

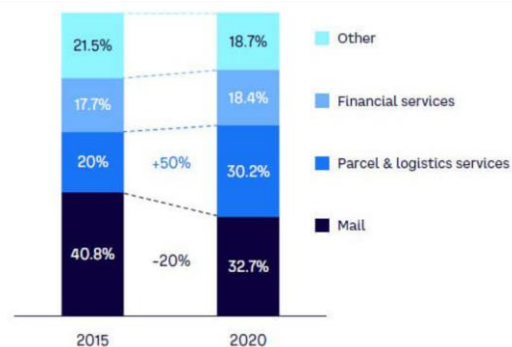
Increasing Posts Volumes through Captive Markets and Complementarity

Byron A. Ellis – June 02, 2023



[Arthur D. Little](#) noted that all postal operators are experiencing a rapid transformation of their traditional activities, marked by an accelerated decline in mail volumes due to digitalization and the rapid development of logistics and transport of parcel activities driven by the growth of e-commerce. Arthur D. Little indicated that despite the decline “...mail (including personal/business mail, advertising, and magazines/newspapers) still accounts for a major share of the activity of posts — and is still higher than parcel and logistics activities in many countries.”

The graph below shows the Universal Postal Union (UPU) average Post revenue breakdown. It shows that in 2020, mail generated 33 percent of revenue, and parcel and logistics services only 30 percent.



Most postal operators failed to recognize that they are well-suited to exploit the economic strategy of captive markets and complementarity.

[Hitesh Bhasin](#) (2018) noted that a captive market is like a monopoly market because “...consumers have little choices in front of them and end up taking the product from the one and only seller; thereby being a part of the artificial monopoly.” In a captive market, the supplier controls the supply of specific goods, such as e-commerce packages.

Complements are products or services jointly consumed by customers to satisfy a particular need. Complementary products include razors and razor blades, printers and ink cartridges, cars and gasoline, burgers and burger buns, toothbrushes and toothpaste, and so on.

In the e-commerce world, the products purchased from the marketplace website and their shipment are complementary, they are sold together. Thus, demand for the e-commerce product translates into the demand for package shipment by couriers.

When postal operators do not have an e-commerce marketplace where they sell and ship goods to customers, they will have to compete on pricing and service to gain the right to ship e-commerce packages. On the other hand, if a postal operator has an e-commerce marketplace, it will have a captive supply of packages in the postal network.

Amazon Logistics increased its package shipment volumes through the strategy of a captive market and complementary service from the Amazon e-commerce marketplace. Thus, it has a captive supply of packages emanating from the Amazon e-commerce marketplace, the logistics and marketplace are vertically integrated.

As a result, Amazon Logistics enterprise has grown significantly since 2016. The graph below from [Max Garland](#) shows Amazon Logistics' growth and its competitors' declining trends.

Amazon's market share grows to rival top carriers

Market share of U.S. parcel volume, 2014 to 2021

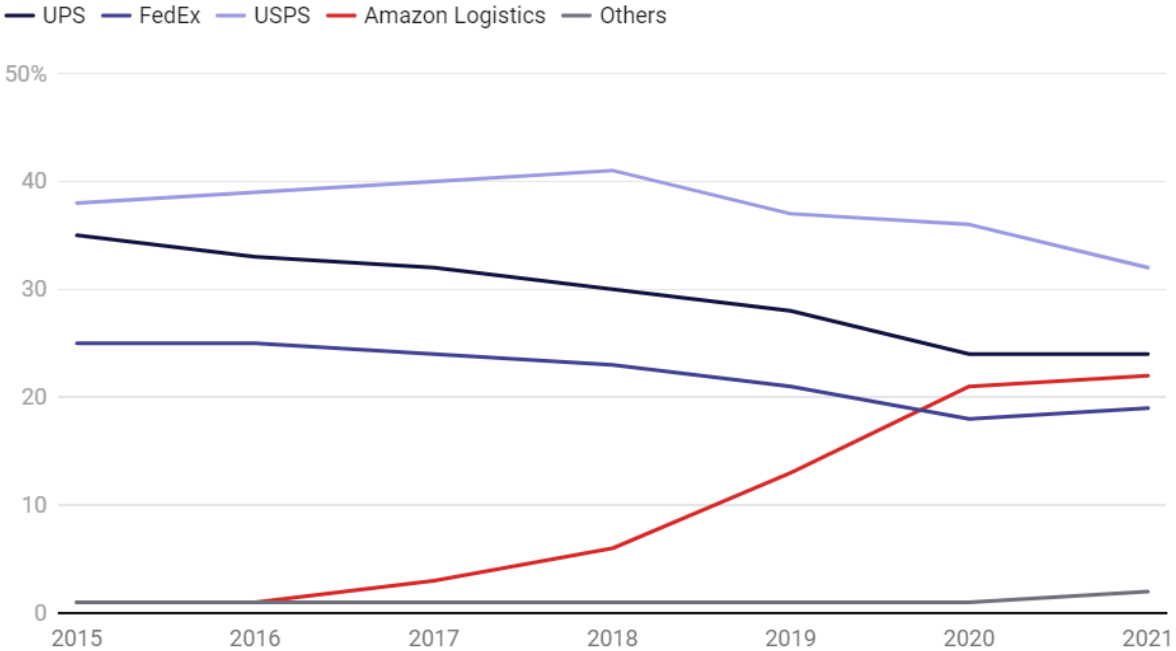


Chart: Max Garland / Supply Chain Dive • Source: Pitney Bowes Parcel Shipping Index • [Get the data](#) • Created with [Datawrapper](#)

As noted by [The Guardian](#), online products are available at discounted prices and shipped to the customer's doorstep. Postal operators can, and should, mimic Amazon by setting up an online marketplace, clawing back volumes lost, and becoming essential to e-commerce merchants.

Additionally, postal operators should consider exploiting the strategic concept of complementarity and captive markets in the international and domestic e-commerce and shipping markets.

However, postal operators must be cognizant of their pricing strategies and must thrive for effective and cost-minimizing maintenance and operational processes. If the volume of e-commerce products sold by the postal operator is "v" and its price is "p," including the shipping price, any significant increase in "p" will cause "v" to decrease. Therefore, it is paramount that the e-commerce platform accommodates the largest number of sellers to allow customer substitution of expensive products.

An expansion in the output of an e-commerce platform due to competitive prices (many sellers and buyers/lower prices) will increase volume and revenue. That is, as the sales of international and domestic e-commerce goods rise on the postal operator's e-commerce platform, it will have a positive effect on revenue. It will also put pressure on operational reliability.

Therefore, the postal operator must ensure maintenance and operational reliability by conducting reliability-centered maintenance (RCM) to develop effective preventive maintenance (PM) programs and operational process analysis to ensure expeditious legs 1, 2, and 3 deliveries.

The RCM is a logical, structured framework for determining the optimum mix of applicable and effective maintenance activities needed to sustain the operational reliability of systems and equipment while ensuring their safe and economical operation and support. It must also ensure continuous process analysis where cross-functional teams analyze the process from the mail/package entry point to the delivery point eliminating defects and non-value-added tasks.

The Postal Operator's Council (POC) Plenary of the Universal Postal Union (UPU) approved on October 2014 Version 1.0 of the E-Commerce Guide. The UPU E-Commerce Guide is a set of practical recommendations for UPU members to consider in the development of their e-commerce capabilities and services for domestic, regional, and cross-border markets.

In 2016 [Reuters' Ian Kerr](#) wrote an article entitled "Five Ways Postal Operations Can Profit from E-Commerce," one way was "Postal operators can help small producers and retailers start selling online, and in the process make commissions on sales while growing parcel volumes."

However, few postal operators have tried or succeeded in setting up an e-commerce postal marketplace where they can exploit captive markets and the economic strategy of complementarity. The UPU highlighted all the e-commerce key elements in Boosting e-commerce: a how-to guide for postal operators, Version 2.0. They published the latest UPU E-commerce Guide in 2021.

How would a postal operator's e-commerce marketplace work?

It would work like any other e-commerce marketplace, such as Amazon or eBay, featuring products from a large array of domestic and international sellers with an international website, with advertisements in targeted foreign countries, as well as partnerships with foreign posts.

International and domestic customers would be able to buy domestic and international products from the postal operator's e-commerce marketplace website and all purchases would be shipped through the postal network. Thus, increasing inbound, outbound, and domestic volumes.

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