

# the **FUTURE** is in the **POST**

This book is about 'the post' and its future. While it is often assumed that the postal sector is in almost inevitable decline, in fact never has the business been more exciting, and seldom have there been so many opportunities to be grasped. *The Future is in the Post* shows clearly, however, that there is no 'one size fits all' recipe for strategic success and that each business will need to determine its own route to survival.

In *The Future is in the Post* an international group of highly experienced industry thought leaders discuss some of the strategic choices facing postal operators. Between them the contributors have senior managerial experience in posts in Australia, Canada, Germany, Italy, the Netherlands, Sweden, Switzerland and the UK, and also represent major consultancy organisations and international companies that are major users of, or suppliers to, the posts.

Their insights illustrate how strategically the industry is responding to the main drivers for change, and their accounts of the sector's challenges and opportunities will be of great value to managers, suppliers, customers, policy-makers, politicians, regulators and academics.



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Dr KRISTIAN J. SUND AND DEREK OSBORN



# the **FUTURE** is in the **POST**

**PERSPECTIVES ON STRATEGY  
IN THE POSTAL INDUSTRY**

*With a preface from Moya Greene*

EDITED BY **Dr KRISTIAN J. SUND AND DEREK OSBORN**

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Perspectives on Strategy  
in the Postal Industry

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*WhatNext4U*



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Kristian J. Sund & Derek Osborn  
2 June 2010

## Preface

Moya Greene

Chief Executive, Royal Mail Group  
(Formerly President and CEO, Canada Post)

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This book is appearing at an auspicious and opportune time. Declining letter-mail volumes, increasing electronic substitution, fierce competition from well-financed global courier companies and alternatives for advertisers have consigned a business-as-usual attitude to the postal past. And good riddance to that!

Customers have alternatives for everything the modern post has on offer – and so the modern post must put the customer at the forefront of all its thinking and efforts. This is pivotal. We have all inherited a legacy of public-service responsibilities – but the old ways of fulfilling them are no longer sustainable.

The goal is to remain relevant.

To varying degrees, our businesses are transforming themselves. However, postal services are not just any type of business. Unlike their private-sector competitors, posts have a mandate to serve their entire country. We are proud to serve all the citizens in our countries. The universal service obligation imposes, however, a high cost structure and shapes the expectations of the public and of governments. For Canada Post, this national reach has become the basis for new strategic alliances with the private sector.

This is a very challenging time for our business.

It only makes sense, then, that posts share their best practices. Since many of our challenges are common, collaboration is very helpful. The early adopters of successful strategies serve as beacons to guide those who are not as far along in their journey to become a modern post. Since becoming President and CEO of Canada Post in 2005, I have been pleased and grateful to learn from other posts just as I have learned from my own people.

Early in my tenure, I visited our mail-processing plants and letter-carrier depots, and even delivered mail so as to learn from the ground up about this vast company. At times, I was flabbergasted to see how much of our operation was essentially unchanged in decades.

Too many of our processes were manual. Some of our largest and busiest mail plants were decades old and located in the downtown cores of major cities in inefficient, multi-storey buildings – a legacy of an era in which mail moved by train rather than plane. Our technology – both sorting machines and information technology – had fallen well behind the industry's best.

What is more, our labour relations were characterised by an "us-versus-them" attitude between workers and management. This was a self-inflicted wound even as the changing business environment was inflicting its own thousand cuts.

Our business model was not sustainable. The heroic efforts of our 71,000-strong workforce and our modest profits had hidden our obsolescence and the gravity of our situation.

So we set out to transform Canada Post. This involved a strategic investment in the best technology and practices we could adopt and adapt to our unique circumstances. It was also marked by the engagement of our workforce through new measures such as a performance-based bonus. And it necessitated the alignment of our government shareholder with our strategy.

The role that other posts have played and continue to play in this transformation is crucial. At the outset of our effort, best practices in modern posts were well-known – thanks primarily to posts in Europe and to the international organisations that link posts. Early on in our effort, change leaders at Canada Post visited Austria, Sweden, and Germany as well as the United States. We met with their postal executives, toured plants and examined technology and methods.

We saw at first hand a great opportunity to transform ourselves into a company with a renewed physical and electronic network that could operate with lower annual costs. Our company is more customer-focused; our new technology will allow us to develop value-added services. This will better position us to promote the value of mail and of our expertise, particularly to businesses choosing from a plethora of multi-media channels.

We greatly appreciate the help, insight and advice we received from other postal businesses.

Thanks to what we call Postal Transformation, Canada Post is now much better prepared for the future – and to keep fulfilling its dual mandate to serve every Canadian address while staying profitable.

Moya Greene

President and CEO (until July 2010)

Canada Post Corporation

Chief Executive (from July 2010)

Royal Mail Group



## CHAPTER 1

### Introduction and Overview of Contents

Derek Osborn and Kristian J. Sund

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Never has the business of post been more exciting and challenging. Over the past decade, digital convergence has seen direct mail become an integral part of the media mix and electronic commerce has contributed to a healthy development in the traffic of parcels. Globalisation has led to continual growth in global trade<sup>1</sup>, which has benefitted all areas of logistics. Competition and digitisation in financial services, along with the growth in world trade, have strengthened those posts active in banking, finance and insurance. Operators around the world have been increasing their productivity, by employing state of the art technology for handling and sorting mail, as well as for engaging with customers. And now, we stand on the brink of total liberalisation of the European mail industry, which handles over a quarter of the total number of mail items in the world<sup>2</sup>.

Yet, for over a decade now, many leading figures and commentators within and outside the global postal industry have been lamenting 'declining volumes' which, they would maintain, signal the inevitable slow and painful death of a much-loved industry, almost as a self-fulfilling prophesy. At the same time, all too often the profound changes affecting the industry are labelled as 'threats' rather than as 'opportunities'. This begs the question about the options that are open to players in the postal industry. The aim of this book is to take a thoughtful, balanced and strategic look at the industry, while emphasising that it is possible to be decidedly positive about many aspects of the future of the post.

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<sup>1</sup> Global exports increased by 47% in the period 2001–2007, according to the World Trade Organisation (WTO).

<sup>2</sup> Source: Universal Postal Union (UPU)



We have compiled this book for a number of compelling reasons. For a traditional sector with deep historical roots usually measured in centuries, the postal industry is facing a whole range of significant changes, and out of necessity it is engaged in unprecedented transformational change. From a strategy perspective, such change is extremely fascinating. The strong public-sector monopoly pedigree has left a powerful legacy of organisational cultures and behaviours that have influenced the thinking and attitudes of the large number of people employed in the industry over many generations. The industry is labour-intensive and often highly unionised. The fast pace of change, largely driven by external factors, has not sat at all comfortably with either the workforce (whether management or non-management) or the politicians.

The main drivers of change have included: the digital revolution and so-called e-substitution; new technological capabilities such as automatic letter and parcel sorting machines, Radio Frequency Identification (RFID) technology, Global Positioning Systems (GPS) and the wider use of bar codes; environmental concerns about the use of energy and paper; aggressive competition for advertising revenue from other media; the recent recession in the wider economy; changing customer needs of all kinds, from mail order and magazines to transactional and personal mail; resistance by recipients to direct mail; and the progressive liberalisation of the postal markets, notably in Europe through the 3rd EU Postal Directive (Directive 2008/06/EC).

It is against this background that some predict the 'final curtain' for the industry, or at least for (paper-based) mail. Our contention is that this view both over-simplifies and misrepresents the current situation. Yes, the current landscape contains many challenges, but there are also many options and opportunities available to operators. This book, with its collection of contributions from leading figures in the industry, reflects some of the diversity of perspectives on the current situation facing the industry. Significantly, it also reflects an overwhelmingly positive agenda for the postal industry. So, although there exists a depressing mantra heralding the death of the post, there is also another more positive agenda that points to the new opportunities, revealing significant scope for innovation and the potential for 'reinventing the post' in a new post-digital age.

The contributions in this book clearly indicate that physical mail, and products and services related to addressing, delivery and multi-channel media communications, have considerable life in them yet, to say nothing of opportunities offered by document management and the spectacular growth in internet-based retailing.

The opportunity is there for the industry to collaborate in order to make the strong case about the value of mail to a wider audience, showing how it can still play an important part in fulfilling any business strategy and contribute as the 'glue' to national economies.

### Why Strategy and Why Now?

As postal operators look to the future their strategy becomes vital. Strategy can be defined in many ways, but for now let us think of strategy as a plan – a plan for success. A key insight here is that, with the changes discussed earlier such as liberalisation, innovation, and changing customer needs, the number of possible roads to success actually multiplies. The opportunities grow. Twenty years ago the typical postal operator was a government agency. There were no shareholders to satisfy, no market shares to defend, and little freedom of action for management. Today, the story could not be more different. Therefore, strategy in the postal sector has become more complex, more uncertain, and yet increasingly important. However, when we looked for a systematic account of strategy in the postal sector, we found nothing. Until now there has not been a set of thoughtful contributions that might enable people interested in business and strategy to shed some light on this important industry.

This book is intended to provide managers, suppliers, customers, policy-makers and politicians, regulators, academics, and in fact anyone with an interest in the postal industry, with some insights into the challenges and opportunities it is facing, and how strategically the industry is responding. The main part of this book contains contributions from many people (and organisations) involved with the postal industry world-wide. A group of very experienced industry professionals, people who could be described as 'thought leaders', have been invited to discuss issues relating to strategic developments and options for the postal industry.

Each contributor has considerable relevant experience in the industry and, in many cases, holds or has held important positions in key organisations or businesses in the sector. However, as readers will notice, their analyses are not always identical. We have deliberately retained a diversity of perspectives, since the contrast in approach and conclusions is both interesting to explore and meriting of serious attention. A strategy can be a response to existing conditions, and in this case there may be some responses more appropriate than others; but importantly strategy can also lead to the creation of altogether entirely new conditions. We are reminded here of George Bernard Shaw's contention that "The reasonable man adapts himself

to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man.<sup>3</sup> Readers will notice that some of our contributors do call for posts to develop in entirely new ways.

### The Future is in the Post

Despite the digital challenges, paper has impact and is still a compelling medium. Most informed analyses now talk about integrating the digital and the physical, in order to maximise the benefits from each. The postal industry is certainly in a unique position to be at the heart of this integration. The digital and physical worlds do not have only to be substitutes for one another, as some have suggested. Through the post, they can complement each other too. In addition, the traditional differentiators can still be exploited, for example the 'trusted' brand, and the strong intermediary roles between businesses and consumers, or between governments and citizens. The post can also see the universal service obligation, which gives it the opportunity to 'reach' or 'touch' every household daily, as a potential strategic advantage or differentiator. More recent technologies, available with PDAs, RFID, bar-codes and GPS, open the way for more innovative and value-added services, to go with the convenience of delivery at the recipient's conditions. The real challenge is to be able to deliver in a secure way to the right person, at the right time, and at the right place. The very fast growth in e-commerce opens up real opportunities for providing exceptional delivery services that can give positive visibility to the very best operators.

Solutions do not come in one size that fits all, and each business will need to discover what their customers' needs are and where their pain is, so that they can put effort into the right areas and fix the parts that need to be fixed. Nevertheless, it remains true that posts must continue to strive to be more customer-oriented than they traditionally have been, and continually innovative in ways that not only improve, but also surprise and delight. Furthermore, diversification into both related and relatively un-related business areas is likely to continue. There is no sense denying that mail volumes have been dropping more or less systematically for a decade, and those operators that diversified early into areas such as logistics, finance, transportation or telecommunication have been reaping the rewards of that diversification. Diversification can be very good, but it brings with it its own set of risks and challenges, not the least of which is how to find sustainable synergies between business areas.

3 George Bernard Shaw, *Man and Superman* (1903) 'Maxims for Revolutionists'

It is worth remembering that, whereas it has been argued that the traditional post in North America and Europe can be seen to be in decline (based at least on mail volumes), the narrative is often somewhat different in other geographies, such as the emerging economies and regions like Asia-Pacific and the Middle East. The vast continents of Africa and South America, as well as populous countries like India, still contain major opportunities for those postal companies that can learn from the mistakes of others, leapfrog technologies, and redefine their role in fast-growing economies.

In the light of all these factors, we strongly believe that the future is in the post and, more particularly for those directly employed in the industry, the future is in the industry's hands. At the dawn of total market liberalisation in Europe, and after a decade or more of massive technological progress in the industry, the future is there for postal businesses that can master the transformation and re-configure their products and services in order to refresh and, in some cases, reinvent their traditionally strong brand position with new customers and new markets, demonstrating an ability to deliver with choice and consistency. Given the importance of winning the hearts and minds of employees, to retain motivation, commitment and the desire to succeed, the winning businesses will also need to achieve the difficult task of changing corporate culture and becoming more customer-oriented.

### An Overview of Contributions

This volume opens with an upbeat preface from Moya Greene, until recently the President and CEO of Canada Post Corporation, who has overseen the beginning of a major transformation (even revolution) in that company and who now faces the challenge of moving Royal Mail forward in the context of a large pension deficit, a background of difficult industrial relations, the need to steer many transformation programmes in operational and customer areas and, at the same time, engage with a new political agenda that could include new or different ownership and capital investment.

In the next section our contributors address many of the strategic challenges and choices that postal companies face currently. Alex Dieke and Antonia Niederprüm analyse the impact of progressive liberalisation in Europe, and Susan Barton and Stefano Gori outline some of the strategic options that have been, or could be, adopted by different postal operators. Maxine O'Brien then reviews the context in which this diversification is happening – a so-called perfect storm.

Particular strategic approaches that have been adopted include challenging the traditional business model. This has been done in the field of reverse logistics, as exemplified by Ernst Hoestra. There has also been a revived interest in so-called 'hybrid' solutions, a concept that has been discussed for many years. With the convergence of the digital and physical, posts can occupy the unique and pivotal space at the centre, and orchestrating this integration is discussed in very different ways by both Beat Friedli and Jacob Johnsen.

Andrew Starkey highlights the opportunities available if posts can engage effectively with the sharp growth in electronic commerce, whilst Ingemar Persson reflects on the perceptible shift from a clear focus on the sender of postal products to the consideration of the recipient and what they want or need.

From the perspective of customer channels, Dr. Tim Walsh argues that there are real opportunities for more joined-up channel strategies to leverage benefits for both posts and business customers. According to Olaf Klargaard, the industry has traditionally not been very good at knowing or managing its cost base and being able to do this better could be another key to success – focusing on where profits can be made and making more informed decisions about different work or product streams.

The long years of enjoying unchallenged monopoly positions in the market place meant that the customer voice was seldom heard. Alice Kijak, formerly with Reader's Digest (a major global mailer), puts the case for the strategic partnerships that a postal supplier can have with its large customers and some of the opportunities that this may lead to.

Most recognise that one key ingredient for the sector at this crucial stage in its evolution is innovation, which could and should enable it to come to the market in new and exciting ways. Dirk Palder discusses different types of innovation, suggesting that some, in particular business model innovation, have been underexplored in the postal sector, whilst Michaela Hohlwein and Hans Landgraf suggest success factors for innovations enabled through IT.

Finally, Dennis Gilham sums up many of the strategic developments in a reflective contribution that ranges over many topics but essentially always comes back to the customer – which is where some would say all our strategies should start, continue and end.

In section 2 we offer a brief commentary on the different contributions, and summarise some of the similarities and differences they offer. We also provide some thoughts about possible ways ahead for posts.

We then provide, for each contribution, a brief abstract together with some questions for further thought, which can be used for discussion and to stimulate thinking. We hope that, in this way, this book can become a springboard or a platform for some more informed discussion and interest. It can also be used in a class-room or workshop environment.

Finally, as a possible guide to illuminating some of the contributors' views and suggestions, we have included a 'refresher' chapter on strategy and the generic strategic options which can be pursued by companies.

We hope you will find this book and its contributions thought-provoking and interesting, and will enjoy reading it as much as we enjoyed putting it together. We also extend an open invitation to engage with us directly, with your reactions, observations, and suggestions. Strategy is a fascinating subject, and the postal industry a fascinating industry. Let's discuss...

## SECTION 1

### The Post: Strategic Perspectives

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## CHAPTER 2

### The Economic Impact of EU Postal Liberalisation

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Antonia Niederprüm and Alex Dieke

**Antonia Niederprüm** is a member of, and **Alex Dieke** manages, the department for Postal Services and Logistics at the German research Institute and consultancy WIK (Wissenschaftliches Institut für Infrastruktur und Kommunikationsdienste) which specialises in regulatory policies for infrastructure Industries.

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*As we stand on the verge of the complete liberalisation of the European postal market, the authors of this chapter discuss the experience and impact of the first two decades of gradual market liberalisation in the European Union. The diversity of outcomes across the various countries that have liberalised early gives some indication of what to expect in 2011 and 2013. Although legal liberalisation so far has led only to relatively little competitive entry, the authors paint an overwhelmingly positive picture, in terms both of the modernisation, profitability and competitiveness of the industry, and of the level and prices of services delivered to both business and private consumers.*

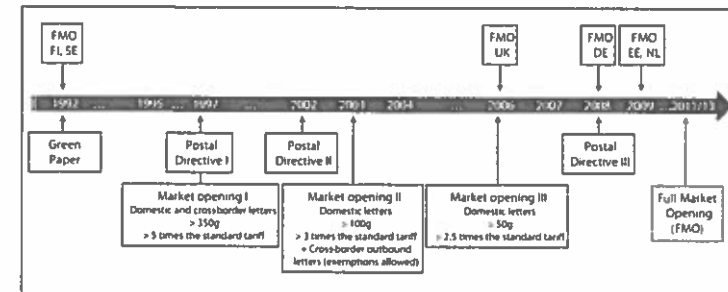
The liberalisation of postal markets has been discussed in Europe for more than two decades. Today, this ambitious aim is on the verge of being accomplished. This chapter takes the opportunity to reflect on progress made with postal liberalisation and competition in European letter post markets, and the impact of policy reform on market players, customers, and society as a whole. This assessment is based on the experiences of the authors as consultants to the European Commission and national institutions responsible for regulation and oversight of postal markets<sup>1</sup>.

### Postal Liberalisation in the EU

Following the Postal Green Paper published in 1992, the Directive 97/67/EC (Postal Directive I) started establishing in postal markets more harmonised rules with regard to postal universal services, market access and opening, and the establishment of independent regulators. Figure 1 presents the key steps in market opening implemented by the Postal Directive and its amendments in 2002 (Postal Directive II) and 2008 (Postal Directive III)<sup>2</sup>. The process has been characterised by intense political discussions and substantial resistance. This was demonstrated by the decision to open the letter markets cautiously, by lowering gradually the weight and price thresholds for reserved services. The enlargement of the European Union (EU) from 15 Member States to 27 Member States in 2004 and 2007 has created an additional challenge to the market opening process<sup>3</sup>. Ultimately, the 2008 Directive determined the final date of full market opening in the EU: Around 95 per cent of the EU letter post market will have to be opened in 2011 (14 Member States) while the remaining part will follow in 2013 (most new Member States plus Luxembourg and Greece).

- 1 A number of studies by the authors are to be found at this website: [http://ec.europa.eu/internal\\_market/post/studies\\_en.htm](http://ec.europa.eu/internal_market/post/studies_en.htm)
- 2 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 (OJ L 15/14, 21.2.1998) amended by Directive 2002/39/EC of the European Parliament and of the Council of 10 June 2002 amending Directive 97/67/EC with regard to further opening to competition of Community postal services (OJ L 176/21, 5.7.2002) and by Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services (OJ L 52/3, 27.2.2008).
- 3 EU-15: Austria (AT), Belgium (BE), Denmark (DK), Finland (FI), France (FR), Germany (DE), Greece (GR), Ireland (IE), Italy (IT), Luxembourg (LU), the Netherlands (NL), Portugal (PT), Spain (ES), Sweden (SE) and the United Kingdom (UK). In 2004, Cyprus (CY), Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), Malta (MT), Poland (PL), Slovak Republic (SK) and Slovenia (SI) joined the EU. In 2007 Bulgaria (BG) and Romania (RO) followed.

Figure 1 The Process of Postal Liberalisation in the EU<sup>4</sup>

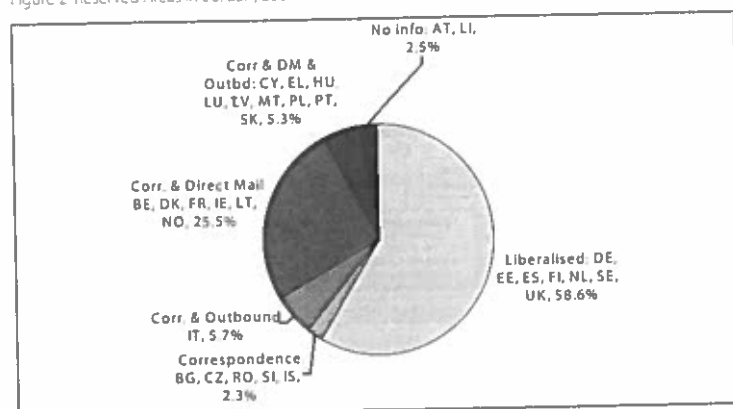
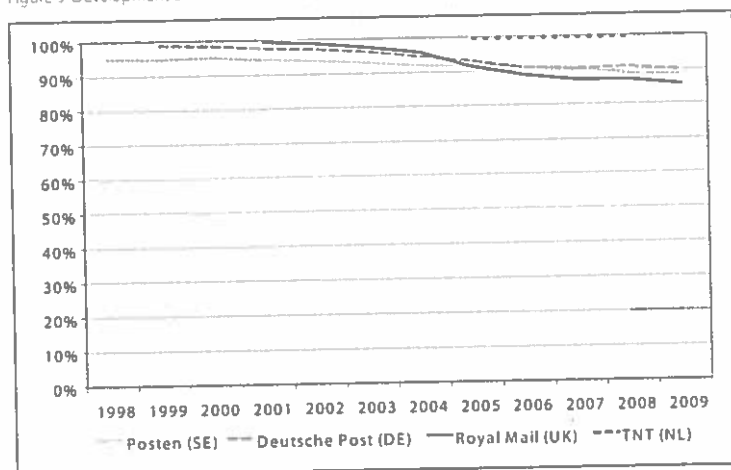


Under EU law, Member States were always free to open their markets faster than required by the Postal Directive. Today, nearly 60 per cent of the EU letter post market, in 7 Member States, is liberalised (Figure 1). In around 30 per cent of the EU letter post market, the Member States have opened their markets following the weight and price thresholds determined by the Postal Directive. A further five Member States have opened direct mail (addressed advertisements) to competition.

Noticeable competition, with market shares around 10 per cent (combined market share of all entrants), has only evolved in letter markets of the 'front-runner' countries Sweden, Spain, Germany, and the Netherlands (Figure 3). In these countries either the full market (Sweden) or significant segments (direct mail in the Netherlands, local delivery in Spain and letter services that are distinct to universal postal services in Germany) have been opened. No perceptible competition has emerged in those Member States that have merely liberalised as much as was required by the Postal Directives (possibly except for Poland where a competitor, InPost, seriously challenges the market position of Polish Post in the letter and parcel market). Even full market opening is not a guarantee for market entry as shown by experiences in Finland, Estonia and the UK. Undue licence conditions have effectively discouraged market entry in Estonia and Finland, while low access tariffs have substantially limited competition in delivery services for letter post in the UK.

4 Source: Based on ITA Consulting/WIK-Consult (2009), *The Evolution of the European Postal Market since 1997*. FMO – Full Market Opening.

Figure 2 Reserved Areas in EU/EEA, 2007

Figure 3 Development of Market Shares in Member States with Fully Opened Postal Markets<sup>5</sup>

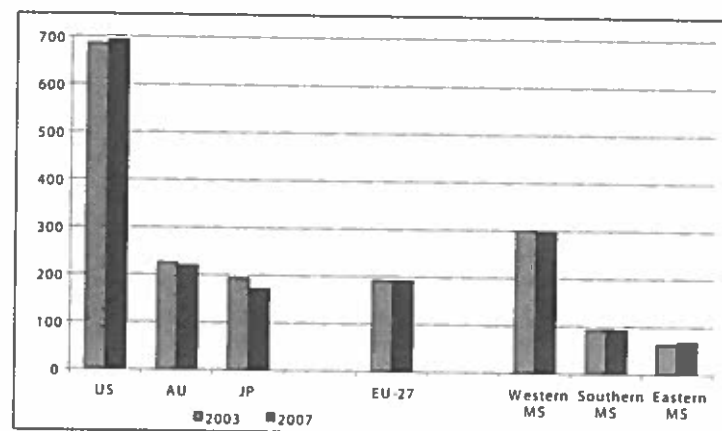
5 Source: WIK-Consult, *The Role of Regulator in a More Competitive Postal Market*. EU-27 refers to the countries mentioned in footnote 3, plus Iceland (IS), Liechtenstein (LI) and Norway (NO). Corr. – Correspondence; DM – Direct Mail; Outbd – Cross-border outbound.

6 Source: WIK-Consult

## The Impact of EU Postal Liberalisation

Since 2000, European letter post markets have been characterised by more or less stagnating volumes (see Figure 4). Letter post has even declined in countries with high per capita volumes (above 250 per inhabitant), e.g. in the Scandinavian countries, in Switzerland and in the Netherlands. The structural decline in demand results, among other factors, from the increasing use of electronic communication devices. Countries affected by shrinking letter post volumes usually have the highest penetration rates for broadband access. More recently, due to the economic recession in 2008/2009, letter post volume has dropped roughly by rates of around five per cent.

Figure 4 Demand Development in Letter Post Markets Before the Economic Crisis



Against this background, EU postal liberalisation has played a key role in safeguarding the role of letter post services. Although the process of postal liberalisation has had a limited effect on competition, in terms of new market entrants or significant loss of market shares for incumbent postal operators, the threat of potential competition has set important incentives for the commercialisation of postal services and for

7 Source: ITA Consulting/WIK-Consult, *The Evolution of the European Postal Market since 1997*. EU-27 = Western Member States (MS) + Southern MS + Eastern MS. Western MS: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, Sweden and the United Kingdom. Southern MS: Cyprus, Greece, Italy, Malta, Portugal and Spain. Eastern MS: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.



enhancing the attractiveness of the letter as a communication and advertising medium. In the following, we highlight the progress made during the past decade with regard to efficiency, prices and meeting customers' needs in Europe.

In the 1990s, national postal operators, or postal administrations, were often inefficient and loss making<sup>8</sup>. During the last two decades the former postal administrations have transformed themselves into increasingly commercial postal companies which have improved efficiency and profitability. This process has been accompanied by the corporatisation and, in some cases, privatisation of national postal operators. Today, all national postal operators, except for the Cypriot one, have been corporatised and five have been fully or partly privatised: TNT, Deutsche Post, Austrian Post, Belgian De Post / La Poste and Maltapost. In 2009, two national postal operators, Post Danmark and Swedish Posten, have merged to form a new Scandinavian postal group, Posten Norden. However, the majority of the national postal operators are still fully owned by the state.

Postal service provision has been gradually modernised. The introduction of highly-efficient sorting machines resulted in more centralised sorting processes, in a lower number of sorting centres, and the establishment of hub and spoke systems. Transport has often been outsourced, and retail networks have been restructured. These measures have affected postal employment at national postal operators. Since 1998, overall employment in mail services has declined substantially in the EU. Simultaneously, national postal operators have diversified their business activities. The mail business is still important, particularly as a source of profits, but many operators have extended their activities to neighbouring segments (such as parcel, express and logistics), in domestic markets and abroad, and to the financial sector (notably French La Poste and Poste Italiane). In turn, others like TNT, Deutsche Post and Swedish Posten have decided to exit the financial business.

In 2007, the year before the financial crisis started, most national postal operators within the EU-27 had positive profit margins (based on EBIT). In particular, the national postal operators of the former EU-15, which had had more time to prepare for market opening than had those of the new Member States, have substantially improved their profitability, and many of them have achieved margins well above five per cent. Of course, in 2008 and 2009, the financial crisis and the sharp economic recession have affected the postal business. However, this has mainly affected postal and express items sent between businesses, and direct mail. The

8 European Commission (1992), *Green Paper on the Development of the Single Market for Postal Services*, COM(91) 476 final.

key mail business has been less affected. Volume and revenue decline resulted from the cost saving measures of business customers. Where available, these have switched volume from first-class to cheaper second-class mail services, and ad-hoc cutbacks in marketing budgets have resulted in less direct mail and/or a switch to unaddressed advertising mail. Finally, express services have been substituted by less expensive parcel services. However, it appears that national postal operators have survived the crisis more easily than have other industries.

The way in which universal postal services are provided has also changed substantially. Most national postal operators of the EU-15 have modernised or are still in the process of modernising, their postal logistics. Simultaneously, quality of service has improved substantially, measured in terms of transit time performance, and reliability in postal service provision. Today, in many Member States, next-day delivery of letters has become a standard service. In 2008, more than half of the national postal operators achieved quality levels above 90 per cent, i.e. on average 90 per cent of these standard letters are delivered by the next working day. At the same time postal tariffs for consumers have remained affordable, perhaps due to regulation. In more than half of the Member States the 20g letter for next day delivery has not become more costly in real terms. Furthermore, in around half of the Member States, consumers still have a choice between a first-class service and a cheaper second-class one. Finally, the accessibility of postal services has improved overall. The increasing use of more cost-efficient postal agencies has resulted in longer opening hours. Furthermore, parcel operators have started establishing contact points for parcel services to enter the growing distance selling markets, due to emerging e-commerce (mainly in the Western Member States).

In Member States where there is perceptible competition in the letters market, large- and medium-sized business customers have benefited from it. Firstly, in countries like Germany, Sweden or the Netherlands, business customers have had a choice between different postal operators when sending letters. However, this competition has usually been limited to certain letter segments, e.g. the direct mail segment in the Netherlands, industrial mail in Sweden and value-added services in Germany. Following full market opening in the Netherlands and Germany, the competing postal operators have the possibility of extending their services to all segments.

Secondly, the incumbent postal operators have responded to the competition with improved offers (in services and prices). In Germany and the UK, medium-sized and large business customers have directly benefited from mandatory downstream

access and upcoming service providers offering consolidation services. New product offerings have emerged. In Netherlands, for example, TNT has introduced a low-budget product ('Budgetmail') delivered by its subsidiary VSP to meet more effectively competition from Sandd and Selekt Mail in the direct mail segment. The Swedish postal regulator (PTS) stated in its retrospective on 14 years of competition in the Swedish postal market that 'after liberalisation, the developments have been favourable for customers purchasing bulk mail services. The price level has gone down at the same time as service and quality has improved.'<sup>9</sup>

### Conclusions

Despite the introduction in the EU of postal liberalisation, progress towards effective competition in mail markets has been very limited. National postal operators still have monopoly-like positions in most European mail markets. However, liberalisation has fundamentally and successfully affected postal service provision. The national postal operators have been transformed into more cost-efficient, profitable and customer-oriented companies. Postal tariffs have remained affordable for consumers, accessibility to postal services has often been improved, and business customers today benefit from more choice (between products and, sometimes, operators) and lower tariffs. Furthermore, reliability and routing times of postal services provision have greatly improved.

Future challenges, particularly arising from the substitution of physical by electronic mail, require ongoing efforts better to meet the needs of senders and recipients of mail, and thereby make mail a more attractive medium. To this end, promoting effective competition in delivery and upstream markets establishes the necessary incentives to enhance the competitiveness of the letter within the broader communication and advertising market.

<sup>9</sup> Post & Telestyrelsen (2007), *The Liberalised Swedish Postal Market: The Situation 14 Years after the Abolition of the Monopoly*, p.9.

## CHAPTER 3

### Our Changing World – The Need for Strategy and Vision

Susan Barton

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Africa and Latin America.

*In the challenging and often bewildering context which postal operators now face as the backdrop to their business planning, this contribution emphasises the need for postal operators to be clear about their strategy and vision for the future. Based on recent research, the author outlines different strategic responses that have been adopted by postal operators and also some common characteristics of high-performing posts.*

Looking back over the past two decades we can reflect on the enormous changes that have taken place in our environment. Advances in mobile technology have given us access to a whole spectrum of communications, media and services while on the move. The emergence of new players and business models within the travel industry now mean that even the furthest places on the globe are accessible to us. The adoption of the internet in both a business and a social sense has radically changed our power as consumers, providing easy access to information and social networks. These factors, when combined with a global government commitment to modernise and liberalise every aspect of our market environment, mean that we have more choice than ever. The world we live in is certainly very different to that of our predecessors and that has significantly altered the landscape for postal operators.

For the past decade, postal operators have been facing the challenges of globalisation, liberalisation, and technological advances together with, more recently, the worst global recession for a century. Over the past two years, postal organisations have experienced a shift in their perspective on the future. Volumes were always expected to decline, but not at the levels now being experienced. In reality, a strategy focused purely on cost reduction and efficiency improvement cannot deliver the level of change that is needed to secure a commercially viable future.

### The Need for Diversification

We have been monitoring developments in the global postal industry for many years, and evaluating the performance of postal operators from both quantitative and qualitative perspectives. This body of research, conducted by Accenture, allows us to examine how the industry has changed over time, and to understand better how market demands are forcing postal organisations to strive for continuous improvement.

Perhaps this is best evidenced in the area of postal organisation strategy. In 2006, our research highlighted that choice of strategy did not seem to be a major factor in determining success: having strategic clarity was sufficient. In 2009, we found that strategic choice had become more important and, indeed, four strategic categories were emerging across the industry. In 2010, we discovered that choice of strategy was absolutely vital to success and reflected as a top priority among our league table of postal players achieving high performance.

Figure 1: Four Strategic Categories

Strategy	Global players	Regional diversifiers	Service providers	Traditionalists
Criteria	<p>At least 25% of revenue outside domestic market in 2006.</p> <p>Revenue came from more than one continent or trade bloc.</p> <p>Clear strategy of international growth.</p>	<p>At least 12.5% of revenue outside domestic market in 2006.</p> <p>Revenue from adjacent countries or the same continent.</p> <p>Dominant strategy of regional growth.</p>	<p>Dominant strategy of diversification through convenience and proximity.</p> <p>Services beyond mail, shipping, banking and stationery.</p> <p>Innovative solutions across channels.</p>	<p>Strategic approach primarily focused on improving the efficiency of mail.</p> <p>National focus.</p>
Who's who	DPWN (Germany), FedEx, TNT (Netherlands), UPS	Austria Post, Itella (Finland), Le Groupe La Poste (France), Posten Norge (Norway), Posten (Sweden), Swiss Post.	Australia Post, Correios Brasileiros (Brazil), New Zealand Post, Poste Italiane, Singapore Post, South Africa.	An Post (Ireland), Canada Post, Ceska Posta, (Czech Republic), Correos (Spain), De Post-LaPoste (Belgium), Japan Post, Magyar Posta (Hungary), Post Danmark, Royal Mail (UK), USPS.

Figure 1 presents our four strategic categories and positions each of our surveyed organisations under the category that best reflects their assessed performance. While such a snapshot at a point in time is interesting, it is the progress over time that gives us the best insight to the industry and the characteristics associated with high performance.

- **Global players:** the geographic diversification that is being pursued by these organisations is truly global. They have identified the market segments that work best in a global sense, i.e. logistics and express, and invested heavily in building capabilities across the international marketplace. DPWN and TNT are the only two postal organisations that have adopted this strategy on such a global scale and the reality is that, when evaluating their businesses at a corporate level, it is difficult to make a comparison with other posts. Therefore, express and logistics services players, UPS and FedEx are included in our global player category for benchmarking purposes. Looking forward, it is difficult to see any other global players emerging.
- **Regional diversifiers:** this category approaches geographic diversification on a more regional basis, with organisations extending into adjacent markets. Looking at the operators who are pursuing this strategy highlights

similarities in many of their domestic markets. Most notable is the size of the domestic market which in most cases is relatively small. As a result, while a nationally based service diversification strategy could offer new revenue streams, these are likely to be limited. The proximity of other geographies, therefore, offers an attractive opportunity.

- *Service providers:* these postal operators have adopted a focus that is primarily based around expanding the range of services within their domestic market. This would appear to be the most obvious choice of strategy for postal operators in large countries – expanding operations where their brand is already strong and they have an existing operational platform. An additional factor may also be the lack of opportunity for geographic expansion, since a significant proportion of our service providers are operating in geographies which are discrete islands.
- *Traditionalists:* the traditionalist category historically has been the preserve of the operators which are focused on continuing to provide traditional postal services. The focus is on providing better versions of these services by integrating technology, improving flexibility and overall reducing cost. Certainly many, in fact most, of the operators offer products and services that are the same as those organisations in the service provider category, but the financial contribution of these services is too small to affect their overall positioning in our categorisation.

### The Path to High Performance

While adoption of a specific strategy is important to achieving high performance, it is not the only factor. When we take a closer look at the postal organisations that achieve high performance, we discover some common themes around their business approaches:

- *Customer-centricity:* postal organisations that achieve high performance adopt a customer-centric approach, prioritising customer needs at every juncture of their business operations – from product development through to customer service. These operators recognise that customers have the ultimate choice and they do all they can to continue to improve their offering and maintain their customer base.
- *Cost focus:* for postal organisations that achieve high performance, cost focus extends beyond improvement of their own operation to a fundamental consideration of their structure and the opportunity to outsource both core

and non-core elements. These operators are not just looking to outsource back-office systems; they seek to incorporate lower cost, more flexible providers into their core operations.

- *Digitisation:* technology is seen as an opportunity, not just a threat, by postal organisations achieving high performance. They are using digitisation to offer enhancements to the existing product offering, to create new products and to streamline their operational processes. Both physical and electronic operating model environments are being embraced to help maximise their full potential.
- *Sustainability:* the environment is a significant factor for businesses today. Postal organisations that achieve high performance view this not as an imposition or an overhead cost but as an opportunity. They have developed products and pricing strategies with the impact of sustainability in mind and are using the changed practices and behaviours to drive new revenues.

The common theme running throughout our research findings is the critical importance of mindset. Postal organisations that achieve high performance appear to have a mindset that actively seeks out potential opportunities. Whatever changes occur in their operating environment and the broad marketplace, they are willing to challenge the fundamentals of their business to grow. It is this proactive, 'survival of the fittest' mentality which is perhaps the greatest asset in the path to achieving high performance.

### The Advantage of Ambition

A final critical factor that arises from our analysis of postal organisations that achieve high performance is ambition. Associated with mindset, ambition is the starting point for growth and progress. Today, postal organisations are operating in very different environments, with some still largely under the control of government while many have to accommodate the needs of the private sector marketplace. This environment provides the context for each post: the balance of focus between social service provider and commercial business; doing the same but better and diversifying into new business areas. However, with the volume decline experienced as a result of the global economic recession, it is clear that continuing to do the same but better is not enough.

Cost reduction alone will not ensure survival – diversification must be a consideration in every postal organisation's strategy. By recognising the importance of diversification, postal organisations can take action and target the future

aspirations for their business. By establishing positive future goals, based on a core ambition to succeed, postal organisations can generate the energy, enthusiasm and commitment needed to emerge from this difficult economic period with a sustainable business that sets the standard for achieving high performance.

### The Postal Business of the Future

The postal industry is at an interesting stage in its development. The future of the core mail business, which has consistently generated significant revenues and profits and survived the challenges of technological advances, is now in real decline. Postal operators are now actively increasing the pace and scale of their diversification strategies. This is no longer about new products and services, it is about new markets. The need to take the existing core strengths and capabilities and build them into a reinvented postal business has never been greater. The challenge is immense but with vision, determination and ambition, the postal businesses of the future will emerge and our future landscape will be defined.

## CHAPTER 4

### Postal Operators at a Crossroads: What are the Strategic Options?<sup>1</sup>

Stefano Gori

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*This chapter discusses some of the key strategic decisions facing postal operators today. The author argues that postal operators are at a crossroad and must make important decisions about what the business of post will be in the future. Such decisions often lead to diversification. The author also explores the notion of a structural separation, or in other words, divestiture.*

<sup>1</sup> This chapter is a revised, updated and expanded version of an earlier paper: Gori, S. (2009), 'Alternative Directions', Nawafith, Dubai, January-March. The views expressed are the authors and do not necessarily represent the views of Poste Italiane.

Two roads diverged in a yellow wood,  
And sorry I could not travel both,  
And be one traveller...

(*'The Road Not Taken'* by Robert Frost)

Like the traveller in Robert Frost's poem *'The Road not Taken'*, national postal operators around the world are at a crossroads and have to evaluate various strategic options, choosing from:

- 1) focusing on the core or diversifying their business,
- 2) concentrating on their home markets or expanding internationally, and
- 3) structurally separating the postal service division from the rest of the company, or maintaining it as the core of the company.

Historically, these operators have generally been directly or indirectly linked to the State, and have been taken for granted by citizens and governments. In the last few decades, rapid technological changes have led to a complete change in methods of communication and consumer choice (e.g. e-substitution). Furthermore, decreasing or stagnant postal volumes, the opening up of international markets, increased competition from new operators, dramatic growth of the courier and express industry, and decreasing government intervention and ownership of network industries have challenged the traditional role of these operators. These external changes and the looming economic perspectives in many countries, as we slowly emerge from one of the worst recessions in the post-World War II era, are forcing postal operators to reconsider some of the strategic decisions made in the past few years.

### Focusing on the Core Versus Diversification

In the decades after the 1960s and early 1970s, when multinational and highly-diversified corporations were growing dramatically, world management gurus, strategic consultants and fresh graduates from business schools around the world often repeated the mantra that companies should concentrate on their core competences and business, sell their non-strategic assets and outsource as much as possible. The finance-trained graduates tended to articulate their arguments by adding that companies cannot create value by lowering risk through diversification. Generally they believed that capital markets were much

more efficient at this than managers, and that the information was available in capital markets to allow investors to diversify<sup>2</sup>.

The idea was that corporations focusing on what they know best are more likely to be successful than corporations who diversify into areas with which they are not acquainted. According to these pundits, firms should concentrate on the elements that have brought them to the position they have earned, and this is especially so in a time of economic slowdown. Focusing on their core competences allows companies constantly to update and improve the collective learning in organisations and makes it difficult for competitors to catch up or imitate.

But, are we witnessing a paradigm shift? More and more 'experts' support the idea that companies should not be product driven but customer driven instead. This means that, at the end of the day, a firm's customers are the real drivers to diversification. Now, more and more in business schools, we hear buzz words such as 'customer lock-in', 'one stop shopping', 'synergy', 'viral marketing to enhance brand awareness' and 'redefining your market'. All these terms focus not on the core competences of producers but on the perceptions of customers. When Apple has diversified from computers to i-pods, to selling phone handsets (which are considered a commodity) and more recently i-pads, it has successfully leveraged its brand by utilising viral marketing.

Diversification, however, four decades ago was already at the core of the strategies of companies such as Coca-Cola. The 1960s and 1970s brought acquisitions and diversification for Coca-Cola. They purchased Minute Maid and later acquired Duncan Foods. The Coca-Cola Company Foods Division was created in 1967 and was later renamed Coca-Cola Foods. During the 1980s, as consumers became more health conscious (e.g. reading from labels the sugar and caffeine content of a drink), the entire soft drink industry started to face competition from the makers of bottled water. In response, Coca Cola developed low-calorie and caffeine-free beverages, such as Diet Coke. In the 1990s consumers started to demand 'New Age' beverages such as ready-to-drink teas, fruit juice beverages, and flavoured waters. From the simple cola, Coca-Cola (followed by Pepsi in this strategy) expanded dramatically its offering into a kaleidoscope of traditional sodas, natural sodas,

<sup>2</sup> In 1970 Eugene Fama formulated the Efficient Market hypothesis (EMH), suggesting that at any given time, prices fully reflect all available information on a particular stock and/or market: Fama, Eugene (1970): 'Efficient Capital Markets: A Review of Theory and Empirical Work'. *Journal of Finance* 25: 383-417.

fruit juice drinks, and various kinds of bottled water<sup>3</sup>. Thus, Coca-Cola decided to redefine its market and how it wanted to be perceived by its customers. It seemed to move away from the comfortable position of being the biggest player in the Cola market, to start competing for the 'thirst of people' by diversifying to the water and juice business.

### How do Postal Operators Fit in this New Paradigm?

In many countries, postal operators are marked by a number of superlatives. They are among:

- The oldest companies
- The largest employers
- The most recognized, respected and trusted brands.

These are distinct competitive advantages which allow postal operators to be well positioned to face tougher competition. Postal operators need to be more like the Coca-Colas of this world, where they redefine the market in which they operate, drifting away from the mere postal market definition toward being a player in the larger communication market. Furthermore, as proof that postal operators are considered to be trustworthy, during the recent international financial meltdown some postal operators have experienced a dramatic growth in funds managed by their financial arms, due to the so-called 'flight to safety'. Thus, postal operators and safety go hand in hand, and it is this perception that needs to be leveraged when diversifying. The recent decision by the French postal operator, La Poste, to diversify into the mobile telephony business (like operators have done in the past few years in Italy, Portugal and Ireland) is a step in this direction<sup>4</sup>. Similarly, India Post is moving into the pre-paid credit card business, and in the first quarter of 2010 the Russian Post has launched a partnership with the Italian Post to prepare the huge Russian post office network for the launch of a post-finance company.

3 Gale Group (2010): <http://business.highbeam.com/industry-reports/food/bottled-canned-soft-drinks-carbonated-waters>

4 Seithumer P.J. (2010): 'La Poste mise sur l'innovation pour continuer à rester dans la course', *La Tribune*, 12 March.

### The Strategy of Postal Operators in North America, Europe and Japan

In terms of the diversification path undertaken by operators in North America and Europe, we can distinguish four general clusters of operators based on their diversification strategies. These are as follows:

**Cluster 1 – Diversification into industries linked to postal services and/or moving upstream in the postal supply chain** – for example USPS (USA), which has historically held a monopoly on delivery of 'last mile' services and is now moving upstream to provide new postal value-added services and offer solutions encompassing the traditional mail-stream flow<sup>5</sup>. Meanwhile, Scandinavian operators have gradually grown their logistics businesses, leveraging their experience in postal logistics and courier express.

**Cluster 2 – Geographic diversification of core products and services (postal or courier express business)** – for example TNT (mail and courier express) and Austria Post (courier express) have in the past few years acquired medium-sized companies abroad, mostly in predetermined regions (TNT in Western Europe, Austria Post in Central and Eastern Europe). This development will be discussed in the next section.

**Cluster 3 – Diversification into other communication mediums and financial services** – for example Canada Post (e-services), Japan Post<sup>6</sup>, La Poste and Correos (financial services), Italy (financial services, e-services, mobile telephony).

**Cluster 4 – Mixed strategies** – for example DPWN has implemented all possible diversification strategies from international, to moving upstream, to diversifying into other businesses. Belgium Post has pursued both an international strategy, setting up an international subsidiary, and also expanding in financial services through a partnership with Fortis bank and Swiss Post both of which have a similar strategy to Belgium Post.

5 Crews C., Deduytsche L., Ducasse J.P., Gori S. (2006): 'In a decade what type of cake will the European Mailing Industry turn out to be? A Pancake, a Millefeuille, a Sacher Torte or a Black Forest?', presented at the 14th Conference on Postal and Delivery Economics, Bern June.

6 Japan Post is one the largest financial institutions in the world with assets of more than ¥ 300,000 bn and sits at the heart of a system of public institutions owning almost half of the Japanese national debt (Harding R., Nakamoto M. & Whipp L. (2010): 'Pragmatism drives stance on Japan Post', *Financial Times*, 6 April).



In emerging countries, the postal industry has experienced similar trends. For example, Egypt Post would fit in Cluster 3 due to its diversification into financial services, along with Saudi Post and Qatar Post, which have invested significantly in e-services. Meanwhile, Emirates Post would fit in the fourth cluster because it has accompanied its geographical diversification (through acquisitions and partnerships) with the decision to enter into other businesses (e.g. money transfer). The strategy of diversifying into other sectors has also been driven by a political and social objective to increase economic inclusion and reduce the digital divide. Tapping the lower end of financial markets and communication businesses is playing a significant role in economic inclusion. These operators are *de facto* following the lessons of recently-deceased management guru C. K. Prahalad, who presented new business models targeted at providing goods and services to the poorest section of the population, making the case that the fastest growing entrepreneurial opportunities have to be found among the millions of poor people 'at the bottom of the [financial] pyramid'.

### Geographical Diversification

As we have seen above, some operators which have developed best practices in their core competences (mail and courier express) have built up international networks, in either Cluster 2 (geographical diversification) or Cluster 4 (mixed strategies). This strategy has been developed not only to diversify their risk but also to cater for the needs of their customers. In order to protect their domestic markets, they had to offer solutions across borders and provide services internationally, to be able to offer 'one stop shopping solutions'. The growth of international trade and the dependence of countries like Germany and the Netherlands on international markets for both inputs and for export markets, have stimulated the two incumbent postal operators of these countries to develop international operations. This has led these companies also to modify their organisational structures, their missions and their corporate values to adapt to a more diversified workforce and different regulatory environments.

7 Prahalad C. K. (2004): *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing.

### What about Diversifying to the Point that Postal Services are no Longer Core?

In early April 2010, the Dutch mail and express delivery company TNT announced that it was thinking of spinning off its mail operations, shifting its growth ambitions to the express delivery division. Even though the debate in this case is restricted to the particular characteristics of the Dutch market, the announcement could stimulate similar debates in other industrialised countries, and eventually also in emerging markets. The issue at stake is whether it is in the interest of the policy-makers to discuss a possible separation of the mail business from a diversified postal operator, due to growing market competition and lower volumes. If the answer is 'yes', who should control this separate entity – the market or perhaps the regulator? Or does it have to remain under the control of the postal operator?

One of the case studies outside the postal industry, scrutinised and analysed by postal operators across Europe, is the well-known case of the UK telecoms industry. In this, a legal (and operational) separation has recently been implemented, but retaining reporting to a single holding company (which therefore does not involve a real ownership separation). Openreach, a separate division of the United Kingdom telecommunications operator BT, was created to 'ensure that all rival operators have equality of access to BT's own local network', and sell a range of products to communal areas. Part of this regulatory package was the creation of an Equality of Access Board. The Board is supported by an Equality of Access Office, which monitors the performance by Openreach of its obligations in the Undertakings. The Equality of Access Board monitors compliance with the legally binding Undertakings given by the BT Group to Ofcom (the UK Telecommunication Regulator), assesses the delivery of equivalence by Openreach, and reports regularly on this to the BT Group Board. It consists of five members – three independents, one BT Group non-executive board director and one senior BT manager<sup>8</sup>.

The postal sector is no different, in that the UK postal regulator, Postcomm, first studied this option back in 2004. There is an ongoing debate about the impact of the unbundling of network industries. The same logic, however, may not be applied to the mailing industry, which needs mass volumes to generate economies of scale, absorb

8 Openreach (2005): 'Undertakings given to Ofcom by BT pursuant to the Enterprise Act', as accessed on [www.openreach.co.uk](http://www.openreach.co.uk)

high fixed costs<sup>9</sup> and keep delivery costs low. Unbundling the mail value chain may lead to inefficiencies, quality problems, and operational bottlenecks. Thus, the vertical integration of the post's activities can be more effective than an unbundled value chain in terms of 'transaction costs', operational efficiencies and economies of scale.

In their important paper, Haldi & Olson (2006)<sup>10</sup> pointed out that the postal literature was devoid of discussion about unbundling the USPS or any other post. They put this down to the fact that posts have been vertically integrated networks for so long that it is difficult to imagine them organized any other way. From a first analysis, it seems that the higher the degree of separation between the different phases of the mail-stream, the greater the need to have mail commoditisation/standardisation, so that economies of scale are not wasted, and so that upstream innovation is higher. Furthermore, the higher the level of cooperation is between upstream and downstream players, the lower is the resulting loss in economies of scale<sup>11</sup>. However, at the end of the day, this will turn out to be a political decision rather than an economically driven decision.

## Conclusion

Before addressing seriously the strategic options presented above, postal operators and policy makers need to understand country-specific characteristics, and the serious impacts that the above decisions could have on other sectors of the economy, given that the postal network is one of the most ubiquitous networks present in any country.

To summarise the discussion above, and to identify future research opportunities on these topics, we can say the following.

- Before deciding to go beyond their core, most operators assess how they are doing in their core business(es). This is the backbone of a company's success,

9 Gori S., Piccinin E., Romito S. & Scarfiglieri G. (2005): 'On the Use of Cost Functions in the Assessment of the Impact of Liberalisation on Postal Universal Service Burden Restricted vs Flexible specifications', in M. Crew, P. Kleindorfer (eds.), *Progress toward Liberalization of the Postal and Delivery Sector*, Springer Science, Business Media, New York, p.59.

10 Haldi J. and Olson W. (2006): 'Enhancing Competition by Unbundling the Postal Administration'. In *Progress Toward Liberalization of the Postal and Delivery Sector*, edited by M.A. Crew and P.R. Kleindorfer. Boston: Kluwer Academic Publishers.

11 Deduytsche L., Ducasse J. P., Gori S., Owsiany A. (2007): 'The impact of the regulatory environment on the European Mailing Industry: A scenario planning exercise', presented at the 15th Conference on Postal and Delivery Economics, Semmering Austria 31 May.

and a source of the financial resource necessary to leverage diversification (e.g. TNT, DPWN).

- Diversification lowers the overall risk to the firm, because the whole company does not fold if one business area performs poorly. However, this will especially be the case if diversification is carried out into markets with high growth potential and with the potential to hold up under less than optimal conditions (e.g. e-services, mobile services).
- Diversification (whether product, service or geographical) should be driven by the customers.
- Not all diversifications are successes (e.g. TNT in logistics, DPWN in courier express in the US) and they should not be considered to be the panacea to solve all the problems faced by postal operators.
- Geographical diversification needs to take place in countries with strong economic and social links (e.g. Austria Post defines markets in central and eastern Europe as 'its China').
- It appears that postal operators in emerging countries need to implement innovative production and pricing strategies. If they want to tap 'the lower end of the pyramid' they need to copy companies like Procter and Gamble (P&G). In marketing goods to low-income shoppers, P&G takes into consideration the budget constraints of its customers. It uses what it calls 'reverse engineering' where rather than create an item, and then assign a price to it, the company first considers what consumers can afford and after that it adjusts the features and manufacturing processes to meet various pricing targets<sup>12</sup>.
- Sometimes, diversification into sectors that are considered to be mature, saturated or highly competitive is not necessarily a bad idea. For example, who would think that in Switzerland there would be a market for another financial institution like Swiss Post financial services, or in a country like Italy, that it was possible to enter a saturated and highly competitive market like mobile telephony and acquire 1,600,000 customers in two years? In times of crisis the brand values like trust and safety become

12 Byron E. (2007): 'P&G's Global Target: Shelves of Tiny Stores', *The Wall Street Journal*, 16 July. Private Sector Development Blog (2007): 'P&G finds fortune at the bottom of the pyramid', <http://psdblog.worldbank.org/psdblog/2007/07/pg-finds-fortun.html>, 18 July.

relevant instruments to generate growth through diversification (e.g. in financial services).

- Diversification can also take the form of joint ventures or partnerships with more experienced players (e.g. Correos and Deutsche Bank, or Saudi Post's alliance with top-notch technology providers).
- The impact of separating structurally the mail network from the rest of the postal operator needs to be assessed carefully because it generates ripple effects in the whole economy.

There are plenty of lessons to be learned from the past experience of posts around the world. But, at the end of the day, if postal operators (or the traveller from Frost's poem) are not to lose their way they have to understand their history and their core values – and then sometimes have the courage to take the less travelled path... whatever that might be.

...I shall be telling this with a sigh  
Somewhere ages and ages hence:  
Two roads diverged in a wood, and I  
I took the one less travelled by,  
And that has made all the difference.

## CHAPTER 5

### Diversification to New Revenue Streams: 'A Perfect Storm'

Maxine O'Brien

Maxine O'Brien has worked as a manager within Australia Post and as a consultant to the postal sector. She is currently Director for Business Development at KPMG Australia.

*In this reflective chapter, the author suggests that strategic diversification decisions are like weathering the perfect storm. They require both patience and skill. The message is that, while challenges for the sector are numerous, the opportunities for diversification are endless, and as long as a carefully planned and analytical approach is taken both to opportunity identification and selection, and to subsequent implementation, postal organisations have every chance of succeeding.*

Diversify! Grow! Innovate! Economise! Become more competitive! Think laterally! We have heard these business mantras many times as reminders to remain relevant and profitable. As we pass through decades and social cycles, and develop different needs, we need to remain relevant and viable. But how should we capitalise on this change to create a sustainable postal business if its mail service functions primarily under a series of aged and increasingly irrelevant government regulations that are responsible for how they look and operate today – in a time where hundred-year-old businesses typically are no longer in existence?

### Future Challenges

The modern mail service as we now know it has existed since the mid-1800s, though evidence shows earlier letter communications methods dating back to 200 BC (in China for example) when they were created for the various government and military authorities who continued to increase their geographical footprint. Mail services have evolved and are more unified, organised, standardised and systemised to the needs of the country's citizens.

To survive, remain competitive and provide needed services to customers, the mail service business has grown from the provision of the initial letter and business document service to the provision of a wider range of postal services, banking services, identity services and bill payment to name a few. This decade presents new challenges to the postal business, and it is widely acknowledged globally that the core letter business is declining. Challenges include mail costs increasing more than revenue, thus placing pressure on prices to maintain revenue levels, meeting regulatory requirements which inhibit the reduction of network infrastructure, and addressing the need to expand delivery points to match population increases.

The revenue and profit is also declining from the range of other services which were introduced to offset the decrease in mail revenue. As we move into the digital age, paper-based and repeatable transaction-type services no longer support a viable business (service and profit), placing the postal service under considerable stress. The postal service is reacting to this by creating new products and services that currently sit comfortably within its outlets and delivery network framework. But is this enough?

The postal business could attempt to bring about change in its regulatory requirements and so operate a viable business and create change markedly different from what it was established to do and what customers expect. But this would be likely to attract push back from the government, regulator and customers. The business could continue to operate as it is, knowing that with the current trends

it would effectively be working towards a crossroads whereby customers would declare it obsolete, costly and not fulfilling their expectations. But there are preceding examples of other organisations, privatised for similar reasons, which are still underperforming yet at adequate cost and service levels to meet the needs of the growing population.

The answers are not easy. The current thinking is to continue to make the mail delivery network as efficient as possible by deploying more efficient sorting equipment, routing, fuel-efficient delivery vehicles and staffing levels, while investigating diversification into new core products and services. But how do we take an organisation with strong historical origins mainly around mail delivery and steeped in government regulation and turn it into a modern-day, diversified, agile and enduring business?

We need new revenue streams which are profitable and which can be adopted quickly. These activities also need to make sense to staff and customers alike, and provide business sustainability vis-a-vis the investment required. But what are they? If we look at the vista which impacts these decisions, it makes the multifaceted selection process even harder.

### Diversification, but with Structure

Digitisation, multi-channelling, instant response and interaction, sustainability, demographics, an ageing population and workforce, and mature and more agile competitors all present challenges to any postal organisation grappling with what to develop and offer, apart from a traditionally physical mail service and presence. Should these services be delivered via the postal outlets, online or using multi-channels as an increasing number of businesses go down that route? What will that do to the core physical service and customer perception of the postal organisation? How do we assess which products and services to pursue and take to the Board?

In short, a robust and well-structured approach to opportunity assessment is required which enables the effective comparison of ideas, assessment of their merits and appropriate allocation of time, money and other resources. Opportunity assessment fundamentally involves a critical exploration of the strengths, weaknesses, opportunities and threats associated with particular ideas and related business models. The questions that need to be asked include:

- How will the proposed venture, product or service offering make money?
- Who are the target customers and how large is the potential market?

- Who are the competitors and how fragmented are they?
- Has any organisation been successful doing what you plan to do and if not, why not?
- What are the anticipated pricing dynamics, distribution channels and marketplace longevity of the proposed venture, product or service offering?
- How well does the proposed venture or product fit within existing market offerings and in-house capabilities?
- What inputs, processes or partners would you depend on to succeed?

Before commencing with opportunity assessment, it is important to gain agreement on an assessment framework – failure to do so is likely to lead to inappropriate investment decisions and associated issues of cost, risk, time and effort. This may require a detailed assessment of customer trends, market dynamics, and the preparation of business plan, feasibility and scoping documents which are ultimately presented for senior executive and/or Board approval.

Where a number of opportunities or permutations on these opportunities require assessment it may be of value to develop a 'go/no-go assessment matrix' – providing a quick, visual means of considering the relative merits of particular ideas.

Experience suggests the following to be common mistakes:

- Poor understanding of market dynamics;
- Limited consideration of current organisational positioning;
- Failure to gain input from various stakeholder perspectives and harness the insights of multi-disciplinary teams; and
- Failure to align service offerings with established product and service offerings.

In the Asia-Pacific region many postal organisations have already seized opportunities to create products and services to complement or supplant their mail revenue. These involve forays into products and services which sit nicely within the current outlet and delivery framework. Examples include banking, insurance and foreign currency services, online integrated bill payment, mobile applications for store locator and parcel tracking, identity verification, online shopping, parcel and courier services with full tracking, ticketing, flight bookings, kiosk services for cash, postage and basic postage products and in-store ranges of office stationery

and personal gifts such as toys, music and gift cards. These products and services are all offered in-store or via other channels such as the internet or mobile phone applications.

## Critical Success Factors

The critical success factors that will make these products and services successful post the critical opportunity assessment phase include project management, stakeholder management, partnering and accountability, to name a few.

Strong project management skills are required to develop the product and define the business model for operation. Buy-in and support from key stakeholders also needs to occur upfront, throughout the project, and after it is offered to customers.

If partnering with other organisations for new products and services requires new or extended capabilities, then partner collaboration and contribution to the design of the new product or service should occur upfront, to make sure the best offering is defined and offered in a timely way to capitalise on the initiative.

Accountability is key to ensuring that all parties deliver against their commitments and that benefits are realised. Product offerings around the world can be considered and adapted for local markets, thus lessening the risk of going the bleeding edge, and are a good starting point which can lead to new thinking and progressive ideology in its own right.

In summary, these are either exciting times – if you like to set the course of the river – or they are scary times if you take a 'go with the flow' approach and follow safely. If you can view this as the 'perfect storm' – turbulent but with opportunity to develop new products and services in a calculated and considered way – you will remain buoyant.

## CHAPTER 6

### Challenging the Status Quo: Opportunities for New Entrants in Niche Areas

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Ernst W. Hoestra

Ernst W. Hoestra joined Cycleon in February 2009 as Chief Operating Officer, and was appointed Chief Executive Officer in January 2010 to lead Cycleon's continued expansion in delivering pan-European reverse logistics solutions.

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*In the rapidly changing environment in which postal strategies are currently being developed and tested, opportunities are opening up for new entrants to challenge the status quo not just by challenging the incumbents in their traditional markets with similar products and services but in niche areas, and by looking at quite different business models. This case study is an example of a very successful company that has emerged in the last five years and grown very fast by identifying some specific customer needs in the area of reverse logistics.*

How can companies grow their business in the European market while delivering a unique service experience? In the current economic climate it is more than ever important to play proactively into the key trends, in a flexible manner. Trends such as environmental awareness, internationalisation and e-commerce are changing the landscape for post and parcel companies. It will become increasingly important to offer services which address the critical client issues from the traditional parcel delivery model with a data-rich value add service range.

### Reverse Logistics – a New Business Model

Cycleon is a new company which has started its business recently by targeting the niche for cross-border returns management. It has become the market-leading provider of pan-European reverse logistics solutions very quickly, and has been challenging the traditional return business models. It has done this by offering a complete reverse-supply-chain for its clients through its returns management IT system which it has developed in-house. This includes both physical transportation and a high-quality data flow.

Cycleon's approach challenges traditional return models by developing innovative solutions for end-to-end return management, and by successfully offering a highly focused product line. Most logistics service providers do not prioritise the management of returns, offering this only on request. They do not see it as a value-added service. Cycleon saw this as a niche opportunity and focused exclusively on the returns market.

Consumers like to have a hassle free shopping experience. An unclear, unreliable returns process is a major irritation, so Cycleon support their clients with a returns management solution that cuts the cost of returns and improves customer service. By managing consumer returns in a flexible and transparent way, clients consistently receive detailed information on returned products throughout the entire process. The client can receive and retrieve information whenever required, for example online. The system combines access to millions of easily accessible locations and state-of-the-art logistics facilities across Europe. This enhances the shopping experience, effectively making any return process equivalent to a local return.

### Driven by Client Value and Better Customer Service

The client enjoys the services of a traditional express company without incurring, when it comes to reverse logistic solutions, the costs associated with this premium offering. Cycleon has developed capabilities which allow it to integrate with the

clients' existing IT systems, billing modules, call centers, websites and customer loyalty programs. This leads to a significant improvement and reduction in operational costs. For example the client no longer needs to set up its own call centre(s) to provide a service to its consumers, and this leads to savings which can reduce back office costs by 70%.

The increased customer service experience which an integrated solution provides leads to repeat consumer purchases which have a positive impact on the client's bottom line. Increased customer loyalty and the delivery of best-in-class services, usually leads to repurchasing and retention. Streamlining internal processes reduces overhead costs. For example clients no longer require their own customer service department since Cycleon themselves are able to offer this. Additionally, selecting cost-efficient return routes for specific products, impacts positively on the client's bottom line. In short, lower value items can be processed locally, whereas high value items require a speedy international service.

### Extending Reach through Partnership

Another innovation has been Cycleon's partnerships with national postal networks and a number of other high-quality logistics/network providers. Through these, Cycleon can focus on the clients' requirements rather than on network limitations. With a powerful IT system, any return management solution can be designed without the limitations of an owned logistics infrastructure or network.

### How Does it Create Value for the End-user?

The return process starts with the end-user who receives a user-generated label, simply attaches it to the package, and drops off the return at any postal drop-off location. The end-user is no longer required to wait for a courier, and is able to drop the parcel off at any post office or mail room at a time that suits them. Cycleon has ensured that there is always a postal drop-off location near the end-user. Additionally, the ability to have a choice of pick-up solution is an important asset which can be offered to the end-user.

After entering the domestic networks, any return is intercepted, consolidated in a Cycleon national return centre, and forwarded to the final destination using a preferred parcel carrier. This allows all stakeholders to track and trace the return throughout the entire return process. In this way transparent, simple and efficient product returns are made possible. Moreover, consumer protection laws protect online consumers by enforcing a fourteen day return period.



### Value Added for Several Segments

E-commerce offers significant growth potential, especially for returns of cross-border business-to-consumer (B2C) parcels. The compound annual growth rate (CAGR) is estimated to be around 10–15%. Due to centralization, internet and catalogue retailers need to offer consumers simple and efficient return solutions. The hi-tech and electronic segment is also showing signs of potential future growth.

In the highly sensitive product recall sector, which requires comprehensive reactions to urgent customer needs, Cycleon scored major successes in the past few years by setting up within 30 hours a product recall system for the return of overheating batteries. Product returns are an opportunity to satisfy customers beyond the point of sale, and they are increasingly viewed as a means of increasing customer satisfaction and facilitating repeat purchases.

### Value for the National (Postal) Networks

National domestic postal networks are a natural strategic fit with the Cycleon business model, since being linked to them opens up millions of easily accessible locations and facilities across Europe. Traditionally, for larger international companies, solutions based on express networks were often the default option in returns management, since national (postal) networks were not equipped to provide a pan-European solution. However, by leveraging national networks for the first mile, Cycleon can offer international companies a very efficient and consumer-friendly alternative one-stop-shop solution, and as a result deliver new growth and increased volumes to the local networks.

### Environmental Programs

'Going green' is a term that companies are taking more seriously, not just using it as a catch phrase. Companies are working hard to reduce the impact that their products and solutions have on the environment. Cycleon has been able to support its clients in the development of environmental programs, for example setting up an environmental program for clients, which enables their end-users easily to return their used inkjet and toner cartridges.

The company can also play an important role when it comes down to the collection and transportation of waste (e.g. used toner cartridges) within Europe. There is a compliant pan-European network available since Cycleon only uses partners that are meeting legal waste requirements. Beside this, the development of waste

legislation is monitored continuously so Cycleon can be able to react proactively to any changes that might be implemented and have an impact on the business.

### Achievements and Sustainability?

Cycleon has already established itself as a market leader in returns management. Trends in the market already indicate the value that ease of returns transparency, trust and lower costs have for end-user satisfaction. High on company agendas are the importance placed on customer loyalty, retention, lower costs and environmental awareness. The internet will continue to dominate consumer purchases, growing the retail market rapidly.

All of these factors suggest that Cycleon will continue to further strengthen its partnerships with logistics providers across Europe in order to satisfy these growing trends. A company which has started with an ambitious niche operation seems to be in the process of consolidating its growth and has every chance of sustaining its position as a market leader for some time to come.

## CHAPTER 7

### New Digital Business Models: the e-Postal Operator

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Beat Friedli

Beat Friedli is Head of Business Development International at SwissSign, a subsidiary of Swiss Post, delivering extreme security and identity solutions

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*This chapter discusses how postal operators will need to adapt in response to digital delivery and the internet. In particular, the author suggests that a new definition of Universal Service must prevail, and postal operators must step up the development of secure and trustworthy solutions to digital delivery. It is argued that postal operators, because of the trust traditionally put in their brands, are in an ideal place to capitalise on these developments.*

Many articles have been published about the digital economy, digital natives, the digital divide and many other digital inventions. A number of experts have shared their views about what postal operators should do or avoid in terms of digital media. The more we transfer business processes into the web, the more important it is to secure the identities of those individuals and companies involved. The importance of, and demand for, secure authentication and verified identities (secure access and digital signatures) will grow further. Applications for secure communication will become a standard element within the supply chains of all kinds of industries.

Postal operators are perceived as trusted third parties like no other institutions. Therefore they can reinvent themselves to be the future provider of verified identities and secure communications. To do this, it is crucial that postal operators understand the necessity of supplying secure solutions which at the same time are easy to access, easy to use and applicable across the various operating systems and platforms. This chapter will provide an approach and a solution for those postal operators that want to position themselves as a trusted third party in the new and growing e-postal markets, applying new business models but endeavouring to limit cost, risk and time to a minimum.

### Availability and Penetration of Emerging Technologies

Soon, new technologies will completely dominate the way we communicate. They will change the way information is stored and accessed, if not sent from A to B. There are two important technological trends that cannot and will not be ignored by customers, postal operators, legislators and regulators. These trends have enormous impact on future customer needs and behaviour and the resulting service offerings:

#### 1. Penetration of Broadband Networks

More and more frequently, we wonder how the speedy penetration of broadband, in both urban and rural areas, will accelerate postal operators' change of services.

#### 2. Mobility and Convergence

i-Phone and i-Pad are more than a fashion. They are pointing to a future with convenient and easy wireless access to worldwide Internet services, anywhere and anytime. Unmistakably, they indicate how and where individuals will manage incoming information, in their private as well as in their professional life, or will access services via a login to a platform. However, users often forget how easily their virtual data or their digital identity can be stolen, if they are not sufficiently protected.

### Irreversible Postal Market Development

There are no longer any voices claiming that a decline of letter mail volumes is mainly a temporary result of the financial crisis. Postal operators all around the world have accepted the need to adopt new business models if they are to retain their market relevancy. Most advanced, and many emerging, postal operators could reinvent themselves in the virtual world with new business models by building on key success factors and unique core competences such as proximity, brand awareness, capability to manage mass volumes and complexity. Last, but definitely not least, usually they have a very high perceived level of trust, at least theoretically. Practically, many fail due to a number of reasons.

- Lack of decisiveness: they fail to realise that there is no 'right timing' to adapt the business model. The consequence of waiting for the right moment is being too late.
- Lack of competencies: they are unable to replace logistics expertise by information technology expertise.
- Lack of patience in execution: they expect the new business to be profitable within a very short term.
- Lack of sufficient funding: they cut budgets down to a critical level or below.
- Lack of appropriate organisational evolution and cultural capabilities: they hesitate to empower new business while maintaining the power of conservative eminences. Furthermore they are often unable simultaneously to downsize workforces in classical mass business while recruiting people with necessary skills in the still unprofitable new businesses.

Consequently, incumbents must answer a basic question: How can traditional perceptions of trust be leveraged to maintain relevancy in a reshuffled postal market?

Undoubtedly, the increase of revenue from new business models in the virtual postal world will not compensate for the loss of revenue that postal operators face in their ageing core businesses. But the bottom line need not suffer necessarily from the transfer of transactions and postal business into the World Wide Web. The result of growing virtual volumes is better margins. Even more than with physical posts, postal operators are entering a fixed-cost business with associated scale effects. Success is all about overcoming two simple hurdles:

*First:* Increased perceived value: It is a key success factor to introduce virtual services which meet the functional needs and the life style of customers much better than anything else. The services must be fun to use, easy to access, predictable and secure.

*Second:* Reduced total cost of consumption: These services must be attractive to businesses, governments and other institutions which seek continuously ways to communicate more cheaply, rapidly and in a user friendly fashion. Both sender and receiver of information strive to reduce the total cost of sent and received information and communication, and follow every promising track which increases individuals' perceived value.

### Reinvention of the USO for the Last Mile: ULMSO

Today, and even more tomorrow, nearly everyone will be able to receive messages digitally on a mobile device or conveniently at home with a connection to the World Wide Web. More and more therefore, digital delivery services will replace physical delivery in a world of powerful broadband networks. Sooner or later, regulators and governments will accept digital delivery, at no cost for the receiver, as the fulfilment of the Universal Last Mile Service Obligation (ULMSO) while expecting the postal operator to continue to deliver to homes if customers are willing to pay for the upgraded service.

Some innovative postal operators are starting to push towards the new rules of the game: The Finnish postal operator Itella is piloting a new service model for combined electronic/physical delivery by scanning addressees' mail and making the mail digitally available daily and with a physical feed of the classical mailbox twice a week. Earlier, Swiss Post had successfully launched the Reverse Hybrid Solution, 'SwissPostBox', providing digital reception of the exterior of the piece of mail and in addition – if requested – of the content ([www.swisspostbox.ch](http://www.swisspostbox.ch)). The receiver is managing the inbound flow while postal operators fulfil the customer's inducted work orders accordingly. Undoubtedly, the future will be one of reverse hybrid mail solutions.

These examples show how, at the same time, costs can be reduced significantly and customers can perceive equal or even increased value because they can access their mail conveniently anywhere and anytime.

It is no coincidence, that the European Commission held its Second High Level Conference on Postal Services in Valencia, Spain, on 29–30 April 2010 with a debate on 'Delivery Services for a Digital World'. The maintenance of a strongly labour-intensive, frequently revolving, historically grown, service cannot be sustained in a

world of nationwide broadband access, a rapidly diminishing community of internet philistines, and alternatives available such as top quality multi-channel access to companies' customer services. Clearly the future definition of the Universal Service Obligation for the Last Mile will be 'technology-neutral'.

### Security in a Digital Setting

If a product or application is to be perceived to be digitally secure and commercially successful, it must not only address the needs of companies and individuals to avoid data theft, espionage and misuse. In addition it must be simple, and it must be distributed by a reliable trusted party. Postal operators are predominantly in a very good position to be accepted as a trusted provider and acknowledged issuer of such web-based security products for unique identification, digital signatures and secure communication.

Once postal operators have realised that they are well placed to position themselves at the core of security products, they have to find out how to position themselves strategically. In the past, only exceptionally did postal operators exchange and sublicense technologies and products to other postal operators. The longer we consider it, the more we see not only postal operators giving the opportunity to another postal operator to take over a white label<sup>1</sup>, but also we see potentially relevant benefits in the cross-country transfer of white label technologies and products, in particular with secure e-postal services.

SwissPost has invested over the years in the development of products and solutions which are qualified to be white labelled by other postal operators. For a number of secure e-postal services, to reduce costs it is both possible and meaningful to transfer and re-use solutions developed by one postal operator to another. This is something SwissPost is currently doing.

### Conclusion

The supply and demand for postal services are heavily affected by digital developments. How to redefine the concept of postal service for the digital world is a cardinal question. How do we combine electronic solutions to the provision of postal services, while preserving the universal service obligation? It is time to adjust the different postal regulatory frameworks to the digital change.

<sup>1</sup> A white label product or service is a product or service produced by one company (the producer) that other companies (the marketers) rebrand to make it appear as if they made it.

Inspired by statistician W. Edwards Deming, who at the age of 92 stated 'Don't just remodel the prison – get out of it', postal operators must mitigate the challenge by investing in digital postal services. One obvious and cost-effective way is by sharing and rebranding e-postal solutions from other postal operators. Postal operators might one day remember Deming with another quote: 'Change is not necessary. Survival is optional.'

## CHAPTER 8

### The Re-emergence of Hybrid Mail

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Jacob Johnsen

Jacob Johnsen has worked in the postal and telecommunications industries for more than 25 years, focusing on hybrid mail and electronic services.

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*Developments in digital media and printing technology have enabled postal operators to find new ways to connect their customers in the messaging and communications markets. A variety of such options come under the generic label of 'hybrid mail', which incorporates the integration or convergence of physical and electronic solutions and leads to new strategic opportunities being explored by innovative postal operators, some of which are described here.*

The concept of hybrid mail has often been discussed as a strategic topic when planning postal activities. However, only recently, and only in some postal businesses, has hybrid mail become a central part of postal delivery strategy. Some operators are offering hybrid mail as an additional service for volume mailers, while others have either not acquired hybrid mail yet, or have evaluated the need and decided against it. This position, however, may be about to change.

### Hybrid Mail is Changing

For several decades, hybrid mail was a service whereby the post would receive data from the sender and perform some actions on it (such as validation, sorting, transportation) before printing and delivering the letter. The general benefit was that part of the postal handling could be done electronically, and the letter could be produced (printed and enveloped) close to the recipient, sorted and in a high, uniform, printed quality.

Hybrid mail has also given additional benefits for senders and postal operators. The focus of senders has always been on delivery assurance, delivery speed and cost. In most cases, posts can offer improvements through hybrid mail on all these aspects, as well as offering the clear benefits of outsourcing print production (externalization of purchase of materials, warehousing, staffing, investment and maintenance). The fact that letters are produced inside the postal operator can give an additional competitive edge over private print shops.

For the post, the additional strategic benefits are the potential for a closer interface and relationship with major senders, the opportunity to stimulate an increase in mailing volumes, and the option to provide numerous additional services. Value added services that may be offered by hybrid mail are: address control (including reject of errors or automatic change of addresses); insertion of additional messages on the printed pages, or with inserts; track and tracing (as far as the postal logistic may permit); and more. These services can also be offered by competing print shops. On top of this, postal hybrid mail services may be able to handle registered mail automatically, reduce delivery time or scan return mail (mail that has not been able to be delivered) and provide senders with information improving their data.

This basic hybrid-mail offering has both great value and potential for many posts. However, the arrival – and general acceptance by many receivers – of electronic delivery has dramatically changed the landscape in the last few years. An increasing number of documents are transmitted electronically to the

recipient, and senders are very aware of the possible saving in using electronic delivery.

### Arrival of the Electronic Delivery

With the emergence of e-mail many predicted the end of physical mail. The same was said when the fax appeared in the 1970's. And neither have proven to be true. Instead, communication has increased dramatically. Even 4 billion SMS sent every day in the US<sup>1</sup> (and 15 billion globally<sup>2</sup>) have not directly affected postal volumes. But the winds of change are picking up.

The broad adoption of electronic messaging has started a change in the minds of mail recipients. They are increasingly accepting electronic delivery of much information that previously was only acceptable on paper: account statements, tax bills, invoices and even insurance policies. Moreover, an increasing number of recipients prefer electronic delivery to printed paper, and are pushing senders to offer the electronic alternative.

This development is also being pushed by governments and municipalities, who are always under financial pressure. In many developed countries these have embraced electronic communication internally in their organisations and in their interface with their citizens. Developing countries are also increasingly using hybrid mail as a way to leapfrog development and achieve both improved postal quality (especially regarding their delivery obligations) and offering the combination of physical and electronic delivery to its customers.

### The e-Choice Facing Posts

With the arrival of electronic delivery, most posts are standing at a crossroads. Either they choose to embrace alternatives to the physical letter, and integrate various electronic services in their postal portfolio, or they focus on their existing business with an emphasis on logistics and last mile delivery. Business as usual is no longer an option, since it seems likely that the physical letter market will slowly but surely diminish over the coming decade.

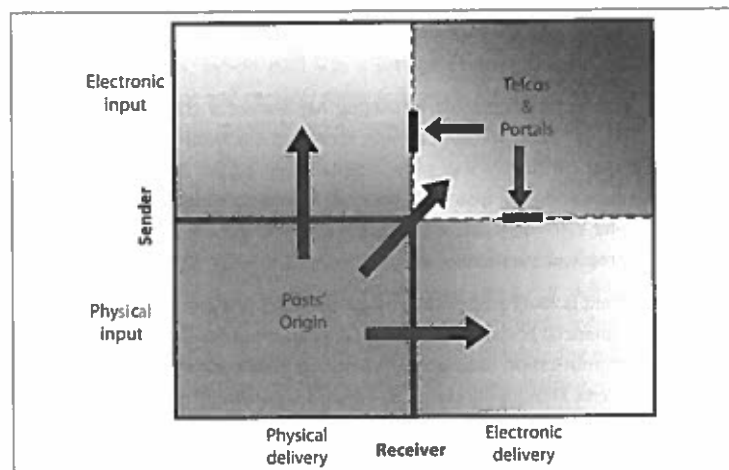
Looking at the alternatives to the physical letter, posts have a strong edge over any competitor. Even if e-service competitors may have numerous electronic services,

1 740 billion SMS sent in first half of 2009 by 276 million wireless users (15 messages/user/day). Source: VeriSign

2 5.5 trillion SMS per year at the end-2009 level. Source: Portio Research

an offer that includes a physical letter will need the post, either to bring a letter to the service or to deliver a letter from the service. The post is the only player that has the ability to mix physical and electronic services at its will, and be in charge of the entire delivery chain.

Figure 1: Whereas electronic operators are limited to provide electronic services, the post can offer a combination of physical and electronic delivery.



This means that posts – better than anyone – can offer a combination of physical and electronic delivery. For this, the posts have some unique advantages:

- Being a hybrid mail provider means active access to all outgoing letters from the sender, including candidates for a migration to electronic delivery;
- Close interface to the sender, thereby knowing (and maybe influencing) their delivery strategy;
- The drivers for outsourcing that are pushing the use of hybrid mail are also true for electronic delivery offerings – however, margins are lower;
- Reverse hybrid mail, where incoming letters are scanned and delivered electronically, may be proposed as an additional service;
- Offering electronic delivery requires trust from both senders and recipients; posts traditionally have a highly trusted position in almost any country;

- Even for senders not using hybrid mail, posts have the possibility to monitor level and development in mail volumes per major sender, based on stamp revenues.

However, hybrid mail is not all about offering a mix of physical letter production combined with alternative electronic delivery. Hybrid mail in its basic form can simply mean making it easy, efficient and cheap for mailers to produce letters and have them delivered, and is still a strong and valid offer to sustain mail volumes and thereby the role of posts in the future.

### The Future of Hybrid Mail

There may still be a question mark over the sustainability of current levels of mail volumes, but there seems to be little doubt that hybrid mail volumes will be growing in coming years. The market share of hybrid mail is simply growing faster than the erosion in mail volumes. The pressure on companies to perform is pushing them to outsource this type of operation. At the same time, the service offering is continuously improving quality, security and pricing.

The up-to-date hybrid mail service offering can now offer bespoke colour printing at low prices (0,02 €/page), printed envelopes (colour or black/white), inserts of any kind (including embossed credit cards, train or plane tickets, etc.) and numerous editing and composition services. The traceability gives assurance of entirety and integrity, and senders are given feedback at each step of the process. Electronic archives may be provided, with web access to find archive copies. Web may also be used for secure uploading of documents, which can be transferred directly from any desktop PC, or composed on a web page, for instance letters. The list goes on and on.

If we look at the various posts' ways of conducting their hybrid mail business, we see some who have been successful and some who have not. The majority of successful posts have embraced hybrid mail into the heart of their postal business. The offer is fully integrated into the postal portfolio, letters are produced in the major sorting centres, and the hybrid mail production planning is optimised for optimum performance, as well as for delivery and other business indicators. Some have tried to mount hybrid mail as a separate business, and missed out on many of the advantages. The lesson learned is that hybrid mail is not to be taken lightly when being introduced into a postal business strategy.



This may very well be a decisive time for posts globally: is the post going to define itself as a messaging provider regardless of the media, or is the post watching the erosion of letter volumes and instead focusing on the increased volumes of parcels through ecommerce?

## CHAPTER 9

### Home Delivery for e-Retailers: a New Relevance for Postal Services<sup>1</sup>

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Andrew Starkey

Andrew Starkey, a recognised expert on the UK postal and e-retail home delivery markets, is the founder and lead consultant for Spiral4Solutions.

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*This contribution emphasises the importance of home delivery services to the fast-growing e-retail sector. Providing high quality and innovative home delivery services for the e-retail sector has become a vital and relevant strategic priority for postal operators at a time when some other traditional services are in decline.*

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<sup>1</sup> Charts and data contained in this chapter are reproduced with the kind permission of IMRG

In 2009, online retailing in the UK accounted for £49.8 billion of goods and services, having grown 17% on the previous year (December to December). Even through a deep recession this sector continues to thrive but, with an increasing number of companies looking to e-retail to get their product to market, it has become a very competitive environment.

Winning and retaining online shoppers is a daily challenge and when, during some recent research, IMRG (Interactive Media in Retail Group – the UK's e-retail trade association) asked e-retailers about consumer loyalty it was told, 'there is no such thing' and 'we only expect 20% of our customers to shop with us two years in a row'.

So, with shoppers able to compare products and prices across the whole market from the comfort of their homes and change retailers at the click of a mouse, how do e-retailers create that 'hook' that improves acquisition and reduces customer churn?

Product choice and price used to be enough but now service is the key differentiator and within that the home delivery offer is perhaps the most important.

In early 2010 IMRG undertook two pieces of research, providing results which demonstrate that the delivery offer provided by an e-retailer has a considerable impact on its bottom line.

### Consumers' Perceptions, Attitudes and Behaviours

The IMRG Consumer Delivery Survey 2010 (published in February 2010), the tenth in the series, examines the perceptions, attitudes and behaviours of online shoppers and the importance of delivery service in relation to customer acquisition and loyalty.

Between 7 November and 17 December 2009 a detailed questionnaire was received from a sample of 450 households representing active online consumers. These respondents' households included some 1,210 people (an average of 2.72 people per household) of whom 757 (63%) were over 18-years old.

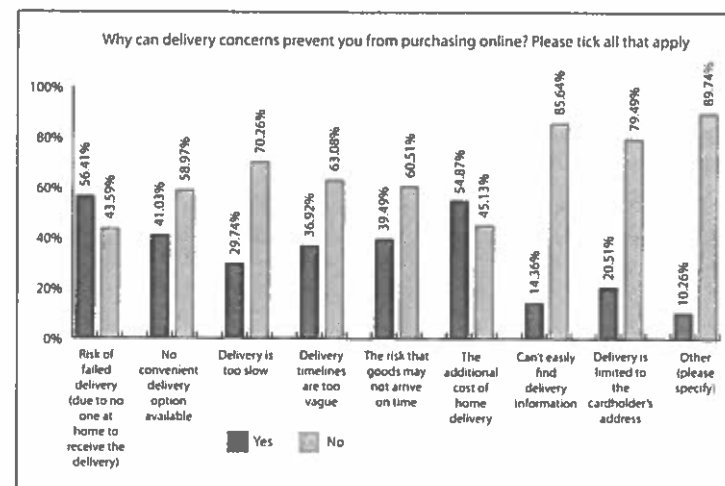
The geo-demographic breakdown of the survey base was confirmed to be representative of the online e-commerce population and the average respondent was approximately 43 years of age with a household income in the region of £42,000 per annum; notably, this year 59% of the respondents were women.

The key findings of this survey demonstrate that for e-retailers delivering physical products, the delivery service offered is an important element of their overall retail offer.

### Delivery Experience

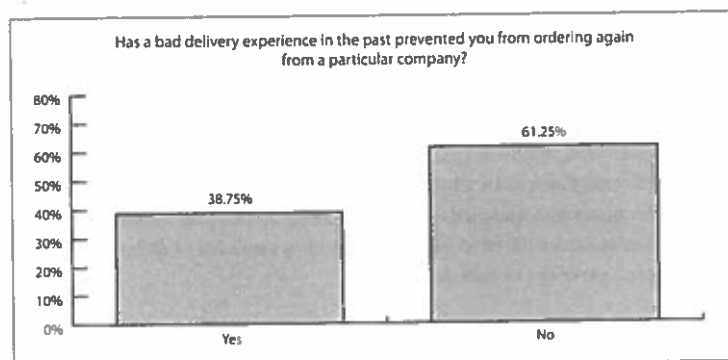
Amongst seasoned online consumers, 43% agreed that the delivery experience and the delivery offer from a retailer can influence their choice. The main reasons given were concerns about failed delivery (no one at home to accept the goods) and additional costs, but as the table below demonstrates a number of different elements go together to make the overall delivery offer.

Figure 1



In addition to this, almost 40% of consumers surveyed confirmed that a poor delivery experience has stopped them from repeat shopping with a particular retailer.

Figure 2

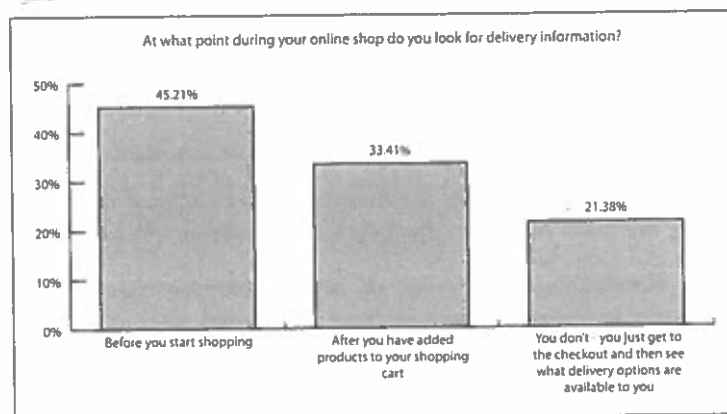


### Delivery Information

It appears that consumers are becoming more aware of the importance of delivery as part of the overall retail offer with 45% of those surveyed seeking headline delivery information before they even start to shop.

A further 33% check their delivery options as they add goods to their shopping cart, making a total of 78% who want to know about delivery BEFORE they get to checkout.

Figure 3



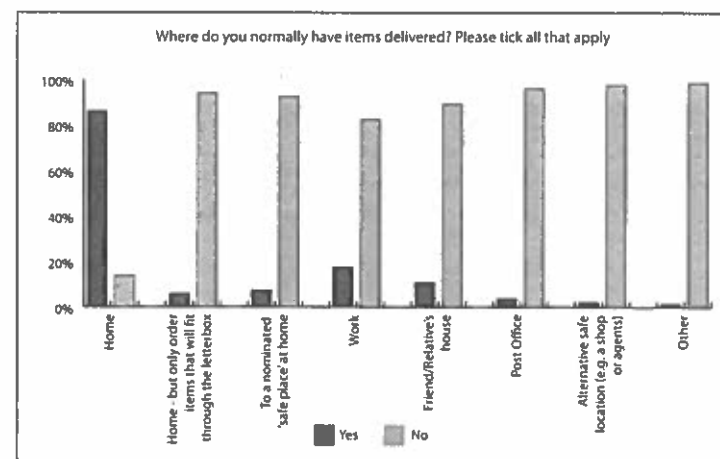
This is the equivalent of a shopper walking into a high street outlet and, not being convinced of the service they are likely to receive, walking straight out again.

### Is Anyone at Home?

A key concern for online shoppers is the risk of failure due to no one being at home to accept and/or sign for the delivery. Looking into the detail, we find that 17.5% of households never have anyone at home during normal delivery hours and 37.5% only do on some days. This means that 55% of homes run the risk of a failed delivery because no one is there to accept or sign for the goods (unattended delivery).

Despite this, 'Home' delivery remains the firm preference for 86% of the survey and 'Work' is less favoured than in 2008, perhaps for reasons relating to company policy and workplace security.

Figure 4



## Conclusions of the Survey

The survey leads us to the overall findings that 75% of consumers have experienced a complete or 'first time' delivery failure and that, in the consumer's mind, 17 out of every 100 orders are not delivered in line with their expectations.

The supporting data in the survey shows that, when asked to name the retailer and the carrier from which they had received good and bad service, most can remember the name of the retailer but only some can recall the name of the carrier. This demonstrates that, no matter the reason for good or bad service, it is the retailer's brand that is associated with it.

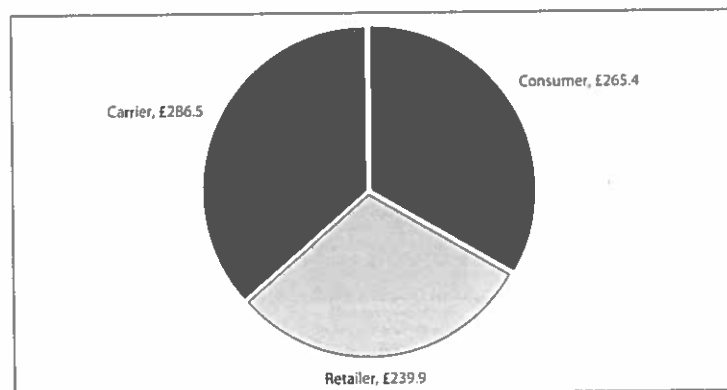
## The Strategic Impact on the Bottom Line

Having demonstrated that the delivery offer is relevant to e-retailers because of the perception of consumers, we are also able to show the importance of delivery performance.

The IMRG 'Valuing Home Delivery Review 2010' (the third in the series) was published in April 2010 and looks at the cost-benefit equation of 'first time, on time delivery' for the three main stakeholder groups: consumers, retailers and carriers in the UK.

Overall, the current cost of delivery failure across all three stakeholder groups in the UK is estimated to be between £790 million and £1 billion per annum.

Figure 5: Stakeholder Cost Breakdown – £Million per annum



Taking a range of scenarios, IMRG looked at the performance and cost data from data sets representing 95 retailers and taking into account:

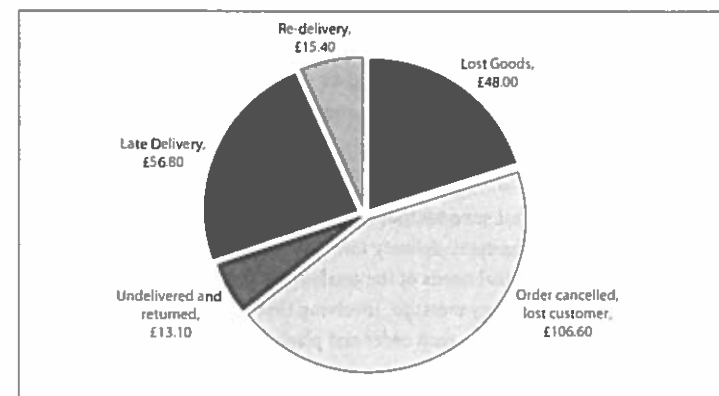
- Databases containing more than 12 million online consumers
- Over 3.5 million active online shoppers
- In excess of 13 million orders
- Purchases to the value of £1 billion
- Over 14 million parcels dispatched.

## Results from Poor Delivery Service

The results shown in the tables below demonstrate the cost impact of failed first time, on time delivery for retailers and carriers.

From an e-retailer's perspective, although all failed delivery scenarios result in some customer service cost and potential dissatisfaction, the most damaging is the one that results in a cancelled order and lost customer.

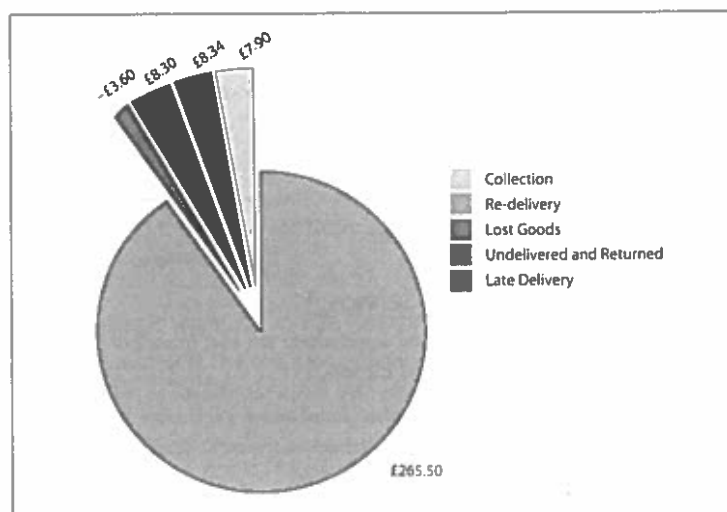
Figure 6: Retailer Cost Breakdown £ – Million per annum



IMRG estimates that each time this happens the average cost to the retailer is £78.

From a carrier's perspective, the greatest cost is the return to depot and second attempt following a failed first time delivery.

Figure 7: Carrier Cost Breakdown – £ Million per annum



### The Relevance of the Delivery Offer

We can see from this research that delivery plays a vital part in the whole e-retail supply chain. We also know that in the UK an estimated 1.1 billion packets and parcels were delivered to homes in 2009, and that providers of postal services provide the majority of the delivery capacity needed. The reality is that without an efficient and effective postal service this whole sector would struggle to exist.

The challenge for the postal services industry is to recognise the important role it plays as part of the overall e-retail delivery infrastructure, and to strive to meet the growing expectations and real needs of the final consumer. It also needs to engage retailers to convey the 'delivery message', involving these consumers in the process of selecting the right services for each order and playing their part in achieving first time delivery success.

### Getting the Message Across

There are certain aids that can be used to give the shopper confidence in delivery and information about delivery.



IMRG itself runs a trust scheme that signifies to consumers that the retailer provides a good delivery service. These icons are often used on comparison websites, alongside star rating schemes, to provide online shoppers the means to make an informed choice of retailer when faced with comparable products and prices.



In April 2010 IMRG launched a Gold Standard, incorporating a 'plain language guide to home delivery' to help get the message across to consumers.

This Gold Standard is designed to allow e-retailers to benchmark their delivery offer against consumer's needs and expectations and against industry good practice. It also allows industry suppliers, including postal operators, to link their solutions to the Gold Standard to demonstrate how they can support the achievement of this good practice. <http://www.idisgold.org/>

### Conclusion

The conclusion that can be drawn from the work referenced is that online shoppers and the e-retail sector can benefit from the quality and diversity of home delivery solutions, including most importantly, those provided by postal operators.

With comparison websites making it incredibly easy for consumers to compare products and prices, their decisions are often influenced by the price they will pay for delivery and the speed and convenience of that delivery.

Postal operators need to appreciate the strategic importance of their offer to the prosperity of all e-retailers, and work to develop solutions that will support this sector and provide a firm foundation for its continued growth from which postal operators themselves can only benefit.

## CHAPTER 10

### Relating to Delivery Customers – a Paradigm Shift for the Industry?

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Ingemar Persson

Ingemar Persson is the former Secretary General of PostEurop and a former Executive Vice President of Posten AB (Sweden).

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*With vast experience over many years in the industry, combined with perceptive insights into the changing world in which we now live, the author is making an impassioned plea for the industry to change its orientation towards customers, from the senders to the recipients. He argues that this is being reflected in many other media and communication sectors, so the postal industry should start to reflect this in their approach to product and service innovation. But it is more than that – in his words, this will need a complete shift in mindset and requires wider collaboration across the industry.*

For the last decade the mail industry in Western Europe has suffered from decreasing mail volumes. Some claim this is because of the economic downturn, and some claim that it is because of increased competition and liberalisation. The latter might be true to some extent but today I think it is obvious to most stakeholders in the mail industry that, from an industry perspective, the downturn is about electronic substitution and substitution from other media.

Is this an evolution with a no-return scenario? Well, I think we need to realise that most of the so-called transactional mail volumes that have been replaced in the last 10 years will probably not come back. However, for most of the other volumes, such as magazines and direct mail, it is up to the industry to manage. It is up to the industry to ensure its place among others in the 'media-mix'. In other words, our future in the industry is in our hands. But, this will not happen if the industry does not manage a huge mind-shift – to turn from focusing only on the senders to considering the views of recipients!

In fact, it is an old truth that 'all communication is on the terms of the recipient'. No matter what you say, it is what the other person perceives or understands that has the importance!

I must admit that, despite having spent more than 40 years in the industry, it has taken me too long to realise that this has great importance for one of the biggest groups of actors in the communications industry – the postal operators. Operators have sent or carried very many messages without necessarily caring in any depth about how those messages were perceived or received.

New technology, which offers increased transparency, increased consumer power and increased possibilities of choice, potentially is a real threat to the mail industry. But this threat might also be the key to the industry's survival. If the industry can learn from what it is that makes the new alternative means of communication so interesting, attractive and preferred by the new consumers or receivers, then there might be a change for the better. But there is not much time to adapt, and to do so could take huge changes by the operators. The question is, will the industry make it?

### On the 'Recipients' Conditions' in a New Media Landscape

Why should we care so much about the recipients, and especially about private individuals, in this matter? The given wisdom has been that private individuals do not pay much, and that what matters are the big businesses, the senders, who pay for the whole operation. Until now that has been more or less true, but it is also true

that if there are no receivers there will be no senders. The receivers have more power now than they used to have. Even if, to date, receivers typically send and pay only for some 5–10% of total volumes, they normally represent 50–70% of the recipients.

So, from a communications point of view, how is life for the individual consumer or recipient now in the new media landscape?

First of all, they are bombarded by all kinds of media. Technical opportunities are fantastic compared even to those of a couple of years ago. The problem is that the same human brain has to deal with all these new options. So, simply for survival, consumers start to opt out of what they do not want. They start making choices. In the digital world they save some, they delete some. But they are still communicating a lot, much more than ever before. And they will certainly take up some new options as well!

From a technical point of view, the new media landscape offers the opportunity to interact with the sender instantly. It is a benefit if a recipient notices that there is someone at the other end who is prepared to deal with their needs. CRM systems have often put in place sophisticated technical solutions which have made it possible, in a systematic way, to analyse a customer's needs. There are solutions for gathering information so that, for example, the history of the customer's transactions with a business can be available for the customer service department when it is dealing with a request, complaint, attempt to purchase or just a question.

So for me it is very powerful if there is 'someone at the other end', doing their best to help, to sell or to make solutions more efficient. Companies could make this connecting with the customer work if they really tried, by both understanding and integrating all the relevant data the customer has already given them when – or before – calling in, sending a coupon, an email or communicating in any other way.

My own experience as a customer tells me that it is very rare for those companies to use these new opportunities or to make them work. Perhaps postal operators can take a lead here and make the changes happen. It is my experience that when postal operators decide to change then change does happen!

Other features of the new media landscape are the social media, Facebook, Twitter and suchlike, which show that people do not want only to be recipients, they very much want to interact and be senders too. And the content of messages also changes. Now there is the instantaneous component. In times past, you might have written a letter about how this summer was. Now you also tell the rest of the world

that you managed to have breakfast this morning, that you probably will go to work, have lunch, that you made it home for dinner and that you had a fantastic day. I don't know where such enlightening information will take us, but certainly it will foster a whole lot of new communications.

The reason why electronic communication is substituting for a lot of traditional mail is not only because it is cheaper and faster, but because it also provides new opportunities for communication.

### On the Conditions for Senders and the Mail Operators in the Traditional Mail Industry

The whole mail industry has been built from the sender's perspective, with a focus on the sender and on handling large volumes. The huge infrastructure has been built to deal with the sender's needs. To put it rather bluntly, the only time the operators communicate with the recipients, if they ever do so, is to tell them to move their mail box so it will be more convenient for the postman to deliver, or to tell them that the time of their delivery will change (probably to suit the operator).

The postal operators come from a world where there was (and often still is) a monopoly. It has been a monopoly situation where there were not many other ways of communicating.

With a large infrastructure, of which a major part represents fixed costs, the challenge is to fill the operational pipeline and the recipients' mailboxes with more volumes. In this scenario, the greater the volumes that are sold to large mailing customers the better. A sales representative who comes home with a new contract ensuring more volume is rewarded with a bigger bonus.

So the paradox is that operators still try to fill mailboxes with more volume, 'more of the same', no matter what these volumes contain, and no matter what the recipients request. But at the same time recipients can now access more and more alternative ways of communicating. In some places, the levels of mail perceived to be irrelevant by the customer are beginning to generate considerable customer resistance, sometimes to the point of putting up a sign saying 'Do not mail'.

So, when it comes to physical mail, what can recipients do to deal with the mail volumes? How can they express their choices? So far, all they can do is to put a sticker on their door saying 'Leave me alone. I don't want this kind of communication', and they say 'no' to it all! Some operators respect those stickers, and some do not. As long as a sender pays for the volumes, why care?

Until now, the senders' and operators' responses have been to replace the former lost volumes with new volumes of exactly the same kind. As a result more and more people react by putting stickers on their doors, and volumes decline even more. Is there a way out of this?

From experience so far, continuing in this way means that sooner or later, and perhaps sooner, the industry will go out of business.

Is there a solution? Yes, I think there is.

- It is about accepting *fewer volumes – but to ensure these are the right volumes* from the recipients' point of view. If it is about the right volumes, based on more sophisticated targeting by the senders and on the needs expressed by the recipients – *then each mail piece can be more valued* by both senders and recipients, and therefore more valuable for operators.

A few attempts have been made by some operators to try to give recipients the option to express their preferences, for example about what kind of publicity or information they do want to receive. With today's technology and with today's experiences with other media it should be possible to establish recipient-driven CRM-based systems.

- It is about starting to listen carefully to recipients
- It is about combining postal media with other media in clever mixes, mixes which are 'clever' from the sender's viewpoint as well as from the recipient's
- It is about making the CRM systems more personal and more innovative, i.e. making people work hand-in-hand with new technology
- It is about finding out more about the younger generation's communication patterns.

### The Challenges – Will the Industry Make It?

The biggest challenges for the postal industry, in my opinion, do not come from outside but rather from within the industry itself. Traditionally, it is too sender-focused. It is saddled with huge infrastructures and overheads, and preoccupied with so many issues which relate to the old conditions.

With a few promising exceptions, there has not been much interest in innovation. Innovation is the base for survival for all businesses, and most operators have a great deal to do in this respect. In itself, that is a big challenge, since it requires



a shift in both corporate culture and behaviour in order to foster and implement innovative ideas.

Perhaps the incumbents in Western Europe have focussed too much on liberalisation and the opening up of the postal markets from 2011–2013. Yes, this is a great shift, but perhaps it is overshadowing the fact that the fundamental, basic business is moving somewhere else, while the respective incumbents and potential entrants are discussing regulatory and competitive issues. Why not face the crucial issues together like an industry, and collaborate to fight the real competition from the other media?

So what does it take to rescue the mail industry? This is easy to say but hard to do.

- A shift of mindset – from sender to receiver
- A shift of resources, with new competencies needed for dealing with product and service development for the recipient
- A shift of speed, when it comes to responses to fundamental changes for the industry – most of the fundamental changes in terms of new media, technology etc. have already happened
- A focus on innovation
- A shift from the incumbents'/entrants' perspectives to an industry-wide perspective.

## CHAPTER 11

### A Channel Perspective on Postal Strategy

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Dr. Tim Walsh

Dr. Tim Walsh is Vice President for Corporate and Regulatory Affairs for Pitney Bowes. He is a Board Member of the Federation of European Direct and Interactive Marketing (FEDMA) and President of its postal affairs committee.

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*In this analysis of customer payment channels for postal services, the author reviews the challenges and dilemmas postal operators face in view of the USO and other constraints. He argues that there are some real opportunities for posts to decide how to serve their customers and, once they understand their profitability in specific channels, to develop a structured and strategic approach to channel management. This would include an appropriate mix of payment channels to serve different customer segments.*

Prior to the introduction of the Penny Black on 6 May 1840, postage was paid by recipients. This cash-on-delivery arrangement provided a strong incentive to deliver the item to the correct address, but it also created substantial transaction costs. Sir Rowland Hill's critique of the Post Office<sup>1</sup> in his day was that tariffs were based, not on costs, but on the Treasury's desire to maximise revenues, and that much of the high and often illogical tariffs were eaten up by the cumbersome bureaucracy involved in collecting the revenue.

### A Payment Channel Revolution

Hill's critique of the British Post Office all those years ago was essentially a critique of the post's payment channel strategy. Today, the insights that underpinned Hill's payment channel revolution 170 years ago remain highly relevant. They have taken on a new importance as posts seek to reduce costs, boost customer loyalty and provide more differentiated products and prices to distinct segments of the market, based not only on the needs of the customers but also their value to the post.

At the time, Hill's pre-paid, adhesive stamp won out over William Mulready's pre-paid envelope, on grounds of both customer acceptance and cost. And of course, Hill's own Penny Black lasted just ten months, replaced by the Penny Red, because the Post Office was worried that its stamp cancellations (in red) were not showing up on the black stamps. Red stamps with black cancellation ink better protected Post Office revenues. Customer acceptance, channel costs and revenue protection remain the tests for designing an effective mix for today's postal payment channels.

### The Universal in USO

National posts face a unique challenge: to serve all businesses and individuals wherever they are located, no matter how much they spend, at a low value, uniform price – 'everyone, everything, everywhere, everyday'<sup>2</sup>. Posts cannot choose which customers, which sectors or which geographies to serve. As a result, posts face a number of related go-to-market choices, specifically how to:

- Maximise market coverage while minimising costs, balancing the cost of customer contact with segment-appropriate levels of access and service;

1 *Post Office Reform – Its Importance and Practicability*, 1837, Rowland Hill

2 Or in the missions of Israel Post: 'Anywhere for Everyone'; Belgium Post: 'Everydoor Everyday'; Thailand Post: 'Service to Everyone, deliver to everywhere'.

- Evidence, account and bill such a large, diverse and dispersed customer base in a secure and cost-effective way;
- Optimise inter-connections with mailers based on the relative importance of the transactional and the relational (control v. cost v. effectiveness), and on mutual needs in respect of the physical, data and payment flows between the post and the customer.

The good news is that while posts must serve all customers, they can choose *how* to serve them, both in terms of payment channels:

- pre-paid (stamps, meters and internet postage) and deferred (printed postage impression);

and in terms of sales channels:

- direct (e.g. own sales force), remote (telesales) and third-party (such as high-street retailers).

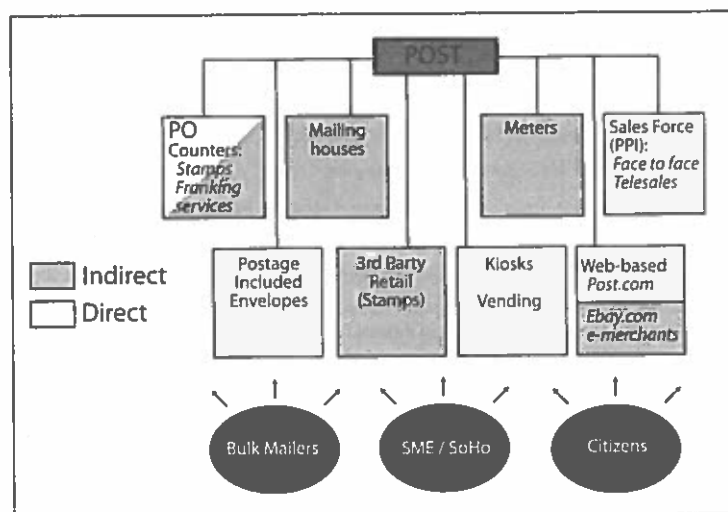
The bad news is that, for many posts, channel strategy has developed in an ad-hoc way. Revenue mix by channel often reflects an historic go-to-market plan, where patterns of service are based on outdated policies, technologies and processes. There is evidence that sometimes channels are not managed in a joined-up way, with the result that different parts of a postal organisation engage in costly channel competition, where revenue shifts between channels, irrespective of profitability impacts, because internal sales incentives are poorly aligned. Certainly, many posts appear to be flying blind with respect to channel economics, such that channel strategy is neither actively designed nor managed based on the wider commercial and financial objectives of the post.

Rather, the focus has tended to be on efficiencies *within* channels (e.g. reducing selling and distribution costs of stamps) rather than on efficiency *between* channels (aligning customers to the most efficient channel). Cost accounting systems tend to focus on direct costs rather than all relevant channel costs (billing, credit management and revenue collection, return costs associated with channels) with the result that posts typically do not actively migrate customers from the least to the most cost-efficient channel.

## Customers and Channel Strategy

A primary way that customers experience postal services is through the sales and payment channels of the post – see Figure 1. An SME perspective of a postal service is shaped perhaps as much by their queuing at 5.00pm in a busy postal retail unit as by the quality of the service received in the downstream part of the postal operation. A mailer who incurs heavy costs reconciling manifests with invoices, too, will have a particular view of how easy it is to do business with the operator.

Figure 1: Postal Sales and Payment Channels



Channels represent, therefore, a 'gateway' between a post's services and the end-user. On the supply-side, channels support the routinisation of transactions and, in the sale of a product or service, can significantly reduce the costs and number of events between a post and a customer. Channels represent an important asset for the company in terms of its marketing and positioning strategy, serving to differentiate a post from its competitors. Channel differentiation is especially important in mature industries or for what are otherwise commodity products.

On the demand side, channels facilitate in a cost effective and focused way search and access to suitable products for sub-sets of customers. A well-designed channel strategy can:

- Reduce complexity for end-users;
- Boost customer satisfaction and loyalty; and
- Facilitate postal modernisation, particularly in front of the customer.

To achieve such postal and mailer benefits, channels need to be managed in an integrated fashion based on an appreciation of the intrinsic strengths of each channel vis-à-vis particular customer segments. The challenge is to design a suite of channels which meets the needs of diverse users (for access, coverage, convenience etc.) while managing channels for profitability. Effective channel stewardship involves:

- Measures to promote efficiency within and between channels;
- Policies and terms which drive the right customer behaviours; and
- Prices which reward such choices based on the costs-avoided for the post.

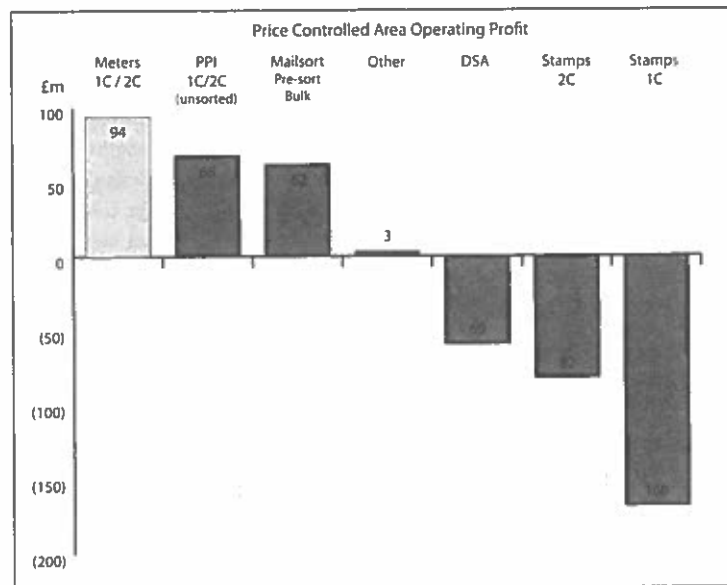
In sum, a strong channel system is one that is not easy to replicate and which can become a source of competitive advantage.

## The Economics of Channels

Understanding customer profitability in specific channels is especially critical, because the unit costs of providing services are shaped by customer behaviour, and transactional and operational support costs, as much as they are product-related. Pipeline costs on business mail are broadly similar but the management processes around various traffic streams (revenue protection, credit referencing of accounts, cash flow impacts) can be relatively expensive when compared with the cost of the physical activity itself.

For example, stamp channel costs<sup>3</sup> are such that it can be difficult to generate profits on stamped mail without high tariffs that are not appropriate for SMEs with a range of physical, hybrid and electronic alternatives. Royal Mail's profitability data shows that the UK universal service provider lost £250m on its stamped products in 2008–9 (Figure 2).

3 To collect each \$1 billion in revenue from stamps, the USPS incurs costs which are more than 180 times greater than the costs incurred to collect the same revenue from meters. John Haldai (2000) Proposal to Institute a Discount for First-Class Single Piece Metered Mail, Evidence before the Postal Rate Commission, Washington D.C. 20268-0001.

Figure 2: Royal Mail Channel and Product Group Profitability, £m<sup>4</sup>

Costs associated with revenue protection are a particular driver of payment channel costs. The UPU report that stamp forgeries:

...designed for postage fraud are rife on developed country markets. New reprographic technologies and the availability of papers and inks have facilitated the spread of counterfeiting.<sup>5</sup>

In 2007, Sweden Post experienced a major stamp forgery operation involving seizure of 700,000 forged stamps, resulting not only in loss of revenue but also additional costs in stamp cancellation and stamp production (protective print and gold feature across the stamps' denomination) to fight forgery. Royal Mail, too, redesigned stamps in 2009 to prevent reuse by adding two tamper-detecting oblong strips either side of the Queen's head. The stamps also have a micro iridescent overprint, 'Royal Mail', printed on them, reminiscent of the security features on banknotes (Figure 3).

<sup>4</sup> Source: Royal Mail Regulatory Accounts 2008–2009.

<sup>5</sup> UPU Congress Doc 23 Add 5, 17 March 2008.

Figure 3: Revenue Protection and The Stamp Channel



In bulk mail, too, revenue leakage can be a significant cost to posts, with an estimated 5% of total revenue failing to be collected because of acceptance and verification failures.<sup>6</sup> Typically, low levels of integration between mailers and posts on payment, data and physical flows make bulk-mail revenue protection costly and prone to failure. Many posts simply lack consistently deployed control processes and, as such, are exposed to substantial revenue losses, most of which go undetected. Further, the adequacy of verification of bulk mail's conformance to preparation standards (on which pre-sort discounts are based) is sometimes poor, with the result that revenues are lower and processing costs higher for the post than need to be the case.<sup>7</sup>

The three broad categories of revenue protection failure across the three main types of payment channels are set out in Figure 4. Fraud, bad debt and revenue collection

<sup>6</sup> Walsh, T. (2008) *India Post: Regulatory, Commercial and Revenue Protection Challenges*. Rugby, mimeo November. See also US General Accounting Office Reports, June 2006, *Stronger Mail Acceptance Controls Could Help Prevent Revenue Losses*; and November 1999, *Changes Made To Improve Acceptance Controls For Business Mail* on bulk mail revenue protection. And Office of Inspector General, USPS Audit Report – Business Mail Entry Unit Sampling and Verification Procedures Report No. MS-AR-08-005.

<sup>7</sup> Bulk-mail revenue collection failure is rarely reported publicly though there have been recent scandals in Japan (2004) and China (2005, where China Post identified 1.65m pieces of fake postage vouchers, Annual Report, 2005).

failure intrinsic to the three channels are such that a risk-based alignment of customers to the correct channel is a key strategy for posts in reducing costs and in collecting all the revenue owing to a post.

Figure 4 Optimising Channel Mix To Enhance Revenue Protection

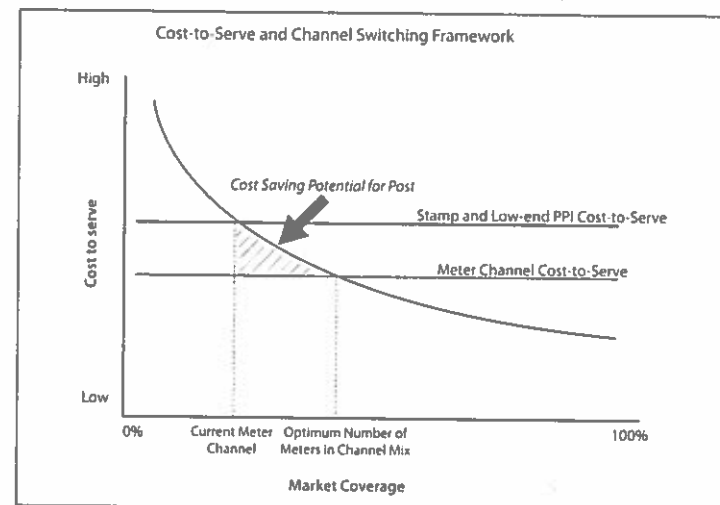
	Stamps and Postage-included envelopes	Bulk Mail Acceptance and Payment	Digital Pre-Pay Meters
Fraud (Customer, Employee and third-party)	<ul style="list-style-type: none"> <li>Stamp washing</li> <li>Forged stamps</li> <li>Fake paid envelopes</li> </ul>	<ul style="list-style-type: none"> <li>manifest discrepancies</li> <li>employee fail to undertake verification processes</li> </ul>	<ul style="list-style-type: none"> <li>FIPPS encryption</li> <li>remote security</li> </ul>
Bad Debt	<ul style="list-style-type: none"> <li>pre-paid</li> </ul>	<ul style="list-style-type: none"> <li>"can't pays", "don't pays", "won't pays" where paid in arrears</li> </ul>	<ul style="list-style-type: none"> <li>pre-paid</li> </ul>
Revenue Collection Failure	<ul style="list-style-type: none"> <li>Failure of stamp cancellation</li> </ul>	<ul style="list-style-type: none"> <li>mail's verification</li> <li>O-T-R failures</li> </ul>	<ul style="list-style-type: none"> <li>automated payments management</li> </ul>
Total Uncollected Revenue* as a % total channel revenue	1-2%	5+ % (more in some posts e.g. government mail)	~%

\* Author estimates. Underpayment is a feature across all channels and is reflective of the degree of pricing complexity in the eyes of mailers.

## The Changing Face of Channels

There are signs, however, that a structured approach to channel management is gaining ground within posts. There is an increasing focus on channel costs, and an understanding that profitability per unit of mail differs between channels. There is recognition that channel costs include both direct costs (e.g. stamp production and secure distribution; counter clerk sales costs) and channel-driven costs (revenue protection, credit checking and account set-up). As a result, some posts have reviewed the terms and conditions associated with specific channels, including minimum postage spend to qualify for the post-pay PPI channel. Others are reviewing the mix of pre-pay and post-pay channels and the profitability of customer segments which would justify the availability of credit terms. Several are levying charges where mailers fail to meet payment terms, and for services provided by the post in particular channels (e.g. the service element in Post Office counter franking). And a growing number are reviewing policies and prices actively to migrate customers from the high-cost stamp channel to the more efficient meter channel, Figure 5.

Figure 5: Understanding Channel Costs-to-Serve Can Underpin Pricing Strategy



In a growing number of posts, too, there are signs of a shift in the management of the meter channel from a passive approach, restricted to the mechanics of meter approval, to a partnership approach where channel projects are designed to deliver the post's wider commercial objectives, including the efficient management of SMEs. Historically, posts typically saw little benefit from closer relationships with, and more insight about, *captive* SMEs, not least because the posts knew instinctively the high costs associated with more active management of a large number of highly dispersed, smaller mailers.

Today, there is a growing understanding that SME traffic (and the unsorted volumes from larger mailers) is highly profitable<sup>8</sup> and that the emergence of new technologies can foster cost-effective, data-driven insights for the post among this sub-set of customers. Faced, too, with growing competition for these profitable streams a growing number of posts want greater visibility into their SME customer base so as to shape product development and pricing. It is in this context that the meter channel is increasingly seen not just as a payment platform but also a

<sup>8</sup> For example, SMEs and unsorted commercial mail from the back offices and branches of banks, insurance companies etc. is typically paid at full tariff and through efficient pre-paid payment technologies such as meters.

sales channel, which can support the ability of posts to make informed marketing decisions in relation to a critical segment of mailers.

In particular, there are signs of a new maturity among posts in understanding that channel partners can bring significant value to customers and that the post's role is fundamentally about setting the terms and conditions to allow partners to achieve the posts' goals for the mailer; for coverage, for market share and for the scope differentially to respond *compliantly* to new competitive offerings. The trick is to leverage channel partners – postal retail, third-party retail, meter technology companies, stamp producers, mailing houses – in a new go-to-market approach based on the active stewardship of channel mix for profitable and loyal customers.

The mindset shift involved is in viewing partners such as mailing houses and meter technology companies, not as potential intermediaries, but as channels to the customer base. An example of the shift underway is Royal Mail's 2010 partnership to foster dialogue with the mailing houses, who handle around 90% of all bulk mailings. The aim is to collaborate more closely in developing products and tackling issues affecting the industry.

In sum, there is a growing imperative and practice among posts to integrate previously undermanaged and stand-alone channels within an overall commercial framework, to meet the different needs of customers in separate market segments with distinct value propositions and segment-specific prices.

### Channel Pricing and Innovation

Channel innovation is best exemplified by a new revolution in payment channel pricing. Stamp prices have been de-averaged for meter channel users, reflecting the cost efficiency of the meter channel (compared to stamps) and the different demand conditions in the unsorted business mail segment. While many of the posts which have introduced discounts for metered mail operate in liberalised postal markets (Royal Mail, Sweden Post, New Zealand), others are not yet experiencing competition in their domestic markets (e.g. Australia, Finland).

Tariff structures which reflect the per-unit avoided costs of payment channels incentivise mailers to access, evidence and pay for postage services in the most efficient manner. Such prices send the correct signals to the wider industry, thereby stimulating innovation, R&D and dynamic efficiency. Where relative price signals are distorted then the incentives to technology providers and mailers will be unbalanced, leading to less dynamism in the sector than might otherwise be the case. Facilitating innovation and dynamic efficiency is a key objective of NRAs,

and pricing regimes need to ensure that there are no distortions to the incentives to invest in new solutions for mailers and for posts which technology companies receive

### Conclusion

The richness of the channel experience for mailers is an important source of differentiation for posts. There is some evidence that, over the last few years, some posts are re-learning the lessons of Rowland Hill's payment channel innovation.

It is clear why regulators would wish to drive channel alignment through cost-reflective pricing:

- To reduce universal service providers' costs;
- To bring benefits of market opening to small, and not only to large, businesses; and
- To send the right price signals to the wider industry to drive innovation and technological development.

For posts too, cost-reflective channel pricing is the right way forward to reduce cost-to-serve and to incentivise customers to access, evidence and pay for postal services in the most efficient manner. A channel-centric perspective is therefore critical for sales and marketing, including:

- Improving efficiency within channels;
- Reconfiguring prices and policies to optimise customers between channels; and
- Engaging more effectively with third-party sales and payment channel partners.

Posts have an obligation to serve all customers wherever they are based. Inevitably, different customer groups in different sectors or geographies, and with different levels of expenditure, have different costs-to-serve. An appropriate mix of payment channels can meet the dual objective of reaching all customers and minimising cost. It is clear that payment channel strategy is as important an issue today (for mailers, regulators and for the posts) as it was in the days of the payment channel revolution, Sir Rowland Hill.

## CHAPTER 12

### The Evolution of Costing and Pricing: from Regulatory Compliance to Pricing Strategies

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*In this contribution, the author explores how the postal industry has existed for a long time without reliable cost data but in recent years cost allocation and understanding cost drivers have become critical to strategic planning, particularly in relation to pricing strategies.*

When Rowland Hill's principle is referred to it is uniformity that is meant and not that prices should be related to costs. [...] What he advocated was not uniformity, but uniformity insofar as it was justified by costs...

R. H. Coase in 'Rowland Hill and the Penny Post', 1939

In 1837, Rowland Hill edited a pamphlet displaying his plan for a 'Post office reform'. The two main points were reduced and uniform postage (the *penny* post), and payment by the sender instead of the recipient. This proposal gained great support and, as it was put by his brother Mathew Hill, 'in two-and-a-half years, the theory of a private individual became the law of the land'.<sup>1</sup>

### Cost Accounting Systems at the Heart of Postal Reforms

It is interesting to note that Rowland Hill's plan was not to introduce uniformity in pricing, but 'uniformity insofar as it was justified by costs' (R. H. Coase). His point was that differences in prices could only be justified by differences in costs and that for the *primary distribution* (i.e. inter- and intra-city mail as opposed to mail delivered in remote areas) variation in distance affected costs to such a small extent that it would be fairer to charge a uniform price. As Coase pointed out, a century after the reform was introduced:

the fact that costs also depend on the number of letters carried and the density of the population (that basis of the distinction between primary and secondary distribution) is now largely ignored...<sup>2</sup>

The main concern of this misunderstanding and partial implementation of Rowland Hill's proposals is not in itself the abandonment of the *secondary distribution* but the false idea that Hill's major heritage is the low uniform postage principle. Instead, the real value of the penny post father was his scientific appraisal of real postal costs, in which he found the only legitimate source for its proposed reform.

Interestingly, it is through new accounting rules that the most important postal reform since Rowland Hill was accomplished in Europe, nearly a century and a half later. Even before market opening was planned in the postal sector, in 1997 the first Postal Directive stated that:

universal service providers should implement, within a reasonable time limit, cost accounting systems, which can be independently verified, by

<sup>1</sup> In an unsigned article in the *Edinburgh Review*, January 1840; cited by R. H. Coase (1939)

<sup>2</sup> Coase, R. H. 'Rowland Hill and the Penny Post', *Economica*, Vol. 6, N°24, Nov. 1939

which costs can be allocated to services as accurately as possible on the basis of transparent procedures.

This new European rule was accompanied by a detailed Activity Based Costing (ABC) methodology applicable to all European postal operators.

In the United States, some accounting rules existed under the 1970 legislation, where the then Postal Rate Commission, when receiving a request for rate change, was in charge of controlling that

each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type.<sup>3</sup>

In 2006, a major reform was adopted with the Postal Accountability and Enhancement Act (PAEA), with no liberalisation plan, but with requirement for separate accounting and funding for United States Postal Service class and subclass products that compete with similar products offered by commercial entities. Here again, new cost-accounting rules constituted one of the key points of the reform.

### Postal Modernisation Has Facilitated the Development of Relevant Cost-accounting Systems

In many countries, postal history has long been characterised by political control of prices together with the absence of reliable cost-accounting systems. Legitimate social and political goals explained some misalignment between prices and costs, for example geographical uniform pricing. But many pricing distortions were more the consequences of ignorance of the actual costs<sup>4</sup>.

After more than a decade of postal reform in Europe, an increased regulatory control of accounts, and a business-driven strategy of accounting systems modernisation on the side of the posts, a consensus has emerged on the major principles of reliable cost-accounting systems. The two main issues were the quality of data on postal volumes and revenues, used as inputs for accounting systems, and – the heart of the methodology – cost allocation and identification of cost drivers.

<sup>3</sup> Paragraph 3622 (3) of the Postal Reorganization Act, 1970

<sup>4</sup> See Adra, M., A. Ayub, C. Crum and M. Plunkett (2004) 'Pricing Innovation for a transitioning Postal Administration', in *Competitive Transformation of the Postal and Delivery Sector*, M. A. Crew and P. R. Kleindorfer (eds), Boston: Kluwer Academic Publishers



As an industry characterised by mass transportation of low-value items, the postal sector has always experienced difficulties in measuring precisely mail volumes and associated revenues. Some posts identify volume indirectly, by dividing revenue figures by an average price for the service. This methodology uses data recorded at the time of purchase, for different payment channels (i.e. stamps, meter and PPI channel). This method differs from a purely operational measurement, which counts volume directly, via machine and/or hand counts, or weighing consignments of mail batches. Operational measurement is the more widespread technique: in its 'Best practices for cost-accounting rules' document, the European Committee for Postal Regulation (CERP) considered that 'operational traffic methodology, if available and reliable, should be used as the basis of measuring volume'<sup>5</sup>.

On the other hand, it has been noted that in most European markets, the coverage of detailed revenue data is increasing. The use of computerised labelling systems in post offices (kiosks) means that revenue, volume and format data are being recorded for mail that is typically non-mechanised in the postal pipeline. In addition, the proliferation of new generation meters has increased the ability of accounting systems to record detailed information<sup>6</sup>. It is now generally considered that both approaches are complementary, and that an additional step, consisting of reconciling revenue- and operationally-based measures of volumes, is particularly valuable in revealing areas in which both measures can be improved. In recent years, most European posts have successfully implemented these methodologies, improving their knowledge of revenues and associated volumes, and ensuring more-reliable cost-accounting systems.

In short, once relevant basic data is available, the strategic part of cost-accounting systems building is cost allocation and the identification and definition of cost drivers.

The industrial processes of posts are multi-product, and characterised by significant fixed costs. Only a small proportion of costs is directly attributable by product. Consequently, costs allocation by products or divisions can only be based on a conceptual analysis of cost drivers in each step of the production process. Postal accounting systems rely on economic models for treatment processes to allocate direct and non-direct costs. These models allow costs to be allocated to the products, thanks to the identification of causal links between processes, costs and products.

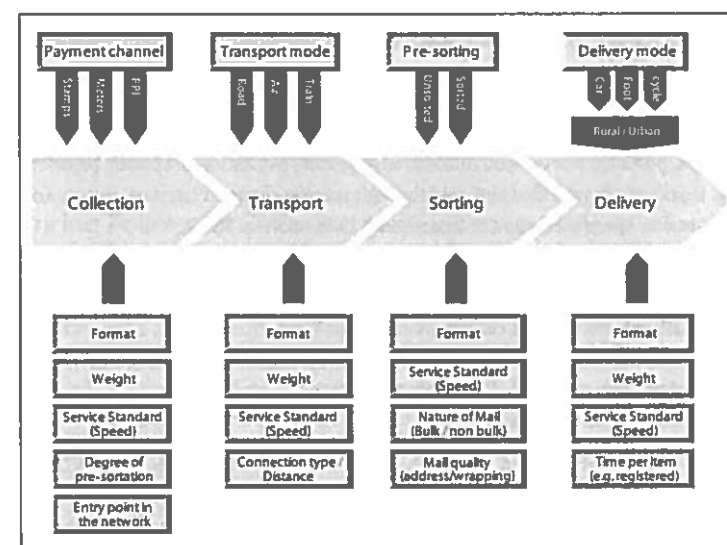
5 Recommendations on Best Practices for Cost Accounting Rules III, CERP, 8 May 2009

6 For more information on this point, see LECG Report for Comreg, available on the Comreg Website, <http://www.comreg.ie>.

The Postal Directive relies on an Activity Based Costing (ABC) methodology to allocate the indirect costs to products. The key is then the definition of the pertinent cost drivers (i.e. any factor which causes a change in the cost of the activity). In cases where an ABC analysis is not possible (i.e. no appropriate cost driver is identifiable), the Directive states that non-attributable common costs should be allocated on the basis of a general allocator<sup>7</sup>.

Most European posts have now implemented ABC methodology to build modern cost-accounting systems, with variations in cost allocations and cost-driver identification following organisational and cost differences among posts. However, major cost drivers are now widely known in the postal sector (see Figure 1).

Figure 1: Main Cost Drivers in the Postal Process<sup>8</sup>



7 Article 14 of 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

8 Source: Pitney Bowes

## Cost-accounting Systems Supporting Posts' New Pricing Strategies

In the context of European and US postal reform, cost-accounting systems have been considered as a major regulatory issue. However, posts need to rely on relevant accounting information more than regulators do. In this challenging period of downward trends in mail volume, development of competition and increased pressure from governments and/or shareholders on profitability, posts have many reasons to be focused on cost and pricing policies other than regulatory compliance.

Posts have been developing new sales and marketing strategies, and it is now a widely accepted idea that detailed accounting information is essential in supporting strategic renewal, notably by identifying the relative profitability of business segments, products, channels and customers. Consequently, posts' focus is both on cost-based pricing – with prices more geared to costs than in the past – and value-based pricing – with renewed consideration of consumer willingness to pay for specific postal services<sup>9</sup>. Through increased market segmentation and cost analysis, posts have developed differentiated pricing in relation to specific products (e.g. Direct Mail), provided and paid through specific channels (stamps, meters and accounts) to specific customers (consumers, bulk mailers, SMEs)<sup>10</sup>.

## Pricing Policies for Bulk Mailers

Bulk mailers were the first customers to benefit from discounts. At a time when a threat to switch to competitors was not possible, and consequently the negotiating power of mailers was limited, the debate on discounts started with discussions on cost accounting and avoided costs.

Rebates were first granted on the basis of the work-sharing principle (USPS introduced work-share discounts in 1976, La Poste in 1967)<sup>11</sup>. Pricing of work-sharing products are based upon avoided-cost principles. Thus, work-shared

<sup>9</sup> See Kleindorfer, P. R. and Z. Szirmay (2009) 'Pricing practice in the postal industry: current approaches and challenges under liberalization', Research paper, INSEAD & Roland Berger, June 2009

<sup>10</sup> Analysis of some recent innovative postal pricing strategies can be found in Kleindorfer and Szirmay, *op. cit.*

<sup>11</sup> See for more details on work-sharing at USPS and La Poste the PWC report for the European Commission, 'The Impact on Universal Service of the Full Market Accomplishment of the Postal Internal Market in 2009', pp.133–45

products are priced at the respective end-to-end price of the product minus cost avoided by posts due to the work undertaken by the work-sharing organisation. Thanks to increased knowledge of postal cost accounting, most posts have implemented these pricing schemes, realising that avoided costs could be a source of increased profitability while efficient mailers could reduce their postal costs through work-sharing.

If work sharing rebates were a direct consequence of avoided costs for posts, new discounts for bulk mailers developed in the 1990s based on mail volume or purchased amounts. Under a growing pressure from bulk mailers requesting commercially oriented pricing policies, many posts have granted rebates to their major customers without avoiding any direct costs. However, in an opinion on La Poste rebates, the French competition authority recognised that the rebates granted to top bulk mailers according to purchased amounts were justified by economies of scale in the delivery segment<sup>12</sup>.

Since most posts now have a detailed knowledge of costs associated with bulk mail flows, they can propose competitive prices to their customers and remain profitable, while being compliant in terms of regulation.

## Pricing Policies for SMEs and Medium-sized Mailers

Medium-size mailers (SMEs, associations, public local authorities) formed the second customer segment to be identified by posts, though only recently. Posts had traditionally priced the unsorted mail flows of SMEs at similar level to that of stamps<sup>13</sup>. Increased knowledge of cost drivers and, in particular, channel costs has revealed that the avoided costs compared to stamps of the meter channel – which is the SME's main payment channel – were significant, allowing large rebates to be granted while keeping the high-profitability profile of these mail flows<sup>14</sup>. At the end of the day, these rebates have provided greater profits to posts, since customers have switched from less efficient and profitable payment channels (stamps) to the meter channel.

<sup>12</sup> Opinion n°07-A-17, 20 December 2007, concerning a request from the French Regulatory Authority (ARCEP) on La Poste's volume rebates mechanism

<sup>13</sup> See WIK Consult GmbH (2009), 'Business customer demand for postal services', study for Bundesnetzagentur, available (in German) on [www.bundesnetzagentur.de/media/archive/16237.pdf](http://www.bundesnetzagentur.de/media/archive/16237.pdf)

<sup>14</sup> In Europe, Itella (Finland) is granting meter rebates up to 23.8%, Royal Mail up to 21.9%, Norway Post up to 21.5%, Sweden Post up to 12.7%, TNT up to 9%, etc.

In a context of declining mail volume and the development of competition, posts have been considering their interests in stimulating mail growth in the under-penetrated SME segment, but also the necessity of securing these profitable mail flows and customers in the light of market opening. This explains why one of the most widespread pricing policies implemented on this ground in recent years has been the proliferation of rebates granted for unsorted mail franked by meters.

Considering the cost-reflective approach of these discounts, regulators have been strongly supportive of such changes. The regulatory accounts of most posts now distinguish channel costs, and some are required to communicate payment-channel cost differences to regulators (France, Ireland)<sup>15</sup> and in some cases to publish it (Royal Mail)<sup>16</sup>.

### Conclusion

Although modernisation of cost-accounting systems has been initiated by postal reforms in many countries, these systems today constitute key strategic tools for defining innovative commercial and pricing policies, and for monitoring profitability. This chapter provides some examples of discounts targeted to bulk mailers and SMEs which leveraged postal profitability as well as ensuring regulatory compliance, thanks to reliable cost-accounting systems. Posts will have to rely even more on cost-accounting systems as they plan to implement customised and flexible pricing policies in the face of declining mail volumes and growing competition.

15 See ARCEP decision n°2007-0443 relative aux spécifications des systèmes de comptabilisation – 15 May 2007 or Comreg's Accounting Direction to An Post, 8 December 2006

16 See Annual Regulatory Financial Statements, available on Royal Mail Group website

## CHAPTER 13

### Strategic Focus on Business Customer Needs: Partnership for Mutual Advantage

Alice Kijak

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*This contribution focuses on the strategic opportunity that exists for postal operators to work closely alongside their largest bulk-mailing customers to ensure that they integrate their processes as far as possible, understand each other's needs in some depth, and work to ensure each other's success – in short, to operate not just as supplier and customer, but as business partners. The author has a wealth of experience from the customer perspective and offers suggestions for postal operators to consider and adapt or adopt, including good practice and the potential dimensions of a productive and enduring partnership.*

Large business mailers and postal operators have a lot to gain by forming a partnership. It is in both their best interests to support each other. The postal operator wants to be the carrier of choice, especially in the light of postal reform and the expanded use of electronic commerce and banking. The mailer wants to use the most reliable, consistent, cost-effective and trustful delivery service.

The success of a marketing campaign using mail depends on delivery quality and cost-effective delivery. Cost-effective delivery is important because, if postal operator rates are too high, the mailer is forced to reduce the volume of mail. To ensure a win-win relationship, a partnership approach is the answer. The business success of each partner is uniquely intertwined with that of the other. When a mailer expands their use of direct mail, postal operators can generate more revenue. When a customer responds positively to the first direct-mail piece, there are usually additional revenue opportunities for the postal operator from the multiple pieces of mail generated by sending further promotions, bills, payments and parcels.

### Mutual Advantage

To foster a good partnership relationship, strategic discussions must be conducted on a routine basis. These are where the two parties exchange ideas, jointly develop mutual goals and plan ways to implement profitable and efficient new products and services. Ideas for improvements and innovations can come from either side and be developed together. This enhances the sense of combined ownership and the chance of implementing successful outcomes.

One effective way to track the progress and health of the partnership is through a formal measurement system. From a mailer's perspective, a 'report card' approach is not only a good way to monitor progress but also a way to encourage better service offerings from the postal operator. The report card measures how many best practices are being offered or performed by the postal operator. Some best practices are more important to the mailer than others, so a weighting factor can be incorporated. The report card can be a simple table with a column for the best practice, a column for a score and two optional columns for a weight and a weighted score, such as the example shown below:

BEST PRACTICE	SCORE Yes = 1	WEIGHT	WEIGHTED SCORE
Does the postal operator offer best practice #1?	1	3	3
Does the postal operator offer best practice #2?	0	2	0
Does the postal operator offer best practice #3?	1	1	1
TOTAL	2		4

### Topics that Could be the Focus for the Report Card

The following ideas could be considered when compiling a report card with key customers, since they are based on proven best practices that the author has seen and experienced in the global mailing industry:

- Expansion of the direct-mail channel and generation of additional revenue
- A partnership approach to work sharing
- Range and diversification of services
- Performance and quality of service.

Other best practices may be considered as organisations determine what is best for their circumstances, but these four will be the focus here.

### Expansion of the Direct Mail Channel and Generation of Additional Revenue

The postal operator can offer a product range tailored to direct mailers, such as advertising mail, which includes printed matter, flyers, circulars, advertising, newsletters, bulletins, catalogues and small packages under a specific weight. This incentivises the mass mailers to expand their use of postal services and so benefit from reduced costs and more flexibility. The postal operator can benefit from the additional or subsequent revenue generated in other classes of mail (e.g., first, parcels).

The postal operator can offer reduced postage rates, or no additional postage rates, for attached mail, i.e. where a promotion, bill, renewal or product sample is attached to a magazine or parcel. The postal operator handles only one piece of mail instead of two. The mailer pays the normal postage for the magazine or product but the attached promotional piece is charged at a minimal addition rate, or at no additional cost, in recognition of the potential for revenue growth in other classes of mail.

Equally, the postal operator can offer a special discount based on a mailer's guaranteed annual spend across all mail classes. With a guaranteed spend and discount, both the postal operator and mailer can benefit when planning their budgets.

The postal operator can also consider offering a special discount based on a mailer's loyalty, since they need to rely on repeat business and customer loyalty. This can be accomplished by offering a discount based on a mailer's exclusive use of the postal operator for the entire order cycle (i.e. promotion, response and shipment of the product) and for all customer correspondence. Since the mailer has a choice of media channels it could be rewarded with a discount if all components of the order cycle are accomplished via the mail. Otherwise the mailer could use a Direct TV channel for the promotion, a call centre for the response, and electronic commerce for the payment. Incentives are important for loyalty!

Another useful idea that many posts have used is the idea of an investment or prospect mailing. As an example, the postal operator can cover the postage for the initial magazine promotion and maybe the first magazine. The revenue generated from the postage for the remaining 11 issues and the additional promotions for books and home entertainment products should cover the initial investment plus another 30%, for example.

Another good opportunity for useful collaboration with large mailers, particularly if they have flexibility with the timing of their mailings, could be to post them when the postal operator knows they will have lower levels of traffic than normal and extra capacity in their system. All businesses have workload peaks and troughs. To encourage more volume during low-volume periods, postal operators could offer reduced seasonal rates as an effective way to generate more revenue. This would encourage mailers to add new campaigns at different times or to promote more names in an existing mailing.

The most obvious discount has always been the one given for volume, which makes good business sense, but the operator needs to ensure it is still profitable, and both parties need to be sure they are not building more customer resistance by delivering unwanted items. Address lists must be up to date and the mailings well targeted. If so, this kind of incentive is good for both the operator and the mailer. When it is applied as an annual volume discount, it is a combination of a loyalty and volume incentive, which guarantees future revenue.

Postal operators can also offer address hygiene services that clean address lists and ensure the accuracy of the name and address information on a mailing list.

The greater the hygiene, the greater the deliverability of the mail produced. Postal operators can validate the address on a mailer's list as well as provide change-of-address notifications either manually or electronically. Address hygiene services can generate revenue and minimise the postal operator's costs by reducing the number of undelivered promotions and products. There are cost savings for both the postal operator and mailer. Ideally, the fee should be minimal, the regularity of changes frequent, and the mode of notification electronic. To protect privacy, special controls can be utilised or licensed service bureaus can provide the interface for an address-validation service.

### A Partnership Approach to Work Sharing

If mailers print a barcode which encodes the destination delivery point on the outer envelope, magazine or parcel this can be useful to the postal operator. The bar code can easily be scanned by automated mail-processing equipment, thus reducing costly manual sorting efforts. In effect, it assists cost containment and improves efficiency and, ultimately, the bottom line for the postal operator. However, it can also ensure greater accuracy and quality of sorting and delivery which is what the mailer wants. The mailer will incur the costs of programming and printing of the bar code on the mail piece, as well as of maintaining address accuracy on its file. So there are benefits on both sides by sharing the work in this way. By integrating the processes the overall cost is lower and that benefit can be shared. The concept is applicable for reply mail as well as magazines, parcels and letters.

The same principle applies to mail preparation, where the mailer can present the work to the postal operator in trays or in other formats which are easy to process, instead of entering it as loose mail. This eliminates expensive manual handling work for the postal operator. It could include presenting mail in order of postcode, carrier route, delivery point or walk sequence, depending on the volume. This can be done with assistance from the postal operator when enveloping and printing from a mailing list.

Downstream access for the 'final mile' delivery, or 'dropship' delivery, has become more familiar since it has been used more widely as part of market liberalisation. The mailer sorts and processes the mail before delivering it directly to the postal operator, who then uses its postmen to deliver the mail to the household. The mailer incurs the cost of the transportation from the point of production to a postal facility closer to the mail recipient. The closer to the recipient, the better the discount received. Delivery appointments are made with postal operators for workload

planning, which also assists the mailer with better control over timed mailings. The postal operator also eliminates upstream processing and transportation costs.

Notification of up-coming mailings may seem insignificant on first glance but on further analysis this proves to be very helpful for both the postal operator and the mailer. It enables better workload management at the post office and optimises timed delivery calculations for the mailer. The mailer, in addition, can better predict the intake cycle of responses. The notification could include an image of the outer envelope.

How is all this agreed between mailer and postal operator? Best practice formalises the partnership relationship in a negotiated and agreed contract. Both partners benefit from a contract. It guarantees revenue for the postal operator and budget control for the mailer. Negotiated contracts are preferable to agreements. Contracts are negotiable, confidential, price-protected and binding with a fixed term. In contrast, agreements are generally considered annual price grids available to any company who qualifies and signs.

### Range and Diversification of Services

The postal operator can offer hybrid mail services which immediately expand the range of electronic and physical solutions at both posting and delivery, together with the potential advantages of tracking, information and document management. With hybrid mail, content can be sent as an electronic document to a postal operator's printing location near the final destination, thus reducing mailer costs and improving day-certain delivery.

Another additional service that could enhance the partnership would be for the postal operator to offer wider marketing services, especially to small- and medium-size enterprises. Such marketing services could include list generation, list selection, mail targeting, direct mail design and printing. Postal operators can become a one-stop shop for mailers.

Other value-added services which operators often provide include forwarding of mail, magazines and parcels from an old address to a new address. The cost to forward the item can be built into the rate structure, or a nominal fee can be charged. The service is usually available for a specific time period (e.g. three months, one year, etc.). This service ensures that items, for which postage is paid, are delivered. Further consideration can be given to the timeliness of forwarding and the length of time that forwarding is provided. There can now be increasingly

sophisticated digital elements which update the address list at all points in the logistics pipeline, but this needs particular attention to keep it accurate and updated since it also has the potential for significant errors and causing a disproportionate amount of customer complaints.

How the postal operator deals with non-delivery is becoming increasingly important for receiving customers and hence also for mailers. Does the postal operator provide a notification to the sending customer, along with the reason for non-delivery, if mail, magazine or parcel is undeliverable? This service enables the mailer to correct or mark their file as appropriate. Avoidance of non-delivery situations is a cost saving to both the postal operator and the mailer. Further consideration should be given to the list of actionable non-delivery reasons (e.g. refused, deceased, addressee moved with no forwarding address), nominal fee for service, timeliness of notifications, electronic notification, and multiple handling options for parcels (e.g. destroy product, return product etc.).

In addition, the postal operator can offer multiple return handling options for parcels that are refused by the customer or not delivered. Sometimes the mailer wants the product returned to the return address of the warehouse so it can be refurbished. On other occasions the mailer does not want to incur the cost of returning the product to its warehouse, since the cost of return and refurbishment is more than the original cost to print. In order to tell the postal operator which option to use, the mailer must print on the front of the parcel in a special place a message or endorsement (i.e. authorised words or abbreviations) indicating the desired return-handling instructions. One example of a return handling option is called 'returned service' where the parcel is returned to the warehouse with reason for non-deliverability. Another example is called 'change service' where the parcel is not returned to the mailer and the postal operator destroys the parcel but provides a separate notice to the mailer detailing the reason for non-deliverability. These options avoid cross in the mail situations, reduce overall costs, improve inventory management and are excellent customer service initiatives.

Postal operators can also offer payment-collection services. One example is cash on delivery (COD) where the postman collects the payment when the product is delivered. However, there are security and other considerations to consider when postmen are on the street with cash. The customer is more likely to keep their product if it is delivered to their home. Another example is over-the-counter payment collection at the post office or a retail outlet.

These days most postal operators will offer track-and-trace services. Retailers often desire this option, especially for time-sensitive parcels, but it is not always necessary for all parcels. Examples of services include:

- **Delivery confirmation:** mailer receives information about the date and time a mail piece was delivered or attempted to be delivered; this confirmation can be electronic or manual
- **Signature confirmation:** mailer receives information about the date and time a mail piece was delivered or attempted to be delivered; the postal operator keeps the delivery record, including the recipient's signature
- **Registered mail:** a system of receipts monitors the movement of the mail from the point of acceptance to delivery; the sender receives a mailing receipt and the postal operator keeps a record of the delivery
- **Return receipt:** a return receipt is mailed to the mailer after delivery to the destination.

### Performance and Quality of Service

What are the key quality parameters for the mailer? Is it speed of service, day-certain delivery, consistent performance or assurance of delivery in some other way? The postal operator needs proactively to monitor and report on their performance and, most importantly, comply with their published delivery standard in all classes of mail, while keeping the customer informed. This information is vital to any mailer which requires reliability and consistency in delivery performance. This is especially important for time-sensitive mailings.

### Conclusion

For a strategic partnership between mailer and postal operator to be effective it needs to be strong, maintained at all levels, and built on trust and good communication by both sides. This includes setting up good day-to-day monitoring, reporting and access/contact arrangements between the mailer and the postal operator.

Examination of the idea of report cards shows that most of the elements relate to partnership working in the context of regular large mailings and how that relationship and the service partnership can be enhanced and developed.

However, it is also vitally important to hold regular strategic discussions around future plans and developments, which provide the opportunity to consider how both parties can better help each other to meet their strategic goals and objectives.

## CHAPTER 14

### How to Create Value by Managing Innovation in Changing Times<sup>1</sup>

Dirk Palder

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*This chapter argues that managing innovation is more critical than ever in the postal industry. This innovation can take place on four levels: process innovation, service innovation, product innovation and business model innovation. The author argues that business model innovation is probably the least explored type of innovation within the postal industry, yet may hold a lot of promise.*

<sup>1</sup> The views expressed in this paper are those of the author alone and do not necessarily reflect those of Capgemini.

Today's market offers exciting opportunities if postal operators are willing to tackle the management of innovation. There are four key drivers for this:

- The economic crisis
- The availability of digital tools and applications
- Changes in the direct-mail business
- The growth of e-business.

In 2010, the economic downturn continues to drive mail volumes lower than in recent years, shrinking them by up to 8% in some markets<sup>2</sup>. This may not seem much when compared to declines in other sectors, but a volume reduction of 3 to 5% can erode Earnings Before Interest and Taxes (EBIT) by between 30 and 60%. This figure is 3 to 5 times higher than that in other dynamic industries, such as logistics. And while adaptability and flexibility are essential in any business and any market, postal operators have proved that on the whole they lack adaptability. Furthermore, they must learn to adapt to a much more volatile market in the future, perhaps by enhancing their service portfolios to increase their EBIT even if the market shrinks by as much as, say, 15%.

The good news is that today the postal market can boast of several groundbreaking innovations. However, only a few operators have been bold enough to establish a strong governance model around their innovations. The challenge for operators is to grow revenues and volumes without entering a price war on services. Innovation management is the solution.

Before I give some examples of innovation management, let me explain why the fundamental transaction of sending and receiving post must be revamped, and why the quality of products as perceived by the receivers must be enhanced significantly. In the present model, which has existed for over a hundred years, the sender decides what to send, how much to send, when to send it, and how often to send it. The receiver has had no say in the transaction. Today, a different model is required, in part because receivers are much more powerful than they are perceived to be. Receivers are learning, and gaining inspiration and empowerment from the Googles of this world. Online, people can find the information they want whenever they need it. But why should they only be able to access what they want online?

<sup>2</sup> Estimation based on personal interviews with postal executives

The reason is that direct marketing focuses on different success rates. A campaign with a 3% response rate is called a success, and sometimes even 1% is acceptable. But how does the receiver feel if 97 to 99% of the time they get information at the wrong time, or, worse still, about the wrong issue completely?

This raises several questions about the service itself. Is it a quality product? Would you use a bus which only takes you to your intended destination 3% of the time, even if it were free? If the percentage of the low-quality stream (of unwanted, wrong or untimely information) increases because parallel 'transactional' (wanted) volumes are declining, then the relative perception of the quality of the service decreases even faster. This erosion, which is one consequence of the digital age, is more worrying than the impact of the economic crisis. And it provides a chance to use the crisis as a reason to start managing innovation now.

## What is Innovation?

Of course, innovation can mean one thing to one person, and something quite different to another. The twentieth-century economist Joseph Schumpeter suggested that the term innovation refers to a new way of doing something. It may refer to incremental and emergent or radical and revolutionary changes in thinking, products, processes, or organisations. Professor Jan Fagerberg of the University of Oslo suggests that invention is the first occurrence of an idea for a new product or process, while innovation is the first attempt to carry it out into practice.

In short, innovation means getting new things done. So what have we seen of innovation in the postal market? At the highest level, we have seen three waves:

1. Standardisation: letter formats, weights and addresses
2. Industrialisation: sorting line haul and last-mile sequencing
3. Customisation: multi-channel access, franking, etc.

But what structure lies behind these waves? On what have the postal operators concentrated to date? The majority of researchers into innovation separate it into three areas:

1. Process: internal process optimisation to reduce costs and time
2. Service: accessibility or usability for greater client satisfaction
3. Products: growing new revenues by providing new solutions for existing clients, or extending existing products into new markets.



The major postal operators are very good at the first area, process optimisation, but they have a lot of work to do to improve their services and products. Two gems of successful services and products can be found in India and Germany.

### Gold Coins from Post India<sup>3</sup>

One Indian tradition is to buy gold for friends or family as a birthday or wedding gift. People on low incomes often only buy small amounts of gold in jewellery shops, but these are sometimes located in unsafe areas where customers can feel vulnerable to thieves. Post India came up with an innovative solution by designing an affordable product which is both easy to buy and guaranteed to be safe. The gold coins are sold and secured in small packages from 0.5 to 8 grams, while the quality is ensured by the Reliance Group of India and a trusted Swiss producer. Prices are set fairly by every outlet showing the price of the gold online. This offering has a clear advantage over the traditional method of customers negotiating prices in the shops. As a result of the 'design to customer need' model, outlets have grown sales and revenues, and India Post now has a much better image in the mass market space.

### Service Innovation: 'Handyporto' from Deutsche Post<sup>4</sup>

In Germany, Deutsche Post has launched a 'high tech meets high touch' product called Handyporto. This won the Innovation Award at the World Mail Conference in 2009, 170 years after the first pre-paid solution for mail was launched in the form of the One Penny Black stamp. Handyporto works by a customer sending an SMS message to a central number, from which they receive an SMS back with a 12-digit secured ID-Code (high tech). The customer then writes this number as the pre-paid 'stamp' in the top right corner of the postcard or letter (high touch). Handyporto, which has proved a hit with young people, gives a high-tech touch to an old product and really helps customers who do not know where to buy stamps. With an app on the Apple iPhone, people can also either buy this product or locate their nearest outlet to purchase stamps. Deutsche Post has created a good example of the convergence of the physical and digital worlds.

<sup>3</sup> Information available on <http://www.indiapost.gov.in/Netscape/GoldCoin.html>

<sup>4</sup> Information available on <http://www.deutschepost.de>  
[http://www.deutschepost.de/mlm.nf/dpag/images/flashapps/handyporto\\_bin/index.htm](http://www.deutschepost.de/mlm.nf/dpag/images/flashapps/handyporto_bin/index.htm)

### Business Model Innovation

Innovation involves stepping up to a much more holistic approach and dimension. New thinking from Professor Christoph Zott of the IESE Business School in Barcelona and Professor Raphael Amit from the Wharton School expands the range from process, service and product innovation to one additional area: the business model<sup>5</sup>. Instead of isolated optimisation and concentration in only one area, they recommend focussing on the model itself to understand, in detail, where and why customers are ready to pay, and to ensure a sustainable business.

There are five advantages to this model:

1. Less R&D investment is needed, leaving more money for commercialisation
2. Less investment is required in properties, plants and equipment – it is 'asset light'
3. More smart technology is used – use it right
4. Smarter production is involved – use available technology but assemble it differently
5. More partnering is involved – to increase security, reliability and extend the reach of markets and customer groups.

With this model, the shift is from product invention and innovation thinking into usage, user and business-model thinking. It sounds easy, but is much more difficult to realise than it seems.

### How a Great Idea Leads to a New Business Model – 'GetFriday.com' and 'Prosper'

The web-based business 'GetFriday.com' is an example of a new business model which is based on the idea of a VPA – a virtual private assistant. Here, you can hire your assistant by task: you need a flight booked? You need to plan round trips with hotel reservations and you have no time to find the best value decision and have no assistant you can use? You can outsource the task via a platform (like GetFriday) and somebody in Poland, Ukraine or India will receive the order from them. He/she will keep you updated, will inform you and will keep updated your preference profile, so that the next time you decide, they will know your favourite place, hotel or restaurant.

<sup>5</sup> See for example Zott, A. & R. Amit, 'Business Model Design and the Performance of Entrepreneurial Firms', *Organization Science*, 18(2): 181–99, March–April 2007

Which kinds of services are offered by this method? They include calendar management, cold calling of clients, purchase or internet research plus a long list of special tasks, executed for you by specialists. And you pay per hour used, which is often faster and cheaper than keeping your general assistant at home. The business model is simple: use labour arbitrage, a task-based service model, modern IT technology as a platform to connect the service provider with the person who requires the service, and manage specialist performers on behalf of your customer.

Another example to explain in more detail the concept of innovative business models is that of P2P (Peer2Peer) lending companies. These have a new web 2.0 approach, bypassing the traditional banking business, especially attractive since the financial crisis. One example is Prosper ([www.prosper.com](http://www.prosper.com)), a company founded in 2006. The business idea was to eliminate banks by allowing lenders and borrowers to give each other money directly, to increase the interest rate for the people borrowing the money and lower the rate for people who lend. As an idea this is very similar to that of micro-credits, but the model uses web 2.0 tools and connectivity and not the traditional ecosystem.

Overall, these examples are about **connecting** people. In many ways, this is the overall 'strapline' on which the historical postal service provider's business model was built. In the new digital century, very new and very young companies are catching up with a business model which is in some ways near to the postal one. The difference lies in the content. So far, posts have focused on physical distribution for connecting or communication and for financial transactions. **Connecting** people could also mean document delivery, warehouse management for flyers and so forth.

## A Conclusion

Summarising the headlines of this article:

- It is important not to overemphasise the economic crisis or the digital substitution effects
- For postal service operators, innovation is nothing new
- Innovation management should focus on portfolio areas, creation and launch processes and sustainability
- The range of innovations should be expanded to include business model innovation

- The convergence of new and traditional physical solutions will enable for the first time the 're-launch of the letter'.

In future the focus will be more on the output or results of solutions, and clients will expect commercial commitments from the operators. Without this, the operators will remain on the community, low-margin end of service positioning ('the last mile transportation company'), instead of using the spirit of the changing world and the crisis to start to establish the vision of **connecting** people as a business position.

Moving forward, it will not be enough to have creativity and products. The key will be how postal operators organise their processes from concept to final service, their capability to innovate and their capacity to analyse which parts of the value chain they can deliver and which parts they will outsource. In the end, we will find new postal operators which are still serving the core market with renovated letter products, but also providing integrated digital solutions based on web 2.0 technologies and the experience of the receiver, the final customer.

## CHAPTER 15

### Innovation Made Easy: Ten Pillars of Successful IT-Enabled Transformation Projects

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Michaela Hohlwein and Hans G. Landgraf

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*The transformation and modernisation of postal organisations is usually accompanied by major investments in information technology. In this chapter, the authors share their extensive experience of planning and implementing innovative IT-related projects. From their ten pillars of success, it is evident that the right choice of partner, carefully planned project management, and change and stakeholder management largely determine the successful outcome of such projects.*

In these challenging times it is even more important for businesses to stay profitable and grow at a sustainable level. Different initiatives can be taken to increase revenue or reduce costs. However, in ever faster changing markets, simply doing things as they were done in the past most likely will not prove to be successful. To return their businesses to the growth path, postal organisations need to innovate. Innovation can be contemplated in many different areas (for example, new markets, customer centricity, people, or organisational processes). Information technology (IT) can be a key enabler for these organisations and their transformation journey.

## Drivers for Innovation

### Business Strategy

Postal organisations have been responding differently to market challenges. Actions taken to date range from the development of partnering and acquisition strategies to product and service diversification. Some organisations have invested in financial activities to compete in the marketplace, with other institutions providing full end-to-end mail services to their customers. Many postal organisations have also deployed retail strategies to optimise the revenues of their post office network through product and service diversification.

### Customer-centricity

In the era of 24/7 availability of information via the Internet and mobile devices, customers' expectations and requirements have changed significantly. Today, customers expect reliable on-time services. They also prefer profiled services which take into account their differentiated needs. Customers demand fast, flexible and inventive delivery solutions. Improved business performance depends significantly on how well a postal company develops, sustains, and grows its relationships with customers, as well as on its ability to incorporate partners into its network. A key component of success is also the multi-divisional view of the customer. However, in practice customer and employee data typically is divided between several legacy systems with different types and quality of data.

### People and Process Organisation

The market-driven forces are complemented by organisational challenges. Today, postal planning capabilities are often based on historic data, and are planned in sorting centre 'silos'. International transfers of mail may be delayed, and service level agreements not met, because of a lack of visibility in incoming mail volumes, causing high penalty fees. To gain operational efficiency, postal organisations need to improve their planning capabilities with the ability to sense and respond quickly

to changes in the network, thus avoiding under- and over-utilisation of resources. Indeed, a recent study commissioned by SAP<sup>1</sup> found that the most important barriers to innovations had to do with too slow decision-making, too much bureaucracy, and having a corporate culture that does not encourage creativity.

## Ten Pillars of Success

It is widely accepted that innovation is a key factor if postal organisations are to remain successful and competitive in their traditional markets and in new markets. Information technology is a key enabler for successful transformation projects and is able to drive innovation through the organisation, overcoming the barriers described above. Thus the key question becomes, 'What are key success factors for successful IT transformation projects?' We have identified what we believe are the ten pillars of successful IT-enabled transformation projects.

### 1. Learn From Others and Look Beyond the Boundaries

Typically, postal organisations needed to follow strict procurement rules. It is therefore crucial that the 'Request for Proposal' and even a 'Request for Information' ask the right questions and define appropriately the required IT system. Talking to peer organisations to learn from their experiences is recommended, even at a very early stage in a project. In doing this one does not necessarily have to stay within the postal industry. Look over the fence! One of our customers was planning a change in its billing and invoicing process and looked at companies with similar challenges, for example very large numbers of customers, standardised products, and large numbers of small amounts needing to be invoiced. The customer then looked at telephone and utility companies and investigated how to achieve high standardised and automated processing of mass events, including direct accessing from the data source to invoicing and account balancing. Well-prepared reference calls and visits can help to scope the planned project better.

### 2. Identify the Right Project Sponsor

The project sponsor should be senior enough in the hierarchy to demonstrate that the project is important. The sponsor also has to be available to follow the project and make major decisions. In most cases it is probably best to have a project sponsor from the business side rather than from the IT department. Purely IT-driven projects which change business processes are likely to lack support from

<sup>1</sup> Sund, K.J. (2008) Innovation in the Postal Sector: Strategies, Barriers and Enablers, Ecole Polytechnique Fédérale de Lausanne/SAP

the business side and are often doomed to fail. We have encountered examples where the divisional CEO chaired a number of initial steering committee meetings, underscoring that the project is supported at a very high level.

### 3. Set up the Project Team Properly

The most important feature here is not to underestimate the effort required by a new transformation project that includes IT! It is crucial to have a full-time project leader and full-time project members who can concentrate solely on the project. The core team should comprise IT staff, business experts and consultants. This team should be complemented by part-time members from the business and IT departments. Clearly defined roles, responsibilities, and engagement rules will help, especially in times of challenges. Additionally, strong project governance is crucial. Forming a steering committee, which also includes the vendors, has proven successful. The committee or the project sponsor should report regularly to the Board.

### 4. Define Key Performance Indicators (KPI) and Objectives

IT projects can be questioned if the benefits cannot be articulated properly, and this is especially likely when a change in management happens. It is much easier to describe the advantages gained from any IT project by users and organisations if the objectives and KPIs are defined clearly and in a measurable way. KPIs should be measured before and after the project. Sometimes new software can help to track the KPIs for future purposes as well. In one example we encountered, a customer streamlined the supply process and used e-commerce as the order channel for B2B customers, and also transformed the order-to-cash process from paper to electronic. As a result, the organisation reduced mistakes, improved overall cost efficiency, and increased Internet sales to 45 percent of total turnover.

### 5. Pick the Most Suitable Software Partner

One approach which has proved to be successful is to pick a vendor that brings extensive expertise in best business practices. A strong global presence could be helpful as well, one with a proven track record in the industry or in the processes which it is planned to implement. Clearly a vendor who is financially stable is more likely to ensure long-time support and enhancements. For example, a flexible business process platform, run on a single, consolidated IT infrastructure helps to standardise processes across different locations and business units, and can provide a unified source of data. Multi-language and multi-currency support might be required as well. Software with a wide range of functionality and integration will lower costs. It can also provide an additional source of innovation: for example,

providing workers with a capability to use cell phones to register their hours worked for payroll processing. Pre-configured processes (best practices built into the software, without the need to code) can also reduce the costs of implementing the software. Additionally, the benefit of choosing a well-known brand could be that it increases the ability to attract top talent.

### 6. Select an Experienced Implementation Partner

Although this might seem obvious, it is an important source of project success or failure. It may be necessary to go down to the level of individual consultants to get true proof of solution know-how and industry knowledge. Make sure that the implementation partner understands the user requirements on both the expert and management levels. An experienced implementation partner will also have templates available to speed up implementation. However, you need to check if those are based on the latest software release. The introduction of prototypes can help to gain users' acceptance and cooperation. The implementation partner could also help with rollout support, including software documentation specific for the end-customer.

### 7. Have a Feasible Project Plan

Some customers have started the project planning with a strategic business blueprint followed by a business case. But the key for success is detailed implementation planning, with a cohesive plan – including data migration, change management, testing, and training. Some software vendors may bring their implementation methodology as a summary of best practices, reducing errors and costs while shortening the implementation time. The time and resources required for data transfer from legacy systems and testing should not be underestimated. With a phased and well-planned rollout it is even possible to have an application live in 57 countries within 18 months.

Typically, customers have started with IT-enabled transformation projects in finance and purchasing, creating cross-unit visibility of purchasing information and usage of a standardised set of accounts across all business units and locations, including standardised cost-centre structures. Such projects could be followed by further projects in HR, real estate, and asset management.

Customer relationship management (CRM) software projects can then help to enable customer-centric business transformation, integrating and standardising business processes across divisions and channels: opportunities for cross-selling can be found, customer-tailored offerings made, and different sales approaches can be taken through integrated customer views, including purchase history analysis.

Therefore, the customer master data is a key element and should be handled thoughtfully and carefully.

### 8. Design for Growth

As postal organisations are typically among the largest employers in a country, with a huge customer base, it is important that the software and hardware chosen is able to scale with an appropriate performance. As some posts have found, when entering diversification and acquisition strategies the data volume will increase over time through the inclusion of new divisions and subsidiaries. We have seen the customer data of some organisations grow from 100,000 accounts to 32 million in a few years.

### 9. Consider Security

Postal operators are considered to be trustworthy and 'safe' and no IT project should compromise this. Therefore implementation should be built solidly, proven against hacker attacks, and it should support role concepts – pre-defined to reduce costs – as well as access right management. An easy implementation of workflows which establish correct security principles will also increase safety while reducing costs. It is advisable to set standards where possible. For example, report creation standards help to reduce incidences of errors. Ideally the software should support a three-tier model from test system to quality-check system to the live productive system, to avoid changes that endanger the productive system.

### 10. Remember the Importance of Change Management

Last but not least, any IT-enabled transformation project needs solid change management. Good communication to all stakeholders is important during each project phase and should be intensive in the beginning. Comprehensive training programmes with individualised content will accelerate the transformation. Additionally a process for future software-change requests should be established. To save costs in the long term, typically we recommend keeping customer-specific coding within standard software to an absolute minimum. A strong centralised committee should define what processes should be standardised and then enforce this across different implementations. It is also possible to restrict the report creation to power users.

### In Summary

Innovation and transformation are surely no easy tasks. Not only do organisations have to have the right ideas for the right markets but also they need to have innovative people in the right positions. Success will depend significantly on having

the information technology in place to support people and processes. Providing management with real-time, accurate data for decision-making, reducing the administrative burden of employees, and improving customer satisfaction and retention is only possible with the appropriate information technology.

The implications of transformation projects can be huge for postal organisations. Building on the best practices and lessons learned from similar projects will make it easier to deliver innovation to remain successful in the marketplace.

## CHAPTER 16

### Thriving in Times of Complexity and Turbulence

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Dennis Gilham

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*This final chapter offers some reflections about the contextualisation of strategy and on some of the many questions that strategic managers of postal organisations must ask. One of the key messages, and a good message with which to conclude these contributions, is that there are no 'silver bullets' in the game of postal strategy. From penetration to diversification, from optimisation to segmentation, there are no right or wrong choices per se. There are, however, poorly implemented strategies, or ones that do not adequately respond to market forces.*

Economic downturns have been with us throughout history, so perhaps they are a necessary evil. The surprise comes from our lack of readiness. Still, maybe downturns are not always such a bad thing. Perhaps business and the sector need to be shaken up occasionally to get the best out of them. Perhaps the results of a good stress test are enough to tell management that a fundamental rethink is required. So perhaps we should treat recessions as an opportunity. Nevertheless, whatever the cause of the crisis, the consequences basically come down to the need to cut costs. It is a good thing that the cost base is tuned regularly to remain competitive. However, cost cutting that cannot distinguish between cost and investment is damaging. The difference, should there be any doubt, lies with customer added value.

Cost can be taken out without impacting on the customer whereas investment cannot, although one basic problem is in telling the difference. Without good market insight it is not so easy to identify, either directly or indirectly, which money adds customer value and which does not. Therefore a strong strategy that puts customers at the centre of operations is necessary to survive let alone to thrive. In a nutshell, we have to understand the market even though every market is in a state of change. The level of complexity and turbulence that needs to be understood and managed will depend upon the chosen market and the current phase of its life cycle.

### Market Penetration or Diversification?

How do we create a strong strategy, one that correlates with success? Before addressing this question we should challenge a common view, namely that diversification offers a greater chance of success than operating in what is often described as a mature or a declining mail market. Unfortunately, experience shows that diversification that takes a business outside its core capabilities and market is very likely to fail. Yet, time and time again, we see valuable management time and sector investment going into high-risk projects which do little more than confuse the customers it wants to serve. Additionally, undertaking such projects without evidence of strong future free cash flows generated by the core business will be challenging. Therefore another key question for any business concerns the set of resource allocation decisions about which customers it wants to serve and which offers it wants to make to them.

After thirty-five years of working on many successful initiatives in the international postal sector it should come as no surprise to hear me say that a fundamental

rethink must start at the top. It requires leadership with a persistent focus on gaining market insight, setting relevant objectives for the business, and addressing strategic marketing questions such as:

- Where are our future markets?
- What will we be selling?
- Why will we be successful – what strategic competences do we need to build?

Such questions nest within a business's generic and growth strategies, for example its strategies to achieve operational excellence and its strategies for new product or market development respectively.

### Reading the Market

In my experience there are no killer solutions or silver bullets, and different success strategies are always possible. Strategic planning requires a dedicated, determined and joined-up approach. Success comes from achieving a balanced mix of objectives, specific to the organisation, in a manner that allows the business to learn and thrive. Market insight, at the centre of successful strategy, need not be a million miles away from the traditional business – the post, mail, express and parcels.

The post is about connecting customers who are in, or wish to have, a mutual relationship. Such relationships can be based on assistance, support, cooperation, transaction or interaction. The value resides in enabling the relationship itself. Market insight may identify lasting opportunities or chances that will pass quickly. Look upon insight as a key to unlock an opportunity in the business or market. It is about orienting a business to its market. It is fundamentally important to understand that such insight is largely about orientating our offer to customer needs. Re-engineering a business model can be a strong strategy, or incremental product or service development can form the basis of a business's growth plans.

A fundamental rethink requires a longer-term, innovative approach. Before considering factors that can be influenced, in developing or reviewing their strategy senior managers need to have an understanding of how remote factors can impact on the business going forward, even though they can have little or no influence over these. The basic remote factors can be categorised as



political, economic, social, technological, legal and environmental. Examples might include:

- The postal operator being corporatized;
- The impact of increasing economic volatility and increasing distribution costs;
- The shift from the sixties generation to generations X and Y;
- The value to customers of internet and mobile technology;
- The pan-out of deregulation and attitudes towards high carbon footprints.

So what are the implications on a business of a particular development within these remote fields of influence? The important points are: firstly, to highlight the most significant remote factors that can influence the ability of a business to thrive and which therefore warrant consideration and the most attention in developing a strong strategy; and secondly, to monitor developments and to adapt. Taking a ten-year view, although the search for climate-neutral solutions is important, deregulation and technology developments probably are the most significant change drivers for the postal sector.

What is it about strategy that correlates to success? Before looking at an example of a case where leadership and strong strategic execution is evident, please accept a word of caution. Success comes from balanced planning that is *specific* to the organisation. Now, Jean-Paul Bailly, Chairman and CEO of La Poste in France, has always impressed me with his clarity and conviction. La Poste's stated strategy includes:

- Objective: to remain profitable even if mail volumes should decline by 30% by 2015
- Generic strategy: innovative and responsible operational excellence built on a foundation of trust, keeping margin without compromising quality (cutting costs, not value)
- Growth strategy: developing a balanced business portfolio, new products and building on a solid future for parcels. Expansion around the core; end-to-end solutions given that at least one part of the delivery process is materialised.

To achieve the programme of modernisation implied by such bold plans needs additional capitalisation and the transformation of La Poste into a commercial entity – and that requires good leadership.

A big challenge all postal operators face in modernising includes managing the social impact of change and achieving something important and new for customers. Indeed, modernisation which has the goal of just doing things better, rather than doing different things which are appreciated by customers, will ultimately fail. So understanding the influence of remote factors guides the longer-term direction, whereas 'central' factors provide the available space around which the business can adapt.

### Customer Segmentation and Focus Strategies

The four central factors, components which are at the heart of a business, are customers, competitors, channels and suppliers. All of these will naturally have implications for the marketing strategy. The twenty-first century is becoming ever more complex. Business processes are digital, business cycles are speeding up, interconnections are increasing, and we all need ways to simplify our life. We need things to work efficiently, to be easy and convenient, and to give us some advantage and good value.

The complication, however, is that generally we as customers do not know what would be great until we see it. Another complication is that not everyone is looking for the same thing. This can be quite disconcerting for an organisation that has always worked on the basis of everyone accepting a standardised product and service offering, where there has been little need or motivation for the organisation to learn from the customer. In addition there are now direct competitors who segment their target market and bring new business models and new offers to the marketplace. Consequently the combined implications of changes in customer needs, sales channels, competition, the environment, and what constitutes good customer value means that business is becoming more complex and turbulent.

With growing competition, market segmentation and more tailored offers which satisfy customer needs have become increasingly important. In fact, if you are serious about putting customers at the centre of operations, astute market segmentation is the key to everything. It is about improving the effectiveness of the business. Everything starts and ends with the market. Markets are about customers, and not all customers want the same thing, particularly when given the choice. So, in a nutshell, the 'mass market' ideal is now dead!

There are different ways to segment the market by identifying recognised customer groups or profiles. Usage and behaviour are perhaps the most common approaches to market segmentation which I have found in the postal sector. However, in the

future more attention should be given to context-driven marketing – establishing a more emotional connection with the consumer where customers choose an offer because it reinforces their own sense of identity as an individual or business.

I recently attended a technology forum for marketing and advertising in London, and was impressed with the vibrancy of the show and how the electronic media industry is developing the tools and know-how to build stronger relationships with customers. For example, the use of personalised URLs (PURLs) unique to each customer allows personalised website landings (text and images) and improved campaign analysis and control. Also, new levels of marketing analytics can be achieved since everything in e-marketing can be measured and acted upon – success metrics. There are new developments in conversion marketing. Cost-effective analytic and intelligence reporting tools can test and help optimise the performance and effectiveness of a website. There is growing indirect competition, and there are also many good things which we can learn and emulate using our expertise, and the unique attributes of the mail service, to personalise customer relationships.

### Channel Strategies

Channel factors refer to ways in which to deliver the offer. Channels include the methods used for promotion, purchasing and physical distribution. New business methods can have profound impacts on the ways to serve customers and achieve cost flexibility. Clearly, the postal sector is making more and better use of the Internet, which is often considered as the lowest-cost channel. However, we need to be a little more innovative in considering the different market segments.

News media businesses are successfully turning to new 'share-in-benefits models with advertising'. In the postal sector, considerable attention is given to big volume mailers, business-critical direct marketing or transaction mailers. Here are two examples of channel development.

The first is with Allan Robinson, Group Manager, Letters and his team at Australia Post, in re-orientating the sales team towards developing new business. Local authorities commonly face problems communicating with residents in an effective way. Problems include bringing together the relevant editorial content, business input, design, processing, distribution and cost control. Australia Post provided the solution from project management, database address services, design, print and quarterly distribution, all within a carbon-neutral scheme. Success has opened the door to a big new market. The important point here is in managing the sales

channel to develop new business, to have the right customer relationships and to have conversations designed to identify business problems and to deliver effective postal solutions.

The second example is about exploiting computer technology to create a completely new business model for the controlled acceptance, payment and distribution of the top 50% of mail. It started with the objective of achieving the seamless end-to-end management of mail within a total quality program, Cap Qualité Courrier (CQC), at La Poste in France.

La Poste decided to work with expert partners to access technology that could achieve the required improvement in quality for big mailers, to generate cost savings, and to provide a return on investment, through an effective work-sharing programme. The result was a transformation in the top segment of the market that will continue to improve, where mail campaigns are processed according to established rules, using automated processes, data-quality-driven mail production, palletised mail, bar-coding and scanning, and audit controls to achieve optimised efficiency. Real-time and optimised routing of batches of mail direct to delivery offices achieved new levels of efficiency. New services included simplified tracking, performance reporting and day-specific delivery.

During subsequent conversations with Operations Directors of some of the biggest mail factories in France it was interesting to note that some of the main advantages cited were about the internal benefits that the programme achieved, including the improved visibility and control over the mail factory production processes (solving business problems even when customers generally do not know what would be great until they see it). Customers were very satisfied, and liked the improved end-to-end customer service and reporting. The project was different since it really put customers at the centre of operations, with expert support, turnkey solutions, valued benefits and ROI. Clearly, new business models like CQC need to be considered before major investment is made in just doing the same things better. The outbound sort capacity and inbound requirements changed significantly as a result of the programme. So everything significant must be recognised and understood.

These examples illustrate well the advantage of supplier relations in creating customer loyalty, providing specialised resources, solutions and new capabilities. Traditionally, for many reasons, it has been difficult for a public institution to embrace open partnerships. It has not been in its culture and will take time to change. Nevertheless, I have experienced many successes once partners share a

common interest, contributing complementary capabilities and achieving together the 'one-aim-one-team' strategic objective.

### Change and Organisational Rigidities

We can see that complications arise as all business factors combine to create the dynamic forces of change. Commonly, crises are encountered at each stage in a journey of transformation – it takes dedication, determination and time. However, it is important that any strategic plan can synchronise with the business process. Many large and established organisations have become very structured, specialised and efficient, but also inward looking and probably less agile and reactive to market changes. 'Established' often means managers charged to administer standardised processes and consequently not used to change. In addition, structures and specialisation create silos with inherent barriers to good communication. Often safeguarding efficiency leads to becoming risk averse.

So what can be done? It needs a leader who has the skills carefully to confront conventional wisdom and to work out what needs to be done. What can be changed with the minimum disruption but with maximum impact? Ideally the organisation should assign a senior manager with the capability and power base to lead each new cross-functional programme. There may be several major projects working at any one time and quick wins might help convince people of the merits of a new way.

Programmes can be phased and tested along the way and a high-level planning chart can be used to show how each program fits into the grand scheme of things, which will improve communications. We need to convince the implementers, so communication, culture and motivation come into play and one will be dominant. Remember, change usually takes longer than one imagines, the outcome is not exactly as anticipated, and there will be unforeseen spin-offs – so patience, focus and timing are everything.

Key success factors, especially for the postal sector, are quality, including security, performance and customer experience. For the postal sector to stay relevant and valued each must improve and grow according to the changes in the market. Mail has unique attributes; however, its offer must realign with a market where businesses all have digital processes and in which professional mailers need the services and tools to achieve continued improvement, visibility and control.

### Creating Value

So, if customers do not know what would be great until they see it, how can businesses develop their offers and thus sustain and thrive? We know that customers seek value from the product and service as well as value from the experience. So customers see value for themselves and then the value of themselves in the offer. The stronger the match that the offer has to their multi-layered needs, the stronger the customer preference. In terms of product benefits we should consider whether the offer really works for a customer. Does it make life easier, does it solve a problem, or does it build or improve the relationship between business and its customers? Is it really easy to access or use the service, or to find the support that the customer needs? Does it help the customer's business stand out in some distinct way? Does it offer some synergistic benefit, such as more visibility and control over the customer's business process? Is the price affordable for a business and does it offer good value for money?

In terms of the value of the experience, are there benefits that will improve a customer's personal effectiveness? Can the offer bring some emotional or status benefits? For example, can improving business results help a manager achieve recognition either inside or outside the company?

Another quite different example was that of an advertising campaign to address 'why use mail?' made by Allan Robinson and his team at Australia Post. They took a beautiful picture of a young man embracing a young lady through a large personalised letter, with the sound bite 'If you really want to touch someone, send them a letter', which had a phenomenal emotional impact. So much so that Australia Post was encouraged to expand its campaign and introduce a successful range of franchises based on the picture.

Pricing is a key mechanism with which to persuade customers to use more appropriate ways to benefit from the mail. It can also be an answer to address those businesses that are more price-sensitive and less engaged with the medium of mail. Many current tariff structures were designed when private or consumer mail was far more significant, and social rather than commercial responsibility was paramount in the charter of national Post Offices. There are many ways to tailor price and product offerings to satisfy each market's needs. Product brands can be developed in innovative ways and prices can be cost geared, if necessary, with service and benefit differentiation. Future pricing policy may better focus on cost levers, such as the level of service integration, control and reporting, rather than placing too much emphasis on consignment volume. Preferred pricing should be

coupled more with informed service branding, such as Business Connect, Business Direct and Business First.

Strong marketing strategies focus on relevant and viable segments, tailored, unique and future-orientated solutions, and are aligned with business strengths. It seems to me that national postal services have unique strengths on which to base their marketing effort. The national network and universal service are basically connecting anything, anytime, anywhere, so becoming a convenient and normal business process. That should mean there is little need for a business to think or decide about it. It is also the service trusted by the people, where secure, reliable and responsible service is expected and appreciated. There is no other national service that has so much local knowledge and contact with everyone. These unique strengths are simply a marketer's dream! However, it would be a great mistake to think that market needs are static; we know that the only static thing in life is change! Turbulent times arise from imbalances between forces in the market place, which can in turn become opportunities if we can acquire the right customer insight necessary to succeed.

### Market Insight

Insight is knowledge of customer needs that fits the scope of the organisation's strengths. Insight is gained by acquiring new information about unmet needs through various sources and testing. Data can be obtained through scanning information about developments and preferences, as well as from conversations with customers and market-informed people. Every business must develop superior scanning capabilities in times of change. Information is organised and synthesised into knowledge, and some will be real insight. Knowing that big mailers highly value ways to improve the visibility and control of their own internal mail-production processes is a useful customer insight. Knowing that they will respond favourably to services which help them differentiate their own business – such as preferred access to day-specific delivery, delivery performance reporting and digital feedback on address accuracy – is also an example of a valuable insight. Insight needs to add value, is somewhat exclusive and difficult to copy, and can be exploited by being organisationally aligned, even if innovation or collaboration is necessary. Business is about customers and their needs rather than about products and services. Through insight we can determine what to do to be more successful, to change something that is valuable to either the customer or the business.

Market insights can be narrow facts as well as broad views about the way the market is moving. Insights can complement or diverge from established thinking, and consequently can strengthen existing strategy or significantly change the approach and offer made. Moves to shared cost/benefits and pay-as-you-go models are examples of new ways to serve better the needs of customers. These are based on the philosophy of 'pay for success, not failure', and the supplier brings his expertise to ensure success and profitability.

Imagine a postal operator in partnership with a business client providing selected and tailored direct-marketing campaigns based on a share in the new business generated. Imagine a postal operator working with big mailers to implement an end-to-end computer-based mailing solution where the ROI for both is derived from a fixed-period service contract. Strong business strategies, whether generic, or growth- or marketing-orientated, can form the context and illustrate the value of insight. Remember that insight is largely about matching the offer to customer needs. This is fundamentally important and requires good execution.

Execution requires an action plan guided by the market insight that a business has acquired. To manage risk requires testing, a sort of reality check, and anticipating the likely barriers to be surmounted. A new value proposition involves inventing and developing, operations and logistics and customer acceptance. Effective design of a new offer must consider the needs of customers, not just in an obvious and functional way but also in higher personal and emotional ways. Traditionally, the postal sector has concentrated more on the functional benefits rather than the emotional values, the value of the experience. Postal businesses must now become strong marketers rather than be overly focused on process management. Capitalising on market insight which involves heavy investment and risk requires sound due diligence.

There is considerable new investment going into the postal sector for modernisation. Without good market insight and new customer benefits, the risk is that if only cost savings are targeted then they will be short lived. Process excellence on its own will not be enough. The postal sector is being subjected to more complexity and turbulence than at any time in its history. A fundamental rethink is required to lay the foundations for the future. Things cannot continue as before, and sitting back in hope is not the way. In future, to succeed there must be a fit with the complexity and turbulence of the market. The customer must be put at the centre of future operations supported by insight and a strong marketing strategy which differentiates positively with decision makers, one that redefines the mail

process (modern/streamlined), improves quality of service (tailored/guaranteed) and matches customer needs (valued/forward looking).

### Seize the Opportunity to be Different

Mediocrity is no longer a safe bet. Positive differentiation is more influential than cost advantage in creating value. So can we discover positive postal differentiation in an Internet age? A clear message is that we must capitalise on market insight. The success of La Poste's CQC program for the top 200 mailers in France is one example. It delivered a new customer experience, the end-to-end service is difficult to copy, and it anticipated the benefits of new developments, such as RFID. The complete and integrated package from Australia Post for informing customers of local authority's news carries another message, as does the emotional success of informing the nation why the touch of a letter is different. These are among just a few of the positive examples from leading postal organisations, and probably represent just the tip of the iceberg of great ideas that can help the sector to sustain and thrive. There are so many new opportunities and undeveloped areas of interest, such as the call to increase the network bandwidth – just listen to these few customers:

- 'The most important thing is to grow my business and that will require new relationships. More and more I am interested in collaboration that shares the gain with the pain'. (CEO) – *Opportunity for new business models*
- 'Performance feedback would help with the CRM closed-loop process as well as data quality auditing. It would also be helpful to receive "no longer at this address" reports electronically'. (Marketing Director) – *Opportunity for new services and branding*
- 'Improved visibility and reports plus day-specific delivery would certainly help us differentiate our service. Yes we would like to be involved and it could influence our choice of delivery company'. (Managing Director, Major UK Direct Mail Company) – *Opportunity to sustain and grow the business plus win-back*
- 'Customers respond to good deals, they like vouchers that they can use in the shops'. (DMA Representative) – *Opportunity to grow DM*
- 'We are receiving requests to integrate a digital response with an innovative direct mail piece, which bridges the brand across the gap between the physical and digital worlds, and we are generating breakthrough response

rates'. (Director, Specialist marketing Company) – uses a unique web-key and 2D barcodes accessed via the mobile Internet – *Opportunity for new partnerships to grow DM*

- 'We operate across a number of sites and we have to reduce costs in line with the anticipated cuts in government spending. We are looking at consolidating our activities but the impact on local control and engagement is a real concern'. (Operations Manager) – *Opportunity to simplify using global data streams with local mail streams*

...and the list of customer requests/problems/needs goes on and on.

There are no silver bullets. Success comes from achieving a balanced mix of objectives, specific to the organisation, in a manner that allows the business to learn and thrive. Before acting on market insight, an appropriate level of reality checking is required. Successful companies learn from the outcome of their strategy. The only thing that gets in the way of successful change is communication, culture or self interest.

## SECTION 2

### What Next for Postal Strategy?

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## CHAPTER 17

### What Next for Postal Strategy?

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Derek Osborn

WhatNext4U

Dr. Kristian J. Sund

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As you have probably observed while reading this book, this has not been a comprehensive study of all the possible strategies available to, or currently adopted by, players in the global postal industry. Neither has every possible strategic perspective on the sector been covered. We wanted to document some of the diversity of strategies found among industry players, the diversity of perspectives found among experts in the field, and portray a positive image of opportunity and change for the better. Our intention was not for this volume to be a definitive recipe or list of strategies, but rather an exploration of some of the various issues and perspectives linked to strategy in this industry.

#### Some Conclusions so Far

From the contributions in the first section we can see that liberalisation in Europe has not necessarily increased effective competition yet. However, it has had a positive impact on most of the players in the sector, as a catalyst for transformation, encouraging better service and efficiency and greater customer focus.

The three contributions on strategic options emphasise the vital need for postal businesses to be clear about their strategy and vision, and also highlight what it takes to be a high-performing post with the right kind of ambition to be successful, and driving a positive mindset throughout the organisation. From the array of

strategic choices described, particularly those around diversification, it is possible not just to learn some lessons from recent experiences, but also to conclude that organisations should not be afraid of doing something different. In fact, we recognise that the need for exploration, differentiation and change is a constant theme in this book. It is argued that, when it comes to steering the ship through turbulence in 'a perfect storm', making a careful opportunity assessment, with the right critical success factors, can help to set your route.

The case study from Cycleon is an excellent illustration of one opportunity to challenge the status quo – to enter and develop a niche market. This has been exploited very successfully. What other opportunities are there like this for those who can spot them?

In the ever expanding and pervasive digital world, postal companies can either decide to retreat and bemoan substitution or they can embrace the new opportunities of convergence between the physical and digital media, and explore the new territory that this opens up. At least three such opportunities are discussed in this book. The first is to look at security in the digital world as an opportunity to leverage the trust which is placed in the post. Secondly, operators can realise some of the wide range of benefits from integrating different forms of hybrid mail into their product offering, particularly in relation to delivery. A third option is to seize on the opportunity to drive service improvement and innovation in home delivery for the e-retailing sector.

One area that continues to be promising, even with diminishing mail volumes overall, is that of serving mailers in a much more intelligent, customer-friendly and partnership-oriented way. Postal operators are in a unique position to understand and segment households, and this can be turned into a business opportunity. What advertiser would not pay a premium to be able to target specific customers more accurately? The ability of operators, through the use of accurate channel-differentiated cost accounting, to offer tailored solutions, complemented by work sharing and appropriate discounts, is a recognised way of growing revenues and profits. Operators need to view both mailers and SMEs as partners, and need to find ways of reducing costs whilst adding value to the mailer.

As the conditions surrounding the industry have changed, and continue changing, so too are the industry players forced to change. Innovation is increasingly pervasive and is now focussing not just on process optimisation but on finding new ways of engaging the customer, and even changing business models. In this book some of the keys to successful innovation have been identified and discussed, and

much of the discussion comes back to change management, a real challenge for large organisations such as traditional postal operators.

As the many contributions in this book may have suggested to you, the reader, it becomes increasingly clear that there are no right or wrong strategies per se in the modern postal sector. Different organisations have pursued different opportunities, many with a lot of success. Some have stayed within their core business, whilst others have ventured into new areas. Implementation is often what makes the essential difference. What is clear too is that the postal brand remains unique and can act as a powerful facilitator of diversification and differentiation. However, the window of opportunity may not remain open for very long.

### Where to Next as an Organisation?

In concluding this volume we would like to suggest that the people in posts are potentially one of their strongest strategic assets, even though sometimes they may appear to be their Achilles' heel. In implementing strategy, the successful enterprise needs to master the people issues and find out how to take their people along with them into the new competitive environment, where delivering value and service will determine who survives and which jobs continue to be viable. To be successful in a sustainable way it will be essential to recognise that good business is all about people and building relationships, and what some call social capital. Postal businesses will need to be able to retain and share corporate knowledge, grow capability and talent, and gain the commitment and motivation of all employees.

Implementing strategic changes of the type discussed throughout these chapters is possible only if organisations develop a particular set of capabilities, of the type some strategists label as 'dynamic capabilities'. Capabilities in general refer to the particular resources found in a firm, including knowledge, and the ability to combine these resources for a purpose. Dynamic capabilities are systems of collective activity that lead to gradual change, whereby the organisation constantly adapts itself to changes in the environment and improves its effectiveness. Dynamic capabilities are therefore the ability constantly to change in a somewhat controlled fashion. This is not to say that change cannot take place in a more ad-hoc way, such as in direct response to external imperatives. If a company is on the verge of bankruptcy, for instance, change will take place regardless of whether that company has the capabilities for it or not<sup>1</sup>. Change can happen out of immediate necessity,

<sup>1</sup> For a discussion of this see Winter, S. (2003) 'Understanding Dynamic Capabilities', *Strategic Management Journal*, vol. 24, p.991–5



but postal organisations have to aim for planned transformational change, enacted through particular dynamic capabilities. Such capabilities themselves, and indeed in general the resources and knowledge critical to the success of postal operators, could easily be the subject of another book.

If the posts are to be the masters of their future, another strategic imperative which it will be essential for them to embrace fully is innovation in every aspect of business. From reinventing their old business model, or indeed embracing entirely new business models alongside the more traditional one, to refreshing the public image and finding new and imaginative ways of engaging customers, posts are in a very good position to make a success of innovation. To do this requires looking at how to do things differently (often just more simply) and how to use a diversity of skills and experience – as well as being able to differentiate the organisation in changing market conditions, with new, different and interesting products and services. In this context recognising the link between strategy and innovation is vital. Innovation can be a powerful engine in delivering a dynamic competitive strategy. If an organisation's aim is to differentiate itself through service, for instance, being innovative in service provision is essential if you want to stay ahead of competitors. If an organisation wants to be a cost leader, it needs to find innovative ways of reducing costs and increasing productivity.

At the root of this lies the strategic opportunity to develop and embed an organisational culture of innovation and customer orientation which, for most posts, still represents a quite distant target, but one for which it is well worth aiming. The question is how to go about it. Some of the answers can be found in the contributions in this book, such as through partnering. However, much remains to be done and said in this domain.

### What about the Wider Context?

There is no doubt that strategy needs to be seen in the wider societal and economic context. For example, there is the whole environmental agenda. Part of this involves the common perception, some might say myth, that paper usage is bad for the environment whilst digital exchange is good. It has been argued that paper, which is renewable and recyclable, is in fact better for our environment than digital, internet-based communications that are largely dependent on non-renewable-energy use, and lead to potentially more damaging emissions. That digital is 'free' whereas mail or hard copy comes at a cost is also a misperception which is obviously not true. Arguably the sector's bigger environmental impact,

in terms of fuel consumption and emissions, is in transport and logistics – so how important are the green initiatives here for the industry and for the planet? Pressure is mounting to find ways of limiting greenhouse-gas emissions and there is no doubt that this will have to be on the agenda of all posts around the world in the decade to come.

Another aspect that, in our opinion, could have been covered even more thoroughly in this book is that of the strategic value of addressing and the precise location of people and households. The postal industry is a pervasive one, with significance for economies, governments and businesses, and with a unique position that enables it potentially to touch every household daily and also to retain strategic knowledge of physical addresses. These address codes are used widely by a variety of businesses and government agencies as geographical locators. If the link to electronic addressing is made then the strategic space still available is very significant. Delivery customer resistance that has arisen from years of saturation with untargeted direct mail and, in some parts, unaddressed mail presents the industry with the need to win back customer confidence before losing them altogether. Postal operators and senders have also come quite late to the issue of cleaning up address lists and the accuracy of data – another factor which, if not tackled, causes frustration, waste and needless cost to all concerned. These do provide real strategic opportunities if posts take quick action and retain their position as a trusted brand.

Then there is the whole area of financial services and international money transfer – potentially a big strategic market opportunity for the postal industry that is recognised by some but ignored by others. What are the issues involved in this particular debate? Traditionally, the post offices embraced a whole range of financial services at the counters but these are all changing, and this begs the question of which markets *are* appropriate for the posts to be in? The even bigger question then becomes the one about strategic boundaries, how to define the industry or the sector. Where are the boundaries with banks, logistics, transport, courier and express?

Finally, we are already starting to see some geographical consolidation with the formation of Posten Norden comprising a merger between the incumbents from Sweden and Denmark. Is this the beginning of a trend? Will we see a new phase of major mergers and acquisitions in the global postal industry in the years to come?

### An Invitation to Explore

In many ways this book provides a series of discussions rather than a statement. To emphasise this we have provided in the following pages summaries of each chapter together with questions for thought and discussion. We also provide a final section containing an overview, or refresher, of strategy terminology and concepts.

There are, as mentioned, a host of strategic issues and options that have *not* been covered by this book, and this invites us all to continue exploring. We sincerely hope that you have enjoyed reading this book and debating the issues raised, the strategic options open, and the opportunities identified. Maybe you are in a position to affect the strategic planning of your own organisation, or to input into the discussion in other ways.

We hope that this book will sow seeds for this discussion, and that you may even consider keeping us informed about the ideas and outcomes with which you are engaged. Perhaps you can lead us in directions we had not yet thought of! With this book we set out to begin an exploration into postal strategy and we hope you will join us.

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## CHAPTER 18

### Summaries and Issues for Debate

#### Chapter 2

#### The Economic Impact of EU Postal Liberalisation

Antonia Niederprüm and Alex Dieke, *WIK-Consult*

#### Summary

The authors conclude that despite the fact that we stand on the verge of the complete liberalisation of the European postal market, progress towards effective competition in mail markets has been very limited. Many national operators still have monopoly-like positions in most European mail markets.

The authors also conclude that the process towards liberalisation of the markets has nevertheless fundamentally and successfully affected postal service provision. This includes some significant transformations taking place, with national postal operators becoming more cost-efficient, profitable and customer-oriented. Consumer benefits have included improved accessibility to postal services, tariffs remaining affordable and business customers now benefitting from more choice (between products and, sometimes, operators) and lower tariffs. Also, reliability and end-to-end service times have greatly improved.

They also point to future challenges for all postal operators in the broader communication and advertising market, where mail must meet the needs of senders and recipients to continue to make it an attractive option in the context of growing substitution of physical by electronic mail.

### Questions for Thought and Discussion

1. The authors describe some of the reactions to postal reform by incumbent operators, including modernisation and increased quality of service, in terms of on-time delivery. If all postal operators are investing in similar technology, and aiming for the same level of service, can on-time delivery still be a differentiator between operators? Could it be a differentiator in particular niches? How else can operators differentiate themselves from each other and existing or potential new entrants?
2. The European Union plans to liberalise the majority of the internal postal market in January 2011. Some countries will follow only in January 2013: Czech Republic, Greece, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Poland, Romania and Slovakia. However, as the authors of this chapter point out, some countries have already liberalised. How can incumbents be expected to react to the market liberalisation of January 2011? What are the likely long-term effects on the number of big players in the European letter mail market? Can we expect to see consolidation? Is there any chance of seeing new entrants to the market from beyond Europe? Could some European operators expand into non-European markets in the long term?
3. Liberalisation does not necessarily imply corporatisation, or privatisation. What are the arguments for and against privatisation, given that liberalisation will necessarily take place and some European operators have already been privatised by their home governments?

### Chapter 3

#### Our Changing World – The Need for Strategy and Vision

Susan Barton, *Accenture*

#### Summary

In the challenging and often bewildering context which postal operators now face as the backdrop to their business planning, Susan Barton emphasises the need for postal operators to be clear about their strategy and vision for the future. Based on recent research, she outlines different strategic choices that have been made by postal operators such as those who have opted to be global players, regional diversifiers, service providers or traditionalists.

Susan Barton maintains that, whilst this focus on strategic choice is vital, it is not the only important factor. Other common characteristics of high-performing posts that she identifies are customer centricity, cost focus, digitisation and sustainability.

In addition, she identifies the critical factor of ambition, associated with a mindset to succeed with positive future goals. In this way, postal organisations can generate energy, enthusiasm and commitment amongst their employees – another vital ingredient. She maintains that postal operators are now increasing the pace and scale of their diversification strategies, not just in products and services but also through targeting new markets where core strengths and capabilities can be freshly deployed in new ways in a 'reinvented' postal business.

#### Questions for Thought and Discussion

1. The author maintains that choice of strategy is vital to success. What defines business 'success' in this industry? She then outlines four possible strategic categories: global players, regional diversifiers, service providers and traditionalists. What are the pros and cons for a post opting to position itself in one or other of these and what are the implications for them if they do so?
2. In which category would you place other postal businesses that you know about, that are not mentioned directly in this research? Are there other possible categories not mentioned by the author?
3. In addition to adopting a clear strategy, four other common themes around the business approach of high-performing posts are outlined – to what extent are these factors necessary or sufficient to be a high-performing post?
4. Another theme that is identified is a 'positive mindset', linked with ambition.

This would seem to contrast with the prevailing culture of many current postal businesses which appear to be mired in negative thinking and doom-laden scenarios – how can the shift to a 'positive mindset' be achieved across a large organisation?

## Chapter 4

### Postal Operators at a Crossroads: What are the Strategic Options?

Stefano Gori, *Poste Italiane*

#### Summary

Stefano Gori argues that postal operators are at a crossroads and must make important decisions about what the business of post will be in the future. Such decisions often lead to diversification which he goes on to categorise in four clusters.

Diversification linked directly to postal services and/or moving upstream in the postal supply chain; geographic diversification of core products and services; diversification into other communications mediums and financial services; and finally, mixed strategies.

Gori also explores the scenario in which postal operators diversify so far away from their core that they might not be recognisable anymore as a postal service. In this context he explores unbundling of services and the notion of structural separation, which contains within it some significant challenges.

The author concludes by identifying eight important lessons from recent experiences of diversifying postal operators but also remarking that it is for each post to find its own way – and this may be different again – the road less travelled.

#### Questions for Thought and Discussion

1. Compare and contrast Stefano Gori's categorisation of postal strategic positions with those of Susan Barton's in the previous chapter. What is the usefulness of such categorisations aside from illustrating the diversity of strategies being pursued in the industry?
2. What are some of the advantages and disadvantages to a postal operator of focussing only on the core business of mail? What are some of the advantages and disadvantages of diversification?
3. In the conclusion it is argued that posts can consider diversifying even into mature sectors. Why have some operators been successful in entering into and gaining a presence in business sectors that were already occupied by powerful competitors? In other words, what would be the conditions for this to be a successful diversification strategy?

## Chapter 5

### Diversification to New Revenue Streams: 'A Perfect Storm'

Maxine O'Brien, *KPMG Australia*

#### Summary

Maxine O'Brien examines the significant challenges facing the postal sector – not least declining mail volumes in the core letter business, with the resulting need to reduce costs and increase revenue. She maintains that the answers are not easy and suggests that a short, robust and well-structured approach to opportunity assessment is required in order to determine what kind of strategic diversification decisions are available. This requires both patience and skill and O'Brien identifies a number of pitfalls to watch out for. However, she also argues that there are some critical success factors which can help to make these opportunity assessments successful. These are strong project management, stakeholder buy-in, partnering and accountability.

The author concludes that whilst challenges are numerous for the sector, the opportunities for diversification are endless, and as long as a carefully planned and analytical approach is taken both to opportunity identification and selection, and to subsequent implementation, postal organisations have every chance of succeeding. In a perfect turbulent storm you can go with the flow – but this is scary and unpredictable – or you can set your own route and shape the course you intend to follow which gives you a chance of staying buoyant.

#### Questions for Thought and Discussion

1. The author briefly discusses the use of SWOT analysis when investigating the potential of different diversification options. What area would you consider most critical when evaluating such an option: the related opportunities and threats in terms of the size of the opportunity and existing competitors in that market, or your relative strengths and weaknesses in terms of the resources and capabilities needed to compete in the new business areas? In other words, how important are your existing organisational capabilities in constraining your organisation's ability to pursue opportunities or respond to threats?
2. Stakeholder management, and in particular getting buy-in from key stakeholders, is mentioned as a critical success factor when diversifying. Why and how is this different in the case of a corporatised versus a non-corporatised operator, and between a privatised and non-privatised postal operator?

## Chapter 6

### Challenging the Status Quo: Opportunities for New Entrants in Niche Areas

Ernst Hoestra, *Cycleon*

#### Summary

In the rapidly changing environment in which postal strategies are currently being developed and tested, some new opportunities are opening up for market entrants to challenge the status quo not just by competing with incumbents in their traditional markets with similar products and services, but also by attacking niche areas and adopting quite different business models.

This case study is an example of a very successful company that has emerged in the last five years and grown very rapidly by identifying some specific customer needs in the area of reverse logistics. The author describes how Cycleon began by targeting the niche for cross-border returns management but quickly found linked and related markets that they could tap into with innovative products and services, under-pinned by strong high-quality data flow which is an essential capability for this kind of business.

By concentrating on a service area that had not been given much focus by traditional postal and logistics companies, Cycleon has effectively tapped into a new market which it is now shaping. Some of the keys to their success include an obsession with client value and customer service, an ability to extend their reach through intelligent partnerships and a unique value proposition. They have successfully leveraged national postal networks but also delivered strong value for them, and they are in the forefront of environmental recycling and green initiatives.

In short, this is a very strong growth story in the postal industry that demonstrates all is not gloom and doom. With a good idea and an obsession with providing value, a new market can be opened up and a great deal can be achieved.

#### Questions for Thought and Discussion

1. How have Cycleon changed the traditional postal business model and what have been the keys to their evident success in such a short time?
2. How does the strategy of a niche operator compare with a national postal operator and what do or can they have in common?
3. Would such a strategy have been possible without strategic partnerships, and what does this case demonstrate about the value of such partnerships?

## Chapter 7

## New Digital Business Models: the e-Postal Operator

Beat Friedli, *SwissSign*

## Summary

Beat Friedli argues that postal operators should enter the digital space, leveraging one of their most prized assets – trust. Recognising that the world is now evolving and revolving around new Internet-based technologies, he discusses how postal operators will have to adapt in response to digital delivery and the Internet.

In particular, the author suggests that a new definition or re-invention of the Universal Service Obligation for the last mile must be considered and posts must step up the development of secure and trustworthy solutions to digital delivery. He argues that posts can start to push towards the new game rules and, because of the trust traditionally put in their brands, are in an ideal place to capitalise on these developments. He cites examples from the Finnish Postal Operator, Itella, and Swiss Post.

Once postal operators have realised that they are well placed to position themselves at the core of security products they have to find out how to achieve the strategic position.

His final conclusion is that people in the industry may be imprisoned by their concept of what a postal service is and it is probably time to begin to redefine this concept for the digital world, which will, in turn, impact on all other aspects of the industry, including the regulatory framework.

## Questions for Thought and Discussion

1. The author argues that it may be more cost effective to license digital postal solutions from other operators, rather than try to develop them in-house. What are some possible advantages and disadvantages of this approach?
2. The chapter discusses the need to re-define the concept of Universal Service. Is a more digital approach to Universal Service applicable to all countries and continents? How could this approach be applied in developing or emerging markets?
3. If the new business model discussed in this chapter is implemented, what effects would it have on the traditional side of mail logistics? How will productivity be affected? Is this a problem?

## Chapter 8

## The Re-emergence of Hybrid Mail

Jacob Johnsen, *Hybrid Mail Consultant*

## Summary

The concept of hybrid mail is not a new one. The ideas behind it have been discussed and patchily implemented over the last 20-plus years. However, recent developments in digital media and printing technology have enabled postal operators to find new and cheaper ways to connect their customers in the messaging and communications markets.

In view of these developments, Jacob Johnsen clearly identifies new and potential strategic opportunities available to companies in the postal sector, particularly in the context of converging media and the way in which physical and electronic media can combine in a complimentary way to provide some very flexible and cost-effective solutions for customers.

One such innovation is the area of electronic delivery which starts to transform the concept of delivery for recipients but also for postal operators. The topic is of wider interest to many stakeholders including traditionally big senders of mail such as banks or utilities, but also to governments in the context of e-government.

The author highlights the strategic space available and hence the choices which need to be made by postal operators. They are, he argues, in the best place to exploit the new opportunities. The question is whether they will do so, and if so, how will they integrate these hybrid options with more traditional products and services?

## Questions for Thought and Discussion

1. Does the term 'hybrid mail' simply describe a set of product solutions that have evolved with the arrival of new digital and printing technology or, as the author suggests, does it represent a significant strategic development that is transforming a very traditional business model?
2. Traditionally, postal companies described their market as the 'letter market' or the 'parcel market'. Clearly those descriptions are no longer sustainable, but by stepping into electronic services for input and/or delivery as described in this contribution, what would be an accurate description of the market or markets that postal businesses are now engaged in through expansion or diversification into hybrid mail? Does this, in turn, alter the strategic space in which they operate and the options they should consider?

## Chapter 9

## Home Delivery for e-Retailers: a New Relevance for Postal Services

Andrew Starkey, *Spiral4Solutions*

## Summary

The online retailing sector is growing fast and with an ever-widening customer take up. Clearly this sector is highly dependent on the reliability and quality of home delivery services to continue to support this growth.

Andrew Starkey underlines this point by reference to recent consumer research that demonstrates how the delivery service is an important element of the overall retail offer. In fact, the delivery experience can influence choices for future purchases, making the difference between a repeat purchase and not returning to the same e-retailer.

Consumers are now also becoming more demanding of their delivery services, wanting information up front on cost, quality and service, tracking data for the item and then having a reliable delivery day and time. They are also worried about not being in when the delivery is made and when signatures will be required, which is a particular concern for many households during the day. An important factor for the retailers is the implication for their brand if there is poor delivery service.

The author argues that the strategic challenge for postal services, which provide the majority of delivery capacity for e-retailing, is to recognise the important role they can play in this fast-growing sector and strive to meet the ever more demanding needs of e-retailers and the end consumer. This chapter is an invitation then for operators to be innovative and highly customer focused.

## Questions for Thought and Discussion

1. If home delivery is as important to the e-retail sector as the research, quoted by this author, suggests, and it is a fast-growing sector, then what particular strategic challenges and opportunities need to be addressed by postal operators?
2. What are the strategic options for the postal industry to engage, partner and collaborate with the e-retail sector?
3. What issues does this raise about brand visibility to the end customer, for either retailers or postal operators, and what responses could they make?

## Chapter 10

## Relating to Delivery Customers – a Paradigm Shift for the Industry?

Ingemar Persson

## Summary

Ingemar Persson suggests that the industry should change its orientation towards customers, from the senders to the recipients. The continual drop in mail volumes is largely due to electronic substitution – e-mail rather than snail mail. In the words of the author:

The whole mail industry has been built from the sender's perspective, focusing on the sender and on handling large volumes. The huge infrastructure is built to deal with the sender's needs. To put it rather bluntly, the only time the operators communicate with the recipients, if they ever do so, is to tell them to move their mail box so it will be more convenient for the postman to deliver, or to tell them that the time of their delivery will change (probably to suit the operator). ...

With a large infrastructure, of which a major part represents fixed costs, the challenge is to fill the operational pipeline and the recipients' mailboxes with more volumes. In this scenario, the greater the volumes that are sold to large mailing customers the better.

Ingemar Persson suggests that operators focus less on mass volume per se, and more on understanding the end customer. 'It is about accepting fewer volumes – but to ensure it is the right volumes, from the recipient's view. If it is about the right volumes – out of more sophisticated targeting from the senders and from expressed needs from the recipients – then each mail piece can be more valued from senders and recipients, and more valuable for operators.' The suggestion is thus to develop a customer relationship management approach to segmenting the end customer. In other words, he suggests that operators collect, analyse and store data about households and their preferences, such that businesses can target customers much more precisely with mail campaigns, thereby increasing the value to these businesses of each delivered item.

## Questions for Thought and Discussion

1. Why has the postal industry focused almost exclusively on senders in the past and what are the dangers of focusing only on senders and volumes today?

2. The author strongly suggests that the survival of the industry is dependent on making this paradigm shift to the perspective of the delivery recipient. How significant would this shift be, what would be involved in making the shift happen, how quickly can it take place and what kinds of changes to postal strategies might result from it?
3. There is a strong suggestion in this contribution that the focus on external factors, including liberalisation of the market in Western Europe has been a distraction, when the future of the post is actually in its own hands. Can this way of looking at the current situation transform the gloomy outlook that many in the industry seem to have?
4. How can the various players in the industry collaborate more effectively to consider the recipients and challenge other media, as the author suggests, and become more innovative at the same time?

## Chapter 11

### A Channel Perspective on Postal Strategy

Dr. Tim Walsh, *Pitney Bowes Inc.*

#### Summary

In this analysis of customer payment channels for postal services, Tim Walsh reviews the challenges and dilemmas facing postal operators in view of the USO and other constraints.

He argues that there are some real opportunities for posts to decide how to serve their customers and, once they understand their profitability in specific channels, to develop a structured and strategic approach to channel management, which would include an appropriate mix of payment channels to serve different customer segments. In his words, 'There are signs that a structured approach to channel management is gaining ground within posts. There is an increasing focus on channel costs, and an understanding that profitability per unit of mail differs between channels.'

The author suggests that partnerships are important in getting the most out of various channels, concluding that 'the mindset shift involved is in viewing partners such as mailing houses and meter technology companies, not as potential intermediaries, but as channels to the customer base.'

#### Questions for Thought and Discussion

1. What are some of the reasons why postal businesses seem not to have developed a structured and integrated approach to channel strategy? What are some of the important opportunities available to them if they do?
2. The author discusses revenue leakage and revenue protection as a driver for more control of payment channels – why does it not seem to have been a priority in the past and what are some of the ways this could be achieved?
3. Increasing competition invites postal operators to look for opportunities to innovate and differentiate their product and service offering to the market. How can the focus on customer channels help to facilitate these kinds of developments?



## Chapter 12

## The Evolution of Costing and Pricing: from Regulatory Compliance to Pricing Strategies

Olaf Klargaard, *Pitney Bowes Inc.*

## Summary

Olaf Klargaard explains how the postal industry has existed for a long time without reliable cost data. He argues that in recent years more accurate cost allocation and understanding of underlying cost drivers have become critical to strategic planning, particularly in relation to pricing strategies. For instance, understanding the costs associated with different types of mail allows the operator to quantify accurately savings when work sharing with bulk mailers, thereby ensuring that the correct discounts are offered to such bulk mailers.

As the author notes: 'Since most posts now have a detailed knowledge of costs associated with bulk mail flows, they can propose competitive prices to their customers and remain profitable, while being compliant in terms of regulation.' More recently, many posts have targeted SMEs with the meter channel, as opposed to stamps, providing rebates for such SMEs. This was possible due to the cost savings involved for operators, and often resulted in greater volumes and higher profits.

The author concludes that the importance of cost accounting as a strategic tool is set to continue to grow.

## Questions for Thought and Discussion

1. Why did it take so long for the postal industry to recognise the need to understand their costs more clearly? What were, and still are, some of the real difficulties they face in implementing accurate cost allocation?
2. In a competitive market, good cost information allows businesses to develop innovative commercial pricing policies and understand their margins for profitable activity and in which product and service areas. How much of these decisions should the regulators be attempting to influence or control?
3. To what extent should postal companies develop different pricing policies for segments of their market such as bulk mailers and SMEs, as the author suggests? How far can they go in customising their pricing policies?

## Chapter 13

## Strategic Focus on Business Customer Needs: Partnership for Mutual Advantage

Alice Kijak

## Summary

This contribution focuses on the strategic opportunity that exists for postal operators to work closely alongside their largest bulk-mailing customers to ensure that they integrate their processes as far as possible, understand each other's needs in some depth and work to ensure each other's success – in short, to operate not just as supplier and customer, but as business partners. In the previous chapter Olaf Klargaard offered a clear explanation of some of the benefits to operators of working with both bulk mailers and SMEs. In this chapter, Alice Kijak, who has a wealth of experience from the customer perspective, offers suggestions for postal operators to consider and adapt or adopt, including good practice and the potential dimensions of a productive and enduring partnership.

The author suggests that operators have to be innovative in their approach to mailers, finding ways that mailers can facilitate or even eliminate some of the work of the operator (work sharing) and increase quality, whilst providing the right incentive for mailers actually to do this. Work sharing can range from mailers printing bar codes and addresses according to the operator's specifications, to dropping the mail at a cost-effective location determined by the operator. Value-added services like mail forwarding, payment collection or elaborate marketing and addressing services are a way for operators to raise additional revenue.

## Questions for Thought and Discussion

1. From the postal operator perspective, should all customers be treated in the same way and if not, why should some customers be treated differently?
2. From the mailer perspective, price and quality will always be key criteria to measure your service provider. However, much value can clearly also be gained from good partnership arrangements. How do these come into the price-quality equation?
3. What are the key critical success factors for a strategic partnership between customer and service provider?

## Chapter 14

## How to Create Value by Managing Innovation in Changing Times

Dirk Palder, *Capgemini*

## Summary

In this chapter, Dirk Palder argues that managing innovation is more critical than ever in the postal industry. This innovation can take place on four levels: process innovation, service innovation, product innovation and business-model innovation. The author argues that business-model innovation is probably the least-explored type of innovation within the postal industry, yet may hold a lot of promise. The unique position of posts is that they connect people. Finding new ways of connecting people, including in the digital medium, is the way forward.

In the words of the author:

Going forward, having creativity and products will not be enough. The key will be how postal operators organise their processes from concept to final service, their capability to launch and their capacity to analyse which parts of the value chain they can deliver and which parts they will outsource. In the end we will find new postal operators which are still serving the core market with renovated letter products, but also integrated digital solution based on web 2.0 technologies and experience of the receiver, the final customer.

## Questions for Thought and Discussion

1. This chapter discusses business-model innovation. The notion of business model was very much a buzzword that developed during the Internet boom over a decade ago, and has been linked with strategy ever since. However, a business model is not the same thing as a strategy. The business model tells you how the pieces of a business fit together to deliver a product or service that people want. It tells you how the business intends to make money. A competitive strategy, on the other hand, tells you how the business will be different from its rivals. Without a strategy, a business model will fall flat on its face when it meets competition from rivals. How would you define the business model of your organisation?
2. New business models mostly enter the market place through entrepreneurial start-ups or spin-offs. Why do existing organisations in general often find it difficult to change their business model? What challenges would need to be overcome in order to adapt an existing business model? What type of (corporate) growth strategy would it take for an existing organisation to move into a new business model area?

## Chapter 15

## Innovation Made Easy: Ten Pillars of Successful IT-Enabled Transformation Projects

Michaela Hohlwein and Hans G. Landgraf, *SAP*

## Summary

The transformation and modernisation of postal organisations is usually accompanied by major investments into information technology. In this chapter, the authors share with us their extensive experience of planning and implementing innovative IT-related projects.

The ten pillars are: (1) learning from others and looking beyond the boundaries, (2) identifying the right project sponsor, (3) setting up the project team properly, (4) defining KPIs and objectives, (5) picking the right software partner, (6) picking the right implementation partner, (7) having a feasible plan, (8) designing for growth, (9) considering security, and (10) managing the change process.

From their ten pillars of success, it becomes evident that the right choice of partner, carefully planned project management, and change and stakeholder management largely determine the successful outcome of such projects.

## Questions for Thought

1. What other drivers exist for innovation and IT-enabled transformation projects? Which drivers lead to the most significant change?
2. Can you think of a project in your own organisation where one or more of the authors' ten pillars were not respected? What was the outcome of that project?
3. If you had to add five more pillars of success based on your own experience, what would they be?

## Chapter 16 Thriving in Times of Complexity and Turbulence

Dennis Gilham

### Summary

This final chapter offers some reflections concerning the contextualisation of strategy and some of the many questions that strategic managers of postal organisations must ask. In summarising Dennis Gilham's views, one of the key messages, and a good message with which to conclude this section, is that there are no silver bullets in the game of postal strategy.

From penetration to diversification, from optimisation to segmentation, there are no right or wrong choices per se. There are, however, poorly implemented strategies, or ones that do not adequately respond to market forces.

The author emphasises the need for visionary leadership, the ability to read the market (market insight) and to seize opportunities for differentiation.

### Questions for Thought

1. Dennis Gilham argues that focussing on the postal organisation's core competences may be better than diversifying into new areas. However, are there examples of postal organisations successfully diversifying into seemingly unrelated areas and, if so, what were the main reasons for their success?
2. The author talks about 'insight'. Where in the organisation are insights likely to appear? Who has insights? How can the organisation ensure that insights are shared and acted upon?

## SECTION 3 A Strategy Refresher

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## CHAPTER 19

### An Overview of Strategic Management

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Dr. Kristian J. Sund  
Middlesex University

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*This chapter provides a brief overview of strategy at the corporate and business levels of the firm. It illustrates some of the strategic choices firms have to make about where and how they compete, as well as the options they have available in terms of a growth strategy.*

The area of strategic management has developed rapidly over the last few decades. Originally, strategy played a small part in the general management courses taught at business schools, but today strategic management has become an important field of business study in its own right. As strategy has grown in importance in business schools, so the field has moved gradually away from what one could call the practitioner-oriented business policy and planning perspective, towards much more theoretical areas of study. Having said this, most strategy scholars remain committed to practice and concerned with the over-arching questions of strategy, such as: why are some businesses more successful than others? Why are there large performance differences even between firms competing in the same industry and market? How do businesses build and sustain competitive advantages? The study of these and other questions has led strategy scholars to examine both the outside environments of firms (the industrial organisation perspective), as well as the internal ones (the resource and knowledge based views).

Although summarising several decades' worth of strategic management theory in one short chapter is an almost impossible task, and certainly not my intention here, it is vital to lay down some key definitions and concepts of strategic management, focussing on the strategic options open to firms, before reading the various contributions contained in this book. What follows is therefore an overview of some generic strategic options, in terms of both corporate and business-level strategy, which I hope will help you make the most of this book. Strategy is a fascinating field of study, but also one very much littered with sometimes-incomprehensible jargon. This short chapter will hopefully help you find your way around this jargon and gain the over-all picture necessary to become a truly strategic manager.

### The Importance of Strategic Choices

Separating strategic management from areas such as entrepreneurship and innovation is practically impossible. At the beginning of every firm there was an entrepreneur of some sort, a person (or partnership of persons) willing to take a risk to pursue a perceived business opportunity, and even at the very early stages of firm creation, important strategic choices are made. In fact, some of the most important decisions of strategy need to be in place at the beginning of the firm. These decisions include: *what are we going to produce and how?* and: *who are we going to sell our product or service to and for how much?* Strategy is therefore neither confined to large businesses, nor is it something that appears only in the later stages in the life of a firm. Strategy is there all along, and pervades all firms (including small and medium-sized firms) and all industries. In fact, strategic choices are

made in non-business organisations as well, such as government organisations, NGOs and so forth. All of these have a mission to fulfil and essentially have to make strategic choices.

What are *strategy* and *strategic choice* then? Let's go with a classic definition. According to Alfred Chandler, who published his seminal book on *strategy and structure* in 1962<sup>1</sup>, strategy is 'the determination of the basic long-term goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out the goals'. Any decision or choice that changes the long-term objectives of the firm in any way can thus be claimed to be strategic in nature. You will find when reading the various contributions in this book that many of the ideas and options discussed do in fact define and change the long-term objectives of the firms in question, making the contributions in this book truly strategic in nature. It's probably important to emphasise at this stage that although strategic decisions are made on a regular basis in any firm, these decisions, and the actual strategy, may not be the result of deliberate planning. Thus, in particular in the case of smaller firms, strategy often takes on a more emergent form. The strategy is formed over time and adapted in an ad hoc fashion, often without any formal planning, evaluation or review. Owners and managers may even have some difficulty explaining clearly what their strategy is. It would be wrong, though, to assume that in such firms there is no strategy at all – the strategy is just not formalised.

The notion of strategic choices emphasises an important fact of life for business leaders: Every firm faces trade-offs. If you choose to move your business in one direction, you are likely to cut off other possible alternatives. Firms, just like consumers, have to deal with opportunity costs. If a postal organisation decides to diversify into a new business area, this diversification comes at a cost. The cost is that the organisation may not have the ability to pursue other opportunities. It becomes clear then that strategic decisions ought to be made with care. It also becomes clear that such decisions often imply a certain lock-in. Decisions requiring important investments or changes to the way you do business (your capabilities) are difficult to undo. Interestingly, studies show that having a clear strategy – regardless of what that strategy is – is better than having no strategy at all. Firms constantly changing direction, or trying to be too many things at once, typically end up stuck in the middle, with no clear value proposition to their customers.

<sup>1</sup> Chandler, A. D. (1962) *Strategy and structure: chapters in the history of the industrial enterprise*, Cambridge: M.I.T. Press

What are the key strategic choices then? Well, we could simplify and say there are two big types of strategic choices: The corporate-level strategic choices of what do we produce, how, and for what markets, and the business-level choices of how do we compete in the market place.

### Strategy at the Corporate Level

Corporate strategy deals with some of the key long-term questions facing any organisation. Should the organisation focus on its core business, or branch out into new areas of activity? What areas of activity are the most promising for the future, and what areas hold little promise and could be divested? In the case of multi-business firms, how does the corporation add value to its various business units? What opportunities exist for expansion abroad? How can the firm grow – through mergers, acquisitions, or franchising perhaps? All of these questions are strategic in that they affect and even define the long-term objectives of the firm, and they are corporate in that the related decisions are made at the highest level of management.

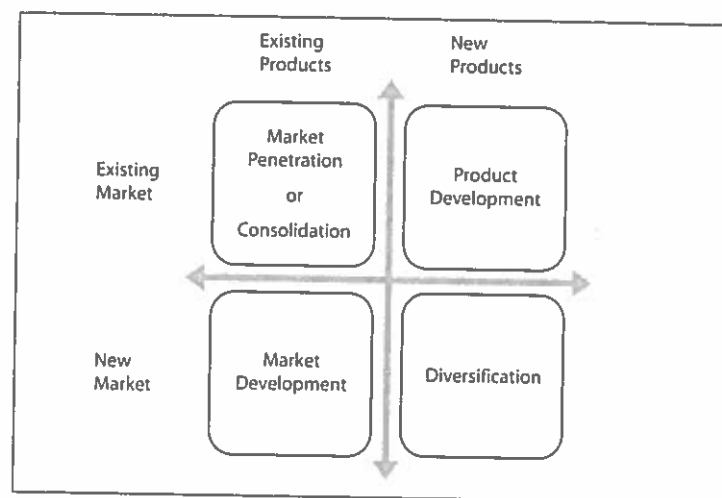
One of the assumptions of corporate strategy is that firms aim not just to survive and be profitable, but actually to grow. Growth strategies, whilst not always evident in smaller businesses, usually capture a great deal of top management's attention in most medium and large businesses, given that investors expect a growing return on their investment, and that such growth drives up the stock price. Igor Ansoff's very simple product-market growth matrix (also known as the *Ansoff Matrix*), published in *Harvard Business Review* in 1957, and later in his 1965 book<sup>2</sup>, *Corporate Strategy*, gives an idea of the generic choices available to firms that want to grow.

When the objective of a firm or business unit is to grow by aggressively increasing its market share in an existing market, with its existing product or service offering, the strategy is one of market penetration. This can be achieved through competitive moves, such as changes to pricing, by investment, for example in new sales outlets, or even through acquisitions or mergers. This type of strategy can face constraints though, in terms of legal or regulatory constraints, but also in terms of competitor retaliation. Growing your market share by initiating a price war, for instance, can ultimately backfire due to retaliation and decreased margins. Alternatively, the firm may choose to consolidate its position, by defensively protecting its market share. This may occur when the firm wishes eventually to downsize or divest over the

2 Ansoff, H. I. (1965) *Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion*, New York: McGraw-Hill

longer term. Another possibility is to expand, either by entering new markets with existing products or services, or by launching new products or services altogether. The development of new markets for existing products can target new segments, new users or even new geographies. Product development, on the other hand, usually focuses on existing customers or markets, and tends to involve some degree of innovation. Product development is often costly, in that it may involve mastering new technologies and making large investments, with no guarantee of success.

Figure 1 Product-Market Growth Matrix<sup>3</sup>

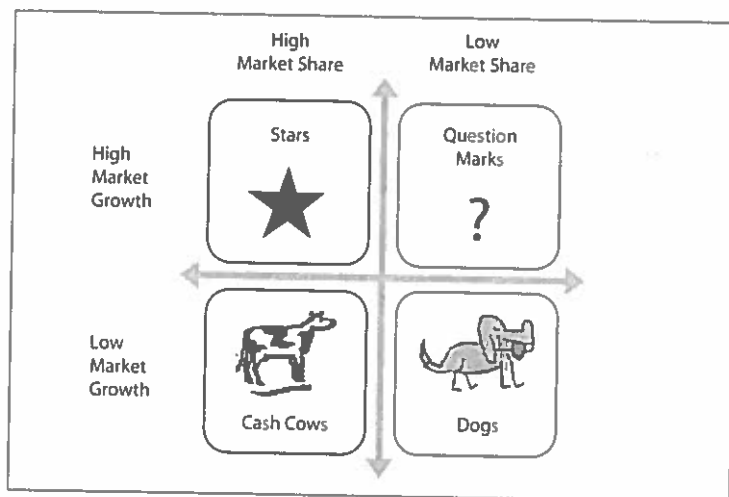


Diversification is a word commonly used to describe a variety of different situations where a firm ventures into new areas, but the strictest definition is a strategy that takes the firm away from both its existing market and its existing product or service offering. Thus, diversification can involve radical changes for a firm, including having to develop new technologies and new capabilities, and find new customers. The reasons for diversifying a business can be many, including the wish to explore synergies with existing business areas, to look for economies of scale or scope, to respond to market decline (i.e. look for future growth areas), to spread risk, or even to apply specific corporate capabilities, such as general (portfolio) management or financial management skills, to a wider set of businesses.

3 Based on Ansoff, 1965, op. cit.

Diversification can either be related or un-related. Related diversification moves the firm away from existing products and markets, but keeps it within its industry, its general area of capabilities or related industries. Vertical integration, either forward or backward, is an example of related diversification where the firm looks for opportunities to move into areas related to its inputs, for instance by entering the market of a supplier, or its outputs, for instance by diversifying into its distribution channels. Horizontal integration, on the other hand, moves the firm into areas complementary to present activities. This could be complementary products or services, or it could be its direct rivals, in which case the aim is not so much diversification as market penetration.

Figure 2. Growth/Share Matrix



Un-related diversification does not necessarily follow as clear a logic as related diversification. This type of diversification is seen in major conglomerates, such as General Electric, Hutchison Whampoa Limited or Samsung. Such conglomerates of largely un-related businesses appear to follow an entrepreneurial goal of making good investments. Typically these conglomerates will both buy and sell individual businesses if the price and profit potential is right. The advantage to investors of un-related diversification is that risk is spread across multiple businesses in multiple industries.

A popular way of classifying business units in diversified firms is the growth share matrix<sup>4</sup>, which categorises business units or product lines according to relative market share and the market growth rate. Business units enjoying a high relative market share in high growth markets are considered stars, with a good potential for profits. The investment needs tend to be high though. Boston Consulting Group suggests using high market share but low market growth business units (the cash cows) to generate cash for investment in stars and question marks, which are areas of high growth but low market share. Dogs are business units where there is no market growth and market share is low. The recommendation would typically be to divest or close such business units.

Whilst the BCG matrix has been widely cited and is taught in most strategic management courses in business schools around the world, its practical use may be somewhat limited. It can be difficult to define market share and market growth. One might focus, for instance, on the larger market, or on a particular niche, yielding two very different pictures of the same industry. Furthermore, the matrix says little about a business unit's strengths compared to direct competitors, and when interpreted too strictly may lead to unwanted consequences. A 'dog' with a cost advantage, or that benefits other business units indirectly through economies of scope, may well be profitable and worth keeping in the portfolio. Not investing in a cash cow may lead to a lack of motivation and innovation in that business unit, something that could damage the longer-term competitiveness not just of that unit but of the firm over-all. History is full of examples of innovative new ventures being born out of mature product businesses. So in other words, every dog has its day and every cow can give birth to a healthy calf<sup>5</sup>.

### Do it Yourself, or Buy it Ready Made?

There are three generic means by which a particular corporate strategic option can be pursued: through internal organic development, through mergers and acquisitions, or through some form of alliance. Each has its benefits and challenges and the correct means depends very much on the particular aim and the nature of the business. Organic development is typical in highly innovative or highly technical products, where creating particular capabilities within the firm is essential to competing in that product area, where there is no market (and no competitors) yet,

<sup>4</sup> Also known as the Boston Consulting Group (BCG) Matrix

<sup>5</sup> I have borrowed this symbolism from: Seeger, J. A. (1984) 'Reversing the Images of BCG's Growth/Share Matrix', *Strategic Management Journal*, vol. 5, pp.93-7

or where it is important to be close to the customer. A key advantage of such organic growth is that it enables investments to be spread over time and the organisation can gradually learn from its experiences. On the other hand, expanding abroad through green-field foreign direct investment can be expensive.

A merger or acquisition may be the best solution when faced with a rapidly changing environment, and when speed of entry is important. Where there are barriers to entry, or in mature markets with static market shares, a merger or acquisition may also be the most practical solution for entering a business area, or penetrating the market more deeply. The potential for economies of scale or a cheap market valuation may be other reasons for pursuing this route. Not all mergers and acquisitions are successful. For one thing the acquirer may find it difficult to add value to the acquired business, and such mergers and acquisitions often result in the loss of key people in the acquired business, which may lessen the capabilities of that business. In some cases, synergies may be more difficult to implement than expected, perhaps due to an inability to transfer capabilities, or when organisational cultures are just too different. Acquisitions can, however, be a good way of entering foreign markets, thereby instantly gaining a significant market share abroad.

Alliances can sometimes prove the most cost-effective way of developing a business. Alliances allow critical mass to be reached more rapidly than organic growth, and allow each partner to focus on what they do best. Equally important are the opportunities to learn from a partner. Finally, alliances are often a cost-effective and low-risk way of experimenting in a new market, without having to make the large investments necessary for acquisitions or organic growth. Alliance options include joint ventures, franchising, licensing or sub-contracting. Managing alliance relationships, including clearly framing expectations and benefits is key to the success of such alliances. Foreign expansion through joint ventures is common in certain regulated industries.

### Competitive Strategy: What Makes You Different?

What differentiates a truly great product or service is that there is a clear value proposition for its customers. Customers know why they are buying that product or service and not another. With this in mind we can tackle the important question: how do you compete as a business? Generic competitive, or business-level, strategies have been the subject of numerous studies over the past few decades, many of which build on Michael Porter's seminal 1980 work, with his categorisation of competitive

strategies in terms of cost leadership strategies, differentiation strategies, and focus (niche) strategies<sup>6</sup>. Although Porter suggested that the worst strategy is to be stuck in the middle, or to try to pursue more than one strategy at a time, more recent work suggests that competitive strategy often involves applying such hybrid strategies. Examining each competitive strategy option provides useful insights into how a firm can capture and protect an area of the market.

### Cost Leadership

The cost leadership strategy is traditionally defined as a strategy where the firm aims to provide products or services of a quality equal to that provided by its competitors, but at a lower cost and price. Thus, this competitive position puts the internal emphasis on finding ways constantly to manage (and when possible cut) costs, and passing some of the cost savings on to the customer, who perceives the product to be of equal benefit to those of competitors, but for a lower price. Carefully managing the firm's value chain (with a focus on optimisation and costs), from logistics to operations, and from sales to service, is one key to this strategy. Standardisation is another. Both economies of scale and scope can help maintain this strategy. Cost leadership can make it difficult for new market entrants to get sufficient profit margins to compete in the market. One of the risks of a cost leader position is that the internal cost focus, and the possible lack of investment and innovation, could lead to a lack of customer focus, thereby corroding over time the perceived value to customers. Once a customer believes the quality of the product or service to be sub-standard, this competitive strategy is compromised.

### 'No Frills' Cost Leadership

In some industries, firms have successfully combined cost leadership with lower service levels than competitors. In the traditional view, one would expect this to be a losing strategy since customers would not accept a sub-standard product. In reality though, such a hybrid strategy can be achieved in certain types of markets and essentially becomes a type of focus strategy, where the focus is on a segment of customers who are particularly price-sensitive and are willing to forego some elements of product or service quality, in exchange for an even lower price than a pure cost leader could offer. This strategy has been pursued by discount supermarkets and certain low-cost airlines.

6 Porter, M. E. (1980) *Competitive Strategy: Techniques for Analyzing Industries and Competition*, New York: The Free Press



### Differentiation

The pure (or broad) differentiation strategy involves producing a product or service that provides benefits that are different and valuable to customers. Thus, the perceived benefits are higher, which allows the firm a choice of either charging a price similar to that of its main competitors, or charging a premium price. Differentiating firms, whilst of course managing costs, typically invest in the continuous improvement of their products in order to maintain the perceived differentiation in the eyes of the customer. Better product features, good customer service, rapid innovation and technological development, a prestigious brand and superior design are some of the ways that are commonly used to differentiate. Understanding the customer, and keeping a watchful eye on competitors are key success factors for differentiators, as is ensuring that the differentiation is difficult to imitate. If a price premium is charged to customers, the firm may gradually move away from the mass market towards a focussed differentiation strategy, since some customers are unable or unwilling to pay the premium.

### Focussed Differentiation

The focussed differentiation strategy is one where the firm provides high perceived product or service benefits to its customers, typically at a price premium, and usually catering for a specific niche in the market. Many premium and heavily branded products fall into this category. The aim of the focussed firm is to meet the specific needs of a particular segment of customers. Although this strategy can be highly successful in maintaining strong margins, pressures are often high from competitors following other strategies. Over time, unique product features may be copied by competitors. Maintaining a focussed differentiation strategy, particularly in high-end market segments, therefore requires a constant flow of product improvement and innovation, to remain one step ahead of competitors in the eye of the customer.

### Focussed (Differentiated) Cost Leadership

The hybrid strategy involving both cost leadership and differentiation is traditionally defined as a hybrid strategy where the firm aims to provide products or services of a quality higher to that provided by its competitors, yet at a lower cost and price. There has been much debate about the usefulness and sustainability of such a strategy. If your product provides superior benefits to customers, why would you want to sell it at a lower price? Similarly, if your focus is cost leadership, then why would you want to spend money on creating superior benefits to your customers? In reality though, focussing on the needs of a particular segment of clients, whilst

keeping costs and prices low, is a powerful way of gaining market share, and can for instance be used when entering new markets. The key is to determine carefully what product features should offer superior benefits for your particular customers, and what features could potentially be saved on. Swedish IKEA is a good example of a company successfully following this type of strategy<sup>7</sup>.

### Integrated Cost Leadership/Differentiation

The cost leadership strategy could be combined with pure differentiation, when a firm can build the basis on which to produce at lower cost, whilst at the same time differentiating itself for the mass market. Contrary to the focussed cost leadership position, this is a case of offering superior product benefits appealing to the wide market. Firms pursuing this strategy walk a fine line of having to develop dual competencies, those linked to cost leadership and those linked to differentiation.

Some of these competitive strategies are more difficult to achieve and maintain than others, and in particular, research indicates that firms following 'pure' strategies tend to outperform those using hybrid strategies. Regardless of what competitive strategy is adopted by a particular firm or business unit, it is important to emphasise again that the worst strategy is to have no strategy at all. In general then, competitive strategy is knowing and demonstrating to your customers what differentiates you from your competitors.

### Conclusion: Strategy in the Postal Sector

As you read the various contributions in this book, you will start to recognise the breadth of strategic options open to players in the global postal sector, and its related sectors. Historical postal operators, as well as new entrants, are pursuing a variety of both corporate and competitive strategies. In response to deregulation and technological progress, operators have been diversifying into both related and (at least somewhat) un-related fields. They have been making acquisitions and merging. They have formed alliances and have internationalised. Some have occupied lucrative niches, whilst others have consolidated their position. Whilst the various chapters are by no means aimed at fully documenting the breadth of available opportunities and options, they do provide a variety of perspectives on strategy in the postal sector, and give some insight into at least some of the options available.

<sup>7</sup> Some information on the IKEA concept can be found on <http://franchisor.ikea.com/>

SECTION 4  
The Contributors

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**Derek Osborn** is an enthusiastic, innovative and inspiring business coach, trainer, facilitator and also postal business, human resource and strategy advisor. He is an acknowledged postal expert, with over 22 years in senior management in Royal Mail, and over 14 years working internationally across the postal industry. He is passionate about collaboration in the postal industry to share knowledge, best practice and to promote the industry, develop capability, encourage training and foster innovation. Derek has worked with many businesses and organisations in the global postal industry. He has advised governments and national postal operators about improving operations and efficiency, quality management, developing customer focus, growing mail volumes, strategy development and implementation – including devising and delivering executive education, workshops and management training. He has extensive experience of working internationally and cross-culturally, especially in the context of facilitating business benchmarking and best practice. Derek holds a Master's degree in Management Science from the University of Wales, a Bachelor's degree in Philosophy from the University of Bristol and a professional diploma in executive coaching from Leeds Metropolitan University.

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**Antonia Niederprüm** joined WIK in 1999 and is a very experienced member of the department Postal Services and Logistics. She graduated in economics from the University of Essen. During her work at WIK-Consult, Antonia gained a deep understanding about postal markets, the organisation of postal-service providers and regulatory issues. Her research and consulting activities comprise various topics in postal regulation and market analysis including regulatory cost

accounting and cost analysis, universal service, and price and quality regulation and business strategies in postal markets. She has participated in various projects for regulatory institutions, ministries, trade associations, and postal operators in Europe, Australia and the United States, and managed several WIK-Consult studies for the European Commission.

**Alex Kalevi Dieke** is an economist by training and a graduate of Bonn University. He has worked with WIK Wissenschaftliches Institut für Infrastruktur und Kommunikationsdienste (Scientific Institute for Infrastructure and Communications Services) since 2000. WIK is a German research institute and consultancy specialised in regulatory policies for infrastructure industries. Since 2006, Alex manages WIK's department for Postal Services and Logistics and directs WIK's consulting practice in the postal sector. Alex provides research and consulting on various issues related to market research and regulation of postal markets, including price regulation, cost analysis and universal service, as well as competition policy for the postal sector and international postal policy. He has prepared several postal studies for the European Commission, and led WIK-Consult project teams for postal regulators, ministries, trade associations, and postal operators in Europe and overseas.

**Susan Barton** is the Accenture Postal Industry Lead for Europe, Africa and Latin America. She is a qualified management accountant with 15-years consultancy experience in the postal industry. She has worked with many of the leading international postal organisations providing support and advice across a broad spectrum of areas such as strategy development; quality of service improvement; operational performance; organisation design; strategic business planning; pricing and new product/market development. As the industry has faced the challenges of both traditional and technological competition, Sue has sought to stimulate discussion and thinking on a range of topics including innovation, customer needs, future world scenarios and the economic crisis.

**Stefano Gori** is currently Head of International Business Strategy of Poste Italiane and Vice Chairman of the Macroeconomic Committee of the European Centre of Employers and Enterprises providing Public services (CEEP). In the past he has been Vice-President Corporate Strategy for Pitney Bowes and has some experience in the UN and in the European Commission. Stefano Gori is an economist and has gained his Bachelor degree in Economics from Bocconi University (Italy), his Master's Degree in International Finance from CERAM Business School (France) and has attended business courses at the MIT (US). He is in the process of getting his Ph.D. in Economics from Bristol Business School (UK). He is a member of the advisory

board of the Ecole Polytechnique Fédérale de Lausanne (Switzerland) executive master on the Postal industry and a member of the American Economic Association, the International Association of Financial Engineers, and the organising committee of the Rutgers University Centre of Regulated Industries' annual conference on the Delivery Industry.

**Maxine O'Brien** has worked in the Postal sector for 15 years both as a consultant to it and as a manager within Australia Post. She has undertaken many projects embracing change, innovation, systems integration and portfolio investment and has led large teams through major transformation. She attends and networks at the global conferences and keeps abreast of emerging trends globally through her extensive network of colleagues. She currently works at KPMG Australia, leading needs-based conversations to bring value to her clients.

**Ernst W. Hoestra** began his career at KPN, the Dutch national telephone company. He then moved to TNT, where he filled a variety of roles in both the Post and Express Divisions including: Strategic Purchasing, Marketing, Corporate E-Business Projects, and Postal Operator Projects. His last role at TNT was Global Industry Director Postal in the Express Division's Global Account Management department. By the end of 2006 he moved to Pitney Bowes International to become the Vice President Postal Solutions, leading the business development for the sector in the European and Asian markets. Ernst Hoestra joined Cycleon in February 2009 as COO, responsible for managing the physical logistics network and IT of the company. His experience in cross-border operations coupled with his in-depth knowledge of the European logistics market were key factors for his successes as COO. As of January 2010, Ernst has been appointed the new CEO of Cycleon. He is responsible for leading an international team focusing on the profitable growth of the company by strengthening Cycleon's value proposition and enhancing customer experience. Cycleon continues to expand in delivering pan-European reverse logistics solutions.

**Beat Friedli** has had a distinguished career in different strategic positions at Swiss Post during the 17 years since he completed his degree in law and economics at the University of Berne, Switzerland. In 2005 he was awarded his MBA from IMD Lausanne. He started his business careers as a Secretary of the Deputy Postmaster General in 1993. In 1998 he was appointed Head of Corporate Development and Member of the Management Committee of Mail, a €2-billion business unit of Swiss Post. Beat was Head of Corporate Development and a Member of the Extended Executive Management of Swiss Post Group from 2001 to 2009. Recently

Beat Friedli joined SwissSign, a subsidiary of Swiss Post and leading company for extreme security and identity in Switzerland, as Head of Business Development International. SwissSign protects and accelerates business processes with simple solutions for positive identification, digital signature and secure communication.

Jacob Johnsen having worked for more than 25 years in the postal and telecommunications industries has made his focus hybrid mail and electronic services. Following years as a senior executive at the head of various companies, he decided to focus on the strategic positioning of hybrid mail and its many aspects. He has been offering his services to users of hybrid mail, and provided his services to more than 20 postal organisations world-wide, and is still helping posts and postal organisations, especially in developing countries.

Andrew Starkey is the founder and lead consultant for Spiral4Solutions ([www.spiral4solutions.co.uk](http://www.spiral4solutions.co.uk)). He has an extensive background in the in the world of parcels, packets and postal logistics with over 30-years experience gained from the commercial sector and in the regulatory environment. Most recently he has held senior commercial roles in Royal Mail, served as an Executive Director of Postcomm during market liberalisation and the Commercial Director of Jersey Post International. He is a member of the Chartered Institute of Logistics and Transport and the Institute of Direct Marketing and is a recognised expert on the UK postal and e-retail home delivery markets.

Ingemar Persson is a former Executive Vice President of Posten AB (Sweden). During his years in Posten AB Ingemar worked in local, regional and central/head office positions. He worked as Marketing Manager and CEO of different subsidiaries and then as Director of Human Resources, working with the concept of company core values that was later on embedded into Posten's vision and strategy. As Head of Posten Sales, he led the restructuring of their post office network and was also responsible for the strategy work for retail banking and financial services that led to the decision to leave those businesses and concentrate on messages/letters and parcel/logistics. After 37 years at Posten AB, Ingemar Persson joined PostEurop in 2007 as Secretary General. Since November 2009 he has been running his own consultancy.

Dr. Tim Walsh is Vice President for Corporate and Regulatory Affairs for the Fortune 500 technology and services company, Pitney Bowes. Tim supports the mailing, sorting, document services and data analytics business units across a range of commercial and regulatory projects. Tim leads the Pitney Bowes international postal vertical team and has worked with posts across Europe and the Middle

East, Asia Pacific and the Americas to grow revenue, cut costs and better manage customers. From 1990 to 2003 he held a variety of strategy and commercial roles with the UK's universal service provider, Royal Mail. Tim Walsh is a Board Member of the Federation of European Direct and Interactive Marketing (FEDMA) and President of its postal affairs committee.

Olaf Klargaard is Director for Corporate & Regulatory Affairs at Pitney Bowes, supporting lines of business in the Europe, Middle East and Asia-Pacific regions. He represents the company's interests in the postal reform process and is supporting posts to re-think their go-to-market strategies, to review sales and payment channel policies and to facilitate innovation in pricing policies. Before joining Pitney Bowes, Olaf was in charge of market development analysis, pricing and data communications at the French Post. In this role, Olaf led various consultancy missions on regulatory and pricing issues (Europe, Middle East) and worked extensively on the European postal reform process. In the past, Olaf has also worked in investment banking and DG Competition of European Commission. Olaf holds a Master's degree in industrial economics from Paris Dauphine University and graduated from ESSEC Business School and Paris Institute of Political Studies.

Alice Kijak was the Vice President of Global Operations Services for the Reader's Digest Association Inc. She was with Reader's Digest for 26 years and was globally responsible for establishing the vision, strategy and the supply base for the worldwide services of Postal Affairs, Logistics, Customer Service, Fulfilment and Premium/Merchandise Procurement. In this strategic role, she also determined regional harmonisation opportunities to leverage the global scale of Reader's Digest while supporting the needs of each local country's operational teams. Alice is actively involved in many postal trade and industry associations. She served on the Board of Directors for the Mailer's Council, the mailing industry's largest trade association in the United States. She was an active member of the Government Affairs Committee for the Magazine Publishers of America (MPA). For the Direct Marketing Association (DMA), she participated on the Postal Subcommittee of the Government Affairs Committee and was a prior Chair of the DMA Customer Relations Council.

Dirk Palder has 20 years of consulting experience, with expertise in managing large and complex transformation projects, and the implementation of new processes and organisations. In 1997 he was promoted to Vice President and Head of Postal Services and Physical Distribution for Capgemini in Central Europe. Remaining as senior postal and logistics expert throughout the last decade, and

as one of the company's key experts, he has in-depth expertise in designing and implementing new production systems for postal organisations and identifying the strategic impact of the new technologies on the postal and logistics market. Dirk is currently focusing on innovation management for postal organisations, new product development and introduction, strategic project-portfolio management, large business transformation and IT technology.

**Michaela Hohlwein** joined SAP in 1997. She held positions in Global Partner Management and the SAP Hosting organisation, working with a diverse range of industries, including automotive, retail, and service providers. Since 2003, Michaela has been responsible for field service and enablement in the Public Sector industry business unit, supporting customers, including postal and UN organisations, sales and marketing teams, and SAP partners. She holds degrees in business administration from the University of Applied Sciences in Koblenz, Germany, and the Regional Technical College in Galway, Ireland.

**Hans Landgraf** joined SAP in 1992. He has worked in development and consulting of several industry solutions at SAP, including media and electronic toll collection, and has lead an industry consulting group in the United States. Since 2009, Hans has been responsible as solution manager for postal services at SAP within the Public Sector industry business unit. During his career as an IT professional, he has gained experience transforming business requirements and creative vision into technology and successful implementation projects. Hans holds a degree in business-mathematics with focus on information technology from the University of Ulm, Germany.

**Dennis Gilham** is a Chartered Engineer and Fellow of the Chartered Institute of Marketing with over 30-years experience of delivering customer facing solutions in the postal sector. Dennis has held senior industry roles as Head of Corporate Partnerships, Group Business Line Director, Group Director of Product Marketing and Director of Research & Development. He has built a unique set of skills and knowledge in promoting new solutions for business customers of all sizes in mail, express and parcels. Having worked with Posts worldwide, contributing to their business development through customer insight, marketing strategy and innovative solutions, Dennis now has the opportunity to help postal management in his capacity as Independent Strategy Advisor.

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