



# CE Annual Midsummer Conference

Copenhagen 20 June 2017



**POST**

# Background

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- An Post is one of Ireland's largest companies, providing a wide range of services encompassing postal, retail, financial, communication and data management services, employing over 9,000 people nationwide through its retail, mails and processing networks
- In 2017 An Post was ranked the most reputable organisation in Ireland, as per the annual Ireland RepTrak<sup>®</sup> study
- An Post is regulated by the Communications Regulator, ComReg
- An Post is the designated Universal Service Provider for postal services until 2023, as per the 2011 Postal Services Act

# Background

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- As a universal service provider, An Post is obliged to provide a universal postal service, five days a week, every working day to all addresses in the State, at a uniform tariff
- However, the advance of digital communications technology and mobile devices have led to the rapid substitution of letters as a form of communication
- This structural decline is impacting all postal organisations worldwide, An Post is no exception
- Mail volumes in Ireland have declined by 38% off their peak in 2007 and the rate of decline sharply increased during the latter half of 2016 and into the first quarter of 2017

# An Post Revenue Sources

## Mails

Income from Mails service is declining due to ongoing e-substitution

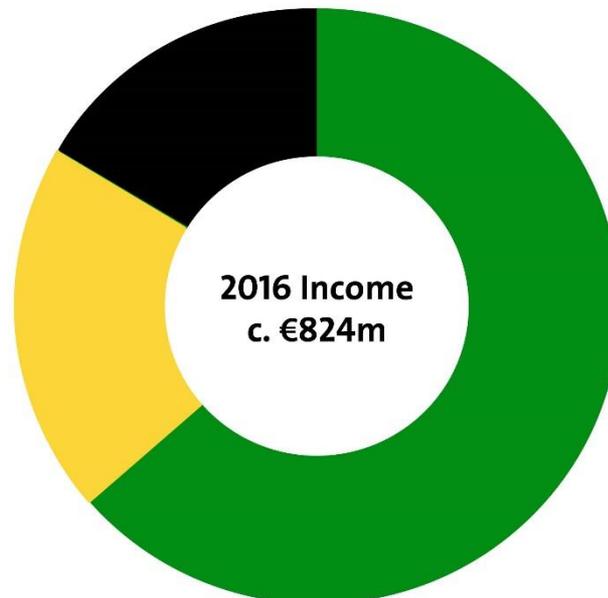
## Retail

Income from Retail now accounts for nearly 20% of overall Group income

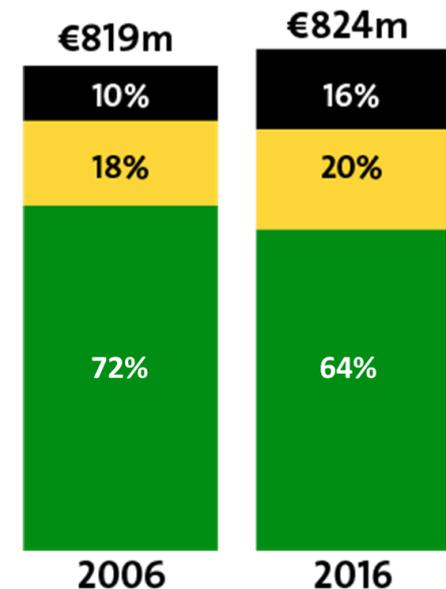
## Subsidiaries and Other

Other and subsidiary income driven by ongoing growth in subsidiaries - some related to Retail Business

## 2016 Revenue



## 2006 - 2016 Revenue



# Price Cap Mechanism (PCM)

- Formal Consultation carried out by ComReg 2013/2014
- ComReg introduced a PCM in 2014, this limited price increases to CPI+ an X-Factor of 1.35% until 2019
- Key elements included in PCM
  - Volume growth/decline
  - Price Elasticity of Demand (PED)
  - Cost Marginality/Cost Volume Ratio
  - Efficiency targets
  - Sub-controls/caps
  - Profit Margin
  - Capital investment

# Repeal of Price Cap Mechanism

- Main challenges leading to repeal of PCM:
  - **Accelerated volume decline**
  - **Increased wage rates imposed by LRC, after a 7 year pay freeze**
  - **Government commitment to retain USO in full**
- PCM was no longer considered to be appropriate into the future
- Government Committee hearings were held in public to debate the proposed repeal of the PCM
- In March 2017 the Irish Government passed the Communications Regulation (Postal Services) (Amendment) Act 2017, effectively repealing the PCM

# Repeal of Price Cap Mechanism

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- No further acceleration of volume decline observed since introduction of c39% price increase, from €0.72 to €1, on 13 April 2017
- Domestic headline rates in Ireland, post price increase, are ranked # 16 of 31 EEA states, per latest *Deutsche Post Letter Prices in Europe* report
- The amendment includes the provision of a report by the Regulator to the Minister assessing the impact of the repeal within 6 months of the second anniversary of the legislation, i.e. mid 2019

# Market development

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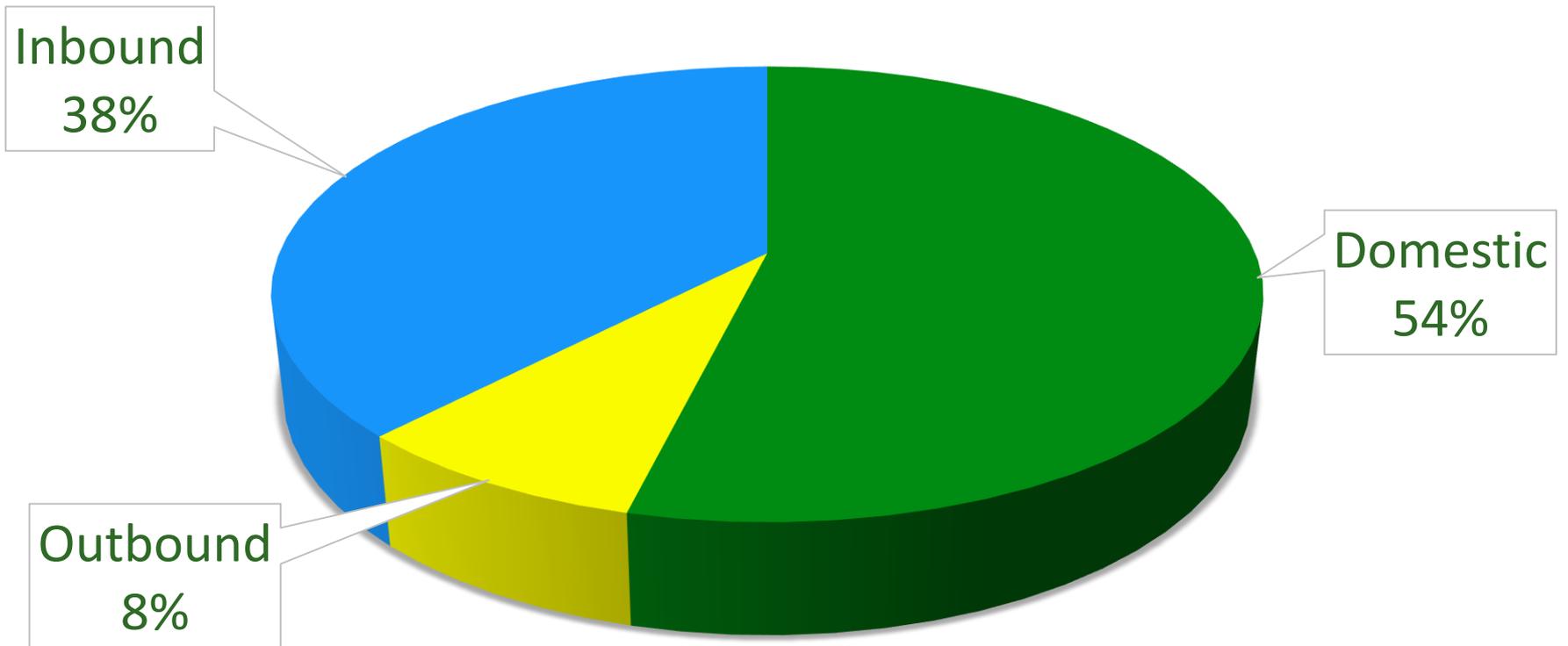
- The Postal/Communications market is fully functioning with the widespread availability of alternative electronic media and alternative physical service providers
- A recent ComReg report on the Packet and Parcel market indicated An Post had a market share of 30-40%, with many alternative operators having a significant market presence
- The combination of alternative mediums and alternative service providers clearly offers the services required to meet customer demands

# Provision of Universal Service

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- An Post is the Designated USP for Ireland
- The USO is significantly loss making, with losses of €41m in 2016
- Action has been taken by An Post, and government, to address USO losses and to support the continued provision of the Universal Service
- No change to range of USO services provided or to Quality of Service, delivery frequency etc.

# USO losses - 2016



■ Domestic ■ Outbound ■ Inbound

# Actions

- The actions taken to date address the issue of losses in the Domestic and Outbound international market segments, e.g.
  - Removal of PCM and movement of tariffs to a cost based structure
  - Ongoing cost rationalisation programmes
  - Development of Strategic Plan – assisted by McKinsey & Co.
- However, almost 40% of USO losses are experienced in the Inbound International market segment, this is unsustainable, incompatible with EU and Irish legislation and puts the provision of the entire USO in jeopardy
- This issue has been regularly highlighted by ComReg and must be addressed
- This is an issue for all operators, we need to increase the rent in the system

# Conclusion

- Put the Right pricing in place
  - Domestic & Outbound International
  - Inbound International
- Put the Right network in place
  - Implementation of Strategic plan – Ongoing
- Continue to meet growing market demands
  - Development of Packet and Parcel features
  - Continuous Product Development, including award winning DM services





Thank you



 **POST**