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Achieving High Performance in the Postal Industry 2014

Podcast Transcript

Brody Buhler, managing director – Postal, Accenture, reveals how high performing postal organizations are driving profitable growth.

Brody Buhler: Good morning, everybody. It's good to be here with you. My name is Brody Buhler. I am the global managing director of Accenture's Postal practice. We work with 35 posts at any given time and have about 1,500 people who

are focused on postal projects. Today, I'm here to talk to you about the annual research that we do in the industry that we call high-performing posts. If you look around the table, you will have a copy of it. Please feel free to take one of those with you.

We have done this research for a number of years, and one of the things that I find most interesting this year and I noticed this change last year when I was talking to our clients and participating in events like this. Last year was when I saw

for the first time a change in the tone. The tone had changed from that of mail volumes are declining, what we are going to do, we got to sort out our strategy to one of we have figured this out, we have a strategy, we know what we are going to do, we are now going about executing. And, as Walter said past success does not necessarily equals future success but you have figured out what the future will look like. This year in the research, what we found most heartening is that it's all about rejuvenation and executing those strategies and we are finding

that posts are being very successful.

This chart on the left (you have seen before, right?) shows that volumes are declining. In our study, there were four posts that didn't see volume declines; only one of those posts had a domestic story and the rest were either from acquisitions or from expanding into new geographies. But all of the growth was on unaddressed admail products. That's one spot that we are seeing. The direct mail session that comes after this is an interesting spot if you are looking for growth.

What I found even more interesting was what we are seeing on the diversification strategy and the comparison of the diversification strategy to the mail businesses. Mail businesses on an average are producing a better EBIT than we are seeing in the diversified non-mail businesses of postal organizations. What's even more interesting to me is—the top five high performers in our research had about 14 percent EBIT on mail which is a very well-performing business. You contrast those with the bottom five in our research that had a negative, around 5.6 percent EBIT on mail. So, how you run your mail business is very important. Ones that are high performing are running their mail businesses very effectively.

In this chart, we have put up every year for the last few years. It shows diversification this year. For the first time, we have seen that the non-mail revenues from the postal organizations that we studied have exceeded the mail revenues—52 percent to 48 percent. It's a sea change in the industry and what we are finding as you can see here is that postal organizations are

aggressively diversifying. That concept of mail volumes running around and coming back up is one that everybody is agreeing isn't going to happen. So, they are finding their new way forward and diversification is working. On an average (we will show these stats in a little bit), we have seen diversification producing about 3 percent growth in high performers.

As we took a step back and looked at the industry for what was going on, we had a construct that we used in the previous versions of our research that grouped the organizations that we studied in four different groupings. We found out that that had become outdated. We also found out that strategies today have much more nuance but they center around these three pillars. The presenters who have gone before me today have all talked about how they are looking at it in these three dimensions as well. But to be a high performer, what we found is that you cannot ignore the core, you got to be defending the core business and that is both on the cost side as well as the growth side. You have got to fight for that every mail piece as Walter described. They are transforming their networks from mail networks to parcel networks and aggressively pursuing opportunities that e-commerce presents with parcels. And then the third is that all high performers have a diversification strategy and they are aggressively pursuing that diversification strategy. We have organized around all these three networks. This is a bit of a work in progress. We are still sorting out exactly what the right construct is, but this is a good way to think about how to achieve high performance in the postal industry.

So, we'll now move to a couple of key insights from the research that we found last year. First, high performers are achieving growth, but they are also achieving excellence in their mail business. And what you see here is the stat I was referring to earlier. If you look at the revenue growth, one year, three years or five years, it remains consistent. The high performers are achieving revenue growth of about 3–3.5 percent year-over-year and they do that through their diversification agenda. The research that we did shows that from the mail business, it's been about 4 billion decline since 2007 in the overall revenues. But from the non-mail business, we have seen about 18 billion in incremental revenues since 2007. So, growth and revenue growth, in particular, in the future is going to come from these diversified business areas. But you cannot take your eye off the core business.

Second, what we found is that the high performers are evolving into digital businesses. And one thing I want to make clear is that digital mail as a product we have found is not a viable product. It's not the answer but digital as a channel and becoming a digital business absolutely is. It's around these four dimensions. So, the high performers are exploiting the power of mobile, and they are using that both to communicate with their carriers as they are out on their rounds as well as to communicate with their customers and develop new solutions. For example, we have seen postal developing mobile payment solutions and are taking advantage of a broader aspect of the e-commerce value chain and are taking advantage of the power that they have from the financial

institutions that they usually own.

Second, they are focused on establishing a relationship directly with the consumers. Historically, the relationships that they had were sender-focused and you see these senders as the customers. High performers are starting to look at the receiver as the customer. They are doing things to establish a relationship directly with those consumers and starting to take value there.

Third, they are working their way into the other aspects of the e-commerce ecosystem. They are starting to enable small businesses. They are starting to provide e-commerce websites and marketplaces and all those sorts of things. They are providing solutions that allow more mass market. I think the term Francisco used was massification of the market and bringing local vendors into the e-commerce space. That's an important aspect of the strategy. And then the last, they are enabling self- services around label production, retail and providing customers access to parcels through parcel boxes and lockers and those sorts of things.

We have done a deep dive into this aspect of the research—on the relationship with customers. We identified that there are roughly 18 services that you could offer to consumers. The research that you see here is a survey of 13,000 consumers across 12 countries and how they rated those services on value, the frequency with which they would use them and the willingness to pay for those services. You see value, frequency, size of the bubble and willingness to pay. As posts start to create these new consumer-

focused offerings, it'll be important to understand these three dimensions and how that plays into the overall strategy and whether it's about market share or monetizing the consumer.

Third, the high performers are operating with a strong commercial focus like something Francisco said that quarterly reporting pace brings a new hastening to the strategies that postal operators are implementing. We have produced this very simplified chart that shows the real private ownership and liberalization. What you see is that the more private ownership the post has, the more likely it is to be in the high performers. In the top 10, we looked at private ownership was north of 75 percent vs in the bottom, they were almost exclusively 100 percent owned by the government. That change in ownership is not really the essence of it. It's the change in perspective that the change in ownership tends to bring. You can operate as a high performer as a 100 percent owned government identity—that's absolutely doable but requires a strong change in the perspective to a commercial focus where your interest is on what's going on commercially vs the social aspects. It tends to be driven by a political agenda. And the better that you can do disassociating the major decisions from the political agenda to the commercial agenda, the more likely you are to find yourself in that high performer category.

And then the last, the high performers are seizing the opportunities within parcels. I would like to talk about the posts that used to be mail organizations that happened to deliver parcels. They

are now becoming parcel organizations that deliver mail and that transformation in the network is much more challenging and much more complicated than the phrase I just used to describe it. But high performers are doing that extremely well. What you see here is that parcels is an opportunity for growth—parcel volumes continue to rise in most of the geographies that we study, and the high performers are doing a good job of taking more than their fair share. The average market share for a high performer in our study is about 40 percent. Average market share in the domestic parcel market for the low performers is about 17 percent. So, double the market share of the low performers as they are successfully executing those parcel strategies. You see that stat there. One thing to focus on a little bit is what's going to happen as that becomes more international and e-commerce becomes a more international business. The posts that are high performers are starting to position and take advantage of that international e-commerce growth, and we expect to see that growth of about 20 percent. In some geographies, that growth is going to be much higher than that. Especially in the APAC region, we have seen a research that indicates it'll be somewhere in the 40–50 percent range. So, it's an area to start taking advantage of.

Now, turning our focus to a little bit on what we see on the horizon and how we see things proceeding. First, we see B2C e-commerce growing at about 17 percent globally and you probably know the stats very well for the individual markets. We see parcel volumes for the posts that we study growing at about 5

percent. That gap is what is being taken by the competitors. I would like to think of the competitors in three dimensions—first, you have got the global integrators and they are starting to expand and take advantage of your last-mile networks. They are taking advantage of the ability that they have to go to negotiate global agreements. It's something to watch in your strategy of how to deal with the global integrators.

The second are the domestic competitors and you are seeing those pop up everywhere. Domestic competitors are starting to become more aggressive. They are starting to get critical mass. They are starting to explore solutions in the last-mile network and that's something that you are going to have to have a strategy to address. You compete against those differently than you do the global integrators.

And the third is the e-tailers and retailers as they start to move into that aspect of the value chain. As they start to experiment more with things like click-and-collect or ship to store. As they start to experiment with careers in their own delivery networks. I was reading an article earlier this week, Jeff Bezos, CEO of Amazon, said there are 40 markets in the US that he intends to dominate, and he intends to do delivery himself in those 40 markets.

The most at-risk customers are your urban customers that tend to be the most profitable, and that's what these e-tailers and retailers are going to place their bets. There are a lot of things that you can do but you need a strategy that addresses all three of these competitive developments.

On the digital economy side, there are three areas that we think are worth looking into for posts as you look at the strains that you have—the first is identity services. We believe that the move to e-commerce and the change in the buying habits of customers is going to make identify a much more important aspect. These identity services take advantage of two aspects that you have—one, the trusted brand and the second, the capillarity—the ability to reach people that you can't be reached otherwise.

Second is mobile commerce. This is an area in which we are seeing tremendous growth today. And it's an entirely different buying experience. While an e-commerce buying experience on a website, they are happy to type in all the information, the address and everything, on a mobile device, it's all about clicks—doing it by clicks instead of by key strokes. So, getting your solutions into these mobile e-commerce solutions will be important for taking advantage of the growth that is coming as the e-commerce transformation occurs.

Last, there is analytics. Analytics is an area that is currently underrepresented in the postal industry. You have massive amounts of data. If there's one thing that I find common in the clients that I talked to is that you have more data than typically anybody else. Your systems tend to break the packages. Taking advantage of that data and using that data to get insights and especially moving out from just historical insights to becoming predictive will be a competitive advantage in the future.

And last, I want to talk about drones. I realize that this one seems far off. Last week, in the US, the courts rejected the Federal Aviation Administration's (FAA) ability to govern drones as there was a florist that wanted to start using drones for delivery but FAA said you cannot. The court said FAA you don't have any regulatory authority here. Drones are coming and there are already companies that have started to use these. In China, there is one that is using it for rural deliveries. I think it's even more interesting to look at what you can do into the heart of megacities in those congested areas where it's hard to get to your people in and move them around. Drones, I don't believe will ever be used for actual deliveries. There's a lot of risk there, but if you can find the right strategy with drones, it will become important. It's an emerging technology on the horizon.

And then with 3D printing, I think it's an interesting one. I think it's a corollary of what was done historically with photocopying and how it started with something that you will go to a location to use and became something that you can have in your office or at your home. I think 3D printing will likely follow the same trajectory.

So, back to where we started, just to wrap up here. You have got the model I have talked about. I think there are five elements that are important to focus on—transforming the talent of your organization. And you have heard the speakers who preceded me talk about how they are attracting new talent and working to bring in that new type of workers that they need. A customer

focus is specifically a consumer focus. Those that strive to be high performers or have achieved high performance have a very strong customer focus and they are using data about their customers to rate new products and services as well as change how they sell to those customers. Managing by data and the power of analytics, we have talked a little bit about that, but if you can get that right, you will be a differentiator. The governance structure are moving close to be more commercially focused and continuing to challenge the aspects of the USO that don't make financial sense will be important in the future. And the last, investment strategy, the high performers in the areas they have diversified in dominate at least two of the markets. You have got to find a way to get to scale in these diversified areas quickly and that will only come from proper investment or from the right acquisitions. If you do that smartly, you can get to scale on those areas and that in turn drives high performance. With that, if you have any questions, here're the people to contact. Thank you!