L'OBSERVATOIRE

Postal activities statistical observatory

Year 2005

ARCEP
www.arcep.fr
AUTORITÉ DE RÉGULATION
des Communications électroniques
et des Postes

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Preamble

In 2005, *Autorité de Régulation des Communications Electroniques et des Postes* (ARCEP) created a postal activities statistical observatory. This was put in place in order to monitor the changes in this market as the sector was being progressively liberalised, as required by the law of 20 May 2005 on the regulation of postal activities (cf. article L.135 of the *Post and Electronic Communications Code*).

The 2005 questionnaire provided a great deal of information on the activity of firms requiring an authorisation. This questionnaire was conducted in collaboration with major operators.

New changes to the Observatory affect the breakdown of income by activity and improve the segmentation of the traffic of distributed items and export. For this last sector, flow accounting rules have been put in place in order to avoid double counting.

All authorised operators responded to the survey, providing us with a clear understanding of how their activities have developed. ARCEP thanks the operators for their assistance in drafting the questionnaire and for participating in the survey. Through this statistical observatory, we can meet our common objective to publish quality information and reference information on postal activities. ARCEP hopes to continue to improve this observatory in cooperation with all players in order to best meet their and the public's needs (analysts, institutions).

In order to provide an even more complete vision of postal markets, ARCEP has decided to include activities in this observatory which are not subject to authorisation, including parcels, express, direct mail and mail preparation, which was covered by a specific survey in 2005.

Major professional organisations actively participated in creating a questionnaire on the mail preparation market. Most of the largest firms were in favour of our project. Their responses helped us better understand the market on the business correspondence segment. On the other hand, the results are less positive for direct marketing mail preparation.
This first survey lays the foundations for a regular collection process, which will help to evaluate the market and appreciate the evolution of the various activities performed by mail preparation firms.

The *Fédération des Entreprises de Vente A Distance* (FEVAD) helped us evaluate the parcel segment by providing data on alternative operators providing parcel distribution. Our evaluation of the express light parcel market required several sources, so we contacted operators and the ministry of transportation. As for direct mail, we questioned major operators active on this market.

Data from 2004 were revised with respect to the previous publication, and are also more detailed.

CONTENTS

1. Market overview

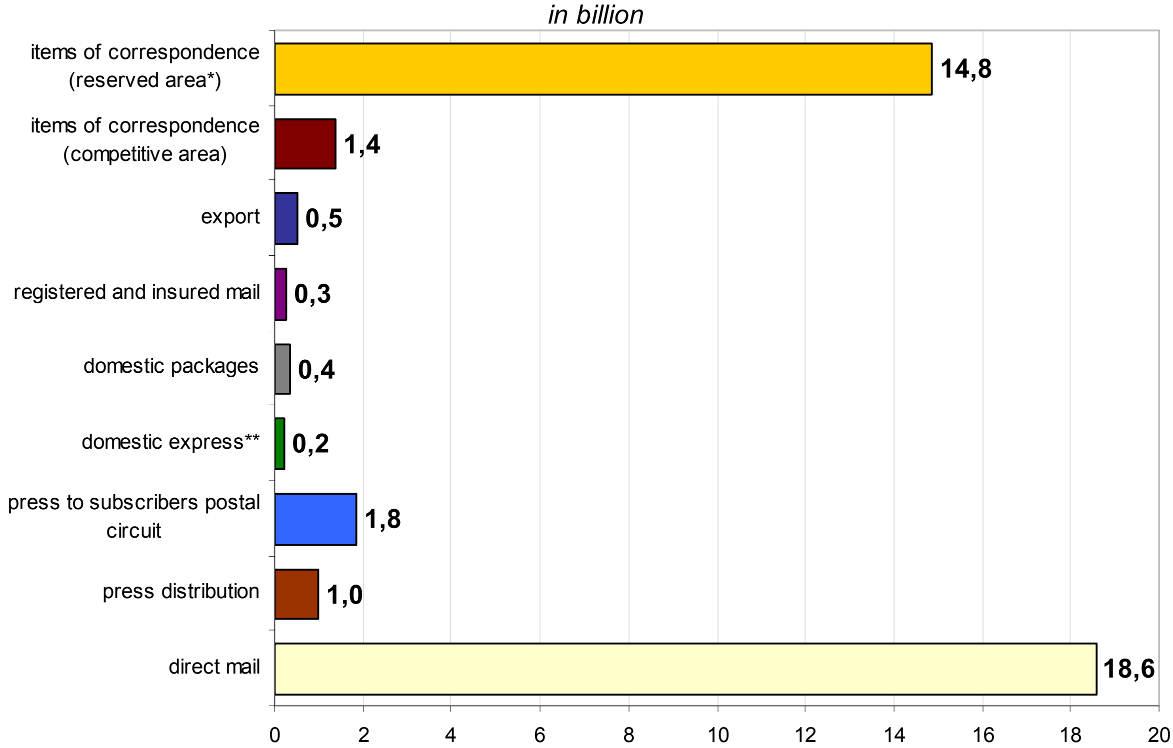
Market volumes and income

In 2005, the volume of items distributed[1] declined on all market segments except for the parcel segment. Here, all income increased, on both the regulated and competitive sectors. These changes reflect the price increases made that year.

Direct mail is the largest activity in volume with 18.6 billion items sent in 2005. It is followed by items of correspondence, that is, postal items weighing less than two kilograms[2]. Items of correspondence[3] under the monopoly are most numerous. Outside the monopoly, they represent less than 10% of the total. Publications distribution is the third-largest activity with 2.8 billion items distributed. It includes both the press delivered to subscribers by La Poste and the press distributed by specialised providers.

Postal Market in volume 2005

in billion



**in 2005, the postal monopoly covered items of correspondence weighing less than 100 g and whose price was less than three times the base rate*

*** estimate*

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[1] The Observatory analyses the domestic (traffic originating and distributed in France), import and export markets.

[2] The sending of correspondence involves written communication on a material medium. It must be routed and delivered to the address indicated by the sender on the item itself or on its packaging. This does not include books, catalogues, newspapers or periodicals.

[3] Until 1st January 2006, the postal monopoly covered items of correspondence weighing less than 100 grams and whose price was less than three times the base rate.

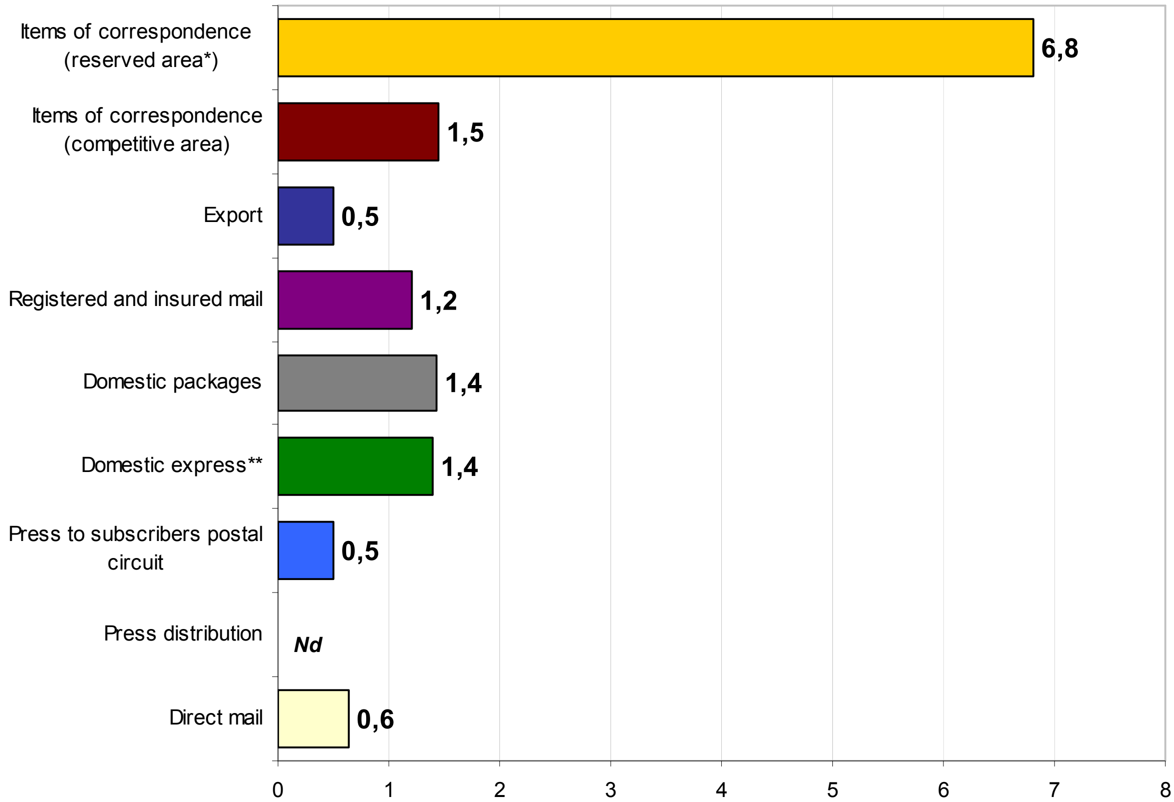
The postal market generated over €14 billion in 2005. Based on large volumes, items of correspondence distributed in France—both under monopoly and outside monopoly—generated just over half of income with €8.3 billion. Less than 6% of operator income from items of correspondence comes from export.

Although it covers the largest volumes of items, the direct mail segment generates the least income (€0.63 billion), because of its lower added value.

Income from domestic parcels and domestic express each represent about 10% of total postal market income.

Postal market in value in 2005

in billion of euros



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*** estimate*

Postal activities - Income and Volume of items

2005	Income *€million*	Volume *million*
Correspondence	8 756	16 731
o/w domestic and import	8 257	16 208
o/w export	499	523
Registered and insured letters and packages	1 213	252
Domestic packages	1 433	355
Domestic express*	1 400	200
Press distribution to subscribers	N/A	2 802
Direct mail	631	18 595

** estimate*

Access points and contact points

Access points are physical installations (mail drop boxes) available to the public, either on public roadways or on postal service providers' premises, where postal items can be dropped off by users for processing. La Poste had 140 500 mail drop boxes in 2005.

Overall, the number of contact points (establishments where customers can drop off mail) rose slightly (1.7%) between 2004 and 2005: while the number of post offices declined slightly, the number of postal outlets and retail postal outlets rose by just over 300 during the year, reaching 3 566.

Contact points

Units	2004	2005	Change
Post Offices (accessible to the public)	13 722	13 442	-2,0%
Other contact points where mail can be dropped off	3 225	3 566	10,6%
o/w postal outlets and municipal outlets	2 759	2 805	1,7%
o/w retail postal outlets	466	761	63,3%
Total number of contact points	**16 947**	**17 008**	**1,7%**

Source : 2005 sustainable development report, La Poste

The number of sales points for stamps or pre-stamped envelopes rose from 33 800 to 36 280 in one year.

Definitions of market segments

Items of correspondence

An item of correspondence is a postal item weighing no more than two kilograms. Addressed postal items such as books, catalogues, newspapers or magazines are not considered items of correspondence. Addressed direct mail is considered an item of correspondence.

Reserved area (<100 grams – monopoly):
The reserved area covers domestic items of correspondence or items from foreign countries distributed in France, including those delivered express, whose weight does not exceed 100 grams and whose price is less than three times the base rate.
Player: La Poste

Competitive domestic and import segment (>100 grams – outside monopoly):
These are all domestic items of correspondence or items from foreign countries distributed in France, including those delivered express, whose weight is greater than 100 grams and whose price is greater than three times the base rate.
Players: Adrexo, La Poste.

Export:
The outgoing international mail segment (items of correspondence) is open to competition on all weight brackets. Most of the operators are subsidiaries of European postal operators.
Players: Belgian Post, DHL, IMX, La Poste, Royal Mail, Spring, Swiss Post

Registered and insured mail*:
These are registered or insured items. Registered mail is a service which guarantees against loss, theft and damage, and which can also provide the sender with proof of deposit and/or delivery. Insured mail is a service which insures the item for the value declared by the sender in case of loss, theft or damage.
Players: La Poste and other operators

Domestic parcel*:
The Observatory covers home delivery and delivery to collection points of parcels from 0 to 30 kg. Delivery times on this market are longer than for express mail. This segment is completely open to competition but is partially regulated: universal service guarantees that a parcel offer up to 20 kg is available across the entire country.
Players: Alveol, Coliposte, Distrihome, Kiala, Mondial-Relay, Sogep, etc.

Domestic express*:
A market completely open to competition, express provides door-to-door delivery of postal items with guaranteed delivery times. The market observed is the light parcels market (up to 30 kg) originating and distributed in France.
Players: Chronopost International, Exapaq, GLS France, TNT Express

Subscriber publication distribution

Postal circuit:
Printed publications include all newspapers and magazines providing general, legal or technical information, registered with the press commission. La Poste offers a distribution service under "public transport and press distribution service". Free distribution of printed publications is excluded from the survey; only paid publications distributed to subscribers are covered.
Player: La Poste

Press distribution:
This is the second distribution channel after La Poste. Some publication publishers have created their own distribution networks (based on subscriber lists). Free distribution of printed publications is excluded from the survey.
Players: 250 press delivery services

Direct mail:
This fully competitive market covers the distribution of messages with no personal reference, address or name. These items require no collection, sorting or daily delivery rounds. Direct mail is not considered a postal item.
Players: Adrexo, Mediapost, local operators

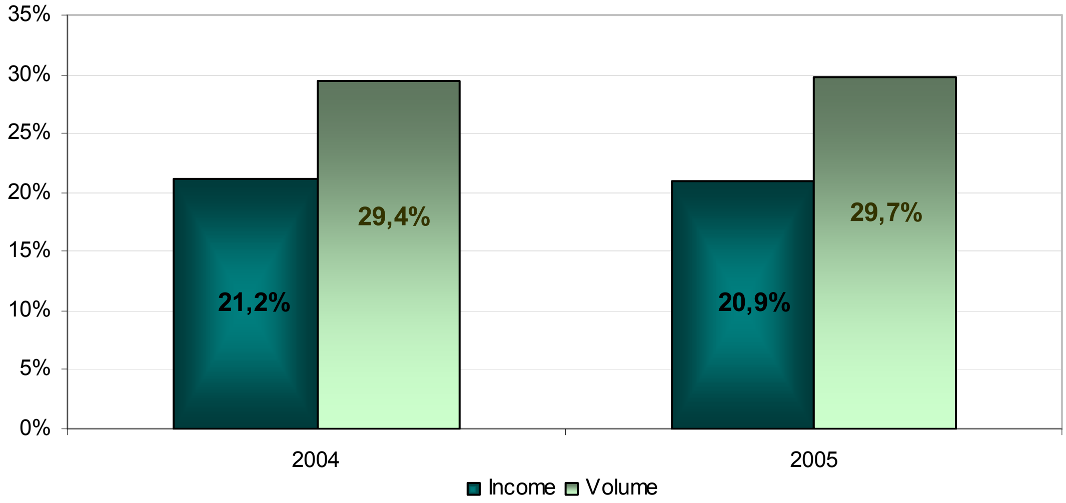
**The boundary between the registered and insured mail market and the express market is not completely clear and could likely change because both of these "added-value" services require a signature at delivery and specific processing. Similarly, the discriminating criteria between the express and parcel markets are not always clear: weight limits, guaranteed delivery times, etc.*

2. *Items of correspondence: The domestic and import market*

2.1. Correspondence *vs.* addressed direct mail

The 2005 survey now identifies addressed direct mail from among all items of correspondence. This represents 29.7% of the volume of items of correspondence and 20.9% of income.

Share of addressed direct mail in items of correspondence
(income and volume)



In 2005, income from the items of correspondence market saw 3.8% growth over 2004. This growth is borne up by a 4.1% increase in income not including addressed direct mail. The price increase for single-piece mail[4] (6.46% for letters and 7.35% for Ecopli (second class mail)) in March 2005 explains this growth. Income from addressed direct mail traffic increased in part due to the migration of customers to more costly products and the increase in average weight.

The volume of items of correspondence, excluding addressed direct mail, fell 1.1% over 2004. This decline was not fully offset by the 0.6% growth in addressed direct mail. In all, the volume of items of correspondence declined by close to 100 million items and was 16.2 billion in 2005.

4 Cf. ARCEP decision no. 2006-0690 dated 18 July 2006.

Income *€million excluding VAT*	2004	2005	Change
Correspondence, excluding addressed direct mail	6 270	6 529	4,1%
Addressed direct mail	1 687	1 727	2,4%
ALL items of correspondence	7 956	8 257	3,8%

Volume *million*	2004	2005	Change
Correspondence, excluding addressed direct mail	11 514	11 390	-1,1%
Addressed direct mail	4 788	4 818	0,6%
ALL items of correspondence	16 302	16 208	-0,6%

Note: The volume of items of correspondence excluding addressed direct mail is measured by a survey and not a systematic counting of flows. This measurement's precision depends on the sample.

2.2. Reserved area *vs.* competitive sector

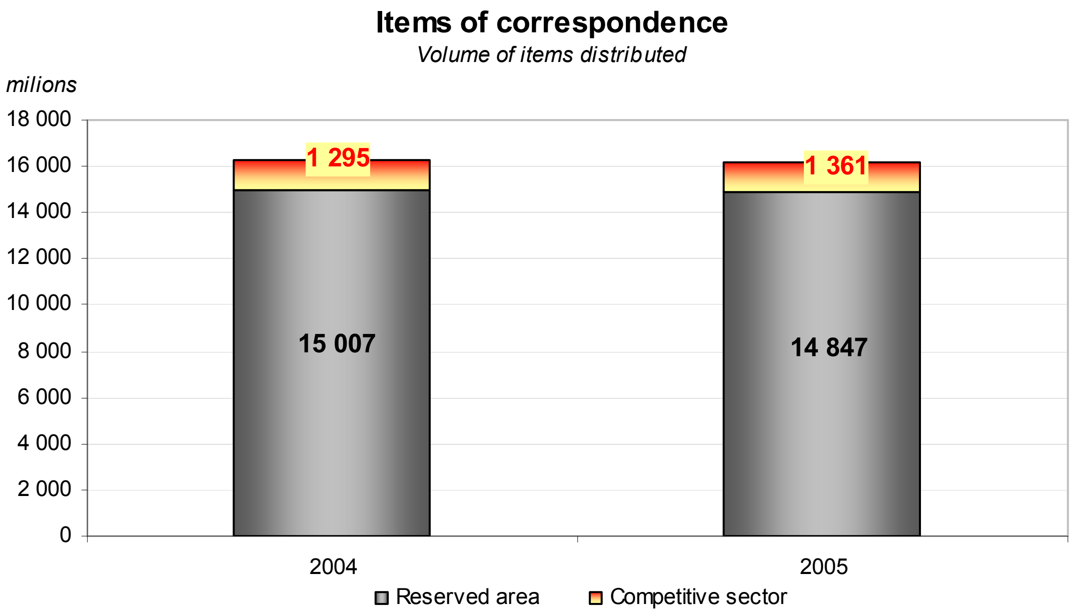
Income €million excluding VAT	2004	2005	Change
Reserved area	6 595	6 804	3,2%
Competitive sector	1 362	1 453	6,7%
ALL items of correspondence	7 956	8 257	3,8%

Volume *million*	2004	2005	Change
Reserved area	15 007	14 847	-1,1%
Competitive sector	1 295	1 361	5,1%
ALL items of correspondence	16 302	16 208	-0,6%

In 2005, over 90% of items of correspondence were distributed in France under the postal monopoly, that is, letters weighing less than 100 g. However, this share is declining (-0.5 point over 2004) with 5.1% growth of volumes distributed on the competitive sector. The annual growth rate in income of the liberalised sector (+6.7%) is twice as strong as that of the reserved area (+3.2%).

Breakdown of items of correspondence in 2005 (domestic and import)	Income	Volume
Reserved area	82,4%	91,6%
Competitive sector	17,6%	8,4%
ALL items of correspondence	100%	100%

The significant increase in price for single-piece mail in 2005 explains the difference in change between income and volumes, especially on the reserved area.



2.3. Industrial traffic *vs*. single-piece mail

Between 2004 and 2005, the volume of single-piece mail traffic declined with respect to industrial traffic: single-piece mail declined 5.4% in one year while industrial mail increased by 3.2%.

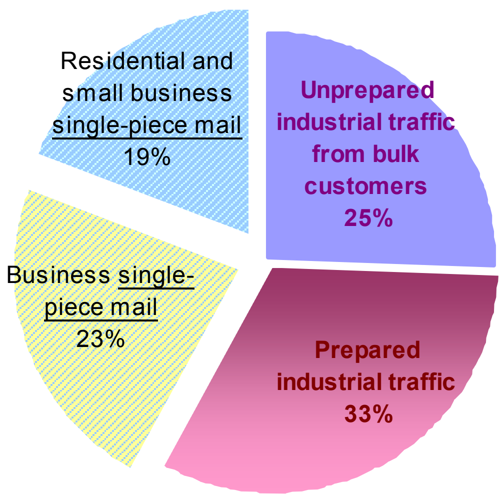
This industrialisation of mail items is even greater for firms where the total volume of single-piece mail fell by 6.9% over the year. Firms are more frequently choosing industrial offers, which are cheaper than single-piece mail.

Breakdown of items of correspondence (domestic and import)

Volume *million*	2004	2005	Change
Industrial traffic (bulk>400 items) :	**9 112**	**9 407**	**3,2%**
Unprepared industrial traffic from bulk customers		4 132	
Prepared industrial traffic		5 275	
Single-piece traffic dropped off at the distribution operator	**7 190**	**6 801**	**-5,4%**
Single-piece business mail	3 946	3 673	-6,9%
Single-piece residential and small business mail	3 244	3 128	-3,6%
Total items of correspondence distributed in France	**16 302**	**16 208**	**-0,6%**

In 2005, single-piece mail represented 42% of items of correspondence compared with 44% in 2004. Most often, bulk customers choose to use a mail preparation firm to process their bulk mail. Over half of all industrial mail is prepared (cf. chapter 8).

Breakdown of items of correspondence in 2005
(domestic and import)



3. Registered and insured mail: The domestic and import market

Income rose 5.2% in 2005, although volumes of registered and insured mail remained stable. This change reflects a price increase in 2005 but also a structure effect.

From a pricing viewpoint, the March 2005 price increase for single-piece mail caused a *de facto* rate increase for registered letters because the price for single-piece mail is one of the three components of the price of registered letters, the other two being the registration fee and the acknowledgement of receipt.

The second element concerns parcels delivered against signature which saw growth of over 10% between 2004 and 2005 in both volume and value. Since prices for parcels are higher, total income for registered and insured mail grew more quickly than volume.

Income *€million excluding VAT*	2004	2005	Change
Registered and insured letters and parcels	1 153	1 213	5,2%

Volume *million*	2004	2005	Change
Registered and insured letters and parcels	251	252	0,6%

4. Export

The export segment is open to competition on all weight brackets. Most operators are subsidiaries of European postal operators (Belgian Post, Deutsche Post Global Mail, IMX, Royal Mail, Spring and Swiss Post). In 2005, this market represented close to 550 million items.

Between 2004 and 2005 the export items of correspondence market declined 2.0% in volume.

Export traffic including ABC volumes (France is country B)

Volume *million*	2004	2005	Change
Correspondence (letters and addressed direct mail)	533	523	-2,0%
Publications		19	
Parcels		7	
TOTAL export		549	

This evaluation is exhaustive for items of correspondence. However, publication and parcel volumes reflect only the activity of the operators surveyed.

The income of the operators surveyed for export traffic totalled €591 million in 2005, distributed as follows:

- €499 million for items of correspondence
- €17 million for publications
- €74 million for parcels

In 2005, ABC traffic, with France as country B, represented about 10% of export traffic for items of correspondence.

ABC traffic originates in country A, is posted in country B—in this case France—and is distributed in country C. Franking is done in country B.

5. Parcels

The parcel segment is defined by a single-parcel offer for items weighing less than 30 kg. Today, the main activity concerns exchanges between businesses and consumers (B to C), but the increase in the popularity of web sites like eBay where individuals sell items offers development prospects on exchanges between consumers. The major players on this market are Coliposte, a subsidiary of La Poste, and mail order companies. As the universal service provider, Coliposte is required to serve the entire country[5]. Mail order players are both Coliposte's biggest customers and its main competitors. Some have developed their own home delivery distribution networks (Distrihome, Sogep and Mondial Relay) or drop-off points (Alvéol, Kiala).

The year 2005 saw growth on the parcel sector with 2.6% growth in income and 2.8% in volume. The growth in the number of parcels can be explained by the growth in e-commerce. According to figures published by FEVAD[6] and ACSEL[7], parcel shipping from merchant sites almost doubled in two years. They saw 40% growth between December 2004 and December 2005.

Income *€million excluding VAT*	2004	2005	Change
Parcels	1 396	1 433	2,6%

Volume *million*	2004	2005	Change
Parcels	345	355	2,8%

[5] Its obligation covers parcels at counter weighing less than 20 kg.
[6] http://www.fevad.com/library/documents/337.pdf
[7] ACSEL: Association pour le Commerce et les Services En Ligne, *Baromètre E-commerce de l'ACSEL, 4[ème] trimestre 2005 et bilan annuel*, published 12 January 2006, http://acsel.asso.fr/communiques/communiques.asp?ref=53

6. Express

With the increase in the numbers and types of services proposed on the parcel segment (such as parcel tracking), the boundary with the light parcel express market (<30 kg) is sometimes blurred. The light parcel express market offers guaranteed delivery times and door-to-door delivery, against higher prices.

In its "*messagerie*"[8] survey, the ministry of transportation, equipment, tourism and the sea, presents major market indicators for courier and express delivery. The express market is divided between two offers: postal item and light parcel offers for items weighing less than 30 kg and all weight offers.

According to the ministry's survey, light parcel express activity grew 4.7% in 2005 over 2004 on the domestic market, both in the number of items and in sales. This market is estimated at €1.4 billion for slightly fewer than 200 million parcels. Major players on the domestic express postal item and light parcel market are Chronopost International, Exapaq, GLS (General Logistics Systems) and TNT Express. Shipping companies such as Ciblex, DHL Express, Fedex and UPS are also present, although they focus primarily on international shipping (import and export).

As for the domestic and import markets, according to a UFEX estimate, the volume of items distributed express in France on the light parcel segment represented about 260 million items, for sales of about €2 billion in 2004.

On all markets, domestic, import and export, total income from the express activity in France is about €3 billion annually for the light parcels segment, according to the 2004 INSEE annual survey.

[8] Courier survey, SESP, Ministry of transportation, equipment, tourism and the sea, http://www.statistiques.equipement.gouv.fr/article.php3?id_article=156

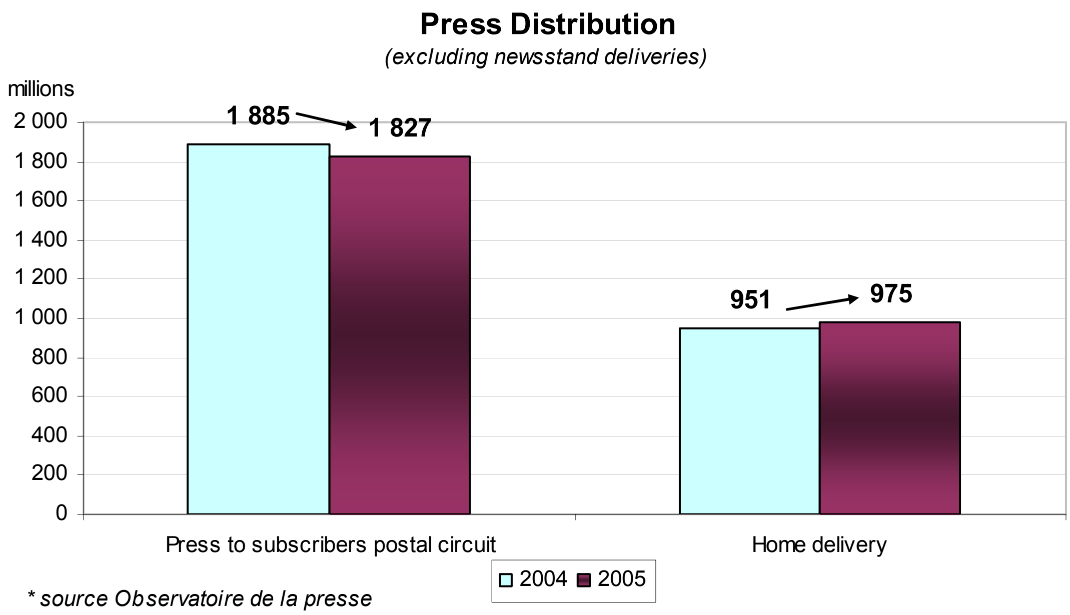
7. Publications distribution

Paid publications are distributed in France via three channels: the postal circuit, home delivery and the newsstand network via *Nouvelles Messageries de la presse parisienne* (NMPP) and *Messageries Lyonnaises de Presse* (MLP). The annual Observatory survey covers only delivery via the postal circuit and home delivery.

Distribution via the postal circuit has declined 3.1%. However, according to figures from *Observatoire de la Presse*[9], home delivery saw a 2.5% increase in volume in 2005. Publication publishers are choosing higher-value distribution because home delivery makes it possible to meet demands for drop-off times and more individualised distribution.

Volume *million*	2004	2005	Change
Postal circuit	1 885	1 827	-3,1%
Home delivery*	951	975	2,5%
Subscriber publication distribution	2 836	2 802	-1,2%

**source : Observatoire de la Presse*



According to information published by *Direction Des Médias* (DDM)[10], publication distribution is uncommon for paid publications; home delivery represents just 8% of delivery for the national general and political press. However, this practice is more common for the local general and political press, where 35% of copies are delivered to homes.
In 2005, La Poste's income from the distribution of publications was €734 million, of which €242 million was subsidised by the State.

[9] Observatoire de la Presse, Office de Justification de la Diffusion, 16ème édition.
[10] *Tableaux statistiques de la Publication*, édition 2006, Direction du Développement des Médias, La Documentation Française, 2006.

8. The unaddressed direct mail market

The unaddressed direct mail market is dominated by two major operators: Mediapost and Adrexo. This market also includes over one hundred small local operators.

In 2005, this market remained stable in terms of volume with 18.6 billions items distributed. On the other hand, operator income rose strongly, with 6.5% annual growth.

We have also observed a consolidation of the sector with the Adrexo and Kicible merger (S3G group) in February 2006. A new entity, "Adrexo Sud-Ouest", now includes 36 Adrexo centres and 29 Kicible centres in the region.

Income €million excluding VAT	2004	2005	Change
Unaddressed direct mail	593	631	6,5%

Volume *million*	2004	2005	Change
Unaddressed direct mail	18 590	18 595	0,0%

Unaddressed direct mail is not considered a postal item because it does not contain any personal references (address or name). However, the distribution of direct mail is targeted by geographical area. So, the commerce sector and especially distribution sector use this method for promotional campaigns in areas around their stores.

The growth in 2005 income with stable volumes results from increase in price.

9. Mail preparation

Upstream of distribution, mail preparation is the activity where bulk mail is prepared prior to being handed over to a postal services operator. Mail preparation firms generally perform three major pre-postage operations: making up, sorting and franking.

Making up includes assembly, finishing (cutting and folding), addressing, enveloping or plastic wrapping and parcelling. Sorting is the second largest activity of mail preparation firms and includes grouping printed matter, newspapers, flyers and brochures in bundles and mail bags by destination for delivery to La Poste. Last, mail preparation often includes a franking stage, where the stamp value is printed according to the product category and rate.

Because of the technological changes which require increasingly large investments, operators are tending to merge and now a small number of players shares most of the market.

This market can be divided into three major activities based on the type of product sent: publication preparation, addressed direct mail preparation (also called direct marketing) and the business correspondence preparation. According to a study by the Xerfi firm on mail preparation published in 2006[11], publication mail preparation, which requires very short delivery times, represented about 30% of all press distribution in France. Direct mail preparation includes the wrappering and sorting of messages, catalogues, sales offers, prospecting letters and parcels. Last, business correspondence preparation includes finishing, enveloping and addressing of printed matter from banks, insurance companies or government offices (pension, taxes, etc.).

In 2005, close to 5.3 billion items were prepared by mail preparation firms, or 56% of all industrial mail. For similar traffic volumes, just one-third of business correspondence is prepared, compared with about 80% of addressed direct mail. In all, about 71% of all mail preparation of items of correspondence is for addressed direct mail.

Breakdown of items of correspondence prepared in 2005 *Volume*	Million of items	%
Prepared items of correspondence	5275	100%
o/w business correspondence	1516	29%
o/w addressed direct mail	3759	71%

About 15 players share the majority of the business correspondence preparation market. Income for these service providers represented about €265 million in 2005 (excluding franking). The vast majority of this income (81%) comes from desktop publishing which includes processing, editing and printing documents before enveloping them. The remaining 19% comes from digitisation, archiving and e-business.

Mail preparation firms (especially direct marketing mail preparation firms) are diversifying their activities more and more as they seek new sources of profits. Their activities are moving further and further upstream to address processing and customised envelope printing, or

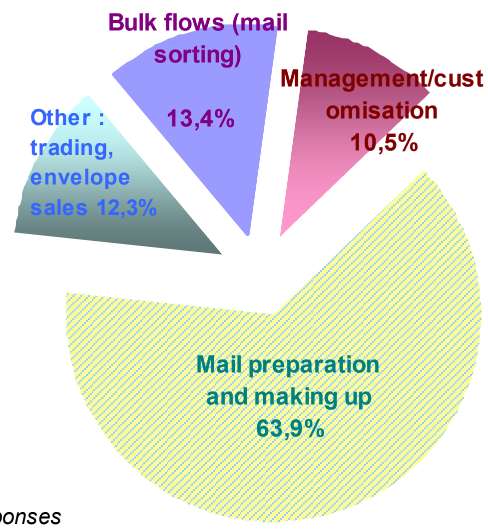
[11] *"Routage", Analyse de marché – Prévisions 2006- Forces en Présence*, Xerfi, January 2006.

downstream to logistical services for mail order sales and fulfilment (order preparation, complaint and return management, or even call centres).

In 2005, 63.9% of addressed direct mail preparation firms' income came from mail preparation, 13.4% from bulk flows, 12.3% from activities such as trading, envelope sales, etc. and 10.5% from file management or custom shipping.

Breakdown of mail preparation firm income for addressed direct mail*

(2005)



**Based on survey responses*

SOURCES

<u>ARCEP Observatory</u>

- Correspondence market:

Data is taken from ARCEP's statistical survey of postal service operators. This survey is mandatory for all authorised operators under Article L.135 of the *Post and Electronic Communications Code*: "Autorité de régulation des communications électroniques (ARCEP) may collect data and perform any information activity on the postal sector. To this end, operators holding an authorisation under Article L.3 and the postal universal service provider are required to provide it with statistical information on use, coverage area and means of access to their service".

- Mail preparation market:

Data is taken from the statistical survey conducted by ARCEP of mail preparation firms. The 2005 questionnaire was sent to just over 150 firms.

<u>List of professional organisations contacted for the 2005 survey:</u>

- *Association des Prestataires de services en Editions Multi-Média* (APEM): mail preparation market
- *Syndicat des Entreprises de Logistique de Communication Ecrite Directe* (SELCED): mail preparation market
- *Union Française de l'Express* (UFEX): express market
- *Fédération des Entreprises de Vente A Distance*: parcel market

<u>Other public sources used by the Observatory:</u>

- Ministry of transportation, equipment, tourism and the sea: courier and express market
- *Direction Des Médias* (DDM): publication distribution
- *Office de Justification de la Diffusion* (OJD): publication distribution