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Achieving High Performance in the Postal Industry

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Name: Achieving High Performance in the Postal Industry

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Mike Coughlin: About six or seven years ago, Accenture undertook an extensive research project into something called high performance companies and trying to understand what drove high performance companies, what made them high performers, and over the ensuring years, Accenture has looked at close to a thousand different companies across numerous industries, trying to understand. We've built a model for that process, trying to understand what does make successful companies and what does make high performers.

About three years ago, we applied that model to the postal industry and it had some difficulty associated with it because considerable difference in the way the postal organizations have reported financials and performance and that still remains, to some extent, today.

We have made some discoveries at that time about the industry. We have since gone through another iteration of that research and added seven additional postal companies for a total of 23, looking at what makes high performance in the postal industry.

My colleague, Brian Moran, is the global managing director of our postal industry practice for Accenture. Brian has sponsored and driven that research and is going to reveal some of the findings of that here this morning at this point. Brian has been with Accenture for 20 years. I think almost 10 of that now is with the postal industry itself. Most of his experience has been across the supply chain activities of a variety of companies and industries but the last 10 years or so has been focused primarily on postal.

So, with that, Brian Moran.

[APPLAUSE]

Brian Moran: Thanks, Mike, for the introduction.

I suspect most of you know who Accenture is but just as a brief introduction, Accenture's a global organization. Last year, we were $24 billion in revenue. We've got 180,000 employees around the world, 45 countries. Our postal business supports 20 clients today. We have about 1,500 people working full-time in the industry. We certainly feel at this point as much a part of the industry as, I think, some of the posts.

As Mike mentioned, I'm going to talk a little bit about the research we did today or the research we did. And you gave a little bit of the background there. What I'll walk you through is just a brief introduction into what the framework is all about, give you a little sense of what we found when we did the research in 2006, and then talk about what we found in 2009.

When I chartered the team to do this research the goal we have for doing this is really, to some extent, to give back to the industry, to provide to, all our clients, some sense of what works and what doesn't work, and as well to support ourselves as we can see trends, what works, what doesn't work, where we should make investments ourselves, and really probably the key thing is to get a sense of what might work in the future and what might drive long term progress.

A little bit about the methodology. There are two components of this methodology. The first is a quantitative model. And what it produces is a scorecard. Now, there are a couple of things that are different about this model than what you probably would particularly find. One is it is all wrapped in pure competitiveness. What we're looking for is performance in relationship to the peer set and gaps being created.

The second point is consistency. We're looking for these gaps to occur over significant periods of time. What we have found is that true high performance is the companies that can survive and prosper and create performance gap over, in effect, decades. They create per permanent advantage against the competition.

Once we have that scorecard produced, the second thing we do and, I think, the real value in the methodology, is we decompose those companies and we look for what really gives them that financial advantage. We do it by three building blocks, and we've used this methodology, as Mike said, across all the industries we serve. We have found this methodology to work independent of industry. The three building blocks, I'll walk you through them.

The first is market focus and positioning. And this is, you know, really about the products you take to market, the geographies you serve and the customers you segment or you target.

The second is about the capabilities. These are the things that you are good at. That might be pricing. It might be customer service. It might be supply chain efficiency. But these are the things that as an organization you have a significant advantage versus the competition.

Then the last one is what we call performance anatomy. It's a word that kind of drives me nuts a little bit because it's such heavy consulting. I get a lot of grief for it. It's intentionally vague because it really is meant to represent the infrastructure of the company. And that might be, you know, it's a look at the talent equation. Leadership, culture, but it also looks at things like the physical infrastructure of the company, retail networks, sorting networks, as well as things like the information technology infrastructure of the company.

What we have found is those three building blocks are really the key components that drive high performance. Strength in one usually means you're competitive. Strength in two tends to mean that you are near the top. But strength in all three is what gives you permanent advantage over market conditions.

When we did the study in 2006, this is the first time we looked at the postal industry and we got, fair to say, a very surprising set of results. Very different than any other industry we'd ever looked at. The summary of those results is, one, that actually strategic choice didn't make a difference in this industry at that point in time. And, in fact, it was more about strategic clarity.

What we found and you can see some of the high performers there at the bottom. You can see particularly if you think about what they were doing in 2006, very different market conditions, very different strategies, very different business models. Effectively, you could make a wide variety of strategic choice and still be successful.

And what we found is the ones that suffered tended to have a lack of clarity around strategy. In a lot of cases, you would see a lot of leadership turnover, and you would see a lack of focus shifting strategies over time. Very clearly, the strongest takeaway was strategic clarity was the single strongest indicator of performance.

Two other things that came out. One is around the talent equation. What we found was the highest performers had a very strong leadership component and a very strong management talent equation.

And I would pause there because people tend to think everybody has to have a good talent equation. Absolutely but it really does vary by industry so if you think about an industry like ours where it's entirely about people, and you have to have a powerful talent equation from bottom to top. If you look at some other commodity type industries, though the talent equation really doesn't need to be nearly as strong, and in fact investments in infrastructure, strategic choice, tends to be a lot more important. In this industry, that's not the case. Leadership, management talent, is critical to success.

The final point was around capability distinction. And what we found was really there was very little exceptional capability in the industry at the time so if you looked around all the players, you wouldn't find organizations that would stand out as being great at customer service or pricing or whatever it might be. And, in fact, there were very few examples of that. Those that were particularly good at something like that automatically rose to the top.

What we took away from that study was, in a lot of ways, that it was an interesting look back but what we said at the time was we expected very different results the next time we did the research. And in fact, things like strategic clarity would start to become a lot more important.

Everybody talked a little bit about the change in the industry. I've been in the industry for 10 years, so I've kind of heard the story. At times I'll talk to my colleagues, and they'll say, well, everybody talks about it but what's really happening.

Actually, if you think even just in the window of time between now and when we did that last study, we kind of listed out some of the changes in the industry, that's a pretty strong list. And, in fact, if I think about it from the time I entered the industry till now, it's amazing how much this industry's changed, if you look at the financial composition of all the players here, they've changed dramatically.

A couple of things that I'd point out that, I think, are particularly critical to what's going on today, and what's going to happen in the future, is the third one there, the shift in mail volumes. And what has happened in the decade, what has continued to happen in the last three years, will continue to happen in the future, is the mix in the mail product continues to move from a very transactional monopoly product to direct mail, a very discretionary product.

That has a dominating effect on the volatility of the business results and we're certainly seeing that today where some of our clients are talking about massive drops in direct mail volume. And effectively, the things you have to be good at to support a direct mail business are very different than the things you have to be good at to support a transactional mail business.

The second thing I'd point out is the items at the bottom here. Some of these alternative media generational shift. This goes a little bit to the mega-trends point that Anton made, but if you look at the buying behaviors of this new generation, millennials, GenX, GenY, the NetGen, people born since 1980, they have a very different buying behavior than many of the people in the room. They have a different loyalty sense. They have a different reaction, different buying behaviors based on marketing channels.

In effect, we've seen a great maturity around some of the marketing channels, even if you think in three years the difference in the Google business model it's kind of evolving and emerging back then. Now it's kind of a proven very powerful marketing channel. Things have changed very significantly in the last three years.

Mike mentioned that we covered 23 posts. This is a look at the players that we included in the study. What you'll see and what we really go out of our way to do is try to get a very broad look at the industry from a geographic point of view, a business model point of view, a liberalization point of view. You'll see quite a mix of that list.

And what we found as a result of the latest research is a handful of points I'll cover here. Everybody's got the materials on their table. That's kind of the first release of this. What we're going to be doing over the course of the year is releasing subsequent articles to that that dived into given areas, a little bit more in depth. This is a very high level view of what we found.

The first point that I wanted to cover was around revenue diversification so that's up in the market focus box. I'll go into this a little bit more.

What we have found, probably the single biggest driver of performance now, is strategic choice has emerged and, in fact, diversifying the business model has become absolutely critical. I'll show you some numbers that show the dramatic impact it's beginning to have on the financial results of different players.

This concept of diversifying, and that can be geographically, that can be products, that can be services, that can be segments, but creating a much broader business model is very clearly a driver of performance.

If we move over into the distinctive capabilities side, there are two that I just wanted to point out. One is around customer orientation. And this is one of the things we predicted when we did the research before.

But the focus around the customer in moving from a monopoly business where effectively you didn't have to spend a lot of time thinking about the customer that is changing. And what we are seeing is if you look at the companies at the top of the list, they have a much stronger customer management equation than the rest. Their ability to segment customers, their ability to cross sell, their ability to manage the life cycle from acquisition through service, is much stronger. So clearly, there's a relationship between performance and a customer orientation.

The second one is around the use of technology. This is something that people have talked about in this industry for a decade. Certainly we're starting to see the financial results of that. We've looked at it on a number of different dimensions. The amount of percent of sales invested in IT, the percent of discretionary investment in IT, those that make a greater investment in IT, those that are able to do that efficiently so it's mostly discretionary investment, have risen to the top of the ranking list again, so a very clear trend there.

And then I'll jump over to the performance anatomy point. And there are two that I wanted to make there.

One is we're clearly starting to see a very consistent innovation agenda, so those at the top of the list have a much stronger innovation agenda. We measured that on a couple different ways. One would be the number of new products introduced, the number of new segments or geographies addressed but we're starting to see a very clear performance gap there.

And then finally, we have a remark there at the bottom, invest in the operating network. I think that term, operating network, varies by player but what we can see now is that you can find it in annual reports. You can find it in public statements. But the highest performers have all been making investments in the network. In some cases, that might be the retail network. In some cases that might be the communications network. In others it's the physical network. But making long term investments in the foundation of the business will drive long term benefits, very long term strategic investments. It is clearly one of those trends we found as well.

There's a point at the bottom, as well, which is probably the clearest I've ever seen it in the research in the industry, is that if you look at the numbers that I'll show you, it's becoming fairly clear that a traditional, and we've got the term, U.S. old model, doesn't appear to be a viable business anymore. And I just want to be clear what that means.

As we look at the numbers, the organizations and it's stuck to a very national mail oriented business, the performance gap, the financial performance gap, is quite significant and in fact there's a fair amount of shareholder value destruction occurring. And I think that's a reflection of what we've all known in the industry which is the cost of the business continues to rise, not just the natural cost but the extension of the network. What we're seeing is the top line revenue is just not even close to being able to keep up and that really endangers this concept of a self-funded universal service model.

I'll spend just a few minutes today talking about one area of the research, and as I said, we'll have some releases as we go through the year, going into greater depth on this as well as some of the areas.

When we look at the strategies of the organizations, what we did was we broke up the players in four categories. They're listed across there. I'll just point out the concept of a service provider because that's probably the one definition that may not be as obvious as the others.

But what we found is that there's a series of operators that have taken a very service oriented business model where they're looking at, that may be financial services, that may be government services, but where they're starting to drive a significant amount of their revenue off of services. Certainly, there are a couple of players that are on the line between some of these categories but in general those categories fit pretty well and there's a pretty clear separation amongst the players.

If you look at some of the financial numbers as a result of those categories, it's quite revealing. On the left hand side of this chart is some information about revenue growth. You can see that the global players and the regional players have very nice revenue growth numbers. And then you can see at the bottom there, the national players are at effectively about GDP type of numbers, if you take their blend.

You can see that it’s not an incredible gap but that’s a fairly significant percentage gap, particularly when you start to compound it over a number of years. But as well, if you look on the right hand side of that chart, you start to see some of the underlying numbers that cause a little more, I guess, shock or consternation. If you look at the capital spread, and capital spread is the return on capital minus the cost of capital, and we’re able to do this calculation on a country-by-country basis. Everybody’s got different capital conditions, but what we found is the global players are getting a very strong return on capital.

I think that’s a reflection to some extent of the investments they’ve made over the years are really paying off. Regional diversifiers are a wash. They’re barely keeping their heads above water.

Service providers are now starting to get a strong return on capital. And then you’ve got national optimizers who are destroying shareholder value on average.

If you look at the difference between the global players and the national optimizers, you’re talking about a 20 percent gap in the capital spread which is, obviously, very significant.

The second set of numbers, I thought would be helpful to look at, is gross margin by those same set of categories. If you look at gross margin, very critical point, mail’s gross margin is degrading and that’s a fairly significant jump in a 3-4 year period of time. What’s interesting, I found, for myself, was that as an industry, the parcel express and logistics space is effectively flat and, solid margins despite sort of a general reputation that logistics is such a difficult business to compete in and the margins are so low, this industry has prospered quite well in logistics.

But also then, the other big jump in the number is in the services side of that. We saw back in the earlier research a much lower margin being generated by that business. Now it’s up to 15 percent, certainly a very strong trend line. Again, an indication that diversification can pay off and, in fact, that may be from a profitable growth point of view, the strongest strategy to pursue. As I said there’s a bit more detail in the handout you have on the table.

As a very quick summary of the results, and I thought I’d point a few things. One, you know, I talked about leadership and what we saw in 2006. I certainly still see that today. Strong leadership is absolutely critical to high performance, very clear orientation. I think, generally, in the industry though, I see a much stronger leadership dimension than I did when I first entered the industry.

Second point, strategic choice now is critical. I think if we play this forward and we do the research again in two or three more years, I think we’ll again see even a greater impact of strategic choice. This is nothing unusual. This is what we see in almost every industry we review, whether that’s, retail or telecom, the strategic choice is typically a critical dimension. Historically it hasn’t been but certainly in the future, it’s going to be.

I already talked about customer focus.

I think probably the last point I’d make though is around efficiency. Even though everything I talked about here was much more oriented around top line growth, absolutely efficiency will always be part of the business. One of the things that I would comment on is that the focus and how people are driving efficiency, I think, is starting to change in the industry.

We’re starting to see a much stronger emphasis on innovative cost management rather than the traditional, try to squeeze down through, some process efficiency. We’re also starting to see outsourcing. We’re seeing situations where people are taking back office functions offshore. Certainly things that we’ve never really would have even considered it possible three or five years ago. I think we’re going to start to see as well a much different focus on how you get efficiency in the business.

The only other comment I wanted to make was around opportunities. A lot of what was talked about a lot and what you read in the papers is unpleasant and a bit depressing. But, this industry is changing, as I said. I think it’s changed dramatically in three years. I think we can add another three or five years of really significant change. And today, it’s very disruptive.

But, I think there are some, very clear and significant opportunities out there. I pointed out two. One is this point around rate increases. I've talked with a number of clients about this, where we're seeing around the world drops in 5 and 10 percent in revenue, year over year, in some of the industrialized countries. It's very scary. And the typical reaction is rate increases.

Well, as I mentioned earlier, this discretionary mail business is a different business, and you increase the cost of direct mail, the volume is going to go down. That's inevitable. The response that is required today is a lot different than the response that would have worked five or ten years ago.

How do you deal with something like that? Well, on the right hand side, we point out this customer capabilities. Pricing has to evolve. A one-price-for-all model can't work obviously. There's a huge regulatory component to that but every company has a different tolerance for price and effectively, in the long term, the pricing in this business has to become much more surgical, much more segment oriented, and it has to, in the long term, be built around the customers' needs and what they're getting out of the product.

And the second point I'd mention is around this, what I call Generation Y but there are many terms for it. But this new generation and every day there's a few more of them becoming powerful spenders and moving into the mainstream economy, have a very different way of operating and a very different susceptibility. The requirement is for the post to improve their relevance to that generation. I think we heard some things from each of the CEO's around steps taken. Broadly, the industry hasn't been particularly aggressive in that, so if you look at revenue contribution from electronic services, it's very small across the board. It is pretty clear that a stake in that digital market whether that's hybrid mail, whether it's online post offices and a geographic information services, that has to become a core part of the business, particularly when you start to think about this new demographic and what they respond to.

We've certainly started to see an uptake in that. The industry focused on that a lot, I think, at the beginning of the decade and there were a lot of misses. I think realistically the market wasn't ready for it. The market wasn't moving evolving too much, but it certainly has stabilized a lot more today and, I think, the time is right to start making major strategic moves and investments into the digital space.

That's everything I everything I had to present. Next up is our interview time as well as questions, so I think for the sake of time, I'll probably take it right to the floor and look for questions for any of the panelists.