

**Restructuring of the Postal Sector in Brazil in Response to the Changing
World Economy**

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Edson Luiz de Oliveira – Fall' 2000

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1. Introduction

A true wave of global transformations is occurring in diverse fields of the worldwide economy as a result of strong competition and vertiginous technological development, phenomena that also reach the worldwide Postal Sector.

Technological advances have brought alternatives to the postal service such as e-mail and fax. However, there are great opportunities for the Post to undertake physical deliveries of orders mainly due to electronic commerce. The future of the postal service depends on its adaptation to this competitive context that also involves the aggregation of new differentials and services, such as the financial services that the post office can offer.

Today, in Brazil, the postal sector is at the threshold of a great change: the proposal of the new General Law of the National System of Postal Service is being analyzed in the National Congress. It delineate the aspects that relate to the so-called “governmental operator”, the Brazilian Enterprise of Post and Telegraphs that will be renamed **Correios do Brasil S.A.** (Post of Brazil).

Globally, the postal service was initially only an obligation of the State, aiming at providing the universalization of basic services to the population. To guarantee

the necessary features of the postal service, countries assured to their operators the monopoly of services, which allowed that income-producing activities subsidized the system. In return, the postal service would have to take care of all the localities, even the smaller ones that did not engender a profit. Later, other services were added that guaranteed more features that better served the desires of the customer.

Today, the worldwide context is very different because society no longer accepts state monopoly. The official companies of the postal service will have to keep their markets through competence. In several countries, the monopoly already ceases to exist, or is restricted to a small part of the postal service. And, in Brazil, the monopoly will only exist for a maximum period of 5 to 10 years.

With the new law, the private sector could be proprietor of part of the postal company, which will continue under federal control, but certainly with a lighter administrative machine and more autonomy to reach maximum results in such a competitive world.

Also the National Agency of Postal Service will be created in Brazil, a governmental organ that will regulate and inspects all the system, examples which already exist with the sectors of telecommunications, oil and electric energy.

This study of what is occurring and what is more representative in several countries, together with the study the Proposal of Law in the National Congress, is interesting and imperative in order to have a better idea of the future that

awaits the postal sector in Brazil. Actually, now there is great opportunity to present the issue about restructuring of the postal service in Brazil.

2. Brief history and data of current Postal Service in Brazil

Brazilian Enterprise of Post and Telegraph – ECT – has been a very successful company, which started on March 20, 1969. Using the common language of the Sector, it can be simply referred to as Brazilian Post.

Before, the postal service was one direct organ of the government – as Department of Post and Telegraphs – DCT – with an archaic structure, which functioned very badly. It was common for people to ask for forgiveness using the postal service as a white lie. When they forgot to send telegrams of birthdays, compliments or marriage, they could say, “I ordered the telegram, but it seems that the postal service didn’t deliver it!” General distrust concerning the post offices in the 60s was very great.

Beginning in 1997, there had been several years of much effort to reformulate the Company. First, it started to have own administration, with goals, under the Ministry of Communications’ supervision. The new employees were not civil servants anymore, but employees who needed to demonstrate performance, since they did not have job tenure.

In the early 1970’s, a consultants from the French Post, at that time the most advanced postal service in the world, greatly contributed to the organizational

restructuring.

There was the creation of an undergraduate course in conjunction with the ***Pontifice Universidade Catolica - PUC***, in Rio de Janeiro, that started to form its own set of Postal Administrators. The course was transferred in 1978 to Brasilia, with creation of *ESAP – Escola Superior de Administracao Postal* (Superior School of Postal Administration) which graduated 1,300 Postal High-Level Managers from 1974 to 1998, who, in great part, had become Regional Managers and Directors, Heads of Departments, Direction and Department's Advisers, and even Directors of the Company. Some had experience in international consulting. At this college, several students from countries of South and Central America, Africa, and Middle East, attended classes. Today, the School needs to have its role rethought, adjusted to the new times. This subject will be part of the Postal University theme.

An enormous step was accomplished when the company created the Night Postal Air Network in 1974. Today, the Brazilian Post company has 35 large airplanes in service that cross the country at night, so that letters can be delivered the following day after postage among the state capitals. Today the cargo of an average of 1,100,000 pounds is transported in this network per day and it is flown 33,000 miles daily. The cost for the company is about US\$ 7 to 8 million per month!

Several years after its beginning, the company needed governmental subsidies. The last time this happened was in 1986, and for several years ECT has been

profitable.

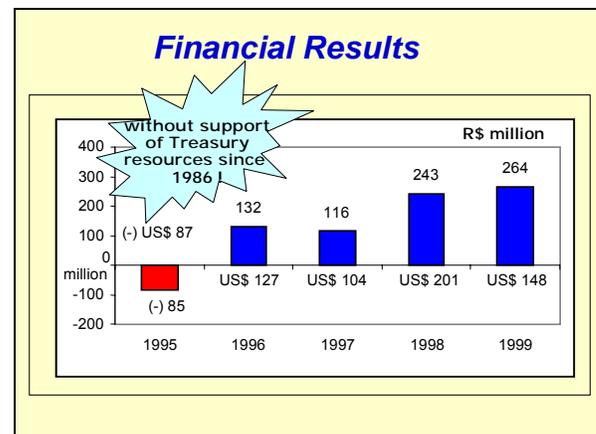
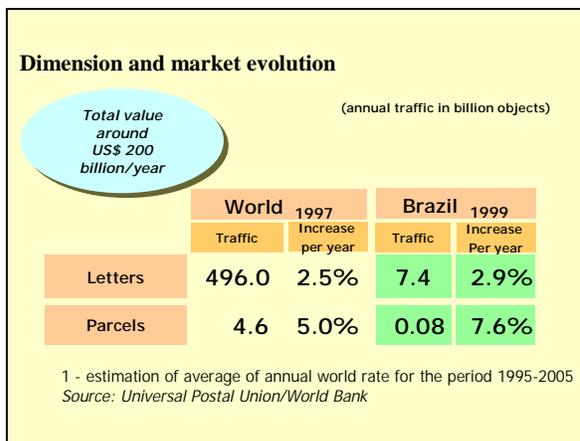
As followed, we have some data to provide a brief overview about the postal company in Brazil:

- ✓ The 12th largest postal service of the world (after USA, Japan, Germany, France, United Kingdom, Italy, Switzerland, Netherlands, China, Sweden and Canada).
- ✓ The fifth largest in revenue of all government owned companies of Brazil in 1999.
- ✓ Revenue in 1999: R\$ 3.516 billion (US\$ 1.948 billion); 31% from monopoly services and 69% from competitiveness.
- ✓ Expenses in 1999: R\$ 3.242 billion (US\$ 1.801 billion).
- ✓ Profits in 1999: R\$ 264 million (US\$ 147 million); 25% transferred to the government and the rest for investment.
- ✓ Investments in 1999: R\$ 290 million (US\$ 161 million). For 2000: R\$ 362 million (US\$ 201 million).
- ✓ 82,253 Employees (the biggest company in Brazil in number of employees).
- ✓ Plus 21,375 through outsourcing - Total: 103,628.
- ✓ 24 Regional Directories.
- ✓ 150 Operational Regions, that manages post offices and operational centers.
- ✓ Presence in 5,507 cities (every city in Brazil).
- ✓ 753 Special Centers for Distribution (for 37,000 Letter Carriers).
- ✓ 11 Special Hubs for air shipment.
- ✓ 81 Hubs for parcels sorting.

✓ Attendance:

Post Offices owned by the company:	5,342
Other Post Offices (other owners):	6,574 (*)
Post Offices (Total):	11,916
Virtual Store - Correios On Line	1
Posts of Sale of Products:	1,386
Self-service Machines:	273

(*) 1,560 Franchising Post Offices included



The quality pattern of the Brazilian Post is very high, one of the greatest in the world in terms of speed in sending letters and parcels. The basic standard is 1 day from the postage to delivery between capitals of states, 1 day between capitals to countryside cities in the same state (or vice versa), 2 days between the capitals from a state to the countryside cities in other states (or vice versa) and 3 days between countryside cities from a state to countryside cities in other states. This is amazing! And this with performance indexes upper than 94% for all mail in this stated period, and the other 6% are delivered until 1day more for almost the totality. The standard of quality is very challenging because of the

continental size of the country. Brazil is bigger than the United States less Alaska. And all this with one of the cheapest rates in the world, in average less than US\$ 0.20!

Brazilian Enterprise of Post and Telegraphs is today one of the institutions in Brazil that the population trusts more, with bigger indexes than even “family” and “firefighters”. Certainly, this result was just possible with much effort and professionalism of all involved in the process.

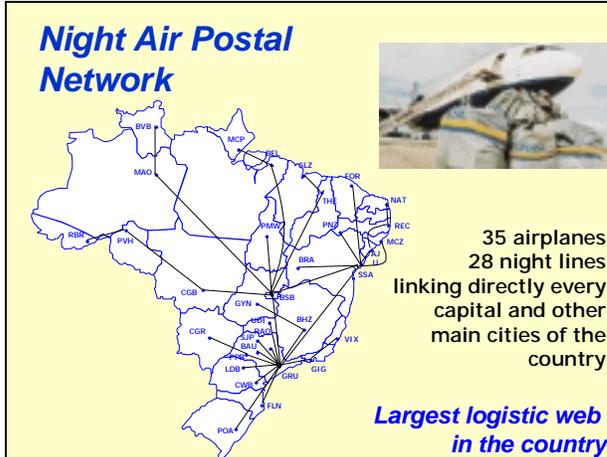
The company is also very prestigious internationally. One of its former CEOs became the General-Secretary of the Universal Postal Union (UPU), for two terms of five years each. This international agency promotes the rules and relationships among official postal service operators around the world, is founded in 1874 and linked to the United Nations. The current General-Secretary is from the USA.

But not everything is so easy. Therefore, if the company was always profitable and the postal market so simple, changes would not be necessary.

The necessity for investment is much higher than the company’s capacity with own capital or loans. For example, in the decade 1982-1991, the company built only 200 of its own post offices. But when the market for the franchising post offices opened, was possible to create about 1,700 of them only in the two following years 1993-1994, of which 1,560 exist up to now. Because of that we can say that it is vital to have partnerships in order to expand the company, since money is very scarce. For new franchising post offices, the company will wait the

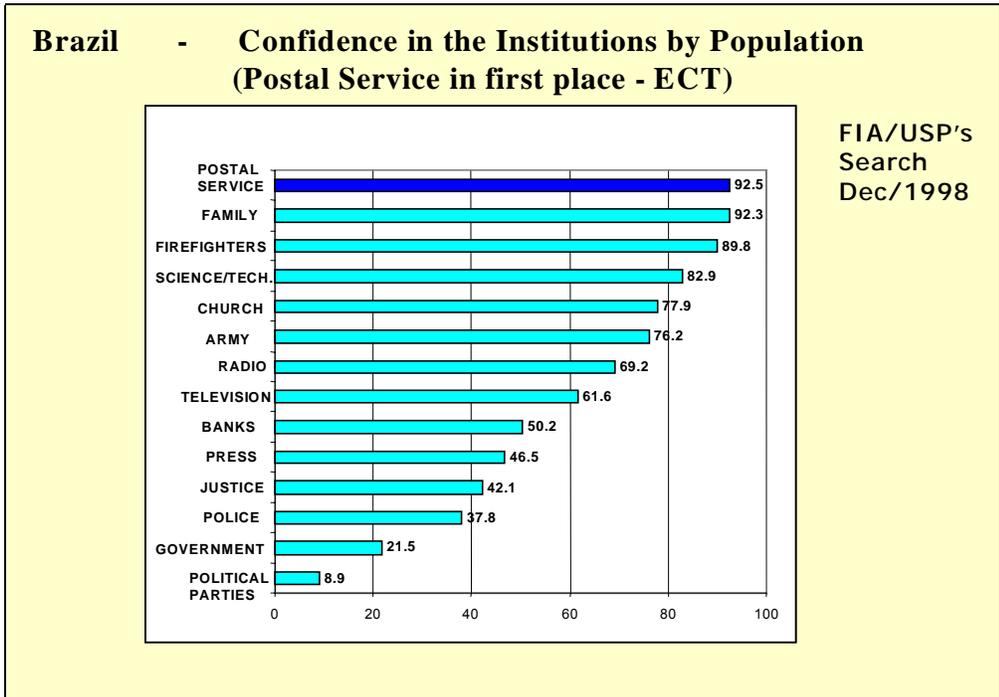
reformulation of the Law in procedure in the National Congress.

The company needs mainly to care about investments for activities that only it can do such as sorting and distribution. More about that will be discussed in another chapter.



Indicators of on-time delivery

		Capital	Countryside
Delivery Standards	Capital	D+1	D+2
	Countryside	D+2	D+3
Executed	Letter	96.0%	94.2%
	Express Parcel	99.5%	98.1%



3. Why are the changes necessary?

There are two aspects to be studied: the regulation, through a new law, and the changes in the Brazilian official operator: Brazilian Enterprise of Post and Telegraphs. Let us start with the regulation issue.

Before the current discussion, there was a Law (6538/78) enacted on 06/22/78, which ruled the postal service in Brazil up to now.

But it is anachronistic, and the economic market is not following this anymore. Why? Because it works almost exclusively about the official operator and gave it a lot of guarantees about monopoly.

After World War II and until the end of the Military Regime in Brazil, the State was very strong and could do everything without many questions. Of course, there were exceptions, but it was for almost everything: TV, radio, telecommunications, etc., as well as the postal service. For instance, if the company discovered that someone was working in the monopoly segment, they could ask the Federal Police (as the FBI in the USA) for help. The violator would be sued and the business could be closed.

Now, the freedom in the world cannot permit so interventionist behavior. More than 30% of Brazilian Post's revenues are from a monopoly that does not work and with a lot of competitors. It is just the part of the past monopoly that everybody knows will finish with the new law.

But it is necessary to have some discipline to provide good services to the

normal citizen with fair prices and in all the country. It is also necessary to protect him/her from oligopolies and absence in services in non-profitable regions.

3.1. About Regulation

According to Eisner, Worsham and Ringquist¹, regulation is any attempt by the government to control the behavior of citizens, corporations, or subgovernments. It will be used to describe an array of public policies explicitly designed to govern economic activity and its consequences at the level of industry, firm or individual unit of activity. This is the traditional economic regulation. But now there is the new social regulation. Some examples of social regulation are children's TV, movies, and environmental pollution. And sometimes we have both kinds of regulation, when social issues are linked to economic issues. When a law rules mandatory anti-pollution obligations, there is a cost, probably high, that will affect the prices of products and the company's survival.

There are five reasons to regulate:

1. To promote public interest, as in the examples: water supply, telephone, electricity, gas; but not only these, everything that is important for common interest. There was a famous case at the Supreme Court about grain elevator rates, because it affected the prices of grains, the producers' life, and in the end, to the consumers; besides that, there are others, including externalities (ex. pollution), complete information to the consumers (medicines), etc.

¹ Marc Allen Eisner, Jeff Worsham, and Evan J. Ringquist, *Contemporary Regulatory Policy*, (Boulder, CO: Lynne Rienner Publishers, 1999)

2. To prevent or compensate for market failure, as in the examples: antitrust, natural monopoly, oligopolies, subsidies, excessive competition in an inefficient market working well (ex. railroads in the USA in the past);
3. To provide demanded wealth transfers: in cases with a huge aggregated value;
4. To revert the situation in that government agencies were captured by regulated industries: when an industry is so political, economic and technological powerful that the agency follows its wills, against the public interest;
5. To rule over competition among regional political economies: as in the example of avoiding fiscal war among the states.

In the case of the postal service, we can say that the public interest will be the main reason. The monopoly will finish, at least for a great part of this service, and as there are regions and small cities that are not profitable to keep the postal service, than some compensation must exist for the operator that does this part of the service.

If the government simply opens the market, everyone will want to work in the, or for the, best commercial areas. Furthermore, anyone in the market will need to have some contractual social compromise or will have to pay for others to do this job in areas that are not profitable. It is necessary to share the market, to charge something for common benefits and guarantee that every citizen will have access

to the postal service. It is part of the citizenship, just as telephone, water, sewage, gas, and public transportation are.

In the United States, the history about regulation has been around for over a century. It started in 1890, with the Antitrust Law. After that, the Federal Reserve Bank was created in 1913, with some rules for the bank and financial market. But the most intense time for regulation was in the 1930's during the Great Depression, and it was completely an economic regulation. In order to promote progress and some tranquility for the productive process after the terrible Crisis of 1929, the government defined who would enter in the market, with what product/service, and sometimes at what price. There was also some emphasis in infrastructure: energy (oil, gas, hydroelectric, coal), transportation (railroads, trucking, airlines), telecommunications (phone, radio), and financial system (securities and banks).

But since the mid 1970's, the USA has been in the deregulation era. There were so many regulations about everything, that sometimes non-efficient companies were protected by the regulation, with expansive and insufficient service for the customers. One example of this was the case with the airlines². Because of the tight regulation since the 1930's, the airlines were in a comfortable situation. No one could share their market and the prices were very high. To get the customer from the other company, probably just one competitor for a specific line, they offered good meals and gifts. Most customers did not realize that they were

² Edgar K. Browning, and Mark A. Zupan 6th ed., Microeconomic Theory & Applications, (Addison-Wesley Longman, Inc., 1999, USA)

actually paying for the amenities, because the cost of their ticket included them.

After airlines deregulation, the market was opened for who was able to afford it, and price wars started. The prices fell by leaps and bounds. The companies needed to offer good prices with good services, with the best cost-benefit. To survive, companies like American Airlines cut every possible cost for themselves. This included labor negotiation, with lower wages and benefits for employees, best airplanes with less fuel consumption, less speed. This last one economized fuel: for example, if one pilot slowed down a 747's speed by 14 miles an hour, this would save a company US\$ 368 for a one-way trip that time). Good meals were only served in first class or executive seats. People could fly much more because the prices went down dramatically.

Sometimes regulation depends on public opinion, politicians or industry pressure. Since its beginning, Cable TV was regulated and deregulated several times.

The most common in the USA now is economic deregulation and social regulation. Since the Vietnam War, the Watergate scandal, more freedom of rights, and other situations, social issues have taken more time from politicians. If regulation decreases in the total, the government needs a smaller and less expensive administrative machine. It can save taxpayers' money, which can be used for more important issues as Medicare or to have tax rates reduced.

And now a question emerges: why should government regulate in a deregulatory

era? Eisner, Worsham and Ringquist² answered it. It is necessary to study each case with balance. Sometimes, regulation is important to further the public interest, preventing or compensating for various forms of market failure. But there can be a misuse of regulation. In this case, regulations reflect instead industry demand for wealth transfers, vote-maximizing politicians or budget-maximizing bureaucrats who acts as a means of pursuing their self-interest.

3.2. About the Company

As shown in Chapter Two, Brazilian Enterprise of Post and Telegraphs is a well managed and profitable company, considered the most respected institution by the Brazilian population.

It is important to know about the current moment in which the country is living. Most part of government owned companies in Brazil were privatized or had a large part of their stock shares sold. It is a government decision to reduce the government size in every field. The Brazilian Post is an exception as it is a very good company providing the best service with low prices for the customer. In general, the government thinks the best policy is to decrease its participation where private capital can work. Telecommunications, electricity, roads, mining, and steel were the main targets for the reduction of government participation in production process. Otherwise, the government also received with privatization resources from sales, which could diminish public debt or promote social development.

² Marc Allen Eisner, Jeff Worshall, and Evan J. Ringquist, *Contemporary Regulatory Policy*, (Boulder,

There is an issue about new investments. Any government owned company has not had enough money for investments. For the postal sector, it was foreseen that what was necessary was more than US\$ 500 million per year between 1995 and 2003 in investments. However, the company could afford or finance no more than half of this ratio. The larger competitors in Brazil and around the world are spending a lot of money to improve their services.

Independently of the necessary investments, the company can also improve its internal process, whether administrative or operational. Studies are very advanced in order to change the current focus from a solid hierarchy in the company to business units, which all need to be profitable.

4. An overview of the position of Postal Service through the World.

Worldwide society is feeling the necessity for changes in the postal service. This is a question of survival. Today, monopoly space for the postal service is greatly reduced, associated with enormous technological advance of the last years. There is the need for high quality services with competitive prices; otherwise the postal companies will not survive the competition. We will now proceed to a overview of what is occurring in several countries. It is not possible to create a single model for the official postal companies in the entire world as they update themselves in the face of the worldwide scenarios, characterized mainly by new technologies, acquisitions/mergers and the growth of globalization. Besides this,

there is the sprouting of the e-commerce. It is vital to the postal companies to obtain a good market share of this new service.

In the 22nd Congress of the Universal Postal Union (Agency linked to the United Nations) held in Beijing, China, in 1999, three macro-subsystems for discussion were established: "The Right to the Communication, Liberalization and Universal Service," "The Postal Business" and "Postal Reform." The Postal Reformatation, also, will be one of the ways to reduce the distance between member-countries.

About the European Union, the discussions over deregulation of the postal market, in the range of fifteen countries which integrate this Union (Finland, France, Greece, Italy, Ireland, Sweden, Belgium, Germany, United Kingdom, Portugal, Denmark, Low Countries, Austria and Luxembourg), still continue intensely and there has been no notice of consensus on this issue.

Nowadays, the Swede postal service is the only E.U.'s public operator that works in a totally free market, for considering the monopoly impracticable due to the number of competitors and to the technological advances. Countries as France and Great Britain are contrary to the total deregulation of the market and criticize Sweden's position, saying that its postal company has the highest prices in Europe.

According to the European Committee, the process of liberalization has now a new march. The total opening of the postal market, foreseen for 2003, will not be done on time. For 2003, the Committee is proposing to the countries to change the monopoly limits. According to this new proposal, the range of objects under

monopoly would be reduced from 350g to 50g and the value from 5 times the basic rate of a standard object, to 2.5 times this rate. Moreover, the Committee also proposes that the international export postal service still be liberalized in 2003.

4.1. Couriers

For many years, the official postal companies had faced couriers as enemies, a true threat to their survival. Today, the situation is very different. We can not ignore that one interaction with couriers can bring good fruits in many cases.

The four largest couriers of the world are FedEx, DHL, UPS and TNT. This last one was acquired by the Low Countries' postal company. The Royal Mail, postal company of Great Britain, withholds 25% of the UPS. The German Post has a branch that acts firmly in logistics, besides having bought 25% of DHL.

In survey carried through for the IPC – International Post Corporation, with 21 postal companies as members - in the European market on express services (urgent), DHL leads with 50.5% of market share. TNT is the second with 15.2%, UPS has 11.1% and Federal Express counts only 3.8%. The European postal companies have very small participation, just 5.8%. Thus, couriers must be considered with much attention.

Federal Express – FedEx - with headquarters in USA - announced that it will return to its strategy of expansion in Europe, which was abandoned in 1992, when the company decided to close several businesses in that region, in view of

extremely competitive market. The company will open a new “hub” (center of connections) in Europe, which budget is about US\$ 200 million. Moreover, the company increased the quantity of flights to that region.

Some Couriers provide logistics for large companies, functioning as a department inside of those companies. If you call to Monsanto (biotechnology company), a FedEx employee who will say “Monsanto, Good Morning”, will answer your call! FedEx collects the questions, passes to a team of Monsanto specialists, answers, sells, makes the delivery of products, and sends the bill to the customers.

In the same way, UPS provides logistics for hospital supplies, that involve since negotiations with the medicine manufacturers to the final delivery, with management of supplies. UPS has also contract with Nike – famous mark of sport products - being responsible for storage, inventory accounting and deliveries of products ordered by Nike’s customers.

TNT, in turn, provides logistics of car pieces for Fiat – an Italian automobile industry in Brazil.

DHL is very interested in the Chinese market, especially after approval of permanent normalization of commercial relations between United States and China, since exports from USA to China – that had been US\$ 14 billion in 1999 – will double by 2005. TNT has already celebrated an agreement with China for international parcels, serving to China more than 200 countries.

Other important aspect is that couriers are investing to take care of e-business in its diverse forms: B2C (Business to Consumer), B2B (Business to Business) and B2G (Business to Government).

The alliance among couriers, official logistics companies and official Posts are very interesting for international mail and logistics services (transportation of products). The following table shows the main relationships.

Couriers/ Logistics	Postal Service
Citipost Group (USA)	United Kingdom
Citymail (Sueden)	United Kingdom
Crie Group (France)	United Kingdom
Couriers Please Pty Ltd. (Australia)	New Zealand
Der Kurier (Germany)	United Kingdom
DHL (USA)	United States, China (in discussion)
DPD (Germany)	France
FedEx (USA)	France
GmbH (Germany)	Switzerland
Koç (Turkey)	Low Countries
Nederlandese Paket Dienst – NPD (Low Countries)	United Kingdom
Pakke-Tans A/S (Denmark)	United Kingdom
Selectvracht (Low Countries)	United Kingdom
TNT (Low Countries)	China, Switzerland, Singapore
Williams Group (Ireland)	United Kingdom

4.2. Austria

Less than five years ago, the Austrian postal service left the government, together with the telecommunications system and the postal savings bank, in order to become a separate entity. Just one year ago, Austrian Post became a stock company. The date of privatization of the company is not defined yet; however the controllers of Austrian Post are looking to January 2003, when European Committee (EC) will probably enact new advances towards the total liberalization of the postal market in the Europe of the 15.

The EC had not negotiated yet new parameters for the advances in the process of liberalization of the market. However, ***Osterreichische Post AG*** (Austrian Post) is preparing itself for the new challenges that the open market competition will bring. The Austrian Post has being reorganized to become more flexible and more efficient.

An ample program of training for the 31,700 employees is being implemented, US\$ 138 million is being spent to modernize the post offices and US\$ 241 million is being spent for the improvement of the distribution system, which will include installation of one sophisticated tracking system, that will permit customers to track their objects in the country and on European continent.

Austrian Post is still doing incursions in new fields, such as e-commerce, to increase the chances to offer new products and services, because of the business potential with East Europe.

4.3. Canada

Canada Post, a totally private, government owned company, is one of the most organized postal services in the world, because of a deep restructuring in the 1980's, as it occurred in Brazil in the 1970's/1980's. Moreover, a branch office (CPIL) was created, in 1990, to provide consulting to other countries and to Canada Post, which contributed greatly to its development.

Canada Post, through CPIL, has already implemented more than 100 projects in 45 countries, in 5 continents. The technology for tracking of priority objects, developed for Canada Post, was the spine of the services of consulting given by CPIL. Today, the company has already advanced to other areas and gives assistance in retail operations segment, electronic commerce and management of object delivery. Currently, the CPIL keeps work teams in Lebanon, Belgium and Guatemala. In all these countries the objective is the reconstruction of the postal services or the modernization of services.

Canada Post was one of the first to implement with ample success a network of franchise post offices. In the total, there are 19,000 points of access, and the most important, around 1,200 (500 own and 1,200 franchising), linked among them by a electronic system (ROSS: Postcard Pos System – Retail Outlet Support System).

Canada Post wants to become one of most advanced in terms of e-commerce, and has developed several products for this reason:

Epost – an electronic portal so that people can receive and pay all their bills and also ask for the issuance of documents, such as passports.

Eparcel – options of parcels for virtual stores, headquartered in the portal of Canada Post.

PosteCS – developed together with the postal services of France and the United States, it is a service of exchange of messages or electronic documents in a safe environment that provides the confirmation of delivery to the addressee, as well as the origin of the document. The costs of sending are much cheaper compared to options such as fax and couriers.

e-SOM - (e-Statement of Mailing) – software that provides documents of postage through the Internet. It optimizes packings, and notifies the operational center that will receive the parcels. Canada Post is assembling a special structure of delivery of merchandises requested through e-commerce, with ampler schedules during the week and on Saturdays. This experience is being done first in the Great Toronto and Montreal.

Another innovation will be the set in of financial services to agricultural communities, by agreement with the Scotiabank, already started in the East Coast of Canada and that must be extended to all the country.

And there is also the implantation of ATMs (Automatic Teller Machines) in post offices, with E-Cash Services Inc. Withdrawals can be made, and

an e-commerce platform will be installed. The pilot experience must last until the beginning of 2001 for later decision of implementation in the entire country.

These have been the responses of Canada Post about the need of changes, and there is no intention of its partial or total privatization.

4.4. France

The French Post – **La Poste** Group holding – believes that the official postal services will have a lot of difficulty surviving the competition and the wave of acquisitions in the Sector. It intends to be one of these three or four survivors from the current situation. One of the survivors certainly will be the German postal service. For more than a century, the French Post had been considered the most advanced in the world. However, its hegemony has been surpassed by other countries. The French Post is the biggest one of the Europe, after Germany, with 306,000 employees, 14,000 post offices, 100 sorting centers, 57,700 vehicles, 3 high speed trains and 26 planes. With revenue of US\$ 22 billion/year, it is composed of 14 branch companies.

In 1990, it ceased to be part of the government, becoming a private company and starting to undertake performance contracts of 4 years with the French Government.

La Poste is still considered a public service in France, a part of the French governmental machine. The change of perspective - aiming to

be a very efficient and commercial company - is one of its challenges.

One of the strategies of *La Poste* to conquer this condition is to invest a lot in new technologies such as the Internet and electronic tracking for all segments of services.

There will be a merger of branch companies so that costs and operations will be rationalized, preventing unnecessary overlapping of work.

Solutions for e-commerce are being developed, as in other countries.

An interesting innovation is the bar code in residential mail boxes, which will be scanned during the delivery, and its confirmation will be sent to the shipper. This is becoming one demand of the local market.

The French Post, beyond these solutions, demonstrated its strategies of acquisitions, partnerships and joint-ventures. The biggest purchase carried out up to now has been the acquisition of part of the German company DPD, which operates throughout Europe, with 18 hubs (centralisers) and 400 warehouses spread over the continent. By the end of this year, *La Poste* Group intends to magnify its stockholding in the DPD up to 75%, which would give them full control of the company.

In the near future, *La Poste* Group intends to expand for the Latin American, Middle Eastern and Asian markets.

Recently, it reached an agreement with the Japanese postal service, and its post offices will distribute the mail-order featuring the products

of 20 French companies. The international transfer of funds required for this type of remote sale is being carried out by Eurogiro financial network. *La Poste* Group also signed an agreement with the company Western Union in order to offer ample solutions which improve funds transfers.

Currently, *La Poste* Group is testing a service of safe transmission of documents by Internet, with USPS (USA) and Canada Post.

In 1998 the French Post expanded its parcel business, expresses and basic postal services in Europe and internationally by means of the purchase of 51% of stockshares of the Denkhous AG company, 33.34% of the DPD GmbH & CO. and by means of one alliance with the Spanish postal service, by linking with one of its branch offices, which has become the company *Chronopost* Spain.

The French Post has also made an alliance with FedEx, formerly considered a competitor. FedEx inaugurated a great hub (centralizer) in Charles de Gaulle Airport in Paris, France, last September, and will use it to process the international load of Chronopost (branch office of La Poste for parcels) to and from destinations such as Austria, Belgium, Great-Britain, Denmark, France, Germany, Ireland, Italy, Low-Countries, Norway, Portugal, Spain, Sweden and Switzerland.

La Poste intends to enter in the market of international financial transfers, electronically. For this, it started IFS (International Financial System) developed by the Postal Technology Center of UPU (Universal Postal Union), one Agency

linked to UN, which automates the system of international postal financial exchanges. *La Poste* intends to substitute all its system of postal transfer, starting with North and West Africa countries.

4.5. Germany

The German postal service – *Deutsche Post AG* – recently had its name changed for *Deutsche Post World Net*, crowning one period of some years of acquisitions in the entire world. Within the postal services of the world, the German Post was the boldest in purchasing companies of parcels, express services and logistics. Since 1990, the company has operated an organizational and strategic revolution. Just in 1999, it spent US\$ 5 billion, included in this amount Danzas Holding for US\$ 840 million.

Deutsche Post intends to dominate the European market of parcels and services of express deliveries, in the same way that UPS dominates the North American market. E-commerce in Europe will reach US\$ 160 billion in 2002, and Deutsche Post understands that it represents a clear chance for the logistics companies that will be better located in the market. Besides the intention of being the largest logistics company in Europe, Deutsche Post wants also to possess the biggest global network of trains, airplanes, trucks and expertise.

These are some of acquisitions done by Deutsche Post, partial or totally:

Company	Country	Area
Air Express International Corp.	USA	Several countries

ASG	Germany	Europe
Bahwan Travel Agencies	Oman	Middle East
Danzas Holding	Germany	Several countries
DDF Logistica	Brazil	Brazil/Argentina
DHL	USA	Wide-world
Global Mail	Germany	Several countries
International Postal Consultants (joint-venture)	Germany	Several countries
Letterbox	Australia	Asia/Pacific
Meadowsfreight	Ireland	Europe
Nedlloyd ETD	Netherlands	Europe
Skymail	Australia	Asia/Pacific
Walford Meadows International	Zambia, Malawi e Zimbabwe	Africa
World Express	Mauritius	Mauritius

Deutsche Post has also had great advances in the electronic era. For instance, it recently introduced a new service of free e-mail, **ePost**. Each customer will have one safe digital address, which will serve for all his/her life. It will be formatted by the following way: first name.second name@epost.de and will not be linked to his/her residential address. It is offering a service of digital signature named **e-VITA** – electronic platform for information, interaction and purchasing. The digital signature will replace the conventional one in procedures of legal documents through the Internet. To offer the new service, Deutsche Post opened a center called Trustcenter, in the city of Darmstadt. When the customer wants,

for example, to make a purchase in a virtual store, he/she uses the digital signature recorded in one card. For this, it is necessary that the PC is equipped with a card chip reader that, together with the software given by Deutsche Post and it provides that the selling store receives the order purchase with a customer legally identified.

In similar situation, Deutsche Post developed together with the company *debis Systemhaus* a special service of safe certification of documents for the Federal Chamber Notaries.

Deutsche Post worries itself in offering an extremely safe virtual environment, to be able to give guarantees to customers in order to expand their business.

Deutsche Post World Net, also associated with Yahoo Germany, offers a new e-commerce service of deliveries and payments.

Another interesting aspect of the current German postal regulation is that the Deutsche Post will have to deliver correspondences, with discounting – that can be until 23% - for its competitors, forcing the establishment of partnerships. The new norm is applicable to objects weighing more than 200g, segment that includes items as catalogues. Initially, the great one benefited by the new measure will be the giant UPS, which is the main competitor of the German Post in the domestic market. At the same time the regulator announces measures to increase competition, *Deutsche Post AG* announces that, until January of 2001, will assume the control of the DHL, one of the four greatest couriers of the world.

After its great strengthening, it is still foreseen for 2000 the negotiation and sale of Deutsche Post stocks.

Some analysts believe that the German Post can be a natural candidate to buy stocks of the Brazilian Post.

4.6. Low Countries

The Low Countries' Post had been privatized in a process that lasted a decade and was linked to the powerful courier TNT, becoming the **TNT Post Group**. This privatization, as well as the privatization of the Telecommunications Company (KPN Telecom) is being submitted to the legal consideration of the European Commission.

The Low Countries Government still withholds a controlling shareholding quota of the postal company. The keeping of part of the shares by the government is to safeguard the "universal service," or either, the right of each Low Countries citizen to have access to the postal service, paying accessible prices.

TNT Post Group (TPG) did diverse acquisitions, as of the Group Schrader, – a German supplier of logistic solutions, that will guarantee action of TNT in Germany, Poland and Austria. The Schrader mark will be kept and the company will continue to supply solutions to its current clientele, which includes great customers, such as, Unilever, Bestfoods, Max Bahr, Duni, SCA and Volkswagen from Germany, Austria and United Kingdom.

Recently, the Low Countries' Post bought 51% of the shares of the French

logistics company Barlatier S.A. TNT Group has the intention to acquire the rest of other 49% shares in the next years. Barlatier company was established in 1892 and is specialized in the supply of logistics services for large companies in the pharmaceutical and electronic sectors.

An agreement with the company of Indian express parcels – Elbee Services Ltd. -, followed by the agreement done by the Chinese postal service, in the beginning of this year, is qualifying the Low Countries' Post to operate from the two most populous country of the world, which together have more than 2 billion people. According to TNT Group directors, this agreement will improve the services of Elbee in Europe and the Middle East. This company had a similar agreement with the courier United Parcel Service (UPS), which desires entry to the American market.

With the agreement with China, TNT Group provides the Chinese Post access to more than 200 countries.

Besides China and India, TNT Group established agreements with two other Asiatic countries, Singapore and Indonesia, with objective to cooperate in the international segments of conventional postal services and of expresses. The agreement with Singapore also has a partnership with the British Post – by the branch Royal Mail.

One of the branches of the Low Countries' Post – TNT Logistics – and the largest Turkish public group of the logistics sector – Koç Group – had celebrated an agreement to create one joint-venture, the **Koç-TNT Company**.

TNT Post Group and the Swiss postal service signed, officially, the contract for joint venture, which will provide express services and couriers from and to Switzerland. The new company will be named **TNT Swiss Post AG** and will hire 400 people. Each part will share 50% of the joint-venture capital.

4.7. New Zealand

The New Zealand Post adhered also to the strategy of acquisitions and announced the purchase of the Australian company *Couriers Please Pty Ltd.*, which specializes in the same day delivery of objects and operates with warehouses in the five main cities of Australia. With this purchase, the New Zealand Post intends to diversify its postal businesses, as way to create growth of revenues for the company. Moreover, customers are, each time more, considering Australia and New Zealand as an only market and, thus, New Zealand Post is preparing itself for the increase of flow of goods and services between the two countries.

Through its branch NZPIL (New Zealand Post International Limited), it took the decision to act offshore, in the segment of postal consulting. It recently inaugurated an advanced post in Europe. The chosen place was Madrid in Spain, since there will be participation from the Spanish postal service in the new undertaking. The two postal services had already worked together in a project of prospecting new opportunities in Central and South America.

Still in the consulting area, NZPIL was chosen to manage the Nigerian postal service (NIPOST) and prepares it for privatization, to be done in the next years.

Currently, Nigeria Post is a department of the government.

Besides the Nigerian postal service, NZPIL has been managing the South African postal service since one year ago, together with the Consulting Postal Service of the British Post, the BPCS, with the same proposals, or either, to transform the South Africa Post into a profitable company.

4.8. United Kingdom

Since two years ago, the British postal service has evidenced big changes in the commercial postal environment. Postal companies in Europe have been bought and sold frequently. The impact of new operators and new technologies (fax, email, internet) in the volume of treated objects continues to be great. The rhythm of the merger process of companies is transforming the postal sector structure completely.

The British Post has also verified that international customers are wanting a single supplier for all postal services from end to end, rapidity, services with sure-delivery, backing services (post-sale) and competitive prices. Moreover, with total liberalization of the postal market in the 15 member-countries of the European Union (EU), that will probably happen in 2003, customers will be free to choose the preferential operators.

Faced with this scenario, one of the explicit strategies from the British Post was to start building a global presence. The formula to materialize this international entrance has been the direct purchase of companies in the segment of package

deliveries, and recently made one joint-venture with TNT Post Group (Low Countries' postal service) and with the Singapore postal service, for delivery of objects in the business segment world-wide.

In total, there are 16 acquisitions and joint ventures, reaching an amount of more than £ 500 million (US\$ 723 million). Up to now, the British Post has bought the following companies:

Pakke-Tans A/S – company which has 13% of the package market, business to business segment, in Denmark;

Crie Group – company that acts in the French market in the international segment of expresses;

German Parcel – third largest private packages company in Germany that has 23% of shares of the Austrian company “General Parcel”, supplier of services in 30 European countries;

Der Kurier – company that acts in the market of German guaranteed overnight delivery;

Williams Group – company that acts in the Irish market;

Citipost Group – American company of international delivery, headquartered in New York City;

Citymail – company that acts in the Swedish market: and

Nederlandse Pakket Dienst (NPD) – third largest company of mail in the Low

Countries.

Besides these expansions, the British Post keeps business agencies (official offices) in the following countries: Argentina, Austria, Belgium, Canada, France, Germany, Greece, Holland, Israel, Italy, Kuwait, Luxembourg, Qatar, Singapore, Spain, Sweden, USA and in the own countries which form the United Kingdom (England, Scotland, Wales and North Ireland).

The Post Office (British postal service official name) still bought 49% of the Cashtec company – which provides services of “machines for financial transactions” (ATM - Automated Telling Machines) in the United Kingdom. The British Post deals with about £ 140 billion in cash money annually (US\$ 213 billion) – bigger sum than any other financial institution in United Kingdom -, as well as £ 8 billion in checks (US\$ 12 billion).

Currently, the British Post is also the largest retail, prize payer and provider of distribution services of the lottery in United Kingdom, creating an identification with the national lottery.

Certainly, the British Post is determined to expand itself and to make acquisitions and we cannot discard the possibility of it participating in the Brazilian market.

4.9. United States

The American postal service (USPS) is the great giant, proportional to the strength of the American economy. It is the largest postal service in the world with almost 900,000 work posts. But USPS is foreseeing a loss of revenues of

about US\$ 700-800 million this year.

Speaking to a Subcommittee of the American Senate, its CEO, William Henderson, explained that the causes of these losses are growth in fierce competition, the advent of electronic communications, and the anachronism of the USPS' organizational structure, without reforms for thirty years. According to Henderson, the reform of the USPS has to be done now, while the service is still healthy and before the erosion of the first class mail, considered USPS' vessel-flag-ship.

The postal volume is growing below technically waited, because of population growth and the annual, natural incorporation, of new customers.

In order for USPS to reduce losses, Henderson is certain that the company will have to cut costs. The problem is that USPS will not be apt to reduce, in the same ratio of the decline of the traffic, the number of trucks or post offices, nor to reduce, immediately, the number of involved employees.

There are three main strategies to deal with this situation. The first one is to reduce expenditures, which mean, also, work position cuts. Second strategy is to increase revenues. About this alternative, Henderson cited some ways; this included the increase of technology use, and focus in offering high quality to the customer services.

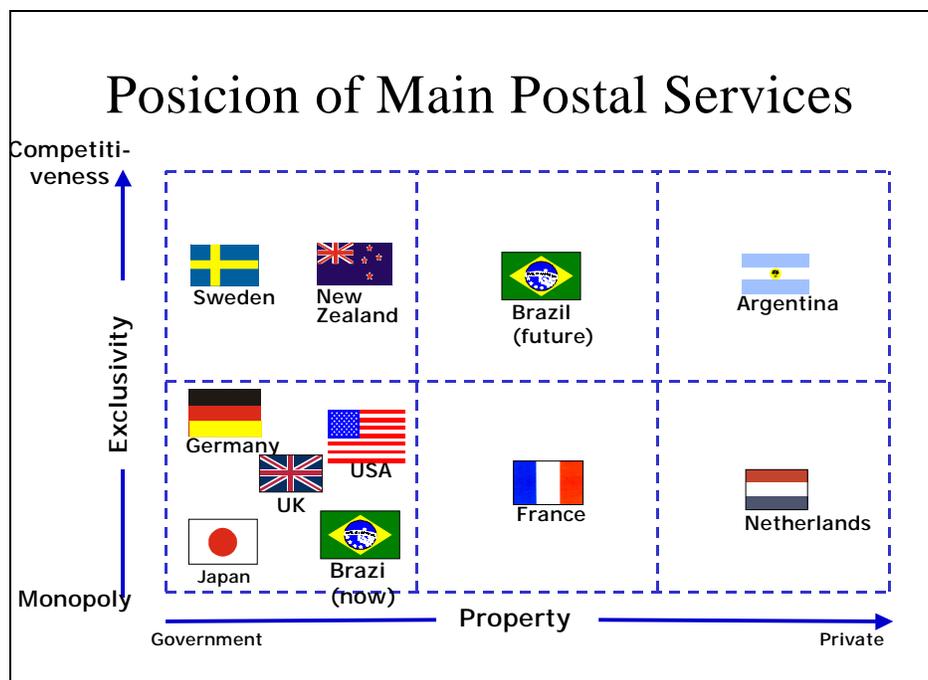
The third strategy is the seeking of a legislative reform. Still in accordance with Henderson, USPS needs a flexible structure to answer to the speed of changes

in the modern world, and to the necessities of the customers, which are each time more dynamic.

Thus, USPS continues to be a government owned company, without foreign expansion, but is concerned that it will have to fit itself in order to keep its position in the market and not to have difficulties in no-distant future.

The first step for USPS was an alliance with DHL in 1999, for providing the new service “Priority Global Mail Guaranteed.” The one time former competitor became a partner.

With this, the delivery pattern is improved in most of countries in the world and, also, USPS expands its international postal service of importation and exportation.



5. What will be the steps taken in Brazil?

In Brazil there will be two kinds of changes. One will be in the total business environment with the new law, which is now in procedure in the National Congress. It will rule over everything in the sector and will create a government agency to apply the law and supervise the system, as occurred with oil, telecommunications, and electricity.

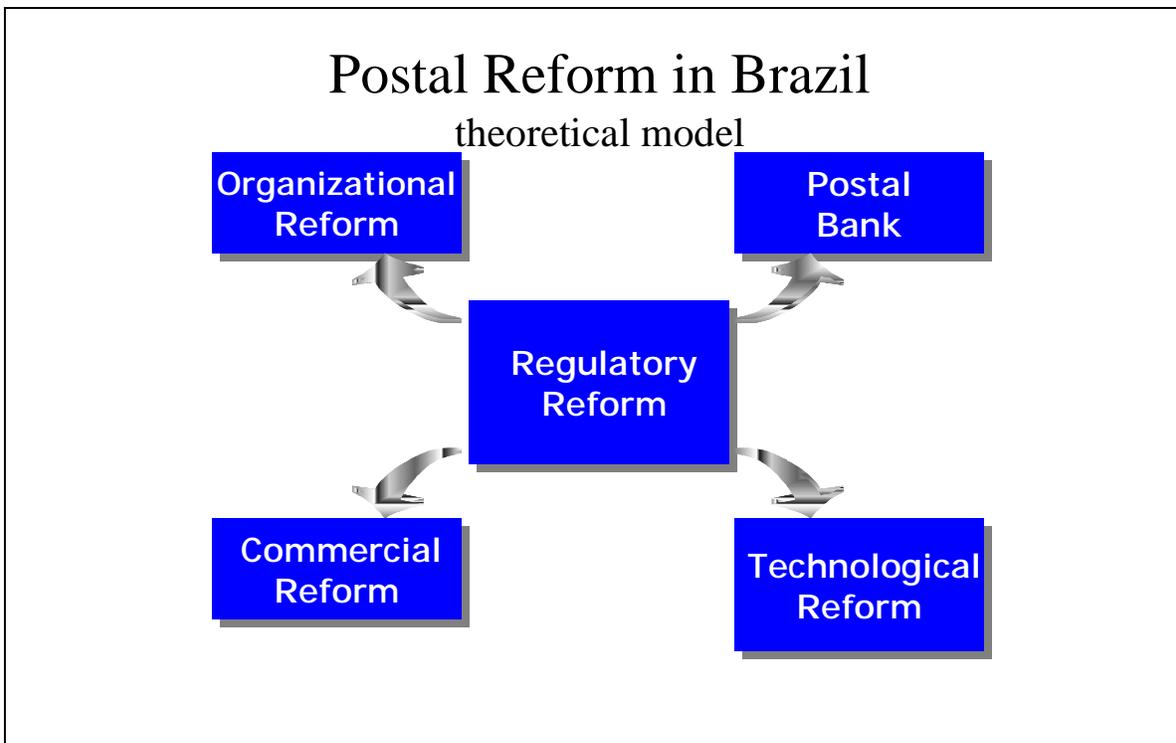
The second change will be inside the official postal operator, Brazilian Enterprise of Post and Telegraphs – ECT, which will be renamed **Correios do Brasil S.A.** (Post of Brazil, Inc.) The changes involve an internal restructuring focused in the market, a transforming of post offices in bank post offices, and a special design to work with parcels (the most profitable part of the postal service). The changes also involve a Postal University, a way to provide well-prepared human resources for the company.

The company is being prepared to be modified not just because of the new law - many of the changes can occur before its approval. For other changes, such as the opening of new franchising stores, it is better to wait for the new law, because of juridical implications.

In general, figures for the postal service are increasing around the world, despite the sprout of new technologies. For e-commerce, as example, it is necessary to provide a physical structure for deliveries. In Brazil, the role of the postal sector is more important because a significant portion of the population does not have computers and cannot afford phone rates.

As we could see in Chapter Four, there are several positions worldwide that the postal sector can take. The new postal environment presents partnerships between official postal services and couriers, unimaginable few years ago. There are postal services that will continue as government companies as in the United States, and there are experiences of successful privatization as in the Low Countries. There are also the cases of the German Post and the British Post, fierce for acquisitions. Other Posts are specializing in international participation and consulting such as Canada and New Zealand.

What is the best for the Brazilian postal service? Everyone agrees that changes are necessary, and we can see that what occurred in other countries can be fitted to its own situation.



5.1. Regulation – the future Brazilian law

As the current Brazilian postal company is very prestigious, it is of the utmost importance that the National Congress defines a new framework for the Brazilian Post. The new regulation needs to be carried out because of two factors:

- It is necessary to rule on precisely what series of services private companies are providing that are not foreseen in the former law; this is provoking long lawsuits in the courts;
- It is necessary to provide legal and institutional instruments to the official operator to be prepared for the new competitive market; with this, the official operator can have subsidiary companies, shares sold in the exchange market, and operations in other countries.

The monopoly for basic services is settled in the proposal for one period of five years and can be renovated for another five years for the Brazilian Post. This is the necessary time to guarantee a safe transition for total competitiveness, providing this way financial resources for the Brazilian Post to keep essential services. The company will have a legal concession for 20 years if following certain criteria, with the possibility to be renovated. Before, it was believed that a concession should last for 10 years, but it was changed to 20 years to compensate the company for all investment.

The Brazilian Post will be responsible for the universality of the postal service – to be present in every city – and continuity. The official operator will be

responsible for the services if there is a problem with other operators. But to be present in small cities is not profitable. It will be create a fund – FUSP: Funds for Postal Service Universalization. This fund will be charged every operator in an amount of 0.5% of its revenues to afford this social obligation.

The private companies will be able to use the official structure for deliveries (post offices and transportation) in places where they do not have offices or representatives.

The Brazilian Post will retain the right to produce stamps and philatelic pieces. On the other hand, private companies will have franking vouchers. The official operator will have the priority in transportation that can be in airlines or inter-municipal buses with fair prices. The use of these buses is for cities in which there is not enough volume to have specific postal vehicles.

The name of the new regulatory agency will be **ANAPOST**. This agency will have some of the following functions:

- To complement regulatory policies and to check the carrying out of the law;
- To represent Brazil in international organizations; the agency can be helped by the official operator in this task;
- To determine rates for basic postal services;
- To monitor all of the postal sector, including every courier: territorial embracing of services, frequency and time for deliveries, service quality

indexes, cost and revenues, and agreements among the operators;

- To have customer service and structure for public complaints.

5.2. Internal Restructuring

The main point is to restructure the company in business units. We can have at least three:

- **Parcels:** the most important segment. In this there is the service named **SEDEX**, which is express sending, a very important trend for the company, recognized by most customers.
- **Commercial and corporate business units:** it is about trade of products and providing services for corporate customers which can be in a form of large companies, government, couriers, postal operators from other countries, etc.;
- **Conventional service:** as public operator, providing essential service for the public in each of the 5,507 cities in the country.

Of course, it is possible to think about other possibilities of division of units, but some characteristics are important:

- Every unit needs to be profitable, and each can work for the others, receiving fair rates;
- Subsidiaries can be created even in other countries;
- Partnerships with any other company or official postal company in other countries can be created;
- Government will keep at least 51% of the company's voting shares, as well

as its business units and its subsidiaries;

- The business units can be territorially divided by company's decision, not necessarily one for each state; one territory can embrace several states if it is functional and reduces costs.
- The franchising system will continue and the current franchisees will be kept for another five years.

Actually, the company and the ministry have been prepared for changes for three years and it is close to the time for important decisions to be implemented.

5.3. Postal Bank

In Brazil there are more than 2,000 small cities without banks. But there is always a post office in these cities.

One of the greatest missions for the Brazilian Post, working as a government agent, is to provide bank services for all population in places where there is not banks. It is more of a case of public interest. For that, the post offices will have a special structure such as special safes, security system, and ATMs.

The Brazilian Post could also have bank post offices in cities where there is already a bank, but with enough market for both institutions. It could be in the same district or not. Normally banks do not like to keep accounts for small values but it can be interesting for the postal service, because it is a necessary installed structure in every city.

In May 2000, the Brazilian Post started experiments about bank service. To carry

out this, there is an agreement with the **Bank of Brazil**. It is foreseen the installation of 50 bank post offices in 2000. Depending on the result, the future policy will be established. There could be other partnerships as with **Caixa Economica Federal** (Brazilian Savings and Housing Bank).

5.4. Parcel Services

The future of the postal service in the world is related to the performance of each postal operator on the parcels market. In the future, people will use technological facilities more often, which will be cheaper and more accessible. But it is necessary to have a good physical structure for the delivery of parcels.

The company has studied the examples around the world, as the cases described in Chapter Two. It is certain to have future agreements with couriers and foreign official operators.

The company is investing a lot of money in technology and new hubs. Everything is done to provide the best service. For instance, they know the customer wants real time tracking for their parcels. It is very expensive, but the company is even doing this right now, first for parcels and after for registered letters.

Correios do Brasil S.A., the new name of the Brazilian Post, will be one of the e-commerce certifier entities. It already has one virtual store that is available for other companies to sell their products. In this case, transportation and delivery will be done by the postal service. The Brazilian Post can also work for other virtual stores, e-commerce companies, and postal operators.

5.5. Postal University

For almost thirty years, many of the high-level managers in the company have graduated from the Postal Administration Course or attended other courses at the Superior School of Postal Administration (ESAP). For other courses, there are another five large Training Centers. Other states have a smaller structure. There are also some training rooms in the 150 operational regions for specific and short courses.

Concerning ESAP, it is very expensive to provide a special undergraduate course inside the company. For the company, there are other needs such as engineers and graduates from other masters. Maybe the best thing to do now is to take professionals from the market and provide them with a condensed course about the postal service and specific skills.

It is necessary, also, to improve the training for other employees. The speed of technological changes is faster each time.

The main idea is to have a huge center in Brasilia, the capital of the country, as a center of excellence. It will provide not only courses, but also resources for the other training centers. And there will be the agreements with Universities around the country to reach the best results.

6. Conclusion

It is clear that changes are necessary in the postal service in Brazil as they are also happening around the world.

Of course, there are some risks as in any business. But many people, such as employees, the government, and representatives from the National Congress, are worried about them.

For any decision, we can take what is working better in the world, and avoid the mistakes that could have occurred. For instance, Argentina is not a good example. Its postal service was very deficient. The former company then was totally privatized, and two companies were created. Its service, which was not good in the recent past, certainly improved, but its rates are the most expensive in the world and probably not for the best or the most sophisticated services.

To succeed it is necessary to have one goal: the public interest. It is important to have a good modern company, financially healthy, with capacity for investments, skilled employees, technology and a very good logistics structure. The population deserves good service, including all the possible options, at a reasonable price, and in every location.

It is interesting to observe that a lot of misunderstandings occurred since the future restructuring of the postal sector was announced in May 1999. The most common misunderstandings were:

1 – The essential service will exclusively be done by the Brazilian Post: Wrong, other companies will be able to participate by concession.

2 – The Brazilian Enterprise of Post and Telegraphs will be privatized: Wrong,

the company will have stock shares sold in the market. But the government will keep at least 51% of the voting shares, as with the cases of the Bank of Brazil and Petrobras, two of the most traditional public companies in Brazil.

3 – The current postal monopoly, that protects the Brazilian Post, will be larger: Wrong, the monopoly will be smaller since the enacting of the new law and will end completely in no more than ten years.

4 – The Regulatory Agency will control the prices of the private sector: Wrong, the Agency will control just the rates of basic services provided by the Brazilian Post.

5 – There will be a large amount of unemployment enacted by the company: Wrong, as the service is in expansion, the company will keep at least the same number of employees as they had on 31st December 1999. Of course, each employee needs to improve his/her skills and have a good performance in order to keep the job.

6 – The Brazilian Post will be the regulator acting in its own interest: Wrong, the regulator will be the agency – ANAPOST - which will be linked to the government and will supervise the whole system.

7 – The franchising system will be extinguished: Wrong, the current franchising stores will have another five years of contract and there will be more stores created after the enacting of the new law.

The Brazilian Post is going to keep a good rank with the changes. Anyway, it is always important to be attentive about risks and possibilities, reformulating the aims when necessary and always focusing on public well being.

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