

A large, dark red chevron graphic pointing to the right, positioned behind the text "High performance. Delivered."

High performance. Delivered.

New Delivery Models

Big Bang Disruption in the Postal & Parcel Industry

Video Transcript

Brody Buhler,
Global Managing Director,
Accenture Post and Parcel
Industry Group

So, the first: New delivery models. What we are seeing is significant investment in last mile and you see some of the examples that we are seeing play in this space. What they are doing is they are sourcing spare capacity out in the networks. Anybody that has a phone can become a part of their network. They can sign up to become a delivery agent. They have the ability to rapidly scale up and rapidly scale down. If you think through the Uber

model, if you have ever taken it, Uber in the middle of the day and contrasted that with the price you pay on New Year's eve for example, you see how they are able to rapidly scale. They use pricing to bring more supply when there is more demand but they can go up and down very quickly.

They are all technology enabled. They are using technology to drive through these new capabilities and they are using the power of smart phone networking cloud to create new models and they are all focused on the last mile for now. We haven't seen any of these

models try and string it together end-to-end. I have heard some rumors of some that are starting those experimentations but right now it is simply last mile focused. If you look at the amount of investment in crowd sourcing across industries, what you see is the highest is in the stay category. So, Airbnb.

The next \$645 million is in transport. So \$645 million of venture capital coming in to this industry to try and figure out what delivery will look like. The most interesting investments that we are seeing made are being made by companies like yours.

UPS is a big investor in some of these capabilities in some of these new companies. So here is where things I think get very interesting and all of these slides is math. There is nothing magical about it. But if you have a 90% fixed cost network and you lose 1% of revenue, you see a 9% decrease in profitability and if you get over here it is 90% for a 10% loss in revenue.

So, you have got large fixed cost networks that are driven entirely on the principle of density. I get as much through that network as I can. These guys don't care. Density is the last thing in their mind. They are operating on an entirely different principle, they are operating on the ability to scale up and down quickly and what that allows them to do is accommodate this variability and as they accommodate this variability they can go after the things that make you most nervous.

The highest profit parcels that you are moving for example and that allows them to do a very profitable cream skimming sort of operation, the likes of which you have not seen in this industry.

As these guys figure out these models (and none of them have yet, they all have talked about experiments - none of them have figured out models that scaled yet), the threat to disruption is significant.

So how are they better? They are offering faster delivery. They don't talk in D+ they talk in H+ terms. They are adding new value added services. You can follow your parcel all through the delivery experience with these guys. Those value added services are the core really of what they are doing and they are focused on convenience and making that the key buyer value.

How are they cheaper? When you look at last mile, these are estimated cost. I am going to guess that your last mile cost for delivery is somewhere in the \$5 range, it might be little bit lower or little bit higher. If you listen to the Uber CEO where he estimates that Uber's delivery for last mile will be is a \$2 a delivery and he thinks he can get that lower as they get better densities across that network and

Then this is a competitor in the US LaserShip a dollar fifty a delivery. Those hard numbers to achieve are achievable by rapid up and down scale.

And how are they more personal? They are playing on that new consumer expectation that has been driven by that infinite processing capacity in their palm, where I want it, when I want it, how I want it. Completely transparent so I see the full flow and fully within my control.

If something changes then I want to change it at the last minute that is fine and these guys don't care about changing at the last minute because it is not based on scale, they are not based on getting as much through and as quick as it is possible. They are based on the ability to be very flexible and rapidly adapt. Think back to Francesco's quote.

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