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Special delivery

By Michael Coughlin and Brian J. Moran

By focusing single-mindedly on clear and consistent strategies, a handful of traditional postal operators have managed to overcome the threat to their monopolies and join the best commercial carriers in achieving high performance.

The traditional, government-sponsored postal industry has been in trouble for some time. National letter-carrying monopolies have been eroded as Internet and related technologies transform communications. Competition has gone global as markets have been deregulated and liberalized. And while governments are increasingly reluctant to sustain operating subsidies, customers are clamoring for cheaper, faster and more efficient services.

Saddled with large fixed-cost networks, most traditional postal operators are struggling to maintain services, let alone achieve high performance. Yet mail, their core business, remains one of the most powerful distribution and marketing tools in the world. Indeed, four of the six organizations that Accenture identified as high-performance businesses in this industry were or recently had been government-run mail carriers.

The 16 individual organizations in our geographically diverse peer group represent different business models, ownership structures, and statutory and regulatory arrangements. We included commercial carriers because they have set many of the industry standards the traditional posts now seek to replicate. Moreover, the methodology that underpins Accenture's High Performance Business initiative, with its focus on analyzing five core areas of commercial performance, is appropriate for an industry that is increasingly open and competitive (see "About the research," page 3).

No single strategy explains the success of the carriers—traditional, commercial or hybrid—that have emerged from this group as high-performance businesses. A few have opted to expand internationally, while others have chosen to strengthen their positions

at home. Some have used their public-sector heritage to their advantage, capitalizing on that legacy's brand recognition, natural customer base and installed service networks. Several have diversified into other industries, including financial services and logistics.

Each individual strategy, however, reflects an exceptionally solid understanding of the operator's specific market situation and competitive advantages. Furthermore, every high performer in this industry pursues its chosen strategy with remarkable commitment and determination.

Indeed, we found that it is strategic focus—not just strategic choice—that characterizes high-performance businesses in this industry. Exceptional leadership (the essential force behind the winning mindsets that together constitute a high-performance anatomy), coupled with a unique set of connected business processes and resources that constitute the top carriers' distinctive capabilities, create a market focus and position of remarkable clarity. This is the key determinant of high performance in this industry.

Not only do these high performers understand the dynamics of this industry better than their competitors do, they actually create opportunities instead of simply reacting to them. And they do so by developing and executing strategically at all levels of the organization—always maintaining the flexibility to adapt as circumstances dictate. A willingness to embrace change is integral to their approach.

For example, TNT, the Netherlands postal operator, has led the way forward for traditional carriers by becoming a global express company as well as a national post office. TNT's letter-carrying monopoly, like those in other European Union coun-

tries, will soon end—hence a strategic decision to expand internationally.

Meanwhile, among commercial carriers, UPS has established a formidable competitive advantage by leveraging its internal engineering capabilities. UPS Service Parts Logistics was specifically created to provide a comprehensive, integrated package of services for computer manufacturers that includes repair, courier delivery and storage (see “Inside the values-driven culture at UPS,” *Outlook*, September 2006).

Of course, it is one thing to set a clear and compelling strategy and quite another to muster the talents and skills required to execute that strategy effectively. In fact, the high-performance carriers display some level of mastery in key functional areas like information technology, human and organizational development, and finance and performance management.

FedEx Corporation helped set the industry standard in IT years ago by becoming a pioneer in the use of “track and trace” technology, but several of the posts have added capabilities and are working hard to catch up. Australia Post, for example, exhibits a particular commitment to product innovation through technology (see sidebar, page 5).

When it comes to human performance, several high-performance carriers have displayed great initiative and skill—notably the traditional posts, which, with their large labor forces, have confronted considerable HR challenges.

Take Norway's Posten Norge, for example: Between 2000 and 2005, the post implemented several major organizational process changes that have positioned the company well for further growth. Or Deutsche Post World Net, which, despite having to integrate the postal system of the

(Continued on page 4)

About the research

Our peer group comprised 16 individual organizations from 14 countries in Europe, North America and Asia Pacific, and represented diverse business models, ownership structures and statutory frameworks.

Commercial carriers like UPS and FedEx, which operate without a universal service obligation and other regulatory constraints and do not serve the traditional letter-delivery market, were included because of significant overlap and competition with government-sponsored carriers in the parcel and express markets. Moreover, thanks to diversification, a number of traditional postal organizations regularly compare their market share and performance to those of these commercial carriers.

To assess the players in this industry, we used Accenture's patent-pending method of performance evaluation, which focuses on five core areas of business performance: profitability, growth, consistency, longevity and positioning for the future.

However, our standard methodology was complicated by three factors in this industry. First, there is significant variation from country to country in the level of government intervention in the industry. In addition, most traditional posts have data only for the past four to five years, which is a shorter time frame than we typically use in studying high performance. Finally, most posts are not publicly traded, and therefore traditional measures such as total return to shareholders could not be used to measure current and future value.

This table shows the relative ranking of each post.

		Company A	Company B	Company C	Company D	Company E	Company F
Peer competitiveness	Average score	1	2	3	4	4	5
Profitability	One-year spread	2	3	5	6	10	4
	Three-year spread	3	7	4	6	10	1
Employee spread	One-year employee spread	4	3	2	10	5	6
Growth	One-year revenue growth	7	1	6	3	2	14
	Three-year revenue growth	2	3	6	4	1	7
	Five-year revenue growth	1	-	-	4	3	2
Consistency	Revenue growth	2	3	3	1	1	3
	Spread	1	5	1	1	3	5

Deutsche Post World Net: Creating value through acquisitions

In 1999, Deutsche Post World Net emerged from a long and complex postal reform initiative that was undertaken to improve quality, contain costs and prepare the company for privatization. Now partially privatized, the postal operator has positioned itself for the European Union–mandated repeal of its letter-carrying monopoly with an audacious acquisitions strategy that has enabled it to diversify into courier services and logistics.

In the past few years, DPWN has acquired or made major investments in more than 100 companies—among them DHL, the global courier, and Danzas Group, one of the largest global logistics concerns. DPWN insists that its acquisitions strategy must not only make strategic sense, it must also boost the company's value. So far, it has pursued this strategy with clarity, commitment and striking success.

DPWN's STAR value-creation program—an outstanding example of the high-performance carriers' skill when it comes to human and organizational development (see story)—played a key role in its acquisition integration plans. Begun in 2002, the program

placed more than 150 top managers on 17 project teams and assigned them the task of identifying potential savings and synergy benefits in all of DPWN's corporate divisions.

STAR aimed to optimize processes and systems throughout the organization while DPWN harmonized its product portfolio under the DHL brand, and to integrate the disparate transport networks of its numerous acquisitions to create a single, pan-European network.

The carrier is developing a global procurement structure, complete with standards that everyone in the company is required to comply with and an improved, group-wide procurement management system. The integration of DHL in particular is expected to have an extremely positive impact on procurement costs. And a new IT infrastructure, which combines DPWN's regional data centers into three locations—Kuala Lumpur, Phoenix and Prague—should deliver further significant savings. Meanwhile, the carrier is actively standardizing its workplace IT platforms, introducing common applications across its operations.

(Continued from page 2)

former East Germany in 1990, has managed to reduce total employment by some 38 percent without layoffs. DPWN, which is successfully consolidating its numerous acquisitions to strengthen procurement and other functions, also excels at supply chain management (see sidebar, above).

Accenture cross-industry research has consistently confirmed the critical role of leadership in creating a high-performance anatomy. All six of our industry high performers have had stable and long-term leadership. The CEOs of four of them have been in place for 10 years or longer, and the leaders of the other two have emerged from experienced and accomplished senior management teams. What's more, these leaders are skilled communicators, and all regularly reiterate their organization's mission and values to all stakeholders, an effort that, among other dividends, pays off in a fully aware and engaged workforce. (For a related article, see "How to create a culture of high performance," *Outlook* January 2007.)

Indeed, by making the identification, development and retention of talent a top priority, they create ready pools of potential managers for the future. For example, UPS believes that managers who come up through the ranks are more committed, aligned and experienced—qualities that help deepen the company's culture of ethics and integrity. What's more, Chairman and CEO Mike Eskew personally reinforces the importance of homegrown talent by meeting with every group of newly promoted managers, most of whom he knows by name.

A commitment to performance measurement puts the high-performance carriers on a par with the best of cross-industry practices. TNT, for example, is committed to its "Investor in People" standard, a training and people management system.

Each of these high-performance businesses has successfully risen to the challenges of the rapidly changing marketplace during the past five years. As we look to the future, we expect

further liberalization of the market, new business models, new ownership structures, emerging alliances and unforeseen competitors to have a significant impact on the industry. In this environment, future high performers will not only require strategic clarity

and coherence; they will also have to pick the right strategy, nurture a strong culture to align with that strategy and continue to distinguish their brand. In this industry, the story of change and transformation is still in the early chapters.

Australia Post: Innovating through technology



Like most of its counterparts in other countries, Australia Post faces the inexorable demise of its traditional letter-carrying monopoly (see story). Its response, however, has been startlingly atypical. While defending its core mail business by investing heavily in high-tech sorting centers, the carrier has also

expanded into highly competitive new business areas, from business parcels to logistics, where technology is rapidly breaking down barriers to entry.

With 4,500 outlets, Australia Post has the largest retail network in Australia, which remains its core market. The carrier is also a strong player in transaction processing and is steadily expanding its suite of agency services. It has 681 bill-payment partners, and its retail network processed approximately 194 million agency-based banking and bill payment transactions last year.

Meanwhile, a series of acquisitions, joint ventures and alliances—including Star Track Express road freight and Australian Air Express air freight services (both joint ventures with QANTAS Airways); an alliance with leading Asia Pacific postal administrations to increase international parcels and logistics services; and a logistics joint venture in China—is designed to create more volume to feed through the carrier's huge fixed-cost parcel network.

Wayne Saunders, Australia Post's chief information officer, discussed the organization's strategy with *Outlook* Industry Editor Wendy Cooper.

Outlook: How big a role does technology play in the changes now under way at Australia Post?

Saunders: A major role. Our IT and business processes, which haven't really changed all that much in the last 10 or so years, are now deemed to be a limiting factor in our ability to pursue new opportunities. I am looking at how we can

build a new foundation of technology and align it with the new business strategies that we are pursuing so that we can actually execute those strategies and deliver the results the board is looking for.

How are you going about it?

I have already made Post IT much more responsive to our business drivers and cycles. And we are now looking at our operating models and rebuilding our skill sets, particularly around project management. We have come a long way already in moving people towards a whole-enterprise view of things and making sure they understand which path we are going down. People here really understand that technology has an important role to play. My ultimate goal is to have Post IT become the "trusted advisor" to the business.

Don't all the acquisitions you've been making greatly complicate your task?

Depending on the nature of the acquisition, we look to bring them into the organization as quickly as possible. It's not always appropriate to do so. But we do try to get them at least working on our remote systems and install them pretty quickly, so people can communicate.

Your acquisitions program has involved you in a logistics business in China—a move that is going to bring you up against some pretty stiff competition. What makes you confident that you can match it?

It's all about leveraging our extended supply chain. We are not going into the big shipping-type businesses or anything like that, but we do see potential for growth in Asia in small and medium-sized boxes—white goods and that sort of stuff. There is a lot of manufacturing coming out of China for shipment around the Pacific Rim, and that's where our focus is. Someone who wants to bring, for example, PCs into Australia can start with us in Shanghai or wherever and know that their product will flow right through the whole supply chain into the warehousing point in Australia and from there to retail outlets. We're a natural link.

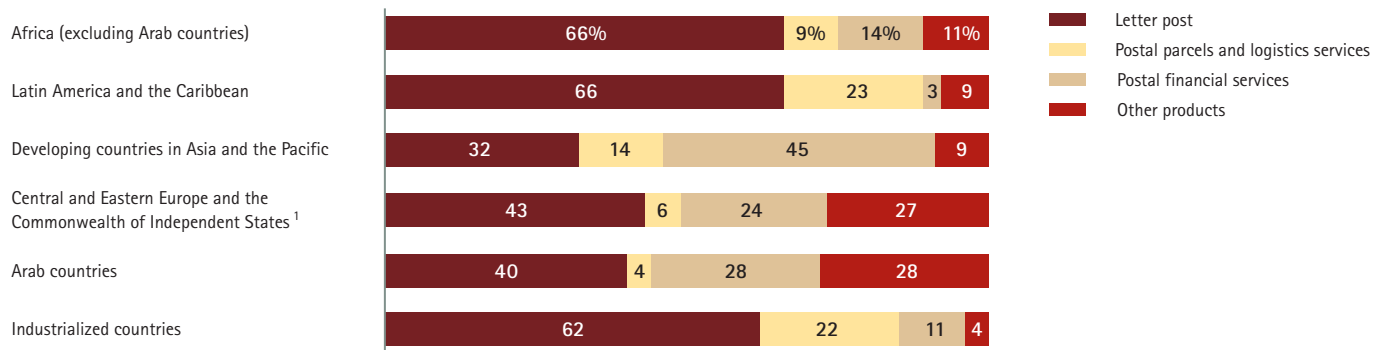
By the numbers

A changing business mix

The following charts offer a snapshot of traditional postal services worldwide.

The revenue breakdown varies by region. In Asia and the Pacific, almost half of the revenues come from financial services.

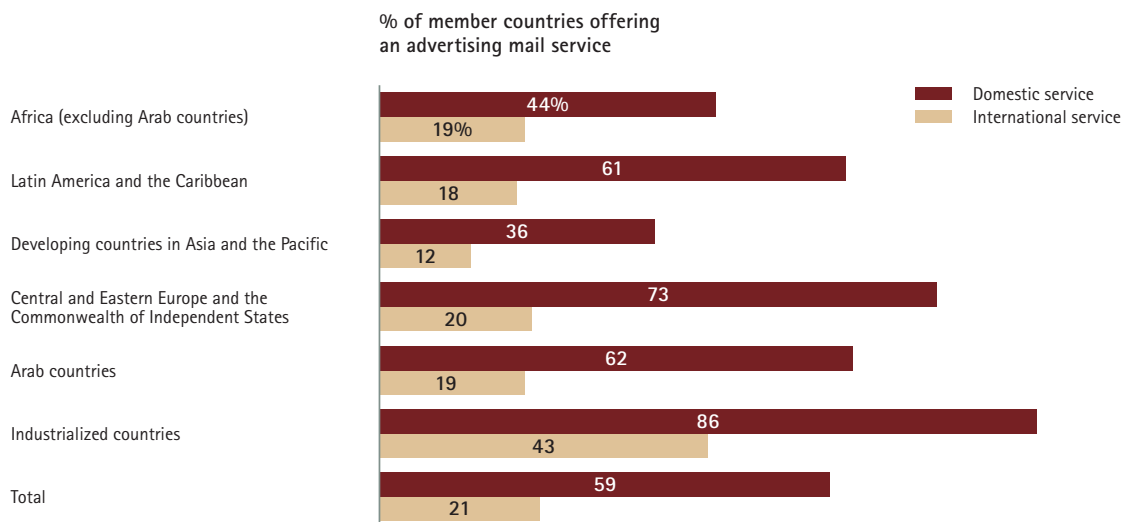
Postal revenue by product, 2005



¹ The Commonwealth of Independent States (CIS) includes Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine. Source: UPU, Berne, October 2006

Almost 60 percent of countries offer an advertising mail service in their domestic service. On average around the world, advertising items represent 37.7 percent of letter-post items in domestic service and 11.5 percent of letter-post items in international service.

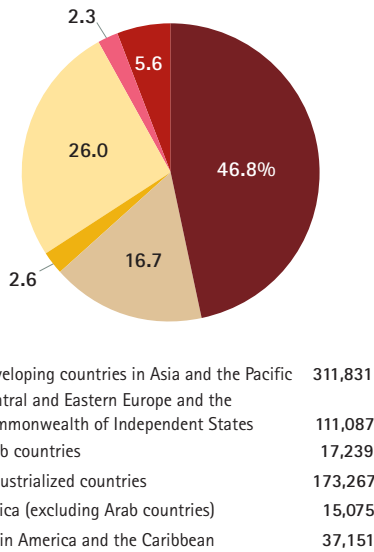
Advertising items, 2005



Source: UPU, Berne, October 2006

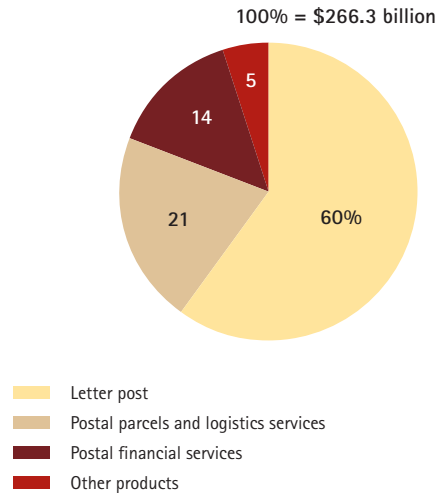
There are 660,000 permanent post offices in the world, employing 5.5 million postal staff. Almost half of the post offices are in Asia and the Pacific.

Post offices, 2005



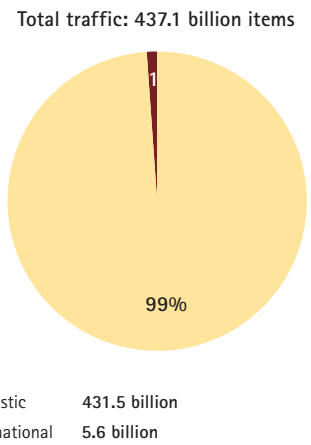
Postal revenues topped \$266 billion in 2005. More than half of the revenues came from delivering letters.

Revenues by product, 2005



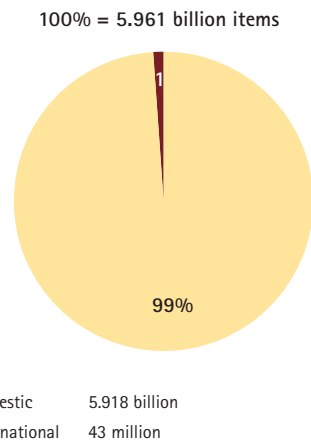
Most of the letters carried by postal services are domestic. Only 1 percent are international.

Letter post, 2005



There were almost six billion parcels shipped in 2005, which was an increase of almost 11 percent over 2004.

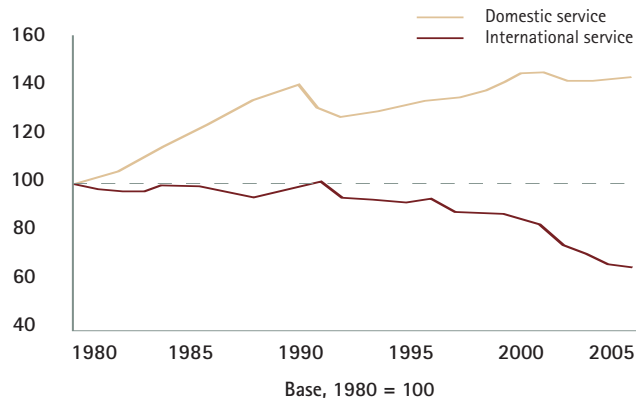
Ordinary parcels, 2005



Source: UPU, Berne, October 2006

While domestic traffic continues to rise, international service is declining.

Letter post (world estimates)



About the authors

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