either, owing to their governance problems. And will services companies (providers) ever make it into more integrative digital urban platforms, owing to their inherent conflicts of interests between (their) services on the one hand (which they want to promote) and the operations of a digital urban platform, which is supposed to be non-discriminatory and even more so in the public interest. And will platform providers, ever be able to enter the city, owing to the fact that they have no operational entry point on the one hand and that they are purely commercially driven on the other?

What does this all mean for incumbent postal operators?

So, where does that leave incumbent postal operators? They are none of the above: they are not (global) digital platforms; they are not urban services providers either, like a water, a bus or an electricity company; and they are not city governments either embodying the public interest (they are still often owned by national governments). They could indeed have a unique approach to smart cities, if they could mitigate the above outlined weaknesses of services providers (companies) and city governments.

This is how I think that incumbent postal operators could become an active player in the smart city movement: first, they should not see themselves as services providers, as this makes them compete with other services providers and conflicts with the role of platform provision. And what services would they offer anyway? Indeed, historically, postal operators are actually platforms that mediate between senders and receivers, albeit physical platforms. Their function is to facilitate exchanges among the users of the (postal) platform, building on strong direct network effects.

Building on this function and on their expertise as physical platforms, they could try to do the same when it comes to digital platforms: so, for example they could serve as a platform for energy, transportation and even for government services (e.g., e-voting, e-health). They would be more credible in doing this than any of the services providers, as they display no conflict of interest.

They would be even more credible if they somehow manage to be endorsed by the city authority or at least perceived as acting in the public interest. Being state-owned will help here. And they would have a competitive advantage for doing so vis-à-vis a city because they reach beyond the cities’ jurisdictional boundaries. Yet, they are not anonymous global digital platforms pursuing exclusively commercial interests.

In short, there is a strong and convincing argument and opportunity for incumbent postal operators to establish themselves as urban digital platforms, a function for which they would be uniquely positioned. Yet, at least two problems remain: the first problem is how to get there? How can a traditional physical postal operator actually transform itself so as to offer also digital urban platform services, something which implies the acquisition of corresponding technology and expertise. The second, even more serious problem pertains to the underlying business model for such digital urban platforms: traditionally, postal operators got senders to pay for the platform. Concretely a digital urban platform could get local and other governments to pay for using the platform in its interactions with citizens and business.
As platforms become more valuable, one could and can get also users to pay for it, especially if the platform offers some value-added services. But the typical way of financing digital platforms is by way of third party financing in the form of advertisements, a phenomenon also called indirect network effects. It is however doubtful whether digital urban platforms can be financed in this way in a sustainable manner.

In short, yes incumbent postal operators would be well, if not better positioned than any other operator to take on the function of digital urban platform provider, and by doing so become a key actor of a future smart city. Yet, at this stage, I do not see how postal operators could turn this function into a sustainable business.

Matthias Finger

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After having been Assistant Professor at Syracuse University, New York and Associate Professor at Columbia University, New York, Matthias Finger was appointed Full Professor at the Swiss Graduate School of Public Administration in Lausanne in 1995. He was appointed Full Professor at the Swiss Federal Institute of Technology in October 2002.

He is the co-editor in-chief of the Journal on Competition and Regulation in Network Industries and has been appointed Area Director for Transport at the Florence School of Regulation in 2010. Matthias Finger’s main interest is on the de- and re-regulation of the network industries. An additional research focus is the intelligent governance of large urban systems.
Digitalization is having a second round of effects on the postal and delivery industry. The reduction in letter volumes was the first effect. The emergence of new players and new models of industrial organization is the second effect. Online platforms are increasingly coordinating transport and delivery services. Online platforms can commoditize the services of traditional players, and even substitute them.

If there is one network industry that has been hit by digitalization it has been the postal industry. Messages traditionally sent by post were digitalized and then sent electronically. The volume of letters has dramatically diminished, and postal operators are reinventing themselves. Parcels, as they are growing in volume due to ecommerce, are the new opportunity for traditional postal and delivery operators.

However, the parcel segment is facing a new challenge due to digitalization. Online platforms are increasing their role in the transport and delivery industries. Large platforms such as Uber are starting to intermediate not only in the transport of passengers, but also in the provision of freight transport and delivery services. A full army of start-ups are joining the market. Will traditional postal and delivery players end up excluded?

As a starting point, it is important to understand that platforms are implementing a new model of industrial organization. As the Nobel Prize laureate Tirole explained already 15 years ago (Rochet and Tirole, 2003), platforms are creating and coordinating two-sided markets. They intermediate between service provider and users. Their role is to facilitate transactions between third parties by reducing transactional costs. They use technology (internet, mobile apps, algorithms with artificial intelligence, etc.) to automatize the matching of service providers and users. Transaction costs are dramatically reduced. In parallel, platforms create indirect network effects, as the larger the groups of service providers and users intermediated, the lower the cost of the provision of the service (Evans and Schmalensee, 2016).

Basic economic theory explains that corporations exist and grow to the level where they can organize work at a cost lower than the costs of carrying out an exchange transaction on the open market (as explained in the classical work The nature of the firm, Coase, 1934). Postal organizations, just as other large corporations, reached their peak in the 20th century. Transaction costs on the open market were high, and corporations could reduce such costs by setting large hierarchical structures, thanks to new technologies like telephony, rail and air transportation, etc.

Over the last decades, however, leaner organizations have emerged. Information and Communications Technologies (ICTs) have reduced transaction costs. As a consequence, firms have been able to outsource more and more functions, as the market had lower costs than an internal function. The outsourcing of production to China is the best example. Experience has proved Coase was right.

Online platforms are the ultimate example of the relevance of transactional costs. Platforms don’t own vehicles. They don’t hire drivers. They merely build the most reliable and efficient virtual environment for supply and demand to meet. The environment with the lower transaction costs. This is the case for Airbnb for accommodation and Uber, originally for urban passenger transportation. They are now the largest accommodation and urban transport companies in the world.
New small service providers can enter the market as platforms provide the necessary scale to compete with traditional players. Scale is now built in the form of a virtual network of small providers, coordinated by the platform. Small carriers and even no professional carriers rely on the platform to be matched with shippers. In this way, it is not necessary anymore to build a fully-fledged organization, with a large geographical footprint and a large scale, to compete in the transport and delivery markets.

Platforms can create larger efficiencies that traditional large scale organizations. Algorithms can efficiently distribute cargo across the small carriers, increasing the load factor and reducing empty runs. Platforms create virtuous cycles as the more carriers and the more shippers join the platform, the larger the efficiencies created. A larger customer base ensures a stable flow of cargo to have the vehicles full at all times, reducing the unit cost for each parcel. A larger pool of carriers ensures a stable supply of capacity anywhere, anytime, shorter delivery times and lower costs.

Building a platform, however, is a business in itself, and a challenging one. It requires a very specific knowledge and a lot of capital. Success is not guaranteed, as the failure of uberRUSH, and the competitor Shyp, demonstrate. It is not simple to identify the key incentives to attract supply and demand in order to reach the minimum scale. It is easier to build a platform and organize a market that was previously fragmented and inefficient, like the taxi market. Delivery services are usually provided by well-structured organizations, organizations that use technology to define the most efficient delivery networks, organizations that are vertically integrating to provide door-to-door services.

In any case, the transport and delivery markets seem to be a natural candidate for platforms to succeed. Both supply and, particularly, demand are very fragmented. Empty runs and low load factors give room to increase efficiency in the provision of the service. And congestion in urban areas recommends some kind of rationalization in the provision of last-mile services. All these factors lead to the conclusion that platforms will probably have an important role to play in the industry.

The impact of platforms on the activity of the existing players in the transport and delivery industry will largely depend on the strategy of the existing players. Platforms have no ambition, nor resources, to acquire their own assets for the provision of transport and delivery services. They will not provide transport and delivery services with their own assets. They will always rely on third parties for the provision of the service. Successful platforms can integrate existing players, or they can substitute them with new service providers, in case existing players refuse to be integrated into the intermediation services of the platforms.

Infrastructure managers are not bound to be mere spectators in the process of digitalization and emergence of new market structures. Lessons can been learnt from other industries that have been put under a platform, or “platformed” (Montero and Finger, 2018). Service providers will always be necessary, as they will not be substituted by digital services (as seen in letter postal services). Service providers have to adapt to the evolution of the market structure and find the right place in the new ecosystems. Traditional service providers can adopt different strategies.

Existing players might be tempted to obstacle the rise of platforms by refusing to work with them. By reducing the volume of supply available in the platforms, they can hinder the growth of platforms and delay the acquisition of scale and the indirect network effects. In parallel, they might try to strengthen their own networks with further acquisitions, etc.

However, as in a traditional prisoner’s dilemma, competitors might embrace change and monopolize the benefits of a good relationship with the platform operator, making the position of the traditional player even weaker. Even worse, there is no shortage of individuals and small companies with small vehicles and an interest in being fed with cargo to be delivered. Platforms can build a virtual network of small service providers. They can even coordinate these small service providers with larger long-distance transport providers and with managers of storage capacity. Platforms have the ambition to coordinate the most sophisticated logistic chains.
Existing players might become irrelevant if platforms succeed in attracting small and new service providers. The service of the existing players might be substituted, just as Uber is substituting traditional taxi services and Airbnb is substituting traditional accommodation services.

Large delivery service providers can vertically integrate and build platforms. This is a common strategy and there are many examples of traditional players creating platforms, such as railway undertakings, shipping companies, and also delivery companies. They have the ambition to intermediate not only in the provision of their services, but in the provision of services by third parties, sometimes close competitors. Obviously, other service providers are suspicious and tend not to participate in platforms managed by competitors, as they are afraid they would be discriminated against - in favour of the operations of the competitor managing the platform. There are successful platforms led by vertically integrated companies, such as Amazon Marketplace. However, it seems clear that not all members of an industry can become platform operators. This is not the way forward for all service providers.

Finally, service providers can choose to collaborate with the rising platforms by allowing them to intermediate their services. It is clear that the availability of the quality services provided by the existing players will reinforce the platforms and allow them to grow faster to the central role of system integrators. It is clear, though, that this strategy will help platforms to raise to the center of the industry. As platforms create and internalize the value derived from network effects, they will have the power to distribute such value (and sometimes to monopolize it). Traditional players can be “platformed”, that is, their services can be commoditized, becoming a mere dispensable service to be chosen, or not, by the platform’s self-learning, and not always neutral algorithm (Domingos, 2015).

The challenge for all actors (shippers, service providers, candidates to become platforms and also regulatory authorities) is to ensure the emergence of a balanced and sustainable competitive environment. However, the system will only be sustainable if the new value created by platforms is fairly distributed, and in particular if service providers are not deprived of the necessary funding for the operation of their services. This is a difficult balance to achieve.

References


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