

Instituto Cultural Minerva
Institute of Brazilian Issues
The George Washington University
Washington, DC

The Brazilian Postal Service in a New Competitive Framework: A Marketing Analysis

By Altamir Domingues Linhares

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1. Introduction

The worldwide trends towards economic globalization have been causing changes in the macroeconomic and international trade policies of countries.

Governments have spent precious time negotiating the establishment of free trade areas and common markets in order to open new markets for their exports, and by reducing trade barriers, they have tried to enhance productivity and competitiveness within their borders.

The European Union, the North American Free Trade Agreement, MERCOSUR, the Andean Pact, the Caribbean Common Market, etc. are examples of these efforts. In the Americas, governments are committed to a very important project aimed at forming a free trade area by 2005.

World economic globalization trends, especially hemispheric integration, point to a wide and huge interchange among firms, in terms of communication and transportation, to enhance business performance.

The transportation and communication sectors have strategic importance in a free trade scenario. Taking into account adequate and rational costs, they are responsible for production distribution and facilitation of business in an efficient and fast way.

All these factors represent a unique business opportunity for the Brazilian Post and Telegraph Enterprise - ECT - since it is a traditional company that is present throughout the country. In addition, as pointed out by research institution surveys, ECT is also a market leader within Brazil and the most reliable Brazilian institution.

Established in 1969, ECT has conducted its business as if it were a private enterprise. While it has been concerned with generating profits, it has not forgotten its social role. However, as a state company, it has been affected by public policies that, for many reasons, have reduced investments in technology and infrastructure.

At the same time, technology development has been changing the profile of ECT's clients and their way of doing business. These facts will demand rapid changes in ECT's structure, including technological improvements and adaptation to the new tendencies of the market.

Economic globalization and technological advance have created fierce competition, but also new marketing opportunities for ECT. The exploitation of these opportunities depends on the company's ability to identify and succeed in its current and potential markets.

Thus, the purpose of this paper is to describe how ECT fits into this competitive scenario, to identify market opportunities in this environment, and to suggest adequate services to meet current and future demands, focusing on satisfying clients' needs as well as on increasing company's sales.

2. The Communication Environment

The rapid development of microelectronics, optic technology and software development techniques over recent years started a telecommunications and data processing revolution. This revolution has caused deep changes in businesses and people's lives.

New technologies are based on storage, processing, and transmission of information, in real time or not, through several media such as telephone lines, coaxial cables, optic fiber cables, microwaves, satellites, magnetic tapes, and optic disks.

This environment characterizes the so-called "age of information," which will completely modify the way people work, socialize, study, research, and have fun. It will mainly motivate significant changes in the economy, especially in the service sector.

Consequently, it is expected that this new technological environment brings lower income populations to the market through the availability of resources currently limited to higher income citizens. If it really happens, the market will increase as well as its business opportunities too.

The telecommunication industry is getting the attention of large corporations throughout the world, because of its application and business potential. Therefore, traditional enterprises such as telecommunications and postal service public sector suppliers, as well as others recently in the market (cable TV distribution companies, overall media concerns, softwares producers, and so on) are evaluating and deciding their participation in the market that will probably be the largest one in the next years.

The American government, considering this scenario, launched a specific program to build National Information Infrastructure - NII - in September 1993. Its purpose is to endow the United States with a broad and strong telecommunication network and its respective control and application softwares to enable the country to embark on a new economic and social revolution. This program, also known as "Information Highways," has been accomplished, and it is creating opportunities for internationalization through Global Information Infrastructure - GII.

In February 1995, the so-called Group of Seven examined the proposal for the creation of GII. During that meeting, the G7 country ministers identified projects in which international cooperation might be an advantage. These projects aim at demonstrating the potential of an information society and encouraging its implementation.

The developed countries' approaches towards information highways highlight the importance of this subject for the future of people and economies. It will enable broader dissemination and easier access to information.

Moreover, people and companies throughout Brazil and the world will even depend on physical interchange of goods. So ECT must be aware of this revolution in order to take advantage of the opportunities offered by new technologies and the economic development that will come with them.

3. Postal Service World Trends

Postal activities were traditionally carried out all over the world by state organizations under a monopoly. The lack of competitors led postal services to attribute inadequate priorities to their clients' needs until the sixties. Manual processes were employed, making the postal service inefficient and irregular. Nevertheless, the first private companies providing transportation services for documents and goods appeared on the market, introducing competition.

Therefore, the state-owned postal services started operating within a competitive framework. The customer began to be emphasized and the need for modern market-driven services was exposed. The former public postal agencies, as in Brazil, were transformed into state companies, in order to face the challenge of growing and diversified demand.

Universal Postal Union - UPU - points out figures that outline the postal market dimension. In 1995, for example, considering only domestic traffic, the world postal services were responsible for transporting about 450 billion letters and printed matter, and 4.6 billion parcels, as can be seen in the following table:

WORLD MAIL TRAFFIC

Domestic Services - Numbers of items mailed per year

Parcels (millions)		
Industrialized Countries	355,000	3,362
Asia-Pacific	56,000	355
Europe	7,300	48
America	5,000	42
Africa	1,200	0.6
Arabian Countries	1,100	0.6

Source: PASTE Project

Since 1987, the world domestic mail traffic has been growing annually at a rate of 2.2% for letters and printed matter, and 5% for parcels, throughout the world.

UPU data also indicated an average of 82 items (letters, printed matter and parcels) per person per year in developed countries, compared to less than 1 in developing countries, in 1992.

The postal services are passing through a structural transformation due to the introduction of new information technologies. Until 1960, the only competitor of letters and telegrams, and therefore of the postal services, was the telephone. Since then, many others have appeared, such as courier companies, fax, telex, internet, etc.

The mail services' market share is diminishing in the communication market. However, the whole market has expanded considerably. This means that new technologies have not entirely replaced the postal activities. Actually, they have created new opportunities for complementary activities.

According to International Data Post - IDP - an institution specialized in technology research, development, and marketing, about 70% of world mail is generated by computers. Fax machines, fax modems and pagers' sales have also significantly grown.

Besides that, the world traffic of objects is especially originated by companies, as follows:

WORLD POSTAL SERVICES

Flow of Objects

To From	Institutions	Households	Total
Institutions	35%	50%	85%
Households	5%	10%	15%
Total	40%	60%	100%

Source: PASTE Project

The evolution of technology has been changing the postal service clients' profile and their way of doing business. As a result, the demand for standard mail (letters, grouped letters, printed matter and telegrams), which is protected by law as a monopoly in many countries like Brazil, will sharply decrease in a few years. On the other hand, parcels, catalogue sales, and electronic mail point to challenging and potentially profitable markets in a very competitive environment as these activities are opened to the private sector.

Moreover, the postal legislation tends to change in many parts of the world. This means that the traditional monopolistic activity might encounter a very different situation in the near future.

The government postal institutions are even responsible for the major part of the market in terms of income. Nevertheless, the participation of couriers is getting higher each year.

Private companies dominate over 90% of the express airborne parcel market in the United States and Germany, according to IDP. On the other hand, this market is mostly and

efficiently exploited by a state company in France, which is characterized by high quality and very diversified range of services, including its participation in the financial market.

The outlook for the next years consists in a scenario in which state postal services will be compelled to render services with higher technological efficiency, to reduce costs and to review prices. In addition, the monopolistic position tends to disappear in many countries.

Economy globalization and hemispheric integration will demand from postal institutions diversified and modernized processes that are summarized in the PASTE Project as follows:

- repositioning of postal services to diversified service providers;
- implementing non-conventional services as hybrid data interchange (HDI), financial services, assistance to companies in managing their internal message delivery systems, etc.;
- establishment of a franchising system for private investors so as to increase profit margins and raise efficiency levels;
- establishment of strategic alliances through associations and operational agreements with state-owned and private companies, customers, suppliers, and even competitors;
- investing in technology aiming at eliminating manual contact in parcel sorting and creating units specializing in research, development, and marketing of postal technology;
- reduction of costs for greater productivity gains by reviewing traditional postal operating processes.

4. The Brazilian Postal Service

The Brazilian postal service is provided by a state-owned company named Empresa Brasileira de Correios e Telegrafos - ECT - that means in English, Brazilian Post and Telegraph Enterprise, which integrates the Ministry of Communications. Its structure includes the headquarters, located in Brasilia/DF (the Brazilian capital) and 23 regional offices, located in each capital of the states forming the country.

This company was established in 1969 in order to replace the former Post and Telegraph Department that did not render services satisfactorily to the customers. Besides, that Department had accumulated operational deficits supported by the taxpayers.

ECT was created with the purpose of restoring the postal service. It is possible to detach three distinct stages in ECT's evolution, such as:

1. 1969 - 1979, structuring and creation of operation technical systems;
1. 1980 - 1989, improvement of these systems;

1. after 1990, implementation of new and diversified services, facing market challenges.

ECT has been committed to pursue high quality operational standards according to speed, depending and safe concepts. From its two first stages, one can observe some important implementations, as registered on PASTE project:

- Night Postal Network creation, in 1974, by leasing space in private companies' aircrafts in order to transport the mail;
- graduate program establishment in Postal Management, aimed at training and hiring high level workers. It took place at Catholic University of Rio de Janeiro from 1972 to 1978, and after that was transferred to Escola Superior de Administracao Postal - ESAP - a ECT's college created in Brasilia in 1978;
- implementation of mail delivery centers and rationalization of postmen delivery routes;
- electronic sorting machines installment for letters and parcels in the cities of Sao Paulo, Rio de Janeiro, and Brasilia;
- implementation of new services and facilities, such as:
 - SEED - Special Document Delivery Services;
 - SERCA - Grouped Mail;
 - SEDEX - National and International Express Parcel Special Services
 - FAC - Authorized Letter Mailing;
 - SAU - Customer Support Service;
 - the Amazon River Network creation;
 - usage of bar code technology to track parcels and registered letters.

The current stage is stressed by an important shift in the company's business focus. Previously, the company was worried about its operational systems, creating facilities to provide better services. However, it was done in relation to the company's point of view, disregarding the clients' needs and expectations.

Since the late 1980's, ECT has been focused on its clients and the market place, shifting its attention towards emerging demands and new business opportunities in order to broad its performance in a competitive market.

Thus, ECT has been characterized by an aggressive marketing profile, incorporating new selling skills and functioning as a "service agency," aiming at enhancing its revenues and spreading its market share.

The "service agency" concept means taking advantage of its structure, post office network and experience. One can highlight some of the main implementations related to its current stage, as following:

1. as a government supporter;

- distribution of text books and medicines,
- collection of federal, state, and local taxes and fares,
- passport solicitations,
- benefit solicitations from National Institute for Social Welfare,
- effective participation in the election process,

1. as a productive sector partner;

- transportation of blocked cargo,
- distribution of special objects for banks,
- absorbing non-operation outsourced activities,
- telemarketing.

Moreover, ECT has reduced the need of huge investments in rising its postoffice network by franchising to private entrepreneurs.

This sort of partnership with the private sector has enable ECT to open over 2,000 new branches since the late eighties. Generally, customers have benefited from the franchising system by having easier access to postal services.

Despite all these implementations, ECT has been affected by structural problems, due to the centralized decision making process and limited management possibilities, involving price determination of non-standardized services, bureaucratic bid processes, government wage policies, public contests, and budgetary constraints, as well as curtailing of annual investment programs and slow absorption of new information technologies.

However, ECT has made a huge effort to maintain the service quality at the level of advanced postal services. Because of that, it enjoys a high reliability in Brazil, according to surveys carried out by research institutes.

ECT is responsible for processing about 4.8 billion items per year, and its structure consists on:

- over 10,000 post-offices, including franchising network;
- roughly 400 sorting and delivery centers;

- over 6,400 vehicles, 50 airplanes and 5 boats for cargo transportation, considering leasing;
- 78,000 workers.

5. The Brazilian Postal Market

ECT's market share and revenue distribution are depicted as follows:

ECT's Market Share and Revenue Distribution

	Market Share	Revenue Distribution
Domestic Market of Letters, Grouped Letters and Telegrams (monopoly)	100%	51%
Domestic Market of Express Parcel Delivery	90%	15%
International Market of Express Parcel Delivery	15%	0.9%

Source: PASTE Project.

The Brazilian Post and Telegraph Enterprise performs in a unique marketplace. The segment related to letters, grouped mail and telegrams still remains monopolized, whereas other services are subjected to competition from private companies, including parcel segment that is one of the most challenging and profitable ones.

In the recent years, the monopolized services have been responsible for over half the total companies' revenue. As it can be seen in the previous table, it is roughly 51% of overall revenue.

Regarding to the 49% of total revenue, which is provided by the non-monopolized market, one can highlight the outstanding performance in the domestic market of parcels, where ECT detains 90% of that market and obtains 15% of its revenue.

However, shifting the attention to the international market, one can observe a very weak performance. ECT gains only 0.9% of its revenue from that market and lets its competitors take 85% of that market.

This can be partly explained by the strength of its competitors in the international environment, concerning:

- the fact that they are multi-national companies with offices all over the world, whereas ECT depends on postal services of other countries. This might affect quality, due to their different level of development.

- the use of technology to track parcels, to provide fast and efficient information to its clients, while ECT deals with the same limitations aforementioned and, in addition, less automatic operational processes;
- lower prices, generally charged by competitors.

Next table shows ECT's revenue composition per clients' economic activities:

Revenue per Clients

Economic Activity	Revenue Share
Private Banks	44%
State-Owned Banks	13%
State-Owned Companies	8%
Households	6%
Others	29%

Source: PASTE Project.

These figures demonstrate the importance of companies in its revenue (94% of the total), and the relevance of the banking system (57% of the total). State-owned companies should also be stressed, since they are responsible for 21% of the overall revenue.

This revenue composition reveals that ECT depends significantly on the banking system as well as on state-owned companies. This means a risk to ECT business.

According to the willingness of the Brazilian government, state-owned companies tend to become private and, therefore, they might reduce their mailing expenses, concerning adjustment programs or substituting ECT's competitors for the current service provider (ECT). The banking system has been the pioneer in terms of automation in Brazil, and because of that it is supposed that many facilities will be created, such as the dissemination of electronic card use, diminishing the need for using mail.

Substantial sales have been done through interactive media, for instance: TV purchasing, video catalogues, computers, phones, fax machines, etc. This environment is not common in Brazil yet. Nevertheless, the recent history of technology development and assessment has shown that this happens very fast. It is expected that this technological environment will become reality in a few years, even in Brazil.

Then the demand for standard mail (letters and telegrams) will decrease sharply in the near future. The timing in which this market will significantly shrink to ECT depends upon the timing that Brazilians need to get access to high-tech devices.

Even though, ECT is also a transport company, and it is spread throughout the country. No competitor, domestic or international, has gotten the same structure. ECT should take advantage of this feature.

The aforementioned technology devices facilitate the contact between catalogue selling companies and their clients, and easier contacts will generate more sales. Besides that, a stable currency and the increasing economic activity stimulate the direct mail and parcel segments. Therefore, more products will have to be delivered, and ECT should be prepared to meet this demand. Summarizing, any transaction that demands physical delivery is a huge business opportunity to ECT.

The economy deregulation, the MERCOSUR consolidation and the expected hemispheric integration point to a greater market competition as well as to potential growth in the direct mail market. ECT renders services to meet this specific demand related to consumer and supplier approximation. Brazil's geographic characteristics and the spread out post-office network favor ECT's performance.

According to the PASTE Project, developed countries' direct mail services and express parcel delivery account for over 50% of postal companies' total revenues. In addition, it emphasizes the annual growth expected in this market, along the nineties as follows:

- Direct Mail 8 to 15%
- Express Parcels 15 to 20%

ECT's management must also distinguish significant customer segments, regarding social and economic features. The low income population should keep on being assisted by a standard and economic range of services.

On the other hand, ECT should invest on new services to meet the demand from working people and urban populations, concerning a combination of technologic facilities with physical distribution. These new services are known as Hybrid Mail or Hybrid Data Interchange - HDI.

Another important concern is related to developing skills to monitor and evaluate the market continuously. This will allow ECT to anticipate new demands and to identify market trends, assuming a pro-active posture.

Taking into account this scenario, the succeeding participation of ECT in this new competitive framework relies on ensuring continuity of service quality improvement processes as well as increasing productivity and exploiting new possibilities of postal communication.

6. ECT's Developing Investments

The Ministry of Communications has launched the "Recovery and Expansion Program for Telecommunication and Postal Systems," establishing a set of guidelines and goals to be executed from 1995 through 2003. The so-called PASTE, its Portuguese language

acronym, foresees investments of about R\$3.9 billion in the postal system during the aforementioned period. These investments are supposed to provide ECT with the necessary infrastructure to compete in the domestic and international markets by rendering high quality services.

These investments are divided in programs and projects, covering all the strategic areas of ECT. They are:

Industrial Complex Recovery and Expansion Program

This program aims at modernizing the postal productive system's efficiency, increasing productivity in operational activities, such as sorting, packaging, forwarding and distribution.

The main projects are:

- sorting mechanization;
- track and tracing;
- automation of cargo terminals and outposts;
- use of containers;
- auxiliary sorting equipment;
- engineering works.

Counters Improvement and Expansion Program

Counters consist of ECT owned and franchised offices, that are the link between the company and significant part of its clients. Moreover, the post offices represent the image the customers have about ECT. This program targets enlarging the range of available services, offering new possibilities and modernizing the current ones.

The projects are:

- information to customers;
- office automation;
- self-service;
- smart card;
- mailboxes for parcels;
- smart mail boxes;

- engineering undertakings.

Transportation

The transport system is responsible for linking the several points of the ECT's operational structure. Through it, the operational units are commuted, allowing the interchange of objects until they reach the addresses. This area assumes a strategic position considering the new market trends towards an increasing in the volume of parcels, due to booming catalogue sales.

The program includes the following projects:

- vehicle tracking;
- transportation system automation;
- telecommunication network;
- engineering works;
- fleet recovery and expansion.

Advanced Mail Program

This is related to the new postal service implementations. These services will combine modern information technology resources with the physical distribution. This service category is known throughout the world as Hybrid Data Interchange.

It comprehends the following projects:

- electronic mail;
- telecommunications network;
- computing platform;
- text, voice and image mail.

Management Adjustment Program

This program focusses on management automation and information systems by recycling and preparing employees to deal with these new tools

The projects involved are:

- training and development;
- management automation;

- engineering works.

Research and Development Program

The research and development functions shall be introduced in order to allow the absorption of technology encompassed with the evolution of the existing options and the developing ones, according to the post offices' operational needs.

This program contains one project as follows:

- implementation of the research and developing center.

The summary of the PASTE records, involving the investments in the postal service, is attached to this paper.

7. The Prospects for ECT

The Brazilian government has been committed to reduce its participation in the economy. Many actions have been carried out in order to sell state companies to the private sector. These measures aim at encouraging competition, by creating the adequate atmosphere to allow entrepreneurs to improve productivity and goods' quality.

The government believe that customers, in the end of the production chain, will be better-off, benefiting from a wide and diversified supply of goods with affordable prices as well as from the government's social investments that will be made possible since they will not be in charge of running businesses so far.

This discussion about the new role of the Brazilian government is a current and controversial theme. However, this subject will be dismissed by now, because of two important peculiarities:

- ECT is subjected to a fierce competition by private companies, even though it retained the monopoly of the delivery of letters, grouped letters and telegrams. Probably, it is one of the reasons why ECT has not been included as a priority in the privatization program yet;
- ECT has always been concerned with achieving surpluses and providing high quality services. So its management has been modern and flexible. The company has been aimed at the clients' needs and at the market trends. These features approximate it to the private management style rather than to the public one. Even so, the company has been affected by government policies, especially those concerned to managerial and economic affairs.

Anyway, ECT should remain competitive and lift its market share, disregarding whether it should or should not be a state owned company. At the present moment, ECT is simply seen as a company that must drive its business towards the leadership of a competitive market in a large and developing country.

In that way, it is supposed that PASTE investment program will provide the necessary means to allow ECT to accomplish tasks towards the broadening and improvement of conventional structure, as well as the absorption of technology for process automation and new service development.

Besides this structural basis, it is expected that ECT will take advantage of its main features, reliability, ubiquitous and experience, in order to benefit from the new business opportunities that will come with the hemispheric integration and the globalization process.

According to these assumptions, ECT should focus on the following services and facilities:

Post-office network

This is the ECT's most visible unit and should be emphasized because of its broad contact with the customers. Therefore, the company should prioritize the following issues:

- expansion of the retail offices and sale points, with private sector partnership, strengthening the franchising system;
- keep on transforming in customer service units, diversifying service and product supply, through the development of new partnerships, benefiting from its wide network;
- development of advanced counter services, including self-service devices for pricing, payment of utility bills, as well as purchasing of stamps, envelopes, and parcel boxes;
- automation of operational processes, making the employees' tasks easier and faster;
- installment of terminals for searching about services and formal complaints;
- installment of collecting boxes for letters and parcels, in order to reduce the assisting time and, therefore, the lines in post-offices.

Hybrid Data Interchange

The electronic handling message system consists of a very important market to be exploited by ECT, since it is the only company able to offer to its clients the remote printing and physical delivery. This marketing plus makes ECT distinguished from the other current competitors.

ECT has been developing many actions in order to launch a new service called Master Post to compete in this market. These actions should be accelerated, otherwise the company might lose this opportunity.

Direct Marketing

The evolution trend, observed in this market, suggests that ECT should spend time organizing the operational structure that deals with printed matter in order to offer faster

services. Rapidity is fundamental to catalogue sale businesses.

Other services might be aggregated, in order to sell data lists to direct marketing enterprises. This service is already common in many countries, such as the USA.

Parcel Delivery

This segment will be improved by the Direct Mail segment. It should be prepared to the demand increase, otherwise the customers will not be satisfied and might seek other alternatives, such as the use of competitors' services.

Moreover, Brazilian economic growth as well as the globalization processes will demand more package transportation, in a fast and reliable way. ECT should prepare its vehicle fleet and cargo terminals to deal with a huge and diversified cargo.

In that sense, there is already an ongoing project to launch the service called "Industrial Parcel" aimed at assisting large and weighty package demand that ECT has a very small market share.

Outsourcing Agent

This is a very special segment that has been firstly exploited in Rio de Janeiro city, by ECT's Regional Office. This consists in assuming the distribution system within a given company (ECT's client), rationalizing its flow of correspondence.

This service can be rendered in two ways, partly or completely. This means that ECT might provide only the consulting service, related to organize the communication inside and among the client's buildings, or, in addition, execute the organized system with its employees within clients' buildings.

The extra advantage of this sort of service is that once ECT is handling its clients' correspondences, it should drive them to its standard services, in case of external mail, for example: from ECT's clients to their clients or suppliers or other companies.

Finally, most of the main marketing and managerial strategies were stressed in this paper, in order to keep ECT in the leadership of the communication market. Although the environment changes very quickly and the new challenges are enormous, the Brazilian Postal Service should be aware of taking advantage of them for a successful future.

Attachment

POSTAL SERVICES

Investment Program Summary

(R\$ millions)

Program	1995 - 1999	1995 - 2003
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Industrial Complex Recovery Expansion	657.8	1,153.4
Counter Service Recovery and Expansion	285.7	739.6
Transportation Recovery and Expansion	363.5	740.0
Advanced Mail	183.1	271.6
Management Adjustment	357.5	931.0
Research and Development	65.0	55.0
Total	1,912.6	3,890.6

Source: PASTE project

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