Postal Operators
Delivering Success through Telecom Strategies

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*With the rise of digital communications, mail volumes have declined and many postal operators have sought to diversify revenues into new growth markets. In both developed and developing countries a significant opportunity exists for them to offer telecom services. Postal operators should seek to leverage their unique assets in this market and be aware that a well-designed telecoms strategy can also benefit their core businesses.*

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Adapting to Core Postal Revenue Erosion

As email and social media have gained popularity as convenient methods for instant communication, mail volumes have continuously fallen (Figure 1), impacting postal operators’ core revenue. To adapt, many postal services have sought to diversify their businesses. Some post offices have achieved success with ventures in banking, insurance and foreign exchange. Telecommunications is also a natural complement to the traditional postal business, given the shared history of telecoms and post services in many countries. Many postal operators have therefore expanded their offerings in this space.

Telecom Strategies

There is a wide spectrum of options for a postal operator wishing to increase their activity in the telecoms space. Many already resell fixed line telephony services and an increasing number of post offices globally are expanding their portfolios to include mobile services.

One of the simplest and lowest risk ways to initiate a mobile telecom strategy is through the retailing of prepay airtime and SIM cards on behalf of existing mobile network operators (MNOs). This provides a new source of revenue and could be established with relative ease, but is unlikely to generate any cross-over benefits for the core postal business.

Mobile applications on the other hand (supported by the rise of smartphones) can enhance a postal operator’s current propositions and allow a deeper customer relationship. For example, La Poste, the French postal operator, has a range of free mobile apps that complement its postal and banking services. These include apps to track post and packages or to manage post office bank accounts.

Figure 2: Selected Examples of La Poste Apps

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1 Source: La Poste Mobile website
Another post office, Swiss Post, offers a “digital post box” to customers where they can receive an electronic scan of the outside of each envelope in their mail, rather than having the mail sent directly to their postal address. Via a mobile application customers can then select whether to: scan and send the contents of each envelope to the online account, forward the physical mail to their address, or shred and recycle it. Reducing the divide between physical and digital communication is helping Swiss Post to maintain its relevance (customers are less incentivised to switch to online billing for example). Typically, mobile apps offered by postal operators are free of charge, being more focused on driving indirect revenue growth by increasing the appeal or usability of core postal services.

Establishing an MVNO (Mobile Virtual Network Operator) can be a way for post offices to both develop new revenue streams and provide cross-benefits to the core business. For example, customers of Poste Italiane’s MVNO can register their SIM to a BancoPosta (Italian post office bank) account, enhancing their experience of these services. In Europe, where the MVNO market is relatively mature, several postal companies have already launched their own mobile services (Figure 3). Many of these, notably Poste Mobile in Italy, La Poste Mobile in France and Postfone in Ireland have had a high degree of success.

**Figure 3: Key Metrics for Selected Postal MVNOs**

<table>
<thead>
<tr>
<th>Subscribers (k)</th>
<th>Italy</th>
<th>France</th>
<th>Ireland</th>
<th>Portugal</th>
</tr>
</thead>
<tbody>
<tr>
<td>~2,400</td>
<td>&gt; 550**</td>
<td>&gt; 140</td>
<td>&gt; 70</td>
<td></td>
</tr>
</tbody>
</table>

| Market Share | ~3% | ~1% | ~3% | <0.5% |
| Share of MVNO Subscribers | c. 60% | 8% | Unknown | 40% |

| Annual MVNO Revenues (2012 Est.) | ~$340m | ~$170m | ~$45m | ~$15m |
| MVNO Revenue as a % of Total Postal Group Revenue* | ~1% | ~1% | ~4% | ~2% |

Postal MVNOs have achieved an average revenue per user of 50-75% of the market average

* FY 2012 (estimate or published)
** La Poste Mobile gained 290k subs from Debitel – another MVNO acquired by La Poste when launching their MVNO

Further postal MVNOs have also launched in Belgium and Hungary. More post offices are expected to follow this trend; Correios (Brazil), Royal Mail (UK) and Poșta Română (Romania) have all expressed an intention to launch MVNOs in 2013.

There are therefore many opportunities for a postal operator looking to expand its range of telecom services. Postal operators should consider at the outset whether an MVNO is right for them. An MVNO can be a significant investment in terms of both operational and financial resources. To ensure success, postal operators will need to effectively leverage their existing assets and carefully consider the many challenges that need to be faced.

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2 Sources: Poste Mobile, La Poste, Postfone, CTT, Phone-ix, ComReg, Agcom, Anacom, BoAML, Telecom Paper
Leveraging Existing Assets of the Business

Globally, many regulators are starting to take a more favourable view towards the resale of mobile services by MVNOs in both developed and developing countries. In addition post offices, have several inherent assets which can support a successful MVNO launch:

1. **Postal Branch Network**: Often the largest challenge facing new MVNOs is distribution, and the associated cost of acquiring customers. However Post Offices often have an unmatched retail footprint, in terms of extent and geographic coverage (especially in rural regions). For example, La Poste (France) has 17,000 branches and Poste Italiane (Italy) has 14,000 branches countrywide.

2. **Trusted Brand**: Post offices are seen as trusted brands, which are safe, secure and reliable. This reputation is particularly strong amongst the elderly and disadvantaged, who may rely on the post office services for pension or social welfare benefits.

3. **Range of Services**: In addition to postal delivery, many postal operators also offer other services, for example retail banking, bill payment, money transfer and social security payments all of which can be incorporated into a mobile proposition.

Several of the more successful postal MVNOs have used these key assets to good effect (Figure 4).

*Figure 4: Postal MVNO Case Studies – Leveraging Business Assets*

- **Extensive Distribution**
  - MVNO service is available in 10,000 post offices in France
  - Retail branches contribute 75% of sales
  - 8,500 staff trained in mobile products and customer service

- **Trusted Brand**
  - Customers service staff are viewed as independent and having consumer interests at heart
  - Simple and transparent pricing plan – “what you see is what you get”

- **Complementary Services**
  - Has used financial services as a key differentiator – only Poste Mobile MVNO customers can use mobile money VAS
  - 75% of customers use phone to make payments

Key Considerations and Challenges when Launching an MVNO

Postal operators looking to launch an MVNO should consider the following key points when building their business case.

Firstly, what segments should the proposition target? On the whole, regular post office customers are generally older and located in more rural areas. Postal operators should consider if the MVNO should focus

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3 Sources: La Poste Mobile, Postfone, Poste Mobile, Telecom Paper, Silicon Republic, Agcom
and tailor its service towards this core demographic, or if there is benefit in providing a more mainstream service which might appeal to a wider range of segments. A narrower focus may have a greater resonance with existing customers. However, a broader focus presents an opportunity to attract new customer segments who in the future may utilise other post office services.

Secondly, postal operators should be realistic about the ARPU (average revenue per user) that they will likely achieve. Based on the performance of existing post office MVNOs globally we expect ARPUs to be approximately 50-75% of the market average. Many postal operators have specifically targeted value-focused customers with competitive pricing packages to encourage them to switch from their existing providers. Evolving the offering to appeal to higher value customers is generally a more medium-term ambition. Although this focus on lower-end customers results in slimmer profit margins, a strong business case is still possible. For example, although ARPU for Poste Italiane’s MVNO is around half of the Italian market average, in 2011 its Poste Mobile MVNO still achieved a 9% operating margin on €288M revenue.⁴

Thirdly, postal operators should consider how the MVNO will impact the existing business. For example, what level of cross-over benefits with the core business are achievable, and if the MVNO business case is expected to stand up by itself. In addition, to safeguard success, MVNOs should consider if there are any negative impacts on the existing businesses. For example, post offices already re-selling airtime for existing operators may see a reduction in this revenue stream. Furthermore, customer touch-points, especially in branches, will have to be carefully designed to avoid any negative impact on the current customer experience (e.g. installing in-branch point of sale terminals to ensure there is not a significant increase in queue times). A phased rollout should also be considered to allow time to train staff effectively. In France, La Poste initially trained 8,500 staff to sell the service at the largest 2,000 postal branches. This has now spread to a network of over 10,000 branches.⁵

Finally, although some MNOs view MVNOs as a potential threat, a post office business case will still be a particularly attractive partnership proposition to many. Firstly, the partnership is likely to involve a degree of complementarity. The post office’s subscribers are likely to come from the older and rural segments that many MNOs will not have appealed so strongly to (and that are not a focus). Secondly, the host MNO will make net subscriber gains through the acquisition of wholesale customers from other competitor networks. This additional wholesale revenue will more than compensate for the loss of revenue from some low value customers in its retail business to the postal MVNO.

Therefore, although there are risks, a carefully approached MVNO launch can add strategic value to the business as demonstrated by those post offices that have launched MVNO operations.

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⁴ Source: Poste Italiane
⁵ Source: La Poste
Cartesian Experience and Support

Cartesian has deep experience in assisting MNOs, MVNOs and regulators in achieving their objectives. We have worked with postal operators in defining their mobile strategies including support in MVNO opportunity evaluation and launch. In total we have worked on over 40 MVNO engagements globally covering mature and emerging markets. We can support across a number of areas, including:

- Strategy and business case support, including detailed cost and revenue modelling
- Assessment of MVNO policy, regulation and market impact
- Negotiation support for contracts and commercial terms
- Securing funding
- Vendor and partner identification, evaluation and selection
- End to end launch support such as PMO, pricing, proposition and channel build
Cartesian is a specialist consulting firm of industry experts, focused exclusively on the communications, technology and digital media sector. For over 20 years, Cartesian has advised clients in strategy development and assisted them in execution against their goals. Our unique portfolio of professional services and managed solutions are tailored to the specific challenges faced by executives in these fast-moving industries. Combining strategic thinking and practical experience, we deliver superior results.

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