

FLEXIBLE APPLICATION OF THE POSTAL SERVICES DIRECTIVE IN THE DELIVERY SEGMENT

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Contents: *The Postal Services Directive prescribes that the universal service provider has to ensure delivery in its territory not less than five days a week. In this paper the aspect of delivery optimisation using the A-B delivery model is analysed, while meeting one of the required standards, i.e. delivery in the territory of the Republic of Croatia not less than five days a week. The basic issue related to the application of this model is meeting the transport quality standards for priority and non-priority mail.*

Key words: *A-B delivery model, universal service obligation, service quality*

1. Introduction

Universal postal service is a service of general economic interest guaranteed to all persons in the national territory. The framework for universal service obligation in EU member states is established in accordance with postal Directives. The universal postal service sustainability in the open market represents an obligation of national postal operators; however, the universal service provider will be compensated for the provision of services representing an unfair financial burden. The universal service obligation (USO) includes a minimum scope of services, organising clearance and delivery of mail minimum five days a week, organising a postal network in the entire national territory and performance of this service at affordable and cost-oriented prices. With the liberalisation of the postal market and narrowing of mail volume within the scope of USO, national postal operators are exploring various options aimed at a more flexible application of the Postal Services Directive. That is the reason why alternative models are applied to ensure that the five-day delivery requirement is met as one of the standards of the universal service obligation.

2. Trends in letter post volume on the EU market

In recent years letter post services have been exposed to electronic substitution and exponential growth of e-commerce in parcel services and customer demands in core business are increasing in number and complexity.

Consequently, in order to ensure survival on the postal services market, postal operators have to react promptly and take all the necessary steps to ensure customer satisfaction, but also to ensure that their interests and those of their social partners are met as well. Optimisation of business processes, procurement of state-of-the-art equipment (automation), flexibility and operational diversification are only some of the ways postal operators may accomplish the above-listed objectives.

It should be noted that their activity has to be carried out in compliance with the regulatory framework, and compliance monitoring falls under the authority of national regulatory agencies (NRA). In order to ensure a better collaboration between member states and the European Commission (EC) and facilitate consultation, coordination and cooperation between national regulatory agencies, EC has established the European Regulators Group for Postal Services (ERGP), to ensure compliance with the regulations or decisions adopted in accordance with the Postal Services Directive and for clearly defined statistical purposes.

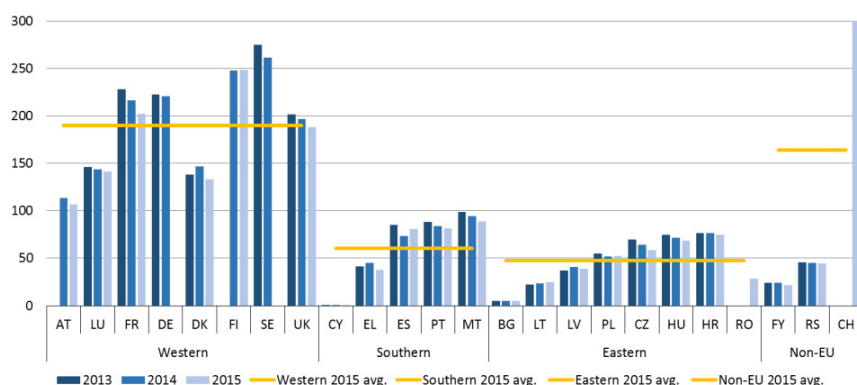


Image 1: Postal items per capita

Source: European Commission (2017) Report on core indicators for monitoring the European postal market. Bruxelles: ERGP (16) 38

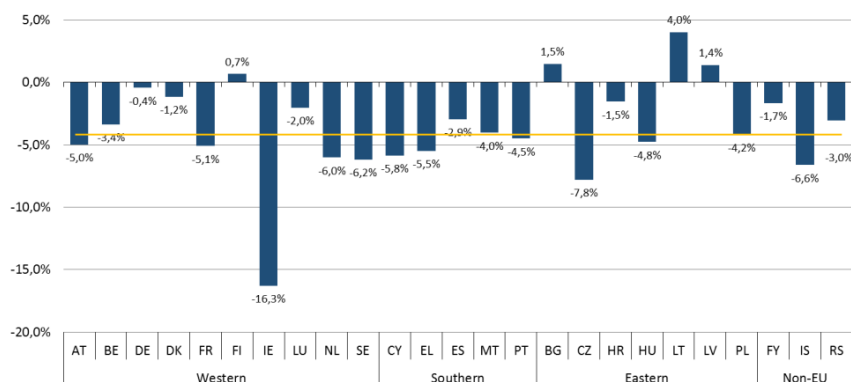


Image 2: Change in the volume of mail on an annual level for the period 2013-2015.

Source: European Commission (2017) Report on core indicators for monitoring the European postal market. Bruxelles: ERGP (16) 38

In this context, specific core indicators for monitoring the European postal market have been identified, such as: market outcomes, market structure, postal items by type (letters and parcels), per capita (*Image 1*), human resources, etc. As an example, in the period 2013- 2015 the average decline in letter-post volume in EU was 4.3% per year (*Image 2*). That decline is the result of the decline in letter-post volume (on average - 4.6% per year) the effect of which could not have been remedied by an increase in the number of parcels (on average 6.9% per year).

3. Organisation of delivery with an aim of meeting the universal service obligation (USO) standards

There are several goals relating to the delivery of postal items, some focusing on customers and their connecting on a national level with a timely and reliable delivery of postal items, and others on the postal service provider and enhancement of organisation and operations by introducing innovative technical and technological solutions. The approach to the accomplishment of the above-listed goals and enhancement of the delivery process may be continuous, periodical or radical.

The act regulating delivery in the framework of the universal service obligation is the Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service which, in Article 3, prescribes the obligation of member states to ensure that universal service provider(s) guarantee(s) every working day and not less than five days a week, save in circumstances or geographical conditions deemed exceptional by the national regulatory authorities, as a minimum:

- one clearance and
- one delivery to the home or premises of every natural or legal person or, by way of derogation, under conditions at the discretion of the national regulatory authority, one delivery to appropriate installations.

Any exception or derogation granted by a national regulatory authority in accordance with this paragraph must be communicated to the Commission and to all national regulatory authorities. Being that the Croatian 2012 Postal Services Act is in full compliance with all three Postal Services Directives, including the one specified heretofore, the quoted provision has been included in Article 15, paragraph 4 of the Postal Services Act which reads as follows: The universal service provide will ensure all users, not less than five business days a week, have:

- one clearance and
- one delivery to the home or business premises of every natural or legal person.

Paragraph 5 of the same article prescribes that the above does not have to apply in exceptional circumstances or geographical conditions.

Regulations on Universal Service Obligation in the Republic of Croatia prescribe exceptions from the mail delivery obligation (to the home or business premises of every natural or legal person) in the following cases:

- when such delivery represents danger for a postal worker or material assets of the universal service provider

- when there is no letter-box or mailbox for the reception of postal items, even after a written notice has been delivered (under Article 39, paragraph 2 of the Postal Services Act)
- when a postal item has been addressed to a non-existing or a vacant address.

Except in the above cases, the provider of universal service may in exceptional cases organise delivery to the home address, i.e. premises of a physical or legal person, in a way that the same takes place every business day, and for a maximum of 10% of the total number of households in the Republic of Croatia, in accordance with the census.

The quoted exception applies exclusively to:

- towns with population less than 1000, island towns with less than 500 inhabitants
- households without proper access road to be used by the universal service provider
- households in mountain areas that are extremely difficult to access and
- households for which delivery of regular mail and delivery notifications is done using group mailboxes.

The universal service provider has to submit to the national regulatory agency a list of all exceptions to the performance of universal service obligation together with its Regulations on Universal Service Obligation Compliance Report. The universal service provider will submit to the regulatory agency notification of any change related to the established list of exceptions to the performance of universal service obligation at least 15 days prior to applying such exception. The universal service provider has to submit to the regulatory authority any written complaint submitted by a user relating to the exception in the performance of universal service.

3. Overview of the results of the application of the A-B delivery model

Aiming to improve the efficiency of mail carriers by redesigning delivery areas, it is possible to increase the standard of minutes required to travel the distance to make the delivery proportional to the decrease of the standard of minutes required to make the delivery, i.e. by increasing the share of distance travelled per postal item. This way has limitations connected with the maximum permitted distance for specific means of transport and the need to make deliveries by vehicles or changes in the way deliveries are made (on foot, by bicycle, moped or a car).

The analysis of the data submitted by the universal service provider indicates that non-productive work, including time spent travelling the distance to make the delivery, on average accounts for 40% of the total work hours of a mail carrier (Image 3). By introducing the AB delivery model, the process of delivery of non-priority mail is changed, increasing production capacity and delivery efficiency, which represents a new economic value generated through technological process innovation. By changing, i.e. reducing the number of delivery points daily serviced by mail carriers on their delivery rounds, time necessary to deliver mail and length of delivery routes are reduced. The implementation of this model will reduce labour and transportation costs.

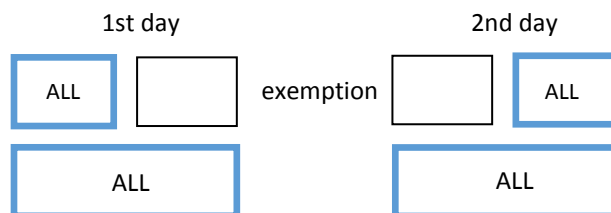


Image 3. The existing delivery model

With the AB model, priority mail is delivered on a daily basis in the area of daily delivery and where exceptions apply, on the day of organised delivery. Non-priority mail in the area of daily delivery is delivered alternatively in half of the area, every second day, and in the areas to which exceptions apply every fourth day (Image 4).

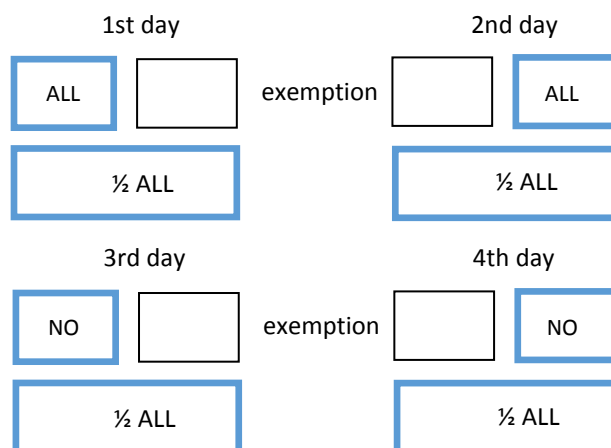


Image 3. AB delivery model

From the aspect of service quality, by introducing the AB delivery model, mail delivery is ensured in the prescribed delivery terms. Postal items may be delivered in prescribed terms for non-priority mail from sorting centres according to D+2, and priority according to D+1.

The AB delivery model enables shortening of delivery routes and reduces the number of delivery points. Additionally, a centralised delivery model enables reduction in the number of mail carriers, use of a more cost-efficient transport and a larger number of deliveries per day and per mail carrier.

As an example an area with the following characteristics has been selected: 21 mail carriers who travel approximately 200,000 km per year. The delivery of non-priority mail usually takes D+2.

The AB delivery model enables reduction in the travel by 26%, 50% of non-priority postal items are delivered D+2, and 50% D+3. Fuel costs are €5000 lower.

By accomplishing the goal of reducing the distance travelled, the effective working time of a mail carrier is increased. With a more frequent use of consignment service (about 1000 postal items, of which 5% are priority postal items) as much as 6.5% of working time can be saved. With fewer stops (800 households) on delivery rounds as much as 6.7% of working time can be saved. By shortening the travel necessary for delivery, as much as 9.4% of working time can be saved.

Therefore, by centralising delivery and introducing the AB model, fewer destination post offices, areas and mail carriers are required, which reduces operational costs. At the same time, the quality of service provided to users in prescribed deadlines is ensured, in accordance with the standards of universal service obligation prescribed in the Postal Services Act.

4. Conclusion

The technological phase of postal items delivery requires significant resources. A study of different alternatives applicable in the delivery phase is carried out with an aim of reducing cost and ensuring that users are provided a quality service in compliance with the universal service obligation. The use of the AB delivery model enables shorter delivery times and travel required for making the deliveries, which enhances operations by increasing productivity. In addition, by applying a centralised model of delivery in rural areas, more efficient cost and human and material resource management is enabled.

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