



## RESTRUCTURING

# The Postal Transition: How to Adapt to the Future in a Sunset Industry

Postal operators are facing significant challenges in an increasingly digitized world. As the volume of physical mail continues to decline globally, action must be taken to preserve an adequate service at acceptable cost.

The postal industry has seen a structural decline in the number of letters sent in the past decade, with aggregate mail volume falling by nearly a third since 2011 in advanced economies<sup>1</sup>, dragging down revenue and average profit margins. The trend is unlikely to slow down, driven by further digitization and changing business and consumer preferences for faster, more environmentally friendly communication methods.

At the same time, fixed costs remain high due to Universal Service Obligations (USO), which require maintaining quality postal services at affordable prices for all, regardless of location.

Postal operators must therefore find the right balance between maintaining quality service and minimizing cost burdens against the backdrop of sliding volumes. These decisions must also factor in the social benefits that the service provides, and changes that could fall disproportionately on some most vulnerable parts of society.

In this article, we will look at the key challenges faced by the postal industry and outline a strategic approach focused on not just mitigation against the current trends, but on adapting to the future.



<sup>1</sup> <https://www.ipc.be/sector-data/postal-sector/key-findings>



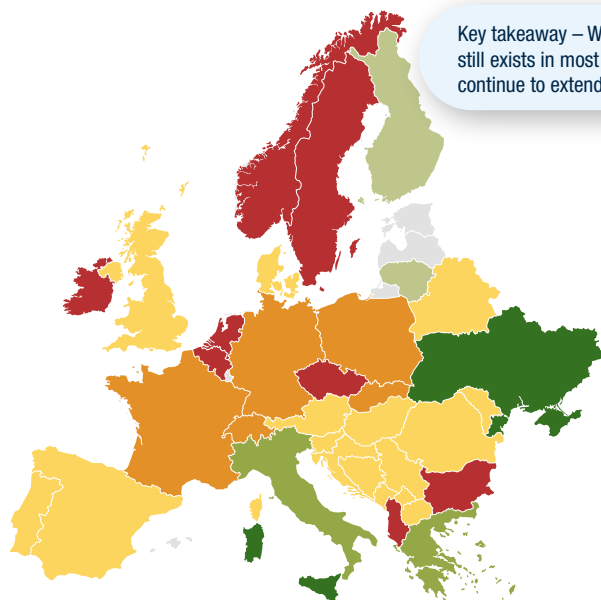
## Background

Plunging mail volume is hurting revenue and profitability at postal businesses. Revenue from mail has steadily decreased in recent years, accounting for 28% of the overall global postal revenue in 2024.<sup>2</sup>

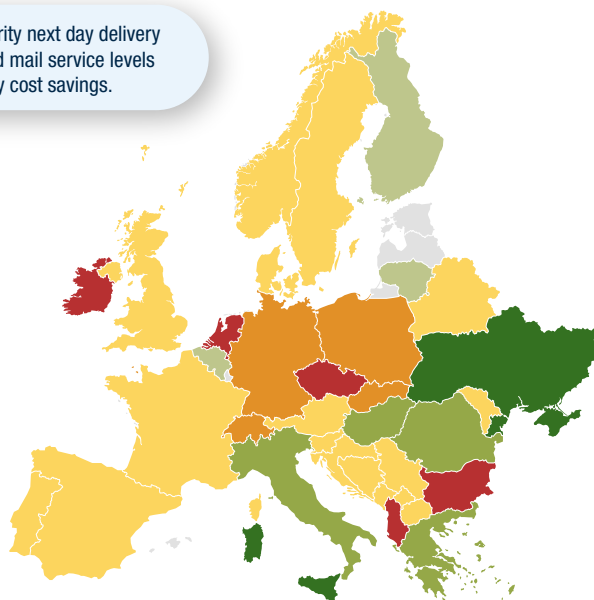
The trend is no different in Europe. Letter volumes dropped 5.4% annually as per European Union data from 2022<sup>3</sup>, while in the U.K., volumes have halved since 2011.<sup>4</sup>

### Case Study: Changing European Landscape – Standard Service Levels

Europe – 2015 Service Levels



Europe – 2023 Service Levels



Key takeaway – Whilst express / priority next day delivery still exists in most countries, standard mail service levels continue to extend, unlocking delivery cost savings.

Service Levels (i.e. Days after mailing)



<sup>2</sup> Global Postal Industry Report 2024

<sup>3</sup> [https://single-market-economy.ec.europa.eu/sectors/postal-services\\_en](https://single-market-economy.ec.europa.eu/sectors/postal-services_en)

<sup>4</sup> <https://www.ofcom.org.uk/post/royal-mail/the-future-of-the-universal-postal-service/>

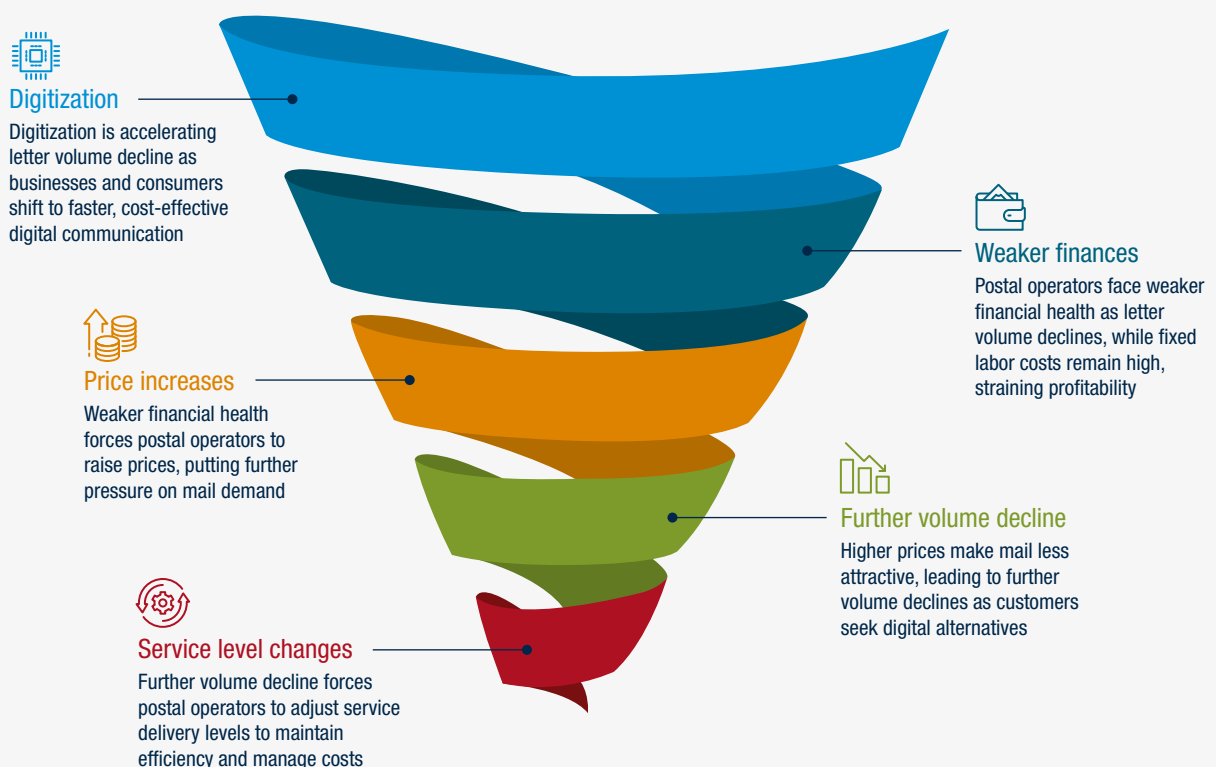




The global decline in volume has been driven by a combination of digitization, service level changes and price increases. This is a vicious cycle.

As a result, there is growing need for regulatory reform. Across Europe, changes to legislation are being considered in varying degrees. In Denmark, PostNord, the state-owned postal company has decided to stop delivering letters, leaving private companies to fill the void.

## Current Global Situation





## Key challenges

Because postal services are a sunset industry, but nevertheless have significant regulatory obligations at present, they require a unique approach beyond the typical cost efficiency and optimization measures recommended for other businesses. Here are some specific challenges the industry faces:

1. Postal operators bear the burden of a **heavy fixed cost base**, notably driven by the USO dictating **high levels of staffing and fleet**
2. Operational cost saving programmes, whilst necessary, **are not sufficient to maintain financially viable operations** in the context of unfavourable global trends
3. **Large price increases or sudden changes in service levels** are unlikely to help due to extreme impact on volumes

Therefore, a balance must be found between reducing the historical, cost-intensive service level requirements of the USO and managed commercial price increases to maintain bottom line performance.

## Mitigations against postal decline

Below are some key areas that postal operators must focus on to mitigate the impact of structural mail volume decline:

- **Operational efficiencies:** Investments in automated sorting machines
- **Financial services (where available):** Revenue from digital banking services, if this is in place already
- **Parcel lockers:** Reduction in delivery costs through consolidated drop off/pick points
- **Cash supply chain:** Fees from processing deposits, withdrawals, and cash logistics for financial institutions and retailers

However, mitigation against declining volumes is only one part of the picture. Regulatory reform, although much needed, has been slow to progress, highlighting the urgent need for industry players to advocate for change. In the meantime, operators must perform a balancing act between **maintaining a quality service and minimizing the cost burden**. This requires a dual-strategy approach:

1. External collaboration with, and support from, governments and regulators in the form of regulatory changes and financial support
2. Internal transformation of the operating model to unlock structural changes to reduce fixed elements of cost base as well as innovative commercial pricing strategies

## Looking ahead

As mail volumes decline, the financial strain on state-owned postal operators will become more apparent, making efficiency and sustainability critical priorities. For postal operators to fully adapt to the shifting market conditions, regulatory requirements and stakeholder needs, they must act with a view to the future.

A long-term plan is essential and flexibility is key. Some important considerations include:

- Deciding the strategic glide path to maximize profitability while managing the inevitable decline, to ensure long-term sustainability
- Assessing necessary changes to implement in the next 5-10 years to transition effectively and developing a structured roadmap
- Putting safeguards in the plan to allow for flexibility in the timing of service level changes
- Preparing for the prospect of standard and priority mail moving to parcel network over time and weighing the implications of combined resources and infrastructure on cost efficiencies and delivery route optimization
- Ensuring that any changes to service levels acknowledge the requirements of vulnerable groups in society, such as the elderly

## Potential Letter-Parcel Network Integration

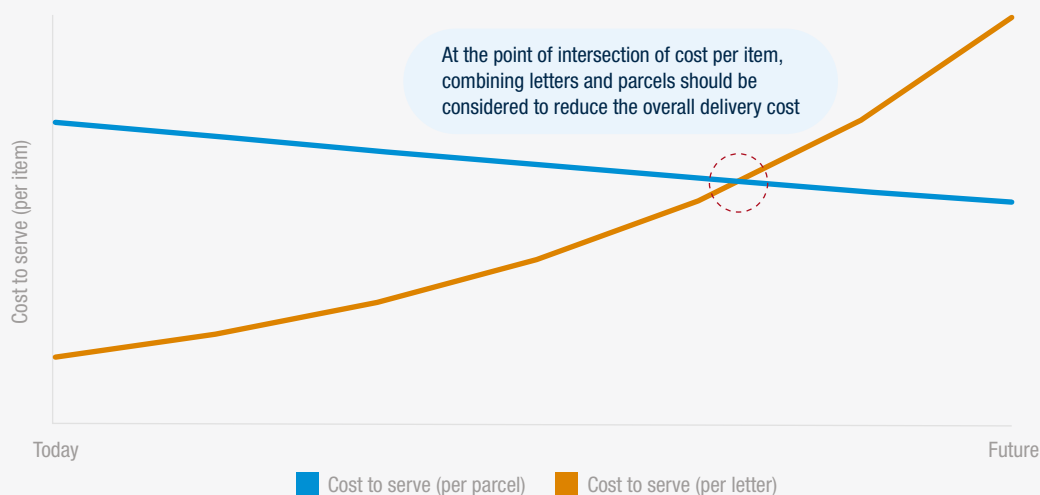
A frequent question posed when discussing the trajectory of postal mail and potential for cost savings is: why not combine the networks for letter and parcel deliveries? The path to an integrated approach, however, is not straightforward and requires thoughtful planning, taking into account all relevant factors.

Priority mail, for example, will likely move to parcel networks with an increased price. Standard mail, on the other hand, may move gradually over time as volumes make the cost-to-serve uneconomical via traditional mail networks.

To make an optimal decision on the right stage at which to transition, the following factors must be given careful consideration:

- As fixed and operational costs are spread across a larger number of parcels, at what rate is **the cost per parcel delivered decreasing?**
- Given the market decline of letters and fixed costs (e.g., transportation, labor) remaining the same, at what rate is **the cost per letter increasing?**
- At what point will **the cost to deliver a letter intersect with the cost to deliver a parcel?**
- Combining letter and parcel deliveries allows for shared resources (vehicles, labor, fuel), **network efficiency and reducing the need to run separate delivery routes**
- A combined delivery network **leverages existing infrastructure to lower overall costs per item**, benefiting both parcel and letter services through efficient resource utilization and route planning

### Illustrative cost to serve cross over (Parcel vs Letter)





# Conclusions

As mail volumes decline, efficiency and sustainability are emerging as critical priorities in the postal sector. Going ahead, postal operators must keep in mind the following when making strategic decisions:



## Industry transformation will be complex and gradual

Balancing public perception, regulatory frameworks, and government oversight will require careful, strategic management.



## The taxpayer burden will grow

With the continued drop in mail volumes, the financial strain on all postal operators will become more apparent



## A long-term plan is essential

To adapt to evolving market conditions, postal operators must develop a long-term plan that considers not just current trends but future themes and potential regulatory reform.



## Flexibility is key

The ability to adjust service levels and operational strategies as needed will ensure resilience in an unpredictable landscape.



# How A&M can help

With a hands-on approach and in-depth experience, A&M's team can help postal operators assess costs and secure funding, plan and manage the transition and optimize operations and efficiency.

Challenge	What A&M can do to help
USO delivery is increasingly loss-making	<ul style="list-style-type: none"> <li>■ Reviewing and analyzing <b>internal methodology for calculating net cost</b> for mail provisioning under the USO</li> <li>■ Developing <b>realistic funding support request</b> to submit to government representatives</li> </ul>
USO requirements are excessive given falling volumes, digital adoption	<ul style="list-style-type: none"> <li>■ Providing <b>outside-in view of operator's plans to transition to extended service levels</b>: assessing <b>operational and commercial risks, impacts to unionised workforce</b></li> <li>■ Developing <b>strategic glide path</b> to deploy changes with <b>interdependencies</b> identified among other business areas</li> </ul>
Governments, other stakeholders need to be convinced about the need for change	<ul style="list-style-type: none"> <li>■ Developing <b>step-by-step engagement plan</b> between operator and industry regulator, with messaging plan <b>to convey why urgent change to USO is critical</b></li> <li>■ Ensuring <b>public perception</b> incorporated as a key messaging factor into engagement plan</li> </ul>
Market surveys indicate reluctance for change, but financial reality says otherwise	<ul style="list-style-type: none"> <li>■ Offering <b>financial &amp; operational diligence of strategic business plan</b> to transform mails business, <b>developing sensitivities and overlays</b> based on industry experience</li> </ul>
Cost per letter delivered keeps rising, so combining letter delivery with parcels appears inevitable	<ul style="list-style-type: none"> <li>■ Supporting <b>network integration efforts</b> to consolidate letter and parcel delivery networks, <b>maximizing route efficiency, cutting costs and consolidating assets into one operating model</b></li> </ul>
Continual cost saving is crucial in a sunset industry	<ul style="list-style-type: none"> <li>■ <b>Redesigning and delivering new target operating model</b> to meet customer needs</li> <li>■ Reviewing portfolio of in-flight/proposed cost saving initiatives to <b>identify activities to accelerate</b> for <b>maximum value delivery in the short term</b></li> </ul>
Banking services (where relevant) must have future-proof, cost-efficient delivery of cash	<ul style="list-style-type: none"> <li>■ Where banking exists within the network, developing a medium term, self-sustaining framework which can exist independently without a postal network</li> <li>■ Strategic market assessment and network modeling to identify options to <b>cut costs, streamline operations</b> and support <b>multi-year transformation</b> with clear implementation plans</li> </ul>
Price elasticity must be determined against overall market decline	<ul style="list-style-type: none"> <li>■ Analyzing larger set of data points relating to customer behavior to better estimate impact of price increases vs overall market decline on future mail volumes</li> </ul>



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