POSTAL MARKET LIBERALISATION AND ITS IMPACT ON THE MAIL SUPPLY CHAIN: THE CASE OF TURKEY

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Abstract: As a candidate country for European Union membership, Turkey is on the way towards liberalising its postal market. Not only will such liberalisation introduce competition in the postal market in which Post and Telegraph (PTT) Corporation, was the monopoly, but also it will result in spreading out of the new entrants into the PTT Corp's supply chain in several ways. The literature has barely touched upon the impact of the technological substitution and incoming liberalisation on the supply chain of the Turkey's ex-monopoly. Providing examples from the ex-monopolies of the European Union, the purpose of this study is to examine the effects of the liberalisation of the postal market in Turkey on the PTT Corp's supply chain. The study highlights the ways in which the new entrants penetrate into the postal market using desk-based research. Moreover, it investigates the competition from a supply chain perspective.
Key Words: Liberalisation, Postal Market, Turkey, Supply Chain, Turkish Post and Telegraph Corporation, Mail

Introduction

Turkey, a candidate for the European Union (EU) membership, is adapting its bodies and legislation to the EU. The accession negotiations started in 2005 and Turkey aims to keep up with all the EU acquis, before the membership and even before opening chapters, to accelerate the negotiations (Ministry for EU Affairs, 2014). While the country was busy with reforms, EU started to liberalise its postal market gradually to complete the single postal market project in 1998 and finished it in 2013.

The liberalisation process aimed to open the postal market to competition and introduced Universal Service (US) for postal services, independent regulation authority and ways to compensate the US burden. With three directives along the way, the postal market was changed dramatically. Today, the EU postal market is mostly competitive and innovative. Ex-monopolies, mainly with Universal Service Obligation suffered from competition with supply chain disruption and technological substation in this period.

After the liberalisation, several EU country’s examples illustrate that either the incumbent was forced to open its supply chain to the new entrants for a price less than the uniform one by regulation authorities or the new entrants bypassed it in the free market conditions. Additionally, with the declining mail demand and the competition, the incumbents lost market share and revenue.

All these developments in Europe will have reflections to the Turkish postal market. Already, the liberalisation process has begun, and Turkish postal legislation is affected by the European counterparts. Add to these; several acts came into force in recent years and more to come.

In the light of European experience about the liberalisation and competition, it would be possible to make some predictions about race and its effect on the PTT Corp.’s supply chain.

Using desk based research and EU member and company examples, objectives of this paper are:

- What would be the effects of liberalisation of the postal market to the PTT Corp.?, and
- How its supply chain would be affected by this process?

This paper gives insight information about the types of market entry in the EU postal market with illustrating the postal supply chain and Turkish market situation to address these questions. In the discussion part, the paper tries to stimulate the future situation in Turkey which the literature scarcely mentioned. Moreover, it highlights the competition on the mail supply chain and focuses on its effects on the supply chain.

Types of market entry in the EU

The Postal sector as a network industry employs more than 1.2 million people across the Europe, and only the letter post itself accounts 0.34 of the GDP (European Commission, 2016a). It is a quite important part of the economy. As a consequence, the Europe has recently liberalised this market to acquire an efficient market and now many companies are competing in it. In this, the companies are operating their supply chain and the product's value chain plays an important part as well.

Jaag (2014) divides the postal value chain into four sections which are the collection, sorting, transport and delivery. He also emphasises that none of them are essential, and the competitors can duplicate it easily. As a result, the new entrants can enter the market quickly. On the other hand, De Donder (2006) argues that the delivery network is a bottleneck in the supply chain and needs the economies of scale to be profitable. Therefore, not so easily to duplicate. The postal supply chain can be simply illustrated as follows:

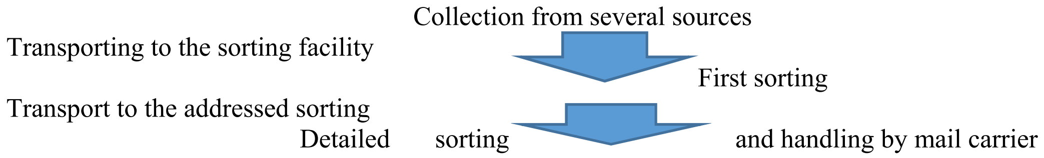

Figure 1 Source: the author.

Mail collection can be done from several places such as post boxes, post offices. Bulk mail customers tend to use the first sorting facilities directly. After first sorting, the mail goes to the secondary sorting places for the detailed sorting and there a mail carrier handles it.

EU published three directives (Directive 97/67EC), (2002/39/EC), (2008/06/EC) for the liberalisation of the postal market which led to a gradual liberalisation and opened it to the competition. The directives defined the universal service, liberalised it and created national regulation authorities (European Commission 2016b). The process was finished in the year 2013. All of them affected the mail supply chain illustrated above and allowed new entrants to compete with the incumbents. The mail supply chain disruption can be defined as follows:

- *Bypass*: It is the entry type that the new entrant bypasses the incumbent's supply chain where it is profitable and establishes its own. De Donder (2006) points out that it is usually not profitable to serve in the low-density areas, and new entrants choose to provide services to the high-density ones such as the major cities. The writer points out that doing this will cause economies of scale. Additionally, Schuster (2013) emphasise that supply chain infrastructure cost would be lower in the high populated areas. Therefore, after the liberalisation of the postal market, many new entrants started to compete in the high-density cities by bypassing the incumbent's supply chain.

Where the Universal Service obligation forces its provider to serve all of the countries without any discrimination, the new entrants are free of the USO and can serve in only profitable areas. This action is called "cream skimming". De Donder calls it as a selective bypass. The Royal Mail (US Provider of the U.K. competes in its big cities such as London and Manchester with TNT Post, the same competition occurs in Sweden by City Mail.

Quiros's (2011) study illustrates that there is a high correlation between the market opening, independent regulation authority and the efficiency increase. These factors lead to the second type of entry to the market by the regulations.

- *Access:* The second type of entry is access. The third directive (2008/06/EC) article 11a forces the countries to allow fair competition and to protect the user's rights by opening the postal infrastructure and the postal network to the new entrants without any discrimination. As a consequence, this article leads to *access* type of entry where the incumbent is forced to open its supply chain to the competitors. Mostly, it is linked with the cream-skimming effect where the new entrant uses incumbent's infrastructure to distribute the mail to the small populated areas while using its downstream supply chain where profitable. Villemeur et al. (2007) explain that as the competition only occurs in the downstream of the supply chain where the incumbent distributes the mail for a uniform price.

New entrants use access type of entry because of the cost advantage. The Uniform mail rates consist of all of the upstream and the downstream cost of the mail (Armstrong 2008). However, in access, only one part of the incumbent supply chain is used so the price would be lower than the uniform price. In this respect, if the cost of the one part of the supply chain is cheaper than the incumbent, the new entrant can acquire an advantage in the competition.

In Europe, access can be done to several postal infrastructures such as postcodes, post office boxes, delivery boxes, address database, change of access database, USP redirection and return services, downstream access (Wik Consult, 2013). Several countries allow different access levels, and it mostly depends on the regulation authority.

Case of Turkey

Legislation and the Current Situation in the Market

Turkey is updating its legislations for a more liberalised postal market and recently it changed some of the primary laws. One of this legislation is 6475 Postal Services Legislation. It came into force on the May 2013 and started the renewal process. With this, PTT Corp. became the postal monopoly by law and was assigned as Universal Service Provider. The reserved area is limitless now.

The company acquired many rights such as the monopoly on communication mail's all supply chain, letter of notification supply chain, Turkish Army's postal services and stamp services.

Additionally, BTK (Information and Telecommunication Technologies Authority) was assigned as the regulation authority to oversee the market and acquired the right to give the licence to operate in the postal market.

A compensation fund was established as the %2 of the revenue of all permit holders. Ministry of Transport, Maritime Affairs and Communications manages this fund, and it aims to compensate the Universal Service Cost of the PTT Corp. Most of the countries have Universal Service Fund. However, it is not usually activated by the authorities. As an example, Germany hasn't enabled the Universal Service Fund.

After this, in February 2016, The Postal Universal Service legislation came into force to define the Universal Service Obligation (USO) of the provider. It represents the USO, how to acquire money from the fund and the calculation of the US Cost.

So far, with these two legislations, PTT Corp. is the USP of Turkey and postal service monopoly. The gradual liberalisation is about to start. However, there is no mentioned weight limit which ensures the monopoly in the market.

BTK is still giving licenses for the incoming liberalisation. Until now, 28 company acquired the licence. Of them, four is for İstanbul, one for İzmir, one for Ankara and the rest is national licenses including PTT Corp.
Despite the current monopoly situation and the reserved area is not mentioned in the legislation yet, Some competitors have already active in the market especially in İstanbul and breaching the law using their cost advantage.

PTT Corp.

PTT Corp. is the government-owned postal monopoly of Turkey. Established in 1840, the postal giant employs around 40,000 people with more than 4482 offices in Turkey which are consist of self-operated stores and agencies.

There are three operation sides of the company First and the most important one is Post Division (1,500 million TL in 2014) which it creates most of its revenue. The others are Logistics Division (200 million TL) and Postal Payment system.

The postal division operates in a monopolistic market while the logistics sector conditions were liberal. Therefore, it can be seen that the postal market is critical for the company.
The addressed bulk mail demand is decreasing rapidly around 10%. On the contrary, the revenue is increasing mostly due to the price increasing and increase in the registered mail and the letter of notice.

Discussion

After the liberalisation, it could be seen that the supply chain of PTT Corp. will be disrupted by two type of market entry.

In bypass type, the new entrants will choose big cities such as İstanbul, Ankara and İzmir. From these three, İstanbul will be the most important one because nearly all of the bulk mail customers such as banks and telecommunication companies based on there. Additionally, it is the densest area in the country. With the increase technological substitution, this would be a double revenue and volume loss for the company. So far, with the price increases, the amount lost seems to be compensated. However, after the liberalisation, it won’t be easy to raise prices because of the competition. The Uniform Price tag could be an obstacle in this situation. It can be said that, as in United Kingdom or Sweden, the cream-skimming effect can be seen in İstanbul Ankara as well. It is also important that 4 of the 28 licences are for İstanbul only, and the competition is ready to start.

High competition means lower volumes because the market is not growing. These small amounts would make the incumbent's supply chain less profitable and it can even put the US in danger if the company can't compensate it with the E-Commerce increase.

The second disruption will come from the access type of entry. Where the new entrants find unprofitable to operate, they would use the incumbents supply chain. In this scenario, it would be mostly the downstream supply chain of the PTT Corp.. These would cause incumbent to lose more revenue because the price of the access would be lower than the uniform price.

Overall, the liberalisation will affect the PTT Corp.'s mail supply chain from two sides. First, the new entrant could bypass the incumbents supply chain and establish its own in densely populated areas. Second, they can use PTT Corp. supply chain where they find unprofitable such as downstream in the small populated areas. These facts could lead to loss of revenue. With the technological substitution, even the universal service would be in danger. PTT Corp.'s should, therefore, focus on more efficient and lean supply chain. It should also listen to customer expectations more carefully and design the post offices for that reason.

Conclusion and Further Study

While this study does not give an exact answer to the future event, it gives some clear answers about what would happen to the PTT Corp.'s supply chain in the case of liberalisation and the possible types of market entry using the examples from EU cases. If the policy makers knew what would happen to their supply chain and how to react it with a plan, it would be easier to compete and they can be ready for the incoming liberalisation. Therefore, this paper would fill the gap on the deregulation effect of the mail supply chain in Turkey and give additional options for policymakers. The further study would include the calculation of the future demand and prediction of the competition by using mathematical models.

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