



DEPARTMENT OF COMMUNICATIONS

Deliverable 2B: MARKET SECTOR ANALYSIS

15th July 2013

Submitted by:



DEPARTMENT OF COMMUNICATIONS

Postal: Market Sector Analysis

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1. Executive Summary

Purpose and Structure of the Document

This document constitutes the second deliverable (Deliverable D2B Report) – on the review and evaluation of Postal Policies; undertaking research and analysis. The final output of the project is to produce a Postal policy review report with recommendations for consideration by the ICT Review Panel. This report follows Deliverable D2A report; which focuses on the review of existing policies, laws and regulations in South Africa since 1994. Together with the Document review report (Deliverable D2A) and the International Benchmark Report, this Market Analysis report will form a comprehensive Situational Analysis report.

This report provides an analysis of the current postal market; exploring the sector based on the reserved, unreserved and banking division of the South African Postal Services. It is based on extensive desktop research on the South African Postal Services, the unreserved sector and the global trends.

This report provides a clear outline of the postal market sector, the forces at play, and what the general trends are both domestically and internationally. To this end, the report is structured as follows:

- Section 1: Global Overview
- Section 2: South African Overview
- Section 3: Postal Trends in South Africa
- Section 4: Banking Trends in South Africa
- Section 5: Market Size
- Section 6: Revenue
- Section 7: Market Share
- Section 8: Market Analysis
- Section 9: Competitors
- Section 10: Factors for Success
- Section 11: Substitutes
- Section 12: Barriers to Entry
- Section 13: Gap Analysis
- Section 14: Conclusion

Introduction

This report provides a market analysis of the postal sector in South Africa. The postal sector is broadly defined as mail and courier business for letters and parcels. A definition as per the Postal Services Act (1998) is provided, and an analysis, encompassing global and local trends as well as a review of market size and market share is undertaken. The competitive landscape as well as barriers to entry and factors for success are explored. The banking and savings market is also examined, within the context of Postbank and its intended transformation to a fully-fledged bank.

Key Findings

While mail volumes consistently increased in the last century, the 21st century is marked by a general decline in postal volumes and revenue. Letter mail is the most dramatically reduced type of mail. This is due in part to electronic substitution (e.g. e-mail, text messages and social networks) but also customer preference for expedited or secure services offered by courier companies. However, parcel mail is increasing, driven largely by e-commerce and the requirement for deliveries.

The flow of mail has transformed from a two way communication process, to a one-way flow. The mail business is increasing moving towards “pull” i.e. a customer or business requests an item, rather than “push” i.e. a business or friend sends a letter.

Further, there is increasing pressure from the global arena to liberalise network infrastructure, and South Africa is not immune to this.

In the banking sector, savings and full transactional banking is currently fiercely contested by the Big 5 (ABSA, Capitec, First National Bank, Nedbank and Standard Bank). The Postbank is seeking to transform itself from a savings bank to a fully-fledged bank. Once licenced as a bank, the Postbank will be able to offer a variety of credit and transaction products. In addition to competition with the market incumbents, all banks are facing competition for the market. Mobile banking, e-commerce and till-point transactions are increasingly making retail banking redundant and these alternatives is something to be aware of going forward.

2. Global Overview

Recession

The global economic recession that began in 2008 has continued well into 2013. The outlook for growth remains pessimistic for the remainder of the year and 2014. In July 2013, the IMF revised its growth forecast for 2013 downwards, stating "the global economy is growing more slowly than expected"¹. South Africa has not been immune to the effects of this global downturn and consequently, most sectors in the South African economy have experienced a decline in volume and / or revenue.

Liberalisation of network industries

There is a growing trend, and pressure globally to liberalise network infrastructure services. Postal Services are viewed within this framework, and within the OECD, a philosophy that liberalisation brings commensurate investment and developmental opportunities prevail. South Africa, a signatory to GATS, finds itself under increasing pressure to liberalise these industries.

Supply Chain and Logistics

Managing the supply chain in all industries is becoming increasingly important given the current global economic downturn, and therefore the role and effectiveness of logistics companies is increasing. Postal Services companies are uniquely placed to actively participate in the logistics sector given their considerable infrastructure and national and international delivery networks. The Middle Eastern Freight and Forwarding Logistics group, GAC, announced on the 10th July 2013 that it has relocated its regional office for Africa, Russia and Central Asia to Cape Town. They stated "South Africa's modern infrastructure and well-developed financial, legal, transport, communication and energy sectors are factors which provided a strong motivation for the relocation. The Regional Office will assist the individual GAC companies' in the Region to implement their strategies. We are looking forward to tapping into South Africa's experienced and well-educated workforce to support our continued business development. This region is one of the world's most dynamic growth regions, with seven of the world's ten fastest-growing economies are found in sub-Saharan Africa."²

¹ Announcement sourced from: <http://www.imf.org/external/pubs/ft/survey/so/2013/NEW070913A.htm>

² Announcement sourced from: www.handyshipping.com

Global Postal Trends

In 2011, UPU member countries' designated operators provided work to approximately 5.4 million people and generated revenue of US\$ 197bn. In total, 368bn letter post items were handled across the globe.

According to the UPU 2011 Report, letter post remains the largest revenue source for postal services globally, however this is in decline (see Appendix A for an example of declining volumes in 6 European countries). The decline is in part due to the recession, but more attributable to electronic substitution effects (e.g. email or sms) than competition from other market players. Conversely, postal parcel volume has been increasing both domestically and internationally over the last decade.

Total postal revenues declined in 2011, however, the UPU ascribe this to a short-term interruption in the market due to the recession, and not a postal trend. The global trend is increased total revenue. In the previous decade (2001-2011) mail volumes doubled in Latin America, Europe & CIS and Arab countries, while more modest growth was seen in Africa, Asia-Pacific and Industrialised countries.

3. South African Overview

National Development Plan (NDP)

The primary objectives of the National Development Plan are growth and jobs, education and skills, and a capable and developmental state.

While the achievement of the objectives of the National Development Plan requires progress on a broad front, three priorities stand out:

- raising employment through faster economic growth
- improving the quality of education, skills development and innovation
- building the capability of the state to play a developmental, transformative role

In pursuit of achieving this vision, a key and specific goal of the NDP is to deliver 5 million jobs between 2010 and 2020 and 11 million jobs by 2030, this equates to reducing unemployment to 14% by 2020 and 6% by 2030. Another goal of the NDP is to achieve an economic growth rate of above 5% a year.

The Postal Service can play an instrumental role in achieving the goals of the National Development Plan, in the following ways:

NDP Priority	Postal Services Contribution
raising employment through faster economic growth	Efficient infrastructure lowers the cost of doing business and attracts new business to South Africa
improving the quality of education, skills development and innovation	<p>Educated workforce in the Postal Sector and continuous skills development programmes</p> <p>Leverage retail and broadband footprint to create new products and services and also provide a platform for citizens to innovate</p>
building the capability of the state to play a developmental, transformative role	In collaboration with government and the regulator, Postal Services can facilitate national development and transformation

4. Postal Trends in South Africa

Prior to 1994, postal addresses and mail delivery was racially biased to owing the laws of the previous regime; post 1994, the South African government set out to provide services to all hence the White Paper on Postal Services (1998) that set out clear guidelines for all citizens to have equal access to a basic letter service. As a result, when SAPO was awarded their 25 year licence with a monopoly in the reserved area, Universal Service Obligations were placed on the Post Office, to roll-out further retail infrastructure as well as delivery addresses to citizens. The obligation of rebalancing and serving of the network remains an on-going project for the Post Office.

Over the years, the Post Office has realised a decline in the mail traffic volumes. Ten years ago, SAPO was delivering 7 million pieces of mail a day; this is not the case in the recent

years as the post office has seen mail volumes decline to around 6 million pieces a day. Notwithstanding the declining mail volumes the Post Office has, in recent years, rolled out an additional 10 million addresses over the last 5 years. South Africa is no different to the rest of the world regarding electronic substitution. E-mail and text messages, as well as social media platforms allow for instant and often free, if not cheap, communication. However, there remains a strong desire for customers to receive invoices in hard copy in the post. In Europe this figure ranges from 66-78% (Appendix B). In South Africa, this figure is above 80%. One of the four major banks disclosed to the authors of this report that mail remains a key channel for delivery of statements as well as advertising this is because:

- many people feel overloaded with the amount of internet advertising they receive and therefore tend to disregard it. Therefore, mail remains a popular channel for this particular bank to reach its customers.
- many people do not have facilities at home to print statements or other items emailed to them and therefore prefer to receive items in hard copy.

Despite the decline in mail volumes over the last decade, price increases have allowed the Post Office to continue growing revenue in this part of their business. Mail revenue is by far the largest portion of income for SAPO, accounting for 73% of the Group's income.

In the past, SAPO received subsidies from government. This has reduced from R306 million in 2010/11, to R180million in 2011/12. The financial year 2012/13 will be the last year the Post Office receives a subsidy (R52 million). From 2013/14, SAPO will no longer receive a government subsidy.

Expansion of services and offerings

As with all postal services globally, the Post Office has sought ways to leverage its current infrastructure (IT, retail and logistics) to diversify its sources of income. SAPO has been particularly good at this, offering agency services such as

- motor vehicle licence renewals (2.7m in 2012)
- collections on behalf of 100 municipalities
- Social Grant payments (8.5m social grant recipients through SAPO in 2012)
- Share scheme distribution

As part of its extended services SAPO also provides financial services through the provision of a savings bank. This has been part of SAPO's mandate for a century, and has been provided through the Postbank; a subsidiary of the South African Post Office. This has allowed SAPO to

further diversify their income stream away from mail revenue; and more so with the recent development to licence the now corporatised Postbank.

As the economic downturn continues and is predicted well into the following year, SAPO, like all companies, seeks to find savings in the current economic climate. The Post Office has noted that a focus on logistics and supply chain management has evolved and SAPO recognise the value of their logistics infrastructure and network. The Post Office plans to better integrate the courier and logistics businesses to achieve synergies, reducing duplication and increasing efficiencies for the end user.

Thusong Service Centres

The integration of government information and services, as well as providing ICT access to socially and economically isolated communities is at the heart of the Thusong Service Centres. The government's vision is to provide everyone in South Africa access to information and communication services near to their place of residence and in each local municipality by 2014. 171 Thusong Service Centres were operational at the end of March 2012.

Thusong Service Ministers offer a one-stop integrated community development centre. The service model includes:

1. government social and administrative services

- a. grants
- b. personal documents
- c. housing applications

2. office services

- a. phone, fax, scan, copy and print
- b. desktop publishing
- c. postal services

3. education and skills development services

- a. Adult Basic Education and Training (ABET)
- b. further Education and Training
- c. specialised training

4. local economic development (LED) services

- a. small business advice and development

5. business services and community opportunities

- a. small, medium and micro enterprises
- b. other private-sector services such as retail and ATMs

6. information and communication activities

- a. government information and on-site guidance regarding services
- b. community information and awareness

5. Banking Trends in South Africa

The Banking Regulation Department at the Reserve Bank of South Africa cited the following topics as the 3 key topics in 2012:

- unsecured lending
- banks' African strategies
- recovery and resolution planning

Unsecured lending

At the end of 2012, the South African banking sector's total unsecured gross credit exposure was R441 billion. Unsecured lending includes:

- personal loans
- overdrafts
- credit cards
- financing provided to SMEs in the retail sector

Capitec and African Bank are highly exposed in this area, and the Sunday Times (14th July 2013) reported that Moody's Rating Agency is concerned about rising bad debts for these providers.

Africa Strategy

Banks have recognised that to grow revenue, they will need to seek business outside of the borders of South Africa and have embarked on a variety of strategies (e.g. acquisitions and opening new operations) to expand into the rest of Africa.

Recovery and resolution planning

All systemically important financial institutions (SIFIs) are required to have recovery and resolution plans (RRPs) in place. RRP's are one of the instruments that could be activated, should and SIFI become distressed, without recourse to public funds.

Banks are required to develop their own recovery plans to assist management recover from distress on its own.

Recovery plans are put in place to address:

- liquidity stress
- capital inadequacy
- operational disruption of critical functions

Resolution plans are in place as the last stop measure, should recovery plans fail. The two key features of the resolution plan are:

- minimise the cost of failure of a bank
- limit the use of public funds to resolve banking issues

Recovery and resolution planning continues to be an area of attention from the Banking Regulatory Division at SARB in 2013.

Postbank and the Bank Supervision Department (of SARB)

In their 2012 report, the Bank Supervision Department (BSD) mention concerns about discrepancies in the Postbank Act and Banks Act. As a result of this, the Department of Communications gazetted the South African Postbank Limited Amendment Bill in October 2012 to close any gaps identified by the BSD.

General Banking Trends

All major banks in South Africa have facilities for electronic banking.

Banks are increasingly developing Apps that customers with smartphones or mobile devices can use to access their bank accounts and conduct some transactions over the internet.

E-commerce and secure payment gateways remain important to retailers and banks; the Department of Communications continues to lead the debate in mitigating this problem through cyber security strategies.

While mobile money and e-money have been introduced into South Africa, the uptake for this type of 'money' is fairly slow so far.

The Banking Big 5 (Standard Bank, First National Bank, ABSA, Nedbank and Capitec) all make use of social media platforms, to lesser and greater degrees, such as Facebook, twitter, MXit, LinkedIn, YouTube, and Google+ to stay in touch with and communicate with their customers.

6. Market Size

Reserved postal services

Reserved Postal Services is defined in the Postal Services Act (1998), Schedule I as follows:

1. The reserved postal services include –
 - a. all letters, postcards, printed matter small parcels and other postal articles subject to the mass and size limitations of paragraph 3;
 - b. issuing of postage stamps; and
 - c. the provision of roadside collection and address boxes.
2. For the purposes of this Schedule, a letter means any form of written communication or other document, article or object that is directed to a specific person or persons or specific address and is to and is to be conveyed other than by electronic means and includes a parcel, package or wrapper containing any such communication or article conforming to the mass and size limitations set out in paragraph 3.
3. The reserved postal services included all items described in paragraphs 1(a) and 2 of a mass up to and including one kilogram as well as dimensions which enable it to fit into a rectangular box with the following dimensions:
 - length 458mm
 - width 324mm
 - thickness 100mm
 - Cylinders having a maximum length of 458mm and 100mm thickness and a mass of up to one kilogram are regarded as letters.
4. The following exemptions from letter mail apply and are not subject to licensing in terms of this Act:
 - a. Delivery by an employee of the sender exclusively for the private affairs of the sender;
 - b. unaddressed mail;
 - c. the exchange or service of legal process, proceedings, pleadings, affidavits or depositions;
 - d. letters exceeding the stipulated dimensions or mass
 - e. occasional letters delivered by an individual not in the business of delivering letters;
 - f. trade announcements, circulars, printed extracts from newspapers, or advertisements which are not addressed to any person;
 - g. newspapers and periodicals.

The Post Office has a 25 year operating licence, issued in 2001. The amended licence, issued in 2012 affords SAPO exclusivity in the reserved area, in line with the Act, which is a 5-year period. This exclusivity is dependent on the Post Office delivering on its obligation to roll out further street and post box addresses and retail infrastructure to currently under-served areas.

In its 2012 Annual Report, SAPO Group Revenue stood at R5,935m, of which R3,976 was derived from the mail business.

Unreserved

This is defined in the Postal Services Act (1998), Schedule II as follows:

1. Unreserved postal services include-
 - a. all letters, postcards, printed matter, small parcels and other postal articles larger or heavier than the dimensions set out in item 3 of Schedule I up to and including 30 kilograms
 - b. courier services in respect of items mentioned in paragraph (a); and
 - c. any other postal service that falls outside the ambit of the reserved services as set out in Schedule I.
2. The following exemptions apply to unreserved postal services and are not subject to registration in terms of the Act;
 - a. Delivery by an employee of the sender exclusively for the private affairs of the sender;
 - b. unaddressed mail;
 - c. the exchange or service of legal process, proceedings, pleadings, affidavits or depositions;
 - d. occasional letters delivered by an individual not in the business of delivering letters;
 - e. trade announcements, circulars printed extracts from newspapers or advertisements which are not addressed to any person;
 - f. newspapers and periodicals

This is what is commonly thought of as speed deliveries, expedited services, courier services or some form of value added postal service.

The size of this market is currently impossible to determine as it would appear that many operators are not registered with the Regulator and there are some grey areas regarding the definition of parcels or postal services.

In its 2012 Annual Report, SAPO reported earnings of R671m for courier services out of a total revenue of R5,935m.

Postbank

The Postbank was established in 1910 as a savings bank; this means that they may not provide loans or overdraft facilities to its customers.

Since its establishment The Postbank is working in earnest to become a fully-fledged bank and is undergoing the necessary legal and regulatory processes to this end. Postbank is now a member of VISA and participates directly in the National Payments System (PASA). Both of these are pre-requisites for obtaining a banking licence.

In its 2012 Annual Report, SAPO reported that deposits grew by 6.9% in the year, bringing the total savings under management by Postbank to R4,258million.

Number of customers

Reserved

In South Africa, there are 33.7million adults over the age of 16. All of these adults should be considered customers of the Post Office.

In the 2012 Annual Report, SAPO committed to rolling out an additional 3.6 million addresses between 2011 -2013, and that they have serviced over 10 million new households in the past five years. The mail business division introduced 1,199,273 new addresses in the financial year ending 31st March 2012. In their 2012 annual report, the Post Office committed to providing an additional 3.6million addresses between the years 2011-2013. The amended Post Office Licence (government gazette 24 Feb 2012) has 2.3million new addresses between the years 2012-2014 as a target.

Unreserved

This sector is generally characterised by business to consumer and business to business transactions. Customers are both domestic and international individuals, general consumers and businesses.

Banking

Bank	SA retail customers
Standard Bank	10.4 million

ABSA	10.3 million
FNB	7.5 million
Nedbank	5.9 million
Capitec	4.7 million

Sourced from: <http://businesstech.co.za/news/banking/37442/is-capitec-really-the-4th-biggest-bank-in-sa/> (9 May 2013)

Once Postbank becomes a fully-fledged bank, it will be, by number of customers only, in the top 5 banks in the country. With over 6 million customers, Postbank will have a formidable customer base to launch new services and products in the lending, borrowing and investment sectors.

Number of companies offering a product or service

Reserved

The South Africa Post Office has a 25 year licence, issued in 2001, and is the only licensee in the reserved area. This exclusivity was confirmed in their amended licence conditions gazetted in 2012, and their monopoly in the reserved area was confirmed until 2017. Whether or not the Post Office keeps their monopoly in the reserved area will be dependent on their fulfilment of their universal service obligations.

Unreserved

The South African website for the yellow pages shows just over 2,000 listings under 'courier services' for South Africa (Appendix C). It should be noted however, that companies such as DHL or Sun Couriers have several listings and therefore 2,000 may be a gross overstatement, if one were to count DHL as one company and not all the branch listings. To date, ICASA has under 300 registered courier services.

Banking

Postbank is currently exempt from banking legislation as it operates purely as a savings bank. However, once licenced as a fully-fledged bank, and able to offer a range of products extending to loans and credit facilities, the Postbank will be competing with the full range of registered banks in South Africa, of which there are 17.

Table 4.1 South African banking sector: Number of entities registered or licensed

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Banks*.....	22	20	19	19	19	19	18	17	17	17
Mutual banks.....	2	2	2	2	2	2	2	2	2	3
Branches of International banks in the Republic of South Africa.....	15	15	15	14	14	14	13	13	12	14
Representative offices.....	44	43	47	43	46	43	42	41	43	41
Controlling companies.....	19	16	15	15	15	15	15	15	15	15
Banks under curatorship	1	0	0	0	0	0	0	0	0	0
Banks in receivership.....	2	0	0	0	0	0	0	0	0	0
Banks in final liquidation	1	2	2	2	2	2	2	2	2	2

* Includes active banks and banks exempted by the Registrar of Banks (with effect from 1 July 1996) in terms of the Supervision of Financial Institutions Rationalisation Act, 1996 (Act No. 32 of 1996) and section 1(cc) of the Banks Act, 1990

Banking Regulation Division, Annual Report 2012, page 28

7. Revenue

Postal Sector (reserved and unreserved)

According to the Statistics South Africa survey on Post & Telecommunications (2010, published in 2012), the value of postal & courier activities in the 2009/2010 year was R9,108 million. For a similar period, the Post Office Group reported an income of R5,552 million.

Banking

As at 31st December 2012, there was an industry total of R151,816m in 'savings deposits'³ of which the Postbank deposits accounted for the value of R4,258m of that total.

8. Market Share

Postal Sector (reserved and unreserved)

Using the revenue figures above for the industry and the post office, SAPO has 61% market share of postal and courier services. At this stage it is not possible to dis-aggregate the reserved and unreserved market share with the figures available.

Banking

According to the Banking Association of South Africa, 22.5 million people (67% of adults) in South Africa are 'banked'. It should be noted that many people have more than one bank account and have dormant accounts. Postbank has over 6 million customers. The launch of the Social Security Card (SSASA) may negatively impact the customer base or the transactional value of customers as some clients may migrate their entire account to SSASA. However, once a fully-fledged bank, Postbank will be well positioned to offer Social Grant recipients transactional products such as loans or overdraft facilities.

Using the figure of R151, 816m in domestic savings, Postbank currently represents 2.6% of this.

³ Bank Supervision Dept. Annual Report 2012, pg 88

9. Market Analysis

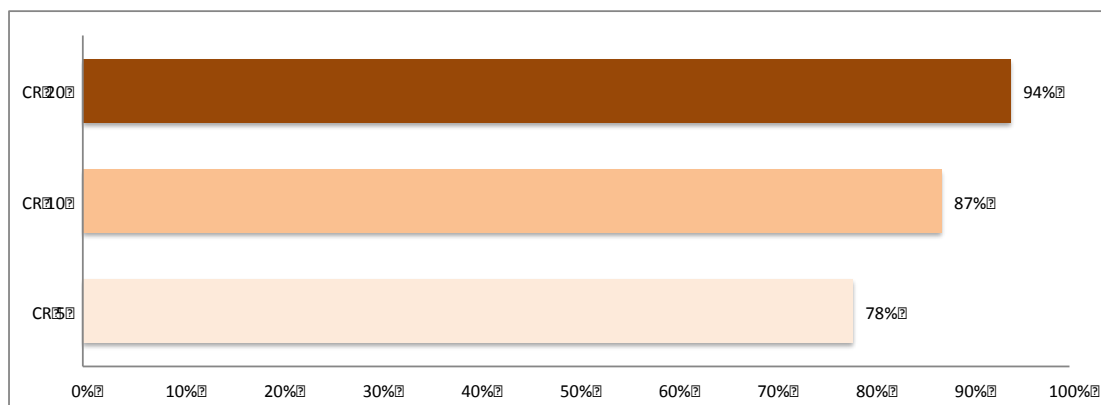
Concentration ratios (CR) for the national postal and courier activities (2010)

These figures reflect the income of the 5, 10 and 20 largest enterprises in the sector.

total income	R million	11 848
income of the 5 largest enterprises	R million	9 169
relative contribution of the 5 largest enterprises	%	78,1
income of the 10 largest enterprises	R million	10 309
relative contribution of the 10 largest enterprises	%	87,4
income of the 20 largest enterprises	R million	11 135
relative contribution of the 20 largest enterprises	%	94,9

Stats SA Report No. 75-01-01 (2010)

Concentration ratios (CR) for the national postal and courier activities (2010)



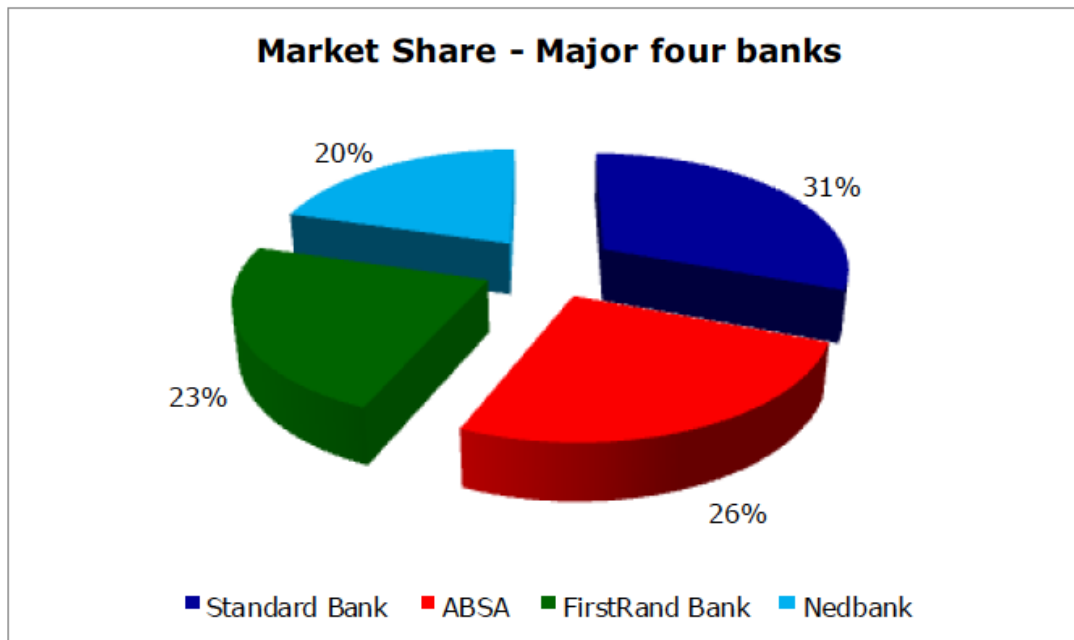
Stats SA Report No. 75-01-01 (2010)

In terms of market concentration, a zero would denote a highly fractured and deeply competitive sector with many small firms. A score of one indicates market concentration, where an industry is dominated by a few large firms. Given that there are at least a few hundred if not a few thousand companies in the industry, reviewing the total revenue for the 5 largest firms, the postal and courier sector has a concentration ratio of 0.78, indicating that this industry is highly concentrated.

Banking

Although there are 17 registered banks in South Africa, the four major banks represent 84% of total banking assets (R3,506bn). This makes for a highly concentrated industry. Of the four banks, the share of assets is depicted below.

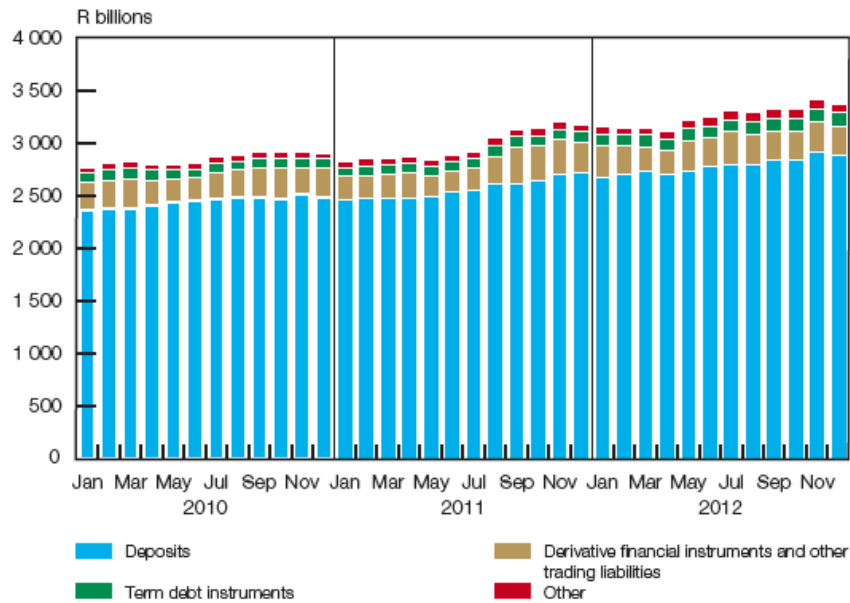
Market share of the major four banks, by asset value (June 2012)



The Banking Association of South Africa - South African Banking Sector Overview (Nov 2012).
pg 4.

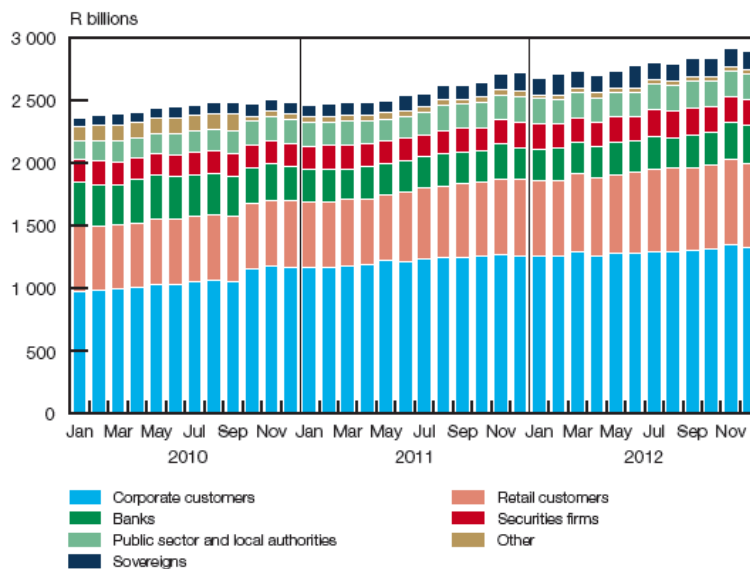
Postbank currently operates as a savings bank, and in comparison to the major banks fares quite poorly, with total assets under management within SAPO of R10bn.

At a national level, there is currently about R 2,500 million savings. See figure below.



Bank Supervision Department- pg 34.

Corporate customers make up the bulk of deposits, with retail customers accounting for around R500 billion in savings. Postbank deposits totalled R 4.2 billion in 2012 and therefore represent less than 1% of deposits in the country.



Bank Supervision Department. pg 36.

10. Competitors

Reserved

As this is the monopoly portion of the market, there should not be any competitors. However, it could be argued that some products and services offered by other companies encroach on the reserved monopoly area of the Post Office.

Unreserved

While there may be several hundred 'postal' and courier companies in South Africa, the sector is dominated by 20 firms, accounting for 98% of the industries revenue. Examples of competitors are:

- DHL
- FedEx
- Sun Couriers
- TNT
- UTi

Banking

Currently the Postbank is uniquely placed, exclusively as a savings bank. Once it receives its licence to operate as a fully-fledged bank, its two obvious competitors for the lower LSM groups and previously unbanked will be Capitec and African Bank. However, the four main banks are all now competing for customers in the lower LSM categories and therefore, should also be viewed as competitors in the market.

According to the Banking Association of South Africa, 9.8 million people in South Africa have basic transaction bank accounts and do not have any other kind of formal financial product. While Capitec and African Bank have begun to address the issues of financial inclusion in a significant way, the Postbank will certainly have a further role to play here, once registered as a fully-fledged bank.

11. Factors for success

Retail footprint

Postal services and banking

The post office has 1,576 retail outlets and 871 agencies (Appendix D). This gives them one of the largest retail footprints in the country. The retail network offers an opportunity to extend mail & courier as well as agency services. In the banking sector, the four major banks have 2,927 branches in total (BASA report). This national footprint gives and will continue to support the Postbank in its efforts to expand its reach to the previously unbanked.

Broadband Infrastructure

To support all its business functions, such as

- mail
- courier
- collections/agency service (tv licence, motor vehicle licence renewals, municipal collections)
- logistics
- lotto tickets
- postbank

SAPO has invested heavily, and continues to make strong investments in IT and broadband infrastructure.

This broadband infrastructure, depending on architecture and capacity, could be leveraged to offer broadband services in rural and underserved areas, or provide wi-fi zones within specified parameters of the retail footprint.

Thusong Service Centres

In addition to the above mentioned ICT infrastructure in place to support the delivery of a range of services, the Thusong Service Centres also offer key infrastructure that can be leveraged further to ensure greater broadband penetration in remote communities.

Growth and importance of logistics infrastructure and networks

Supply chain management within practically every industry (from e-commerce, to manufacturing to pharmaceuticals) is a key area of focus for businesses today. Logistics support and management has an important role to play in the success of a supply chain in

any business. SAPO, with its extensive logistics infrastructure and network, is uniquely placed to expand this business line and further support the mail and courier business.

12. Substitutes

Reserved

Whilst theoretically, the reserved area is the exclusive domain of the Post Office, it may be a matter of debate whether or not they are the only operator offering services in this area.

Unreserved

This is the area where competition is most visible and encouraged. These products and services are typically value-added products such as courier services (implying door-to-door delivery coupled with speed of delivery). ICASA has under 300 registered courier companies.

The South African Express Parcel Association (SAEPA) claims to have 110 members that are “engaged in the express freight and courier industry. The large multinational operators are members as well as South African companies”.

Banking

Many unbanked people enter the “banking sector” through a stokvel. The Sunday Times (14th July 2013) reported that there are about 800,000 stokvels in South Africa, with savings of about R44 billion.

For beneficiaries of Social Grants, the new SSASA card may be a substitute to the Postbank account. The SSASA card is linked to mastercard and can be used to withdraw cash at any ATM (for a fee) or registered vendor (such as Checkers or Pick n Pay) for free.

Step change

The substitution effect to different products or services are typically “electronic substitutions”, such as the use of email or sms.

Research has indicated that 80% of retail customers prefer to have their statements sent out in hard copy by post, rather than emailed or sent via text message. Therefore, while the electronic substitution effects are being experienced by the postal sector, this preference for hard copies received in the post may explain why the decline in mail volumes is not as dramatic as it could be, given the prevalence of email addresses and access to devices facilitating access to the internet.

e- banking

Internet banking, mobile banking and e-money pose a real threat to the banking sector as a whole. The mobile industry and some large retailers are likely to drive these technologies and be at the forefront of these developments. Therefore, if the banks themselves are not involved in these new ways of banking, they may find themselves marginalised in the future.

13. Barriers to entry

Reserved

Regulatory Barrier

SAPO currently holds an exclusive licence for reserved postal services. The licence is valid for 25 years, but exclusivity in the reserved area is reviewed every 5 years. The continuation of the monopoly in the reserved area is dependent on SAPO's achievements in extending universal access to postal services. This may also increasingly be dependent on WTO and GATS agreements regarding liberalisation of network industries.

Unreserved

Regulatory Barrier

Operators in the unreserved portion of the postal market must be registered with the regulator, ICASA. Currently this is an administrative process and cost R500. However, this may change over time and may become more difficult to obtain licencing permission in this sector, should ICASA make the licencing conditions more stringent or impose obligations on operators in the unreserved area.

Market Concentration

Given the high ratio of market concentration, it would be difficult for any new entrant to the market to compete with the current incumbents. There would need to be a significant value offering or different product offering to entice customers away from known brands and entrenched market operators.

Postal and courier services are network industries, and as such need a global outreach to succeed. New entrants into the market would require significant capital and operational budgets.

As seen in the Statistics SA report on post and telecommunications, the margin in the postal and courier industry is around 5% which may be insufficient to entice investment or new market operators.

Banking

Regulatory barriers

South Africa's banking system is rated 2nd in the world (out of 144 countries) by the World Economic Forum Global Competitiveness Survey. A key to this excellent rating is our highly regulated banking sector. Included in this regulated environment, are the capital adequacy requirements which are stringent.

The high degree of market concentration will make it difficult for new entrants to compete in the banking sector, unless the new entrant was able to offer significantly different or better products or services.

14. Gap Analysis - Identifying major future challenges

Reserved

Trend to liberalisation and privatisation

There is increasing pressure from the global arena to liberalise network infrastructure. However, South Africa's intention to operate as a 'developmental state' and leverage its State Owned Enterprises (SOE) to the benefit of all citizens will generate tension between the government's likely action of keeping the Post Office as a State Owned Enterprise with monopoly rights versus the trend to liberalisation.

Competition within the reserved area

There remain some grey areas with respect to the exact definition of the reserved area and what constitutes a courier or value added service that would fall outside the reserved area. If using a strict interpretation in the reserved area, it would seem that there is encroachment on the reserved area. The DoC and the Regulator should consider whether more monitoring and enforcement should occur in this area, or whether and / or a redefinition is required.

Reducing mail volumes

Globally, mail volumes are reducing, and South Africa is no exception. The Postal Service must find ways to be responsive to the change in mail patterns, i.e. less letter mail but more parcel mail as e-commerce increases. However, as mentioned earlier, despite the declining

volumes, mail is still a popular channel in South Africa for marketing campaigns and statements / invoice delivery because people are weary of spam mail and may not have print facilities at home.

Unreserved

Competition in the market

A large number of competitors exist in this sector and therefore requires efficiency and flexibility from the operators to remain competitive keep existing customers and grow the customer base.

Banking

Competition in the market

The four major banks are all under pressure to increase their customer base as they have reached saturation point with attracting and banking the middle class. All four banks see the potential to grow market share by now reaching out to the so called 'unbanked' or lower Living Standards Measures (LSM) groups. This has traditionally been the market for the Postbank, and the Postbank will therefore need to act aggressively to this potential threat.

Competition for the market

Increasing volumes of electronic banking, mobile banking, e-commerce, till-point transactions are increasingly making retail banking redundant. It is important for the Postbank to entrench its customer base and market position in an attempt to keep customers using traditional retail methods of banking.

15. Conclusion

Retail, broadband and logistics

Despite declining mail volumes nationally and globally, SAPO has remained profitable. Decline in mail volumes is due largely to electronic substitution, and somewhat to competitive forces in the courier sector. However, parcel and business to consumer mail/packages is increasing, as people become more comfortable with internet shopping.

The South African government, in an attempt to address legacy issues, has ensured that citizens who previously did not have mail addresses now do. This has been achieved through the Universal Service Obligations placed on the South African Post Office, in exchange for

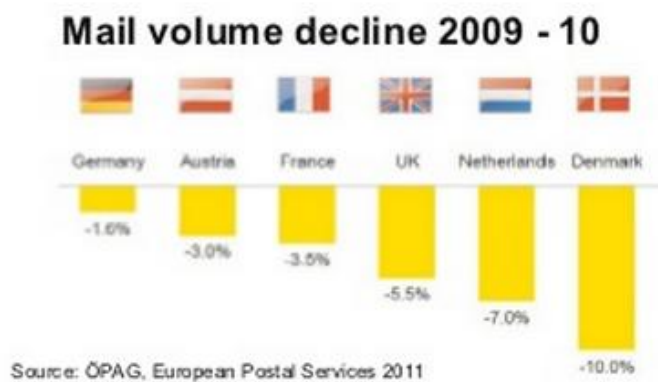
their monopoly on the reserved area. The Post Office continues to roll out new addresses and this is an ongoing process.

To support its various business lines, the Post Office has made strong investments in broadband, Information Technology and logistics infrastructure and networks.

The retail footprint, combined with the broadband infrastructure and logistics network places SAPO in a very strong position to grow its core business, as well as extend product and service offerings to the public.

Appendix A

Below is an illustration from 6 countries in Europe, showing mail volumes declining by as much as 10% in Denmark in the period 2009-2010:

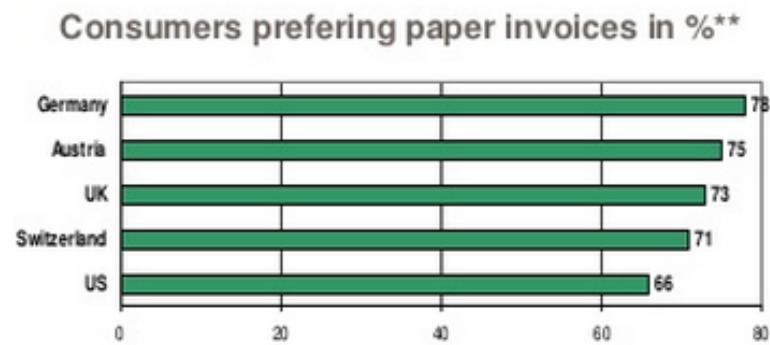


Sourced from:

<http://www.slideshare.net/FPFrancotyp/liberalisation-and-the-future-of-mail-the-german-case-from-a-suppliers-perspective-11828572>

Appendix B

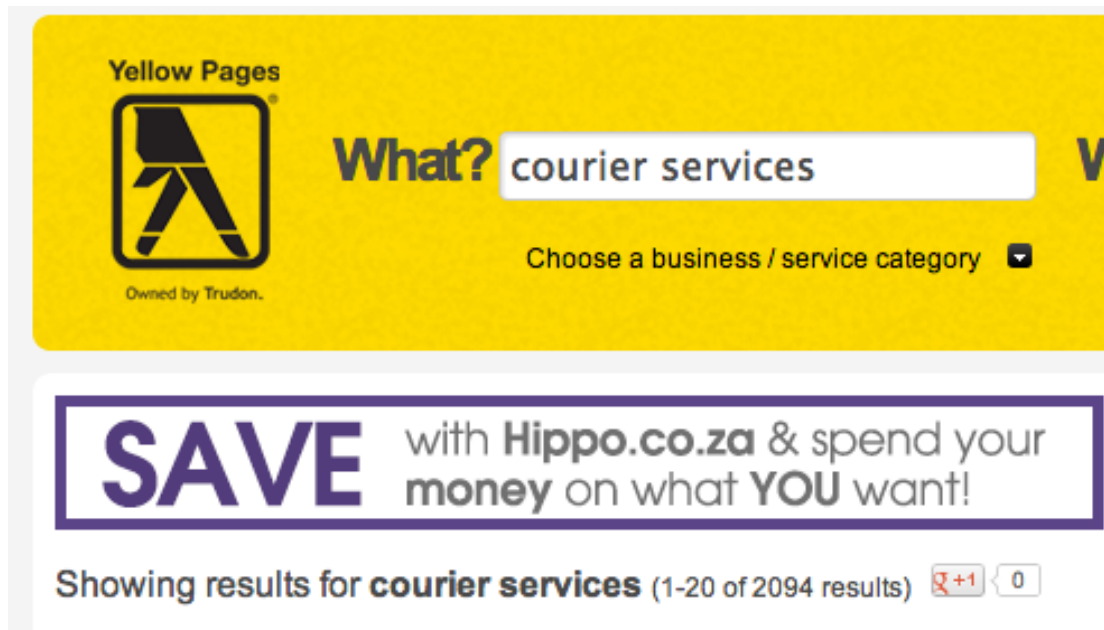
CapGemini Presentation made at CapGemini RAIN PostExpo 2012



Sources: DIVSI Milieu Studie 2012
Austria Post/IFES 2011; VDBF 2010; EMSA UK 2011;
Swiss Post 2011; EMA US 2010

sourced from: <http://www.slideshare.net/oliverkempkens/rethinking-the-postal-assets-integrating-the-analogue-and-digital-world-customerfocused-innovation>

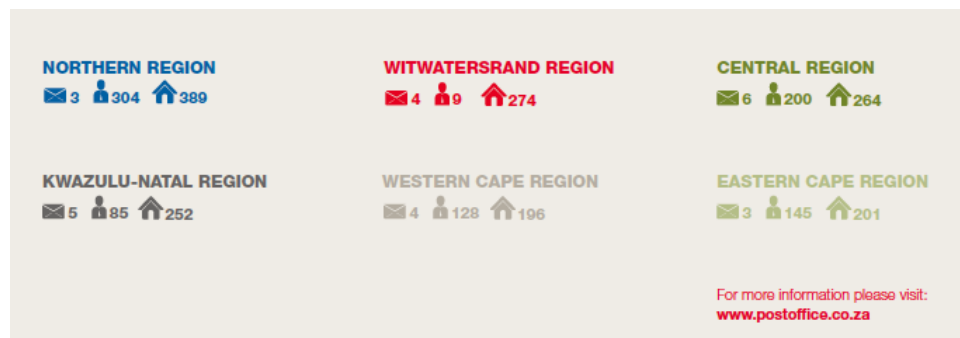
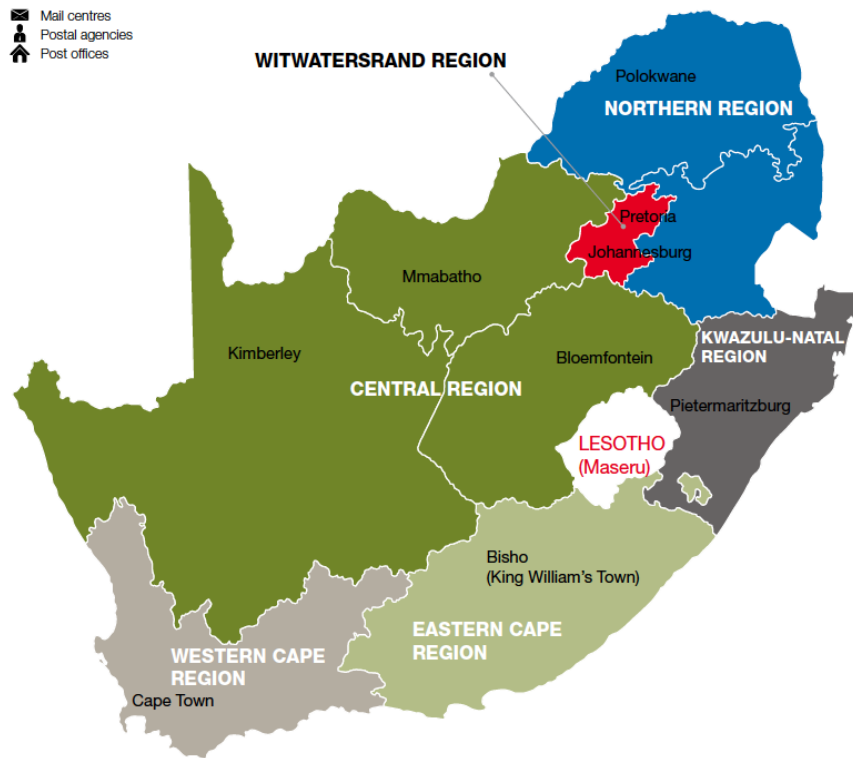
Appendix C



http://www.yellowpages.co.za/courier_service/courier_service/

Appendix D

SAPO National Footprint



source: SAPO Annual Financial Report 2012

	Total	Northern	Witwatersrand	Central	Kwa-Zulu Natal	Western Cape	Eastern Cape
Mail Centre	25	3	4	6	5	4	3
Postal Agency	871	304	9	200	85	128	145
Post Office	1576	389	274	264	252	196	201

List of Abbreviations

BSD	Banking Supervision Department
DoC	Department of Communications
ICASA	Independent Communications Authority of South Africa
ICT	Information and Communications Technology
LSM	Living Standards Measure
NDP	National Development Plan
RRP	Recovery and Resolution Plan
SAEPA	South African Express Parcel Association
SAPO	South African Post Office
SARB	South African Reserve Bank
SIC	South African Standard Industrial Classification
SIFI	Systemically Important Financial Institutions
SME	Small and Medium Enterprises
SOE	State Owned Enterprise
StatsSA	Statistics South Africa
UPU	Universal Postal Union
OECD	Organisation for Economic Co-operation and Development
USO	Universal Service Obligations
WTO	World Trade Organisation

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