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## Mail mavens

By Brian J. Moran and Andre Pharand

The high-performance businesses in this industry are diversified, innovative and entrepreneurial—and often found in the public sector.

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The pressures on traditional postal services have never been more intense.

Costs are outpacing revenue growth for many organizations, while mail volume has failed to keep pace with what was until recently rising GDP. Postal services can no longer rely on their letter-carrying and bill-paying monopolies. And although new digital technologies and delivery channels herald exciting opportunities, traditional operators are losing ground to nimbler commercial operators.

Some organizations see few options. The standard response to ballooning costs—price hikes—drives down mail volumes in today’s highly competitive markets. Indeed, saddled with a mail mix increasingly skewed toward direct mail, revenues for postal organizations are worryingly susceptible to economic and seasonal swings. In addition, traditional players are struggling to service the needs of a younger generation of customers in search of ever-faster access to information and better services.

Nevertheless, our latest research shows that some postal companies are not only meeting these challenges but also enjoying real success in the process.

Accenture first analyzed high performance in this industry in 2006 (see “Special delivery,” *Outlook*, January 2007). In the three years since our original research, the global postal marketplace has changed so dramatically that we wanted to revisit the industry (see sidebar, page 4).

In one important respect, the results of the new study were consistent with those of the first. Just as in 2006, there are indeed high-performance businesses among the largely government-run postal organizations. However, this new research also revealed significant changes in the components of the three building blocks that sustain high performance in all the industries Accenture has

studied—market focus and position, distinctive capabilities and performance anatomy.

### **Strategy matters**

In 2006, it did not seem to matter what sort of strategy a postal business chose to secure its market focus and position—as long as it had one that was clear and consistent. As we predicted three years ago, however, intensifying competition has made a big difference. In 2009, the right strategic choice—specifically, a decision to diversify revenue sources through both geographic expansion and new products and services—has become critical to high performance.

We had categorized the postal peer group into four broad and to some extent overlapping categories, based on their apparent strategic choices: global players that derive at least a quarter of their revenues from well beyond their domestic market; regional diversifiers with at least 12.5 percent of their total revenues generated in neighboring countries; innovative service providers that focus on domestic customers but also offer them new products and services; and domestic operators that are primarily focused on the traditional postal business.

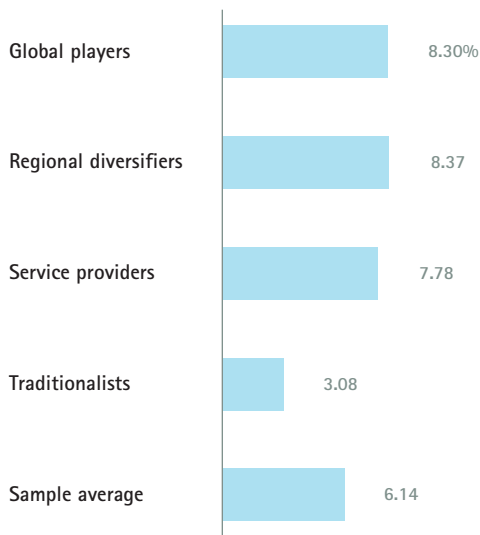
The global players outperformed the overall peer group across all measures. Innovative service providers ran a close second, experiencing significantly more profitable growth than their peers. By contrast, despite strong revenue growth, regional diversifiers were relative laggards, especially in terms of profitability.

The widest performance gap of all was between domestically focused, traditional operators and the rest. In fact, the traditionalists underperformed the global players across all performance indicators in our study (see chart, page 3).

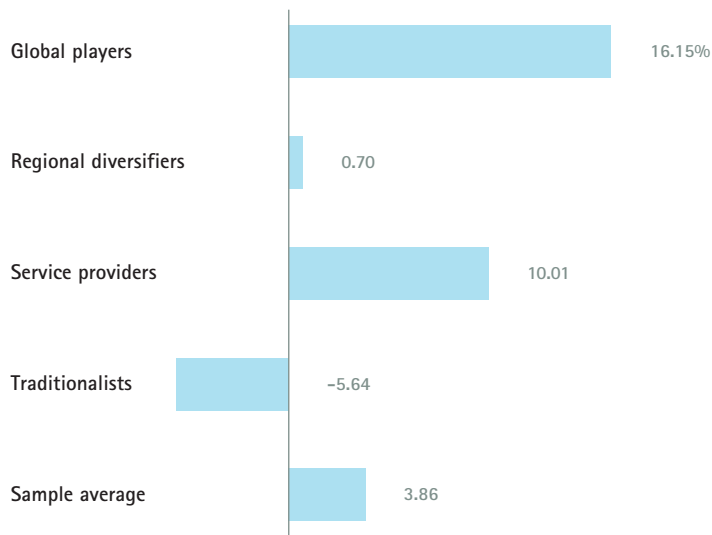
## Going global

The industry's global players had the strongest performance overall (see story), topping all others in average capital spread and performing on par with the regional diversifiers in revenue growth. Traditional postal services turned in the lowest performance.

Average revenue growth<sup>1</sup> by strategic grouping



Average capital spread<sup>2</sup> by strategic grouping



1. Average of one-, three- and five-year growth rate

2. Average of one- and three-year capital spread, defined as return on invested capital, less weighted average cost of capital (ROIC-WACC)

Source: Accenture analysis

To be sure, local circumstances complicate the performance picture. In continental-size jurisdictions—the United States and Canada, for example—posts struggle to provide a single-price service. In other areas, underlying conditions are exceptionally favorable. For example, because Singapore Post operates on a small, self-contained island, it has been able to optimize the efficiency of both its mail delivery network and its retail outlets, and it consequently enjoys the lowest operating costs of any postal operator in the peer group.

### Freedom to compete

Traditional posts in highly regulated environments are plainly at a disadvantage. Regulatory constraints, however, are not the decisive issue.

Our research clearly shows that as long as operators are free to compete by diversifying their sources of revenue, public ownership per se is not a hindrance to high performance. Norway's government-owned Posten Norge, for instance, is a regional diversifier whose Bring brand, which offers mail and logistics-related services to the entire Nordic region, now accounts for 45 percent of the operator's total revenue and grew an astonishing 33.7 percent between 2003 and 2007.

And in exceptionally fast-growing emerging markets, publicly owned posts can do outstandingly well—witness the operational excellence of Brazil's national carrier, Correios, or the performance of the South African

## About the research

The postal peer group for this new research comprised 23 operators from countries in Europe, North America, the Asia Pacific region and Africa. This includes seven more organizations than our 2006 analysis, all of them from European and emerging markets. Since this highly competitive business is not limited to government or quasi-government organizations, we again included the global express carriers and logistics services providers (also known as integrators)—commercial operators that have done so much to transform the global mailing and shipping market in recent years.

As in 2006, we modified the Accenture High Performance Business methodology to reflect the special nature of an

industry that despite deregulation remains a remarkably eclectic mix of public and private organizations. We used our traditional measures of profitability and revenue growth. But significant variations in the level of government intervention from post to post complicated the analysis—as did the fact that most posts' data is no more than five years old, a constraint that necessitated adjusting our traditional 10-year measure of performance consistency. Moreover, because most posts are not publicly traded, we could not measure total return to shareholders and future value, two of the six criteria we use in assessing whether a business is a high performer.

Post Office, which has successfully diversified its product and service offerings (see sidebar, page 5).

Intensifying competition has also clarified the distinctive capabilities required for high performance in this industry. In 2009, cost management and operational excellence, strong leadership and talent are just as important as they were in 2006—but only insofar as they support the clear customer focus that really distinguishes today's high performers.

These high performers maintain that focus, moreover, because they are fully committed to analyzing and understanding customer needs. In an industry where many players have yet to recognize that customer loyalty can no longer be taken for granted, the level of customer insight that this commitment yields is a distinctive capability indeed.

Global players like TNT Post, the Netherlands' partly deregulated postal operator, which has leveraged its sophisticated customer segmentation capabilities to specialize in targeted industry segments like telecommunications and health care, have achieved solid growth by leveraging customer insight.

(Not surprisingly, in the private sector, the global express giants are especially good at turning that insight into improved customer retention—and higher revenues. FedEx, for example, ranks consistently close to the top in surveys of customer satisfaction, thanks to a global initiative that has made enhancing the customer experience a key competitive differentiator [see sidebar, page 6].)

Of course, by knowing its customers exceptionally well, a high performer can offer them exactly the right products and services—ideally, even before they ask for them.

All the high performers, whatever their business model or level of government control, are successful product and service innovators of this type, offering their customers non-traditional, non-mail services like banking and insurance that can be delivered in new ways, including via cell phones. Indeed, innovation is yet another distinctive capability that puts them well ahead of the competition in an industry where game-changing products and services usually appear only once in a decade.

High-performance businesses in the postal industry, in short, are not only more willing to change than their

## Correios and SAPO: Emerging diversifiers

With franchises stretching across Brazil's vast interior, Empresa Brasileira de Correios e Telégrafos, or Correios, as it is usually known, has been well positioned to exploit the South American nation's remarkable economic boom.

Yet unusually favorable macroeconomic conditions—Brazil's annual GDP growth averaged 4.5 percent between 2004 and 2008—are only part of the reason why the state-owned post's operational revenues grew by an impressive 13 percent in 2008 alone. Much of Correios's success is also due to a shrewd strategic decision to diversify.

Correios, which with 115,000 employees is now one of Brazil's biggest employers, went into the banking business in 2001 through a joint venture—dubbed Banco Postal—with Banco Bradesco, Brazil's second largest private retail bank. Under its energetic president, Carlos Henrique Almeida Custodio, the carrier has developed online customer services, integrating online retail sites and postal solutions for small businesses and simplifying import and export services. This year, Custodio says, he aims to internationalize, "at least into the South American market." And in the longer run, pending relevant approvals, the Brazilian postal boss even hopes to see Correios servicing the communications needs of Brazilian expatriates who retain close family ties with the mother country while living in the United States and elsewhere.

Meanwhile, 5,000 miles away, the South African Post Office is also diversifying successfully. SAPO, which is tasked with servicing an area of more than 1.2 million square kilometers, plans to corporatize its financial services arm, Postbank, as a separate company and is modernizing and leveraging its own extensive infrastructure with the aim of becoming a strategic partner for all South African government agencies and big companies.

A new and more efficient business model, which has restructured the post into mail, logistics, financial services, IT and property divisions, helped the carrier boost 2008 pre-tax profits by 12 percent and revenues by 7 percent.

SAPO, moreover, is bucking international trends in bulk surface mail.

Instead of declining, as they are pretty much everywhere else, SAPO's surface mail volumes are actually growing. Surface mail, after all, is the most logical way for businesses to reach new customers, so the carrier is expanding such services into remote rural areas. Indeed, SAPO foresees a healthy future for both traditional mail and so-called hybrid mail, which is a mixture of traditional and electronic methods.

peers—the mindsets underpinning their performance anatomies actively challenge the status quo, and they behave more like entrepreneurs than government agencies.

The high performers support their innovation agendas, for example, by investing in networks of all kinds—sorting facilities, IT, retail channels—

and by aligning these investments with their strategic agenda. They leverage technology to manage the business, deliver services and interact with customers. And they enlist the support of employees. When the Italian national carrier, Poste Italiane, became a mobile virtual network provider, for instance, it did so in partnership with organized labor.

By diversifying into new geographies, products and services, by putting customers at the heart of their value proposition, and by maintaining a courageous and consistent innovation agenda, the high performers are showing the way forward for the postal industry. The competencies they boast today will become even more critical as the traditional posts lose their letter-carrying monopolies and the industry continues to liberalize.

The future, however, will challenge even these high performers. For all the boldness of their revenue-generating initiatives, none of them are yet drawing significant revenue from innovation in digital marketing channels or from so-called hybrid mail products that leverage both digital and physical

## FedEx: Keeping the "Purple Promise"

With 2008 revenues of close to \$38 billion, FedEx Corporation is a true giant of the global express mail business.

The Memphis, Tennessee-based carrier operates the world's largest cargo airline. Its air and ground networks serve more than 220 countries and territories. It delivers, on average, more than 7.5 million packages every day. And some 290,000 FedEx employees strive, in the words of CEO Fred Smith, to "make every FedEx [customer] experience outstanding."

This so-called Purple Promise—purple is the dominant color of the company's aircraft—is at the heart of FedEx's effort to secure customer loyalty. The promise helps ensure consistent levels of service right across the organization, empowering employees at every level—couriers, pilots, customer service agents and package handlers—to take the initiative to make good on the promise. In addition to a refund, for example, disgruntled FedEx customers are also likely to receive small gifts, like flowers. Small wonder that FedEx consistently tops global industry rankings of customer satisfaction.

The FedEx Purple Promise is a striking illustration of the commitment to continually improve the customer experience that so distinguishes high performers in the postal industry (see story). But it's not the only clue to FedEx's success. Though still dependent on the US market for almost 72 percent of its revenues, the carrier has also expanded aggressively into key emerging markets.

FedEx has significant operations in China, for example, where it started a next-morning domestic delivery service, supported by a money-back guarantee and real-time package status tracking. In 2005, FedEx launched the first overnight express link between China and India. And in 2007, it acquired its Indian service provider, Prakash Air Freight, one of the subcontinent's largest domestic express companies. By 2008, FedEx was generating some 28 percent of revenues from international operations, compared with 21 percent 10 years ago.

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delivery—innovations that Accenture believes will be key to addressing the needs of a new generation of customers as well as the demands of environmental sustainability.

As product and service diversification in the postal industry continues to expand and evolve, there will be much to play for.

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