

Market Definition in the Postal Sector – An Empirical Study of Direct Mail

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Abstract

The common trend that digital media and online marketing services gain importance, raises the question if other dialogue marketing channels are relevant substitutes to classic ad-dressed letter advertising mail (direct mail) and whether market definition needs to be ad-justed. In this paper, we perform a hypothetical monopolist test (SSNIP-test) which is com-mon practice for market definition in antitrust matters with the result that advertisers react strongly elastically to price increases concerning physical addressed direct advertising mail and evaluate other dialogue marketing channels as adequate substitutes. What is special about our analysis is that it is two-fold. We use survey data of German commercial customers using different direct dialogue marketing channels to estimate stated preferences as well as a dataset of actual prices and mail volume of the German postal service provider Deutsche Post AG to estimate revealed preferences. Both approaches yield to very similar estimated price elasticities and, hence, to the same conclusion: A market definition which only focusses on physical addressed advertising mail falls too short. If prices increase, physical addressed advertising mail is substituted with email and online advertising. This result is not only of theoretical relevance but could have practical implications for regulation authorities, if a broader market definition potentially leads to a lower market share of the regulated postal operator such that the presumption of a dominant position needs to be reassessed.