

MARKET MONITORING

Letters Market Report

Market data and competitive conditions
in the postal sector as at January 2023



Bundesnetzagentur

Letters Market Report 2022

January 2023

**Bundesnetzagentur für Elektrizität, Gas,
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1 Introduction

The Bundesnetzagentur conducts an annual survey of market data on postal services. In this survey companies operating in the postal sector are asked about their economic situation (in particular revenue and letter volume figures) with the help of a questionnaire. The companies' duty of disclosure is based on Section 45 of the Postal Act (Postgesetz (PostG)).

The results of the market survey conducted in 2022 have been included in this report for the letters sector. In addition, they are shown in the activity report that is published every two years (Section 47 of the Postal Act).

This report specifically presents and evaluates the updated market figures. In addition, it contains information on the market structure and market concentration in the letters market.

The postal market data contained herein can also be found on the Bundesnetzagentur's website at www.bundesnetzagentur.de/Post-Marktdaten.

2 Letter services definitions

Letter services can basically be divided into two areas: licensed letter services and non-licensed letter services.

The Postal Act allows only persons or companies who have obtained a licence from the Bundesnetzagentur to convey letters with an individual weight of up to 1,000 grams (conveyance includes collection, sorting, transport and delivery). For all postal services that do not require a licence, the Postal Act provides for notification to the Bundesnetzagentur.

These licensed letter items include access service items¹, end-to-end items² (national as well as cross-border) and formal postal delivery order items.

Non-licensed letter services include addressed newspapers and magazines as well as letter items weighing over 1,000 grams (for example heavy documents), catalogues and also partially addressed and unaddressed items (for example advertising mail and brochures). Small-sized merchandise items were classified as non-licensed letter services until 2020 as they are generally offered by letter service providers and conveyed via the letter network. However, as the focus of these items is on the merchandise as contents, they are defined as parcels under Regulation (EU) 2018/644 of 18 April 2018 on cross-border parcel delivery services (EU Parcel Regulation). Accordingly, they are listed under parcels in the reporting from 2021 onwards (see the Parcel Market Report 2022 for further details).

¹ Access service items are handed over to Deutsche Post Group by bulk mailers or postal service providers after a preliminary service has already been provided for the shipment.

² End-to-end items are conveyed by a postal service provider from collection through to delivery.

3 Market trends

Progressive digitalisation and the accompanying electronic substitution are contributing to a continuing declining trend in both the licensed and the non-licensed letters sector. This was further intensified by the coronavirus pandemic in 2020. The declines continue in 2021, however they are not as strong as in the previous year. According to the letter service providers' forecasts for 2022, the companies again expect slightly stronger declines similar to those observed prior to the coronavirus pandemic.

However, the forecasts should be viewed with caution in light of the overall economic situation and high inflation. The actual figures for 2022 (from the survey conducted in 2023) may thus deviate from the forecasts.



The absolute figures shown below have been rounded. The percentages have been calculated using non rounded revenue and volume figures for reasons of accuracy. The figures in the text, charts and tables may therefore differ slightly. The revenue and volume figures for 2022 are based on estimates that were derived from the 2022 forecast figures reported by the companies.

3.1 Number of licensees

The number of companies actively operating in the market in the licensed letters sector is steadily decreasing. In 2006, there were 1,030 companies active in this area. The greatest decline in the number of market participants occurred up to 2010, when only 595 companies were still active. In subsequent years, there were slight fluctuations in the number of companies. The overall tendency, however, was a decline in the number of companies. From 2018, the decline in active companies intensified again, leaving just 500 companies in 2018. Since 2020, the number has remained steady at 400 companies.

However, beyond the actively operating companies, which currently number 400, a total of 1,131 companies actually have a valid licence.³ The proportion of companies that are actually actively operating in the market is hence 35.37%.

³ A large number of licence holders have ceased their activities (possibly temporarily). This is not necessarily accompanied by a return of the licence. Hence, the licence is maintained in case the activity is resumed.

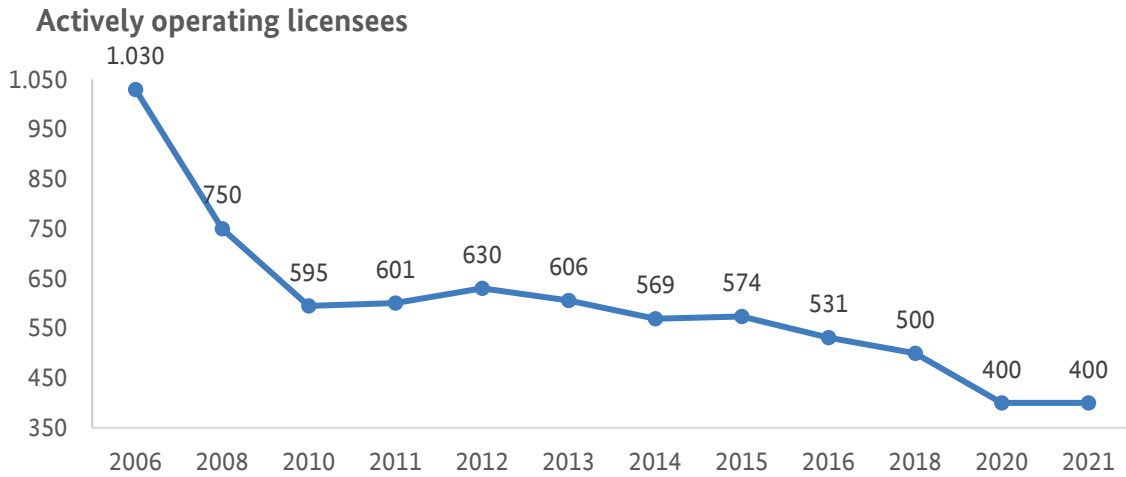


Figure 1: Actively operating licensees

Generally speaking, licensees are also obliged to convey postal delivery orders (formal delivery) unless they are exempted from this obligation by the Bundesnetzagentur. In 2021, 340 companies still had a licence for formal delivery. Again, this differs from the number of companies that actually actively carry out formal delivery. In 2021 there were 64 companies in that category. The following graph shows that since 2010 the number of companies that are actually operating in the area of formal delivery has steadily decreased.⁴

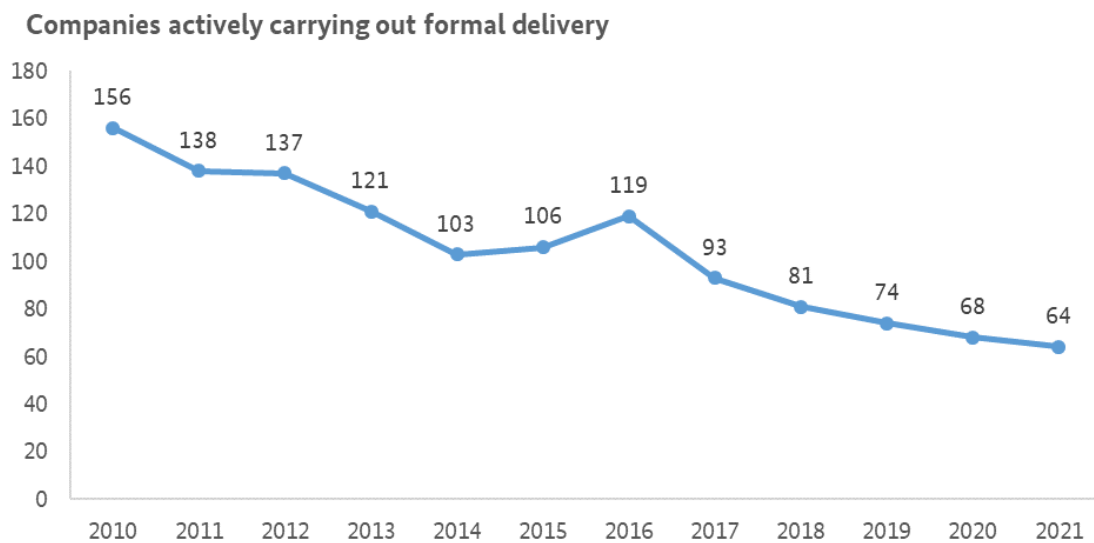


Figure 2: Companies actively carrying out formal delivery⁵

⁴ Exceptions to this are the years 2015 and 2016 in which there was a slight increase in the number of active companies.

⁵ Comparable figures for formal service are only available from 2010 onwards.

3.2 Licensed letter items

The letters market for licensed letter items is subject to a steady decline in letter volumes and revenues. In 2021 total revenues amounted to €7.86bn. Of this total, €6.70bn are attributable to Deutsche Post Group. In 2020 Deutsche Post Group still generated €6.89bn in revenue, representing a decline year-on-year of 2.71%.

For its competitors, the decline in revenue was 2.75%, from 1.19bn in revenue in 2020 to 1.15bn in revenue in 2021. For the competitors, however, this is not the lowest revenue figure in recent years. In 2018 they only generated revenue of €1.13 billion.

The forecast figures for 2022 point to further declines in revenue - both for Deutsche Post Group and for its competitors, and hence also for total revenue generated in the letters market. According to the forecasts, the total revenue of €7.86bn will fall by 2.07% to around €7.69bn. Deutsche Post Group's revenue will amount to an estimated €6.60bn and competitors' revenue to €1.10bn.

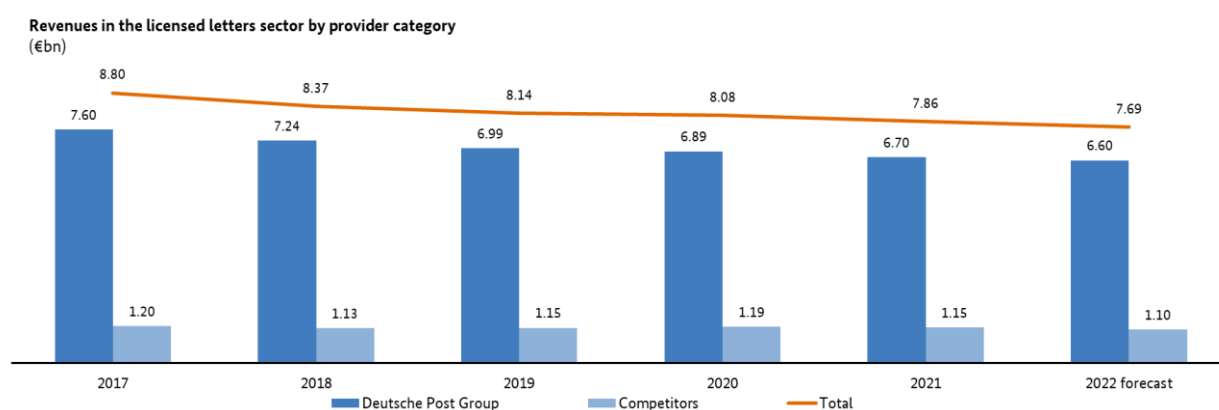


Figure 3: Revenues in the licensed letters sector by provider category

In 2021, total letter volumes in the licensed letters sector amounted to 12.20bn items. Compared to the previous year, 2020, with a letter volume of 12.37bn items, the letter volume decreased by only 1.38%. That is the smallest decline in years. However, it should be noted that the decline in licensed letter volumes from 2019 to 2020 was 8.9%. It is conceivable that the impact of the coronavirus pandemic in 2020 pre-empted a decline in letter volumes and that therefore the decline in 2021 is not as large. For 2022, market participants' forecasts expect a total letter volume of 11.67bn items.

Deutsche Post Group conveyed 10.40bn licensed letter items in 2021 compared to 10.59bn the previous year. For 2022, the forecasts point to a decline to 10.00bn items.

Its competitors were able to record a slight increase in 2021 compared with the previous year. The number of licensed letter items conveyed rose by around 1% from approximately 1.79bn items in 2020 to 1.81bn items in 2021. However, based on competitors' forecasts for 2022, it can be assumed that the letter volumes conveyed by competitors in the licensed letters sector will decline to 1.67bn items.

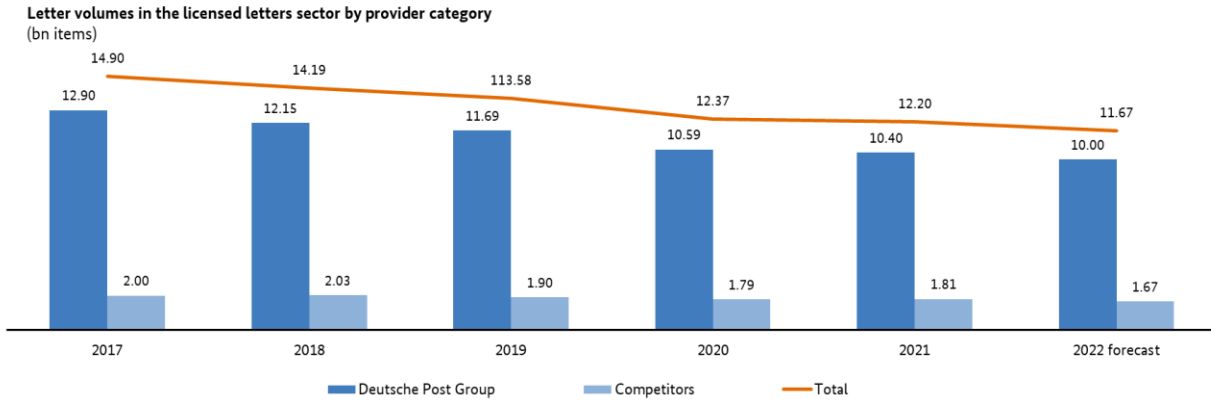


Figure 4: Letter volumes in the licensed letters sector by provider category

The largest share of the revenues and letter volumes generated by the licensed sector is attributable to access service items. In terms of volume, access service items are attributed in their entirety to Deutsche Post Group. Competitors are granted access to partial services and can provide preliminary services in the same way as the Group companies and end customers (bulk mailers) of Deutsche Post Group. Nevertheless, Deutsche Post Group accounts for most of the transport and revenue.

In 2021, 8bn items were handed over to Deutsche Post through access to partial services. Of these items, 14.87% were attributable to competitors. Items posted by end customers (bulk mailers) or Group companies of Deutsche Post Group account for the remaining 85.13%. Mailers' shares have changed only slightly over the past few years.

3.3 Domestic and cross-border end-to-end letter items

In the case of end-to-end letter items in the licensed letters sector, the share of revenues generated by domestic transport was approximately 79.4% in 2021. Cross-border end-to-end letters accounted for the remaining 20.6%. Of these, the share of outbound items being dispatched abroad was 13.01% and the share of items coming from abroad was 7.59%. This means that approximately €2.6bn were generated by the conveyance of domestic end-to-end letter items. That represents a slight decline compared to the previous year's figure of €2.7bn. Cross-border revenues amounted to €0.4bn for outbound items being dispatched abroad and €0.3bn for end-to-end letter items coming from abroad. The forecast for 2022 indicates a slight decline for all revenues generated by the conveyance of end-to-end items.

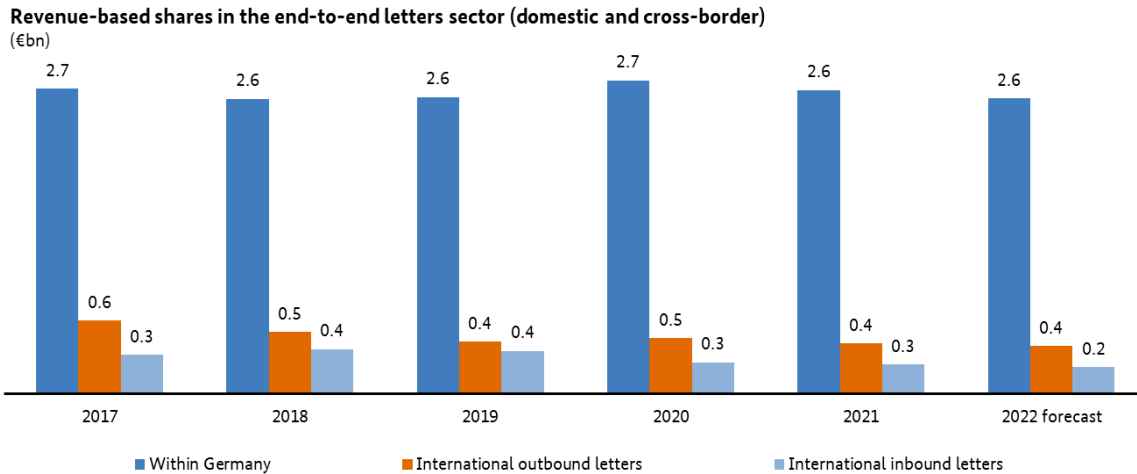


Figure 5: Revenue-based shares in the end-to-end letters sector (domestic and cross-border)

The comparison relating to letter volumes in 2021 shows a similar picture. Domestic end-to-end letter items amounted to around 3.3bn, which is a share of 82%. The remaining 18% represent cross-border letter items. Of these, 0.4bn are international outbound items and 0.3bn are international inbound items.

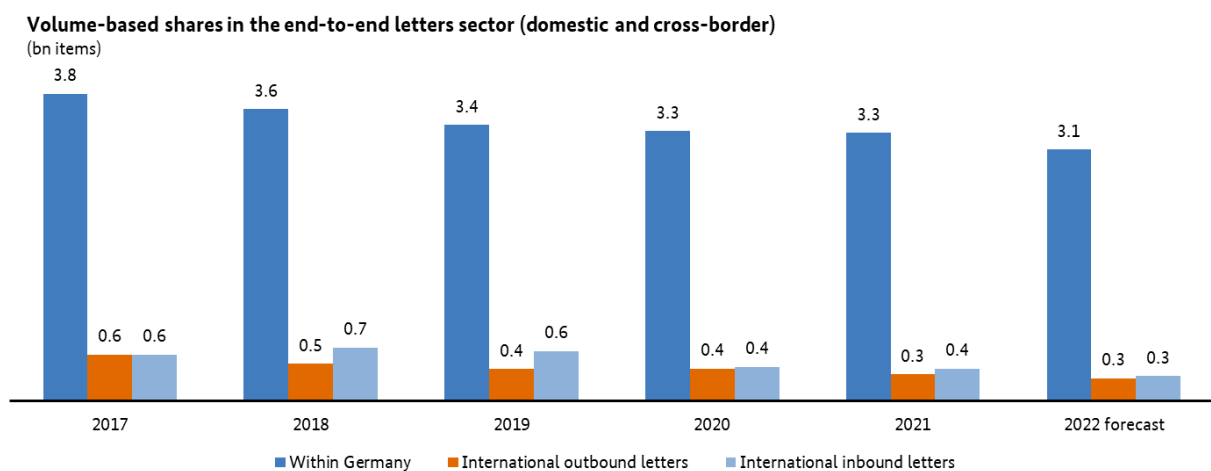


Figure 6: Volume-based shares in the end-to-end letters sector (domestic and cross-border)

3.4 Competitors' delivery methods

The companies operating in the German licensed letters market do not deliver all their letters themselves. In the case of companies operating regionally, this is generally due to the lack of a nationwide infrastructure. On the one hand, there are business models (access service) in which competitors, just like bulk mailers, hand over to Deutsche Post Group for delivery items for the transport of which preliminary services (for instance pre-sorting or franking) have already been provided. On the other hand, items are handed over for delivery by other competitors on the basis of cooperation agreements.

The following figure shows only items that are delivered by competitors. In 2021, 31% of these items were delivered by the competitor who also accepted them, while 69% of letter items were delivered by cooperation partners from the competitor sector.

Competitors' letter items by delivery method (2021)
in %

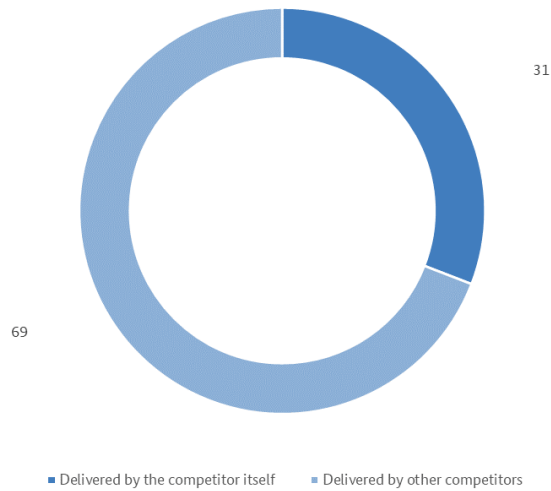


Figure 7: Competitors' letter items by delivery method (2021)

3.5 Customer structure in the licensed letters sector

In 2021, the majority of all letter volumes in the licensed letters sector were commissioned by business customers whose share of the overall market amounts to approximately 93%. The remaining approximately 7% of licensed letter volumes were posted by private customers. This ratio has remained largely unchanged in the past few years.

At Deutsche Post Group, the customer share distribution is very similar. 92.4% of letter volumes come from the business customer segment and 7.6% from the private customer segment. In the case of competitors, almost all items are commissioned by the business customer segment who account for 99% of all letter volumes conveyed by competitors. The private customer segment accounts for only 1% of competitors' letter volumes.

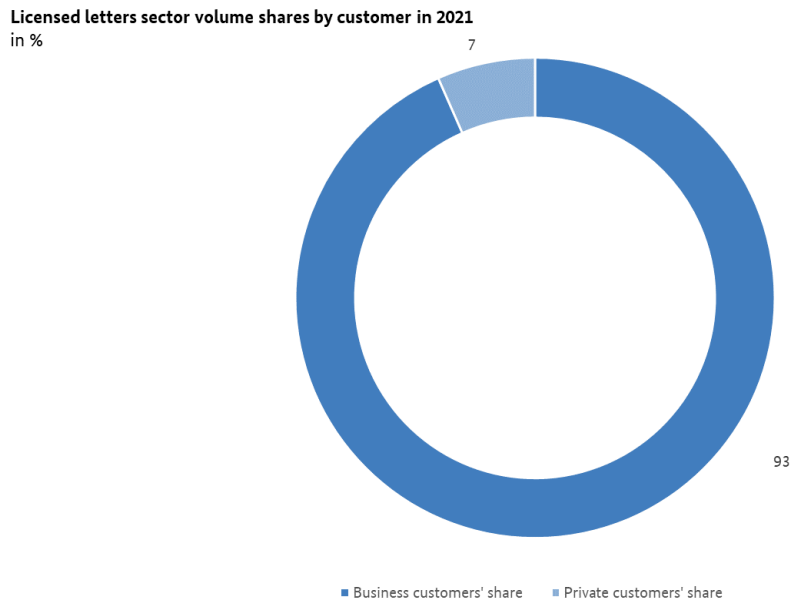


Figure 8: Licensed letters sector volume shares by customer in 2021

3.6 Non-licensed letter items

In 2021, a total of €1.04bn in revenue was generated in the non-licensed letters sector. That corresponds to a volume of 4.6bn mail items. Compared with the previous year, only a larger decline in revenue is evident in 2021, with the decline in letter volumes being significantly smaller. Among other things, the allocation of merchandise shipments to the parcel sector from 2021 onwards contributes to a stronger decline in revenue. Until 2020, merchandise shipments were still part of non-licensed letter items. Even an increase in the volumes of partially addressed and unaddressed letters as well as press products could not compensate for this revenue trend because those formats have a unit price that is generally lower than that of the merchandise shipments included in previous years.

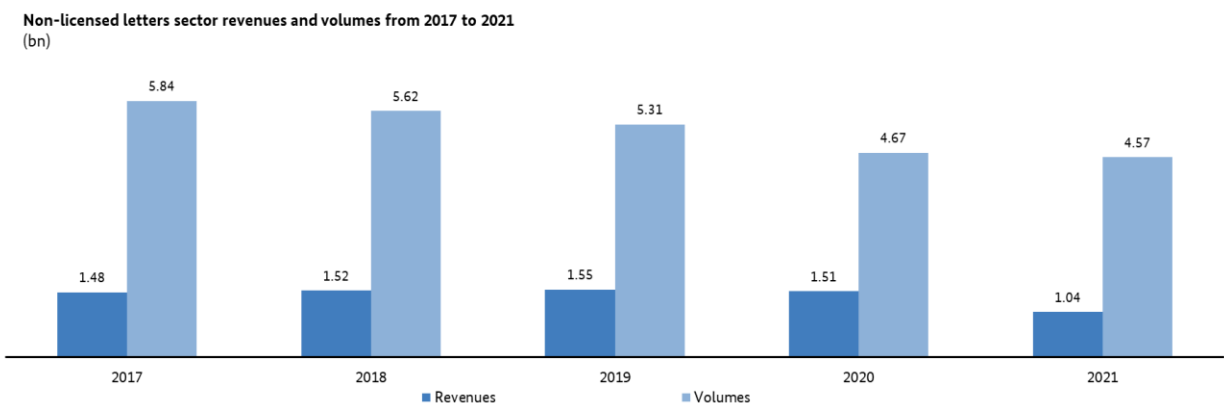


Figure 9: Non-licensed letters sector revenues and volumes from 2017 to 2021

4 Utilisation of letter-post network capacity

Utilisation of letter-post network capacity describes the distribution across all products that are transported via letter-post networks. In addition to the licensed and non-licensed letters sector products named under "Letter services definitions ", merchandise shipments of Deutsche Post and competitors are also transported via letter delivery networks. Up to and including 2020, merchandise items were classified as non-licensed letter items, however since 2021, this is no longer the case due to the lack of a written notification in the shipment and alignment with the EU Parcel Regulation. Since then, they have been listed under parcel services. With the exception of the Amazon logistic subsidiary's merchandise shipments, they are still transported via letter delivery networks and are thus listed in the breakdown below for the analysis of utilisation of letter delivery network capacity.

It can be clearly seen that the highest utilisation of letter delivery network capacity is attributable to access service items (48.83%), which are largely posted by end customers (bulk mailers) and group companies of Deutsche Post AG (DP AG) (see 3.2). This high proportion of access service items in the letter delivery networks has also been recorded in previous years since 2017 with only minor fluctuations and is therefore almost constant.

In general, there have been hardly any changes in the utilisation of letter delivery network capacity since 2017. Only the share of merchandise shipments in the letter delivery networks has almost tripled from 0.44% in 2017 to 1.48% in 2021. This trend is probably attributable to the booming e-commerce sector, which was boosted by the coronavirus pandemic in 2020 and 2021. Nonetheless, the share of merchandise shipments conveyed in the letter delivery networks is increasing only moderately. The reason for this is, on the one hand, that the volume shares of letter products are still very high overall despite the decline in volume. On the other hand, the fact that the book shipment product was taken off the market by DP AG could be a contributing factor.

End-to-end letter items as well as partially addressed and unaddressed letter items account for a high share of the letter volumes transported in the letter delivery networks. Their share is around 19% to 20% in each case. The smallest share in the letter delivery networks is accounted for by domestic and cross-border letter items weighing over 1,000 grams. Formal delivery also does not contribute significantly to the utilisation of letter delivery network capacity. The share here is only 0.26%.

Utilisation of letter delivery network capacity in 2021
in %

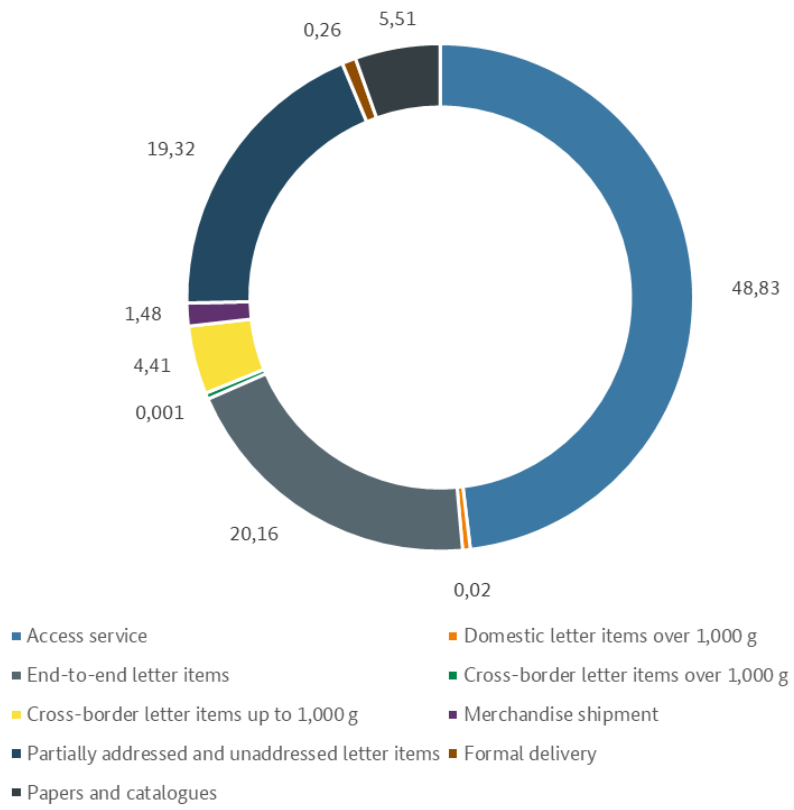


Figure 10: Utilisation of letter delivery network capacity in 2021

5 Competitive conditions and market concentration

Since being opened up to competition, the licensed letters sector has continued to be dominated by Deutsche Post Group. That applies both to licensed letters sector revenue and to letter volumes.

In terms of revenue, Deutsche Post Group held a market share of 85.3% in 2021. The market share by letter volume this year for Deutsche Post Group is almost identical at 85.2%. These market shares have remained stable over the years with very minor fluctuations.

Consequently, competitors account for a market share of 14.7% in terms of revenue and 14.8% in terms of letter volumes. The following tables on market shares by revenues and letter volumes clearly show that there has been only a slight shift in market shares in the years since 2017.

Licensed letters sector revenue shares by provider category

in %

year	2017	2018	2019	2020	2021	2022 forecast
Deutsche Post Group	86.4	86.5	85.9	85.3	85.3	85.8
Competitors	13.6	13.5	14.1	14.7	14.7	14.2

Source: Bundesnetzagentur market surveys for the years 2017 - 2021

Table 1: Licensed letters sector revenue shares by provider category

Licensed letters sector volume shares by provider category

in %

year	2017	2018	2019	2020	2021	2022 forecast
Deutsche Post Group	86.6	85.9	86.0	85.5	85.2	85.7
Competitors	13.4	14.1	14.0	14.5	14.8	14.3

Source: Bundesnetzagentur market surveys for the years 2017 - 2021

Table 2: Licensed letters sector volume shares by provider category

The market shares thus tend to indicate monopolistic market structures. The values of the concentration indices for this market also support this assumption. The Herfindahl-Hirschman-Index⁶ (HHI) has remained quite stable since 2017 and in 2021 took the value of 7,290 in the revenues area and 7,273 in the letter volumes area. These values indicate very high market concentration. The Gini coefficient measures relative

⁶ The Herfindahl-Hirschman Index (HHI) takes values between 0 and 10,000. If the assumed index value is below 1,000, it indicates low concentration, between 1,000 and 2,000 moderate concentration and above 2,000 high concentration. A value above 6,000 indicates very high concentration.

concentration or inequality. With a range of 0 to 1, a value of 1 indicates that one person or company holds 100% of the market shares. In the case of the licensed letters sector, the Gini coefficient is 0.98 in 2021, both for revenue and for letter volumes. This not only supports the assumption of high market concentration but also clearly shows a very uneven distribution of revenues and letter volumes among the market participants. The clearly dominant company in the licensed letters sector is - as can already be seen from the market shares - DP AG.

Concentration indices in the licensed letters sector 2017-2022 (forecast)

year	HHI revenue	HHI volume	Gini coefficient revenue	Gini coefficient volume
2017	7,545	7,452	0.98	0.98
2018	7,485	7,348	0.98	0.98
2019	7,384	7,416	0.98	0.98
2020	7,289	7,333	0.98	0.98
2021	7,290	7,273	0.98	0.98
2022 forecast	7,365	7,360	0.98	0.99

Table 3: Licensed letters sector concentration indices from 2017 to 2022 (forecast)

6 Summary

The figures for the letters market presented in this report highlight the fact that letter volumes as well as the associated revenues have steadily declined in the past few years since 2017. In 2020, in particular, letter volumes declined more sharply. The coronavirus pandemic has reinforced the general trend of decline. At the same time, the total number of licensees has also been decreasing over the years.

Although the year 2021 was also characterised by declines in the letter sector, these were lower than in previous years. It can be assumed that the sharp decline in 2020 due to the coronavirus pandemic brought forward future declines and that these will now slowly level off and relativise in 2021. Despite the general declines, competitors managed to slightly increase their volumes in the licensed letters sector in 2021 compared to 2020.

It remains evident that there are almost no competitive structures in the letters market. Deutsche Post Group commands 85% market share in the licensed letters market. Competitors share the remaining 15%. Moreover, they almost exclusively have business customers. Deutsche Post Group accounts for the lion's share of the private customer segment.

In addition to this publication, data on the postal sector as a whole is also available at www.bundesnetzagentur.de/Post-Marktdaten

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List of abbreviations

DP AG	Deutsche Post AG
DP DHL	Deutsche Post DHL
EEA	European Economic Area
HHI	Herfindahl Hirschmann Index

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Publisher

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