

Annexe

2.4 Major features of the new age transnational network services

All told so far, we can summarize key transformations affecting the dual structure as evidenced by the internationalization and diversification strategies of postal and other transport and logistics firms considered so far. **Internationalization strategies** determine the geographic spread of new age network service providers. **Diversification strategies** determine the scope of services offered by transnational service providers. In order to specify the **variety of strategies**, we need to consider the two dimensions separately first in an effort to establish the new age diversity more precisely. We can move on then to combine the results in a second steps to complete this preliminary effort by way of highlighting the most important strategies that can be observed at this point.

A) Geographic Spread of new age network service providers

In addition to traditional **national** strategies of post offices under the Universal Postal Union umbrella we can discern **regional** cross country strategies (cooperative or stand alone), continental cross country strategies (cooperative or stand alone), and cross-continental / global strategies (again cooperative or stand alone). These are **ideal type strategies**, which are different from the **real types** post offices and corporations employ. The real types employed by post offices and other corporations involve a **greater variety of mixed strategies** (e.g. stand alone continental and cooperative global).

B) Scope of services offered by new age network service providers

In addition to traditional **postal** services we can discern **express** services (mail and parcel), other **transportation** services, both postal and transport related and unrelated extended **logistics** (including communication) services as well as **financial** and **retail** services. The latter have traditionally played a considerable role in postal services, but have also been subject to innovation and diversification. To simplify things we can distinguish between four stylized (ideal type) strategies **focused on postal network services (including financial, retail), focused on express network services, comprehensive transport network services,** and more or less comprehensive **related as well as unrelated logistics services**. Again, the real types to be found in the existing world provides us with a great variety of mixed strategies employed by post offices and corporations (e.g. combining focused postal services in one country with express services in some countries, and more or less comprehensive transport and related logistics services in yet other countries).

If the ideal type strategies with regard to the geographic spread and the scope of services are combined, the resulting variety of new age transnational network services is already quite complex, but it allows us to sort out the mind boggling variety of real type strategies employed by the new age transnational network service providers. The following table combines the stylized ideal type services to this end. We can position the real type strategies of post offices and competitors in the following table within a two-dimensional matrix, which allows to reduce (and hopefully better comprehend) the great variety and complexity of individual firm strategies.

Table 1: “New Age” Network Service Matrix

Spread Scope	National coop – single		Regional coop – single		Continental coop – single		“Global” coop – single	
Postal								
Express								

Transport								
Logistics								

The following table represents a consolidated version of the above matrix, which has been developed in order to demarcate the most important differences between the leading providers of new age network services considered in this paper. Looking at the most advanced network service providers it turned out to be important to distinguish between more and less confined wide area network services, and between more and less focused strategies in terms of the different (postal, express, freight, logistics) services. The resulting variety among the leading firms can be consolidated in the following four field matrix.

Table 2: Typology of “new age” transnational (postal) network service corporations

Spread Scope	Continental	“Global”
Network core plus	FedEx (North America) La Poste (Europe) Royal Mail (Europe)	DPWN UPS
Network core		TPG (since divestment of logistics services) FedEx

This typology is somewhat superficial in many ways, because certain post offices and transport corporations can be “global” in some service markets, world regional in other service markets, and still national in (reserved) markets, for example. FedEx has been listed twice to provide an example for a corporation, which is much more focused in terms of its operations outside the U.S. than at home. This has been a result of the failure of FedEx to develop a diversified service network in Europe in the past, but recently FedEx has started to expand within Europe again. Due to the cooperation between La Poste and TPG in the international express market, for example, world regional (or domestic) actors like the French Geopost subsidiary of La Poste can also gain access to “global” transnational service networks. Significant differences in terms of the strategies employed in the above representation thus refer to ownership, and not to the services. The most significant difference, which has recently emerged, refers to the provision of extended logistics services. The leading companies and most confined network service operators have moved into related logistics services. Only TNT Post Group has decided to get out of this business, and concentrate fully on postal and express network service provision. However, this still includes extended postal services along the postal value chain. Much like many other postal firms TNT Post Group offers “third party” postal services closely related to their postal core business (printing, enveloping, stamping activities etc.), which can and have been outsourced by private firms and public administrations). Nevertheless, the divestment of a large part of the logistics business sets TNT Post Group apart. According to the shareholder value principles adopted by TNT Post Group, the profit margins in diversified logistics services are too low to meet expectations. DPWN and UPS as well as FedEx in North America seem to still be

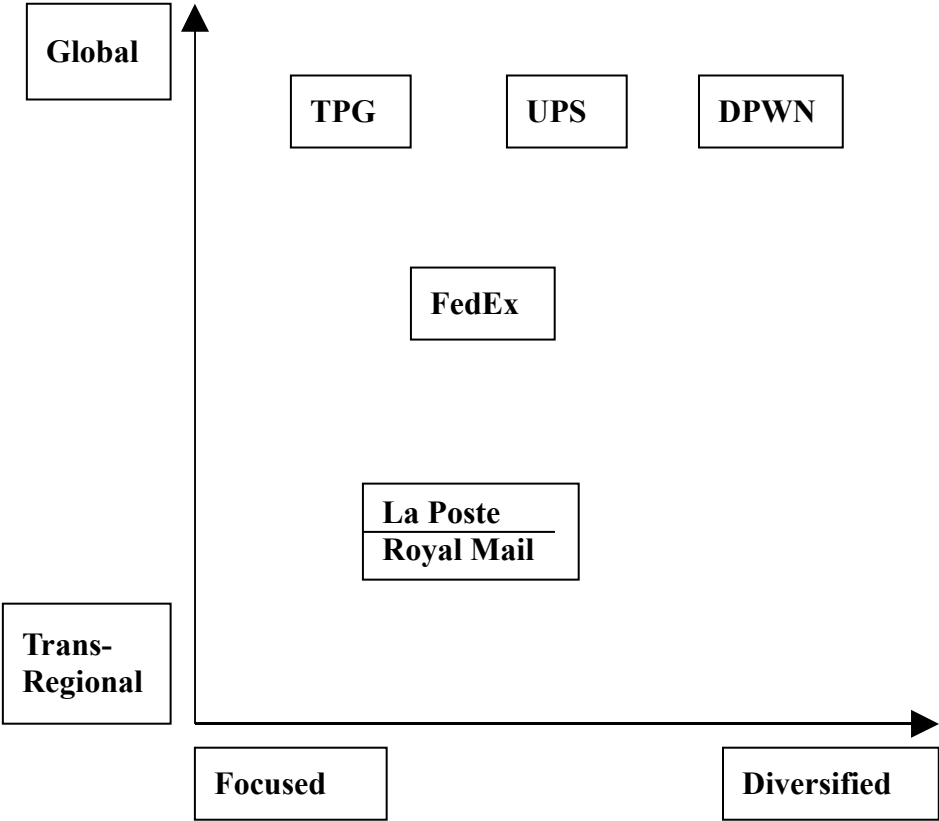
convinced that their network services benefit from the provision of diversified logistics services.

Regardless of this most recent divergence it is extremely important to keep in mind important differences between the “new age” customer services, and the “old age” citizen services provided by the post office: the former are far more selective (ultimately according to profitability) than the latter, which still aim and are obligated to maintain the inclusive efficiency of the public part of the dual structure. The terms “continental” and “global” therefore need to be read with a grain of salt. Many of the customer services are not available in many locations and not to all customers alike. Terms like “continental” and “global” certainly misrepresent the true character of the transnational services provided by the new age corporations. *Selectivity* plays a tremendous role:

- With regard to the (transnational) network services (collecting, processing, delivering standardized items like mail and parcels). The central question here relates to the (transnational) network density, which in turn is important to understand the geographic reach and its flip side, the degree of selectivity both in terms of access of “customers”, and accessibility of receivers (networks have holes).
- With regard to the range of services offered. The central question here relates to the extent to which suppliers are, or aim to become comprehensive “first tier” suppliers of services in the widest range of postal and transport markets.

Another way to represent the diversity of transnational networking strategies can be accomplished by way of positioning firms on a two-dimensional coordinate plane defined by a geographic reach (transnationalization) axis and a service (diversification) axis.

Graph 1: “New Age” Transnational Service Coordinate Plane



There is no claim to precision with regard to this graphical representation of the different post offices and corporations either, which would require a precise way to measure the degrees of diversification and transnationalization. It might be an interesting project to develop a diversification and transnationalization index for transnational network service operators, which would allow both customers and citizens to assess the comprehensiveness (or selectiveness) of the firms from which they can (or want to) choose. A correlation of the index value and the profitability value of each company might yield interesting results in terms of the link between selectivity and profitability of new age network service providers. In terms of the core of the historical postal service, such an index would also reveal the extent to which the historical cooperation of national post offices remains unmatched by so-called “global corporations”. It is clear, however, that the globalizing corporations continue to be relentless in their efforts to penetrate markets deemed profitable or otherwise interesting, among which the markets in China and India presently stand out. The following list of most recent mergers and acquisitions provides for a quick overview over most recent major mergers and acquisitions of leading firms.

Major Mergers and Acquisitions, divestment and joint ventures in postal and transport network services (2005-2007)

- a) Major postal/express corporations:
- **Deutsche Post (D)**: **Exel (UK)**, €5,5 Mrd., **Worldnet (D)** 120.000 employees, **Q uelle-Karstadt Logistik (D)**, €200 Mio., **Blue Dart Express (India)**, **Servientrega (Colombia)**, plans announced, **PPL (Czech Republic)**, express **DHL partnerships: Transmile (intra-Asian and Inter-Continental Air)**, **Polar Air (US)**, **Lufthansa Cargo**, (pending agreement);
 - **TNT-Post Group (the Netherlands)**: **Expresso Mercúrio S.A. (Brazil)**, the market leader in the domestic express market, 6000 employees, **COSCO (China)**, Joint Venture, **Hoau Group (China)**, 12.000 employees, **international express service for GeoPost (La Poste)**, **Speedage Express Cargo (India)**, 2500 employees, **Overnite Express (US)** pending agreement, **Spring**, joint venture Royal Mail and Singapore Post, **TG+ (Spain)**, express, **ISH Nocni Expres (Czech Republic)** [Divestment: **TNT logistics subsidiaries €1,48 Mrd. an Apollo Management.**]
 - **FedEx (US)**: **Watkins LTL (US)**, US\$780 Mio., less than truckload; **ANC Holdings Ltd. (UK)** for \$234 million, express, 2.400 employees; **Prakash Airfreight (India)** for \$30 million, searches opportunities in Europe (rumors about interest in TNT), **DTW domestic express network (China)**, US\$400 Mio., express, 6,000 employees.
 - **UPS (US)**: **Sinotrans (China)**, **Lynx Express (UK)**, £55.5 million, **Menlo Logistics (US)**, US\$200 Mio.; Partnership: Jet Air in India (where it plans to set up 150 UPS stores until 2010),
 - **La Poste (logistics subsidiary Geodis)**: TNT freight management business for \$589.3 million (former Wilson Logistics acquired in 2004 for €255 million).
- b) Other transport/logistics corporations
- **ProLogis (Real Estate): Catellus Development Corporation**, US\$5.5 Mrd. (world's largest logistics real estate network *North America, Europe and Asia*);
 - **Deutsche Bahn (D): Bax Global (US)**, ca.€1 Mrd. Euro;
 - **ABX LOGISTICS (Belgium)**: joint venture **Penske Logistics (US)**;
 - **Yellow Roadway Corp (US): USF (US)**, US\$1.37 Mrd.;
 - **Kühne & Nagel (Switzerland): ACR Logistics (US)** für €500 Mio.;
 - **DFDS (Denmark): Josef Konz GmbH & Co KG** (ninth SME company within six months, Europe *network*);
 - **Kerry Logistics (Hong Kong)**, 5,800 employees: joint venture **Wincanton (UK)**, 30,000 employees.

Most recent mergers and acquisitions provide us with some important information with regard to the present stage of the transformation of the dual structure and the transnational networking strategies:

1. DPWN and TPG strategies diverge: DPWN made a huge investment in order to further diversify into the extended logistics market with the acquisition of Exel whereas TPG divested its diversified logistics services. UPS is considered a likely buyer of the former TPG firms, which would be in line with other recent UPS investments (in Menlo logistics, for example).
2. The big four continue their expansion into foreign express markets: China, India, and to a lesser extent Latin America apart from Europe and North America figure prominently in the most recent efforts of the global lead firms to increase their transnational network density in rapidly growing countries and world regions (frequently dubbed “emerging” markets). TNT seems to remain a cooperative player given the links of this corporation to major post offices (in France, UK, Singapore, and Japan). As a result of the new wave of expansions we can expect further steps of consolidation in other world regions possibly following the pattern visible in Europe.
3. Big mergers are also involving giant forwarding firms (some owned by another group of former public service monopolies, namely rail companies like Deutsche Bahn and Belgian Rail).
4. Logistics Real Estate is yet another area of the logistics business, which seems to be subject to rapidly increasing transnational corporate ownership and control.

The new age transnational networking strategies observed represent a highly *uneven development*, which is likely to further accelerate in the future if the reserved market share of public post offices is shrinking due to regulatory reform and commercial competition. So far very few of the “new age” transnational network service providers earn 10 percent or more of their revenue in foreign markets. Only TNT Post Group (about 60 percent) and Deutsche Post World Net (not quite 50 percent) owe highly significant shares of their revenue to their internationalization strategies. Likewise so far very few of the “new age” transnational network service providers earn a highly significant share of their revenue in other than their traditional (postal or express) markets. Most post offices still depend to 60 and more percent on revenue earned in the market for letters alone. Only DPWN (about 70 percent) and TNT Post Group (somewhat less than 70 percent) already earn more than two thirds of their revenue from other activities (see wik consult 2006, figures for 2004). The faster the presently reserved universal service markets will be allowed to shrink, however, the quicker this picture is likely to change because both global and local competitors are eager to grab a larger piece of this market as soon as this is legally possible.