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Need for physical postal services on a digitalised market

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Author
Anders Hildingsson, Pär Lindberg

Swedish Post and Telecom Authority
Box 5398
SE-102 49 Stockholm
Sweden

+46 8 678 55 00
pts@pts.se
www.pts.se

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1 Introduction

Users' needs for different types of postal services are changing rapidly. Letters with written content[1] are decreasing in number while letters and parcels with goods are increasing rapidly and the rate of change is probably going to accelerate.

Postal distribution is a network industry with a high share of fixed costs, for example, sorting facilities, vehicles and the manning of delivery services. This means that changes in volumes have a major effect on profitability. Because of the requirements placed on the universal service provider - delivery and collection five days a week - there is limited scope for rationalisation to adapt to loss of revenue and rapidly increasing costs per distributed letter. The problems with quality that have been observed in recent years show that the rationalisation measures being executed within the framework of the current conditions can have a negative effect on the reliability of the letter mail services. The effect is major negative consequences for individual recipients and reduced confidence in the letter as a form of communication. For that reason, in recent years the Swedish Post and Telecom Authority (PTS) has increased its supervisory measures and during 2018 placed more stringent requirements on PostNord's licence conditions in order to improve the quality of postal deliveries. More stringent requirements regarding reliability have also been imposed on Bring Citymail which is the second largest player on Sweden's postal market.

In 2017, just over 2.2 billion letters were sent in Sweden[2] , the majority of which were written messages. It is therefore not possible to conclude that the need to be able to send and receive letters with written content has disappeared simply because volumes have declined. Instead, the question is what are the actual needs of users and what level of service would meet those needs, and how may needs change as the postal market undergoes digitalisation:

What are the needs of postal service users regarding the sending and receiving of written messages today?

- How important is it that letters are delivered five days a week?
- How do postal service users view digital alternatives to physical letter mail?

[1] Invoices, bank statements, summons and other types of information
[2] Svensk postmarknad 2018; PTS-ER-2018:10

- What would the consequences be if they did not have the same possibilities regarding the sending/receiving of letters that they currently have?
- Are there any types of letters that users view as being of importance even when digital alternatives are used?

The answers to these questions must be sought in the light of the fact that society is undergoing a rapid digitalisation process and that Sweden's policy goal is to be the best country in the world with regard to utilising the potential of digitalisation.

Sweden has made huge investments and the expansion of broadband has come a long way. According to the Internet Foundation, ”95 percent of all Swedes over the age of 12 years […] now have access to internet in their homes”[3] . The goal is that this level is to be significantly raised all over the country[4]. Letters will therefore not be needed in the same way as a conveyor of different forms of information since, from a purely technical perspective, there are alternatives to physical letters.

The postal sector has already been heavily affected by digitalisation. This influence will continue and will probably increase dramatically over the next few years. One indication of this is the increase in number of new users of one of the digital letter boxes (e.g. the Swedish Tax Agency's Min Myndighetspost, Kivra, Digimail and e-boks). At the turn of 2017/18, about 25 % of Sweden's population over the age of 18 years had acquired a digital letter box and given the current trend, that figure is expected to have risen to about 40 % by the turn of next year.[5]

So far, the increase in use of digital letter boxes has only had a limited effect on the drop in volume of letters that has been going on since the turn of the

[3] ”Svenskarna och internet 2017” p.10; IIS; https://www.iis.se/fakta/svenskarna-och-internet-2017/

[4] According to the government's broadband strategy ”Sverige helt uppkopplat 2025” (Sweden fully connected 2025), the goal is partly that ”[in] the short term, the goal is to be raised so 95 percent of all households and businesses should have access to broadband of at least 100 Mbit/s by 2020.”, and partly that: ” 98 percent should have access to broadband of at least 1 Gbit/s in the home and at work while the remaining 1.9 percent should have access to at least 100 Mbit/s, and 0.1 percent should have access to at least 30 Mbit/s latest 2025. These goals also imply that everyone should have access to stable mobile services of good quality wherever they normally are by latest 2023.” https://www.regeringen.se/informationsmaterial/2016/12/sverige-helt-uppkopplat-2025---en-bredbandsstrategi/

[5] However, the acquisition and use of digital letter boxes does not provide a complete picture. Public and private players are developing more and improved e-services at an increasingly fast pace. The growing use of internet banks for everything from bank statements, payments via autogiro and e-invoice to the digital handling of all types of financial transactions will increasingly push the drop in volume of the letter market.

century. However, there are strong grounds to assume that this will change relatively quickly (over the next 1-3 years) to an annual decrease in volume of more than 10 % for the letter market as a whole.

2 The points of departure of the investigation

In this investigation, PTS has focused on the type of mail items that can be digitalised and which, in the long run, will probably be digitalised to a great extent, i.e. letters with some form of written content.

PTS has conducted this investigation in order to be able to describe today's needs and the expected need for physical letter services[6] on a more digitalised postal market. The investigation will also make it possible to identify the areas where PTS may need to conduct more in-depth investigations.

The investigation covered both private individuals and enterprises since it can be assumed that these categories have different needs, patterns of behaviour and conditions which must be mapped.

PTS chose to target the investigation at those who are currently able to and have experience of using digital services (defined as individuals and enterprises that use some form of internet platform: smartphone, tablet or computer). The purpose of the investigation was to gather information in order to describe the general features of the changes in needs, driving forces and financial conditions which the postal market may be facing over the course of the next few years.

The fact that there are now people who are experiencing digital alienation in their everyday lives and at work, and who are therefore presumably dependent on physical letter services, means it is even more important to learn more about the future conditions for the distribution of physical letters. It is also important to gain information in order to assess the need for targeted actions, for example, to overcome the obstacles that may be preventing people from using digital alternatives to postal services.

With the investigation of the business sector, PTS chose to focus only on small enterprises. The reason for this is that these companies[7] are generally less digitalised than larger companies and therefore this category of company is probably where obstacles for the digitalisation of post are most prevalent.

In order to provide an accurate picture of any geographical differences, we used the Swedish Agency for Economic and Regional Growth's classification tool, the "accessibility index", when selecting respondents. PTS's assessment is

[6] As previously defined, i.e. written messages.
[7] "Företagens villkor och verklighet 2017"; Tillväxtverket, Rapport 0232

that this index is the best tool for describing regional conditions and differences in access to different forms of services.

3 The results of the investigation in brief

3.1 Need for physical letters

Generally speaking, the need to send and receive written messages is relatively small. Small enterprises have a somewhat greater need than private individuals; the needs of older people is somewhat greater than that of younger people; areas with limited or very limited access to services have a somewhat greater need. However, irrespective of the parameters studied, the overall level of needs is low.

More specifically, we can see that the need to have mail items with a written content delivered five days a week is even lower than the need to be able to send and receive such letters. The tendencies in the different categories is the same, that is to say, there are differences between enterprises and private individuals, people of different ages, and geographical locations. However, the differences are small.

When seen in relation to the possible changes that PTS chose to investigate, the respondents stated that predictability and letters being delivered within a reasonable period of time are more important factors than letters being delivered five days a week.

It seems that any changes in the frequency of the delivery of letters with written content as a step in the adjusting to general needs and conditions for delivery operations would have relatively limited negative consequences for both private individuals and enterprises. 59 % of the respondents in both categories replied that it would not imply any problems at all if the frequency of delivery changed to two days a week. The main concern of the private individuals was the risk of certain letters being delivered too late. However, it should be possible to address this problem by the senders having a certain degree of forward planning if the requirements placed on postal operators were to be adjusted in this respect, and by the senders using digital alternatives for mail items where punctual delivery is essential. However, for the entrepreneurs, there are certain aspects that need to be considered if changes are to be made, especially for small enterprises in rural and sparsely populated areas. In these areas, almost 50 % of the companies said changes could lead to significant difficulties (negative financial consequences 27 %, work would be slowed down/impeded 18 %, loss of customers 4 %) if the frequency of delivery were to be reduced to two days a week.

3.2 Attitude to digital letter box

78 % of the private individuals and 75 % of the enterprises already use or believe they will begin to use a digital letter box over the course of the next few years. This shows there is significant preparedness for changes and a transition to digital solutions.

However, the respondents put forward several reasons why they might refrain from using a digital letter box. Most of the reasons were linked to obstacles caused by insufficient knowledge, a problem that could be addressed by different forms of information and support measures. Measures are also needed to instil confidence and trust in the digital services. Such confidence can be created by more clearly structured regulation and customers knowing that the operators who provide such services have to fulfil certain requirements and are also subject to supervision.

The large number of people/companies that already have a digital letter box and the high propensity for change means there is a high potential for change. When more public sector senders acquire a digital letter box, the receivers will already be on board and then the effect, i.e. reduced letter volumes, will come rapidly.

3.3 PTS's conclusions

The results of the investigation are only representative of the private individuals and small enterprises that have already adopted digitalisation to some extent. Although the investigation did not cover all postal service users, the results support the assumption that the use of digital letter boxes will lead to a dramatic decline in letter volumes over the next 1-3 years. The substantial positive interest of private individuals and small enterprises to acquire and use digital letter boxes will have a major effect on letter volumes as public authorities and private companies replace written letters with electronic communication.

When the break-through of this change occurs, the level of service in postal services will have to be adapted in order to ensure a high level of reliability in the physical letter services. We can see similar trends in, for instance, our neighbouring Nordic countries. If service levels are not adjusted, e.g. the five-day a week delivery requirement and how it is to be executed, it cannot be ruled out that state subsidies may be needed in order to maintain reliable and high-quality postal services. A lower level of quality and reliability will primarily affect those customers who do not use various digital services and who are dependent on well-functioning and reliable postal services.

If Sweden's ambition to be the best country in the world as regards the exploitation of the benefits of digitalisation is to be realised in this field, a number of different measures are required. For example, security and consumer protection of the digital letter services must be improved so they meet users' needs which could mean clarity regarding who owns the information in a digital letter box and that users can take their information with them to a different service provider. Action must also be taken so that all public sector players can offer digital mail to the recipients who ask for it.[8]

PTS will monitor developments regarding the use of digital letter boxes and how it is affecting the conditions for continued distribution of physical letters. This could imply, for example, a closer study of the need for measures to facilitate the transition to increasingly digitalised letter services for the private individuals and small enterprises who are currently struggling to utilise the opportunities of digitalisation in this field.

[8] See for example the proposal from Utredningen om effektiv styrning av nationella digitala tjänster, slutbetänkande: "reboot – omstart för den digitala förvaltningen"; SOU 2017:114