Achieving High Performance in the Postal Industry

Accenture Research and Insights 2014
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>2</td>
</tr>
<tr>
<td>Introduction</td>
<td>4</td>
</tr>
<tr>
<td>Postal peaks and troughs</td>
<td>5</td>
</tr>
<tr>
<td>Key findings</td>
<td>9</td>
</tr>
<tr>
<td>High performer highlights</td>
<td>11</td>
</tr>
<tr>
<td>On the horizon</td>
<td>19</td>
</tr>
<tr>
<td>Strategic priorities</td>
<td>21</td>
</tr>
</tbody>
</table>
Our analysis over the last eight years has shown some significant shifts in the postal industry. In our first study in 2006, we identified the differentiators in strategy, culture and approach that distinguished the high performers from the rest—and yet there was no clear winning strategy. In our 2009 report, however, we highlighted that a strategy of revenue diversification, away from the traditional mail product, was gaining success over more traditional paths. In subsequent years, that same strategy has triumphed. Now, in a result that is by far the greatest step change in the transformation of the postal industry, the lion’s share of business has switched. For the first time, non-mail revenues, achieved through a diversification strategy, are exceeding mail revenues—52 percent versus 48 percent respectively.

Despite all the news about the demise of mail, our research has found that mail can still be profitable. Generally, postal organizations in our research see better returns on mail than on their diversified services. This dichotomy signals that we are still in the early stages of transformation, as postal organizations seek to build business units in new, diverse areas that are as effective and performance-driven as their legacy businesses. Making progress with these new business lines may be hard, but the process is underway. Our research shows that some postal organizations are navigating the shifting landscape and delivering high performance. Indeed, it is the combination of having a well-run mail division and excelling at diversification that is not only the hallmark of the high performers, but also a strong indicator of the versatility and agility that is required to be a successful postal player in the 21st century.

And while the product mix is being reinvented, new ownership models are being established. Gone are the days when a government-regulated infrastructure was required for the efficient flow of goods and communications. Progressive governments are realizing that the best thing they can do for the survival of the postal “department” is to get out of the way and let them operate with limited political constraints. There is still a need for a universal service obligation and some regulation over the de facto monopoly created by the difficulty of establishing a last-mile network. But those constraints are eroding, too, as innovative competitors are finding new ways to establish networks and services for hard-to-reach consumers.

Technology continues to play a significant role in the future of postal organizations. eCommerce is producing a fresh stream of revenue from parcel volumes that has the potential to grow faster than mail ever did. New purchasing models, driven by technology evolution, are creating eCommerce opportunities beyond delivering parcels. As high performers realize they can become a part of the broader eCommerce ecosystem, a new breed of digital postal businesses is born—with the potential to be first in line for the next wave of revenues. High performers realize that being digital today means embracing digital in all its forms—whether as a means to communicate with customers, a platform for purchasing and payment or a new channel that supplements existing products.

As we can see from this year’s research, going forward, it will be those postal organizations that effectively manage their postal business, while confidently striding forward into new businesses, that will be well positioned for the future.

Brody Buhler
Global managing director
Accenture postal industry group
## Organizations analyzed

<table>
<thead>
<tr>
<th>Organization</th>
<th>Country</th>
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<tbody>
<tr>
<td>An Post</td>
<td>Ireland</td>
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<tr>
<td>Australia Post</td>
<td>Australia</td>
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<tr>
<td>Austrian Post Group</td>
<td>Austria</td>
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<tr>
<td>bpost</td>
<td>Belgium</td>
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<tr>
<td>Canada Post Corporation (CPC)</td>
<td>Canada</td>
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<tr>
<td>Ceska Posta</td>
<td>Czech Republic</td>
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<tr>
<td>Correios Brasileiros (ECT)</td>
<td>Brazil</td>
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<tr>
<td>Correios de Portugal (CTT)</td>
<td>Portugal</td>
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<tr>
<td>Correos y Telégrafos (Correos)</td>
<td>Spain</td>
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<tr>
<td>Deutsche Post DHL (DPDHL)</td>
<td>Germany</td>
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<tr>
<td>FedEx</td>
<td>United States</td>
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<tr>
<td>Groupe La Poste (La Poste)</td>
<td>France</td>
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<tr>
<td>Gruppo Poste Italiane (Poste Italiane)</td>
<td>Italy</td>
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<tr>
<td>India Post</td>
<td>India</td>
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<td>Itella</td>
<td>Finland</td>
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<td>Japan Post</td>
<td>Japan</td>
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<td>Magyar Posta</td>
<td>Hungary</td>
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<tr>
<td>New Zealand Post (NZ Post)</td>
<td>New Zealand</td>
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<tr>
<td>Post Office Limited</td>
<td>United Kingdom</td>
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<tr>
<td>Posten Norge</td>
<td>Norway</td>
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<tr>
<td>PostNL</td>
<td>The Netherlands</td>
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<tr>
<td>PostNord</td>
<td>Sweden and Denmark</td>
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<tr>
<td>Royal Mail Group</td>
<td>United Kingdom</td>
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<td>Singapore Post (SingPost)</td>
<td>Singapore</td>
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<tr>
<td>South African Post Office (SAPO)</td>
<td>South Africa</td>
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<td>Swiss Post</td>
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<td>TNT Express</td>
<td>The Netherlands</td>
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<td>United States Postal Service (USPS)</td>
<td>United States</td>
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<tr>
<td>UPS</td>
<td>United States</td>
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<tr>
<td>Yamato</td>
<td>Japan</td>
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This year, four new organizations were added to the research sample: Yamato in Japan, Correios in Portugal, PostNL in the Netherlands, and Post Office Limited in the United Kingdom—increasing the number of postal or transportation players assessed to 30. These additions demonstrate the dynamic nature of the competitive landscape and how the postal industry is continuing its transformation journey.

In addition, we significantly changed the structure of the analysis. Previous reports categorized postal organizations’ strategies into four main groups: the global players, the regional diversifiers, the service providers and the traditionalists. However, in the 2014 research, we found these categories were no longer representative of the variety of strategies we are seeing in the market. As a result, we removed the categorization to better reflect the diversity and complexity of the strategies postal organizations are pursuing today.

Our 2014 research analyzes postal organizations’ individual strategies and what differentiates high performers from the rest. The 2014 report includes the terms: top five performers (also known as high performers), next five performers, middle 10 performers, lagging five performers and bottom five performers (also known as low performers).

Accenture believes that three dimensions are crucial to any postal strategy: to protect the core, to grow parcels and to selectively diversify. Our research has found that excellence in one dimension, while rewarding, is simply not enough; postal organizations need to be effective in all three dimensions to gain efficiencies that serve their overall mission and help them become high performers.

Introduction

The annual Accenture research and analysis of the postal industry continues to draw out insights about the essence of high performance in an evolving landscape.
Postal peaks and troughs

Now in its eighth year, the Accenture in-depth analysis of the postal industry reports on the trends and opportunities for postal organizations.

As in previous years, we have used a quantitative model to assess financial performance and a qualitative model to determine the drivers of high performance.

Alongside our key findings (see page 9), we found the following factors are influencing the postal industry:

**Mail volumes and revenues are declining**

Our research indicates that mail volumes have dropped at a rate of minus 4.7 percent between 2011 and 2012 and at a compound annual rate of minus 5 percent since achieving their peak in 2007 (Figure 1).

Although mail volumes are still declining, the rate of decline varies considerably from one postal organization to another (Figure 2).

Only four postal organizations managed to increase volumes from 2011 to 2012 and in all cases, direct mail was the source of growth: Singapore Post and Itella through organic growth and Austrian Post Group and Swiss Post through acquisitions. Total mail volume increased mainly as a result of international letters and unaddressed mail.

Aside from these four postal operators, most postal organizations have seen mail declines varying from minus 2.2 percent to minus 12.1 percent between 2011 and 2012. However, mail revenues decreased by only 2.0 percent between 2011 and 2012 as a result of price increases and inorganic growth in liberalized markets.

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**Figure 1. Evolution of mail volume (in aggregate)**

Annual mail volume, in millions, and year-on-year mail volume growth/decline, in percentage

|------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|

Note: Sample size 19 postal organizations.
Source: Annual reports, Accenture analysis.

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Mail remains profitable for most—but profitability is declining

Overall, the profitability of the industry has been declining since 2007 for mail and has slightly increased for non-mail activities from an Earnings Before Interest and Tax (EBIT) perspective (Figure 3). Profitability varies by area of diversification, with financial services having the highest overall EBIT for our sample at 8.2 percent in 2012, after peaking at 12.6 percent in 2010. Mail services EBIT has declined from 7.9 to 6.4 percent from 2007 to 2012 and remains higher than non-mail activity EBIT on average. Parcels and express EBIT continued to increase from 5.5 to 6.3 percent between 2007 and 2012. Logistics provides a smaller EBIT of 2.3 percent and retail is a short distance behind at 1.8 percent in 2012. It should be noted that retail EBIT depends largely on how postal organizations allocate revenues to cover costs for this activity.
Diversification is the new normal

In a defining moment of postal history, the latest research shows that non-mail revenue (including parcels) now outweighs mail revenue for the postal organizations we studied—52 percent versus 48 percent respectively (Figure 4). Our research identified diversification early on as not only a hallmark of high performers, but also as the key to survival in the industry. While mail is still an important part of the business and will be for some time, most postal organizations are aggressively transforming their businesses into hybrid organizations that provide a range of business offerings—including parcels, logistics, banking, insurance, eCommerce and digital activities.

In fact, without diversification, aggregate revenue for the postal players in our sample would have fallen since 2007. Fortunately, through diversification, these same organizations have added more than US$18 billion in net new revenues, offsetting a decline of US$4 billion in mail revenue during the same period.

An important aspect of the diversification agenda has been mergers and acquisitions. Conditions are ripe, especially in parcels and direct marketing, and this year we found that while the number of transactions seems to have increased, they have been smaller in size and specialized—usually focused on vertical solutions.

For postal organizations, parcels as a category has shown itself to be, if not a silver bullet, then certainly a golden opportunity. The main driver of this growth is eCommerce, which is typically growing in double digits in most countries. Unlike mail, the parcels business (including express and courier) is a story of growth, with volumes increasing at an average rate of 5.8 percent from 2011 to 2012. However, volume increases vary considerably from plus 42 percent for India Post to minus 4.8 percent for Correios. There were three other postal organizations that saw parcel volumes fall: minus 2.3 percent for Japan Post, minus 2.5 percent for CTT and minus 3.1 percent for Posten Norge between 2011 and 2012 (Figure 5).

Fortunately, parcel revenues grew slightly faster than volume at a rate of 4.6 percent—some postal organizations increasing yields significantly while others were not able to due to strong price pressures, especially in Europe.

Parcels to the rescue

Note: Revenue diversification is based on business unit breakdown and numbers reported in the company’s annual reports. Accenture categorizes revenue into the above groups based on its understanding of activities which represent an approximation of diversification.

Source: Annual reports, Accenture analysis
Figure 5. Parcel volume growth by player, 2011 to 2012

Note: Parcel revenue is based on annual report data and may not include all express and courier volume.
Source: Annual reports, Accenture analysis.

High Performance Business Methodology

Our methodology is based on the value of discounted cash flows to shareholders, or economic value added (EVA®) and the total shareholder return (TSR). We measured high performers based on a comparison of metrics across six different elements: greater than expected returns from investments; top line revenue growth; high future value growth; continued value creation over industry eras and life cycles; reliable and predictable financial performance and better positioning and performance relative to peer set. Having determined companies’ positioning relative to these elements we created a scorecard identifying which organizations performed above average within the industry. Comparative analysis was adapted to account for the government ownership of the majority of postal organizations.
Overall, the news is good: the industry has emerged from a long period of uncertainty, and the strategies that many organizations have defined are working. While there is much still to do, the industry as a whole seems poised to return to the profitable growth that was a hallmark of postal organizations five years ago.

High performer highlights

We found that high performers differentiate themselves by:

Achieving core business excellence while driving growth through diversification at scale

High performers not only diversify, but also they achieve scale in those businesses while successfully driving profitability within their mail business.

Evolving into digital businesses

Developing a digital and mobile ecosystem, high performers embrace digital as a key aspect of their growth strategy.

Operating with a strong commercial focus

Leading postal players are able to operate from a commercial versus political vantage and their decision making capabilities are more responsive to market change.

Investing to transform their parcel networks and seize market share

High performers are maximizing the parcels opportunity and achieving significant market share.

On the horizon

Postal organizations must consider:

New competitive threats

While many postal organizations have been dealing with domestic competitors for a number of years—particularly in the parcel business—our research shows that this competition has increased recently and appears to be challenging growth.

Digital economy

Our research uncovered three new capabilities driven by the changing eCommerce landscape that will be important opportunity areas for postal organizations to explore.

Technology horizon

New technologies on the horizon have the potential to disrupt existing practices and networks.

Key findings

In the 2014 research, we discovered many characteristics of high performers are consistent with previous years; yet added pressures from a changing marketplace, the impact of digital technologies and new competition are placing even greater emphasis on those postal players seeking out diversification and profitable growth.
High performer highlights

High performers achieve core business excellence while driving growth through diversification at scale.

Core business excellence

High performers today have not given up on their core mail business—and continue to drive an average of 14.0 percent of solid profitability from mail, proving that it is possible to run a profitable mail business despite declining mail volumes (Figure 6). This growth is in sharp contrast to the bottom five performers in our survey which had mail profitability of minus 5.9 percent on average.

While right sizing the network, outsourcing of activities and developing flexible labor contracts to make those costs more variable are important drivers for mail excellence, high performers are not focusing solely on cost. Indeed, every postal organization is attempting to execute a cost containment and rationalization strategy for their mail networks—some more successfully than others. Where high performers differ is in finding ways to address revenues from mail, with mail revenues for our top 10 organizations falling at about one-half the rate of mail revenues for our bottom 10 performers.

There are two elements on which high performers are focusing to drive mail revenue:

Product innovation at scale

Supporting our findings last year, high performers continue to innovate around mail to discover and implement solutions that slow the decline of mail or even grow mail volumes, while using price changes effectively to fuel revenue growth. Austrian Post Group has achieved innovation with its new advertising mail envelope. Named Kuvert, the German word for envelope, the product is a new packaging option for brochures with advertising opportunities inside and outside the envelope.1 In addition to existing products and services, mail innovation is being achieved with digital, such as enhancing traditional products with virtual reality in catalogs. Finally, e-mail and SMS are being used to enhance the value and effectiveness of traditional mail by offering multi-channel communication campaigns.

Domestic market dominance

High performers have successfully defended their domestic mail market with limited penetration from competitors where those markets have been liberalized. This results from a combination of strategies—a focus on service and quality, targeted acquisitions of upstream and hybrid companies to sustain volumes, and careful pricing and brand management. There is no magic formula for defending mail volumes, but high performers are successfully maintaining their dominance in their domestic market and keeping the competition at bay.

Growth through diversification

In addition to the strong EBIT performance of their mail networks, the top five high performers are also consistently achieving more than 3 percent revenue growth over the last five years by focusing on diversification (Figure 7). These efforts are producing good results, helping to drive an average net profit margin of 11.2 percent over that same period. This growth is in stark contrast with the bottom five organizations in our research which have seen revenue shrink every year for the last five years.

What is clear is that high performance is not just about diversifying into new business lines—most of the organizations in our research operate in multiple business lines. Our research found the high performers are finding ways to achieve scale and better-than-average returns in at least two of their diversified business lines. They are also achieving that scale by investing strategically to enter new markets and then focusing on scaling aggressively to grow market share. For example, Poste Italiane recognized that its retail network was a distinct asset and presented a prime opportunity for development. To do so, it invested in insurance, financial services, expanded retail goods and launched a mobile virtual network. All of these investments have focused on driving traffic and revenue through its retail network to achieve scale.2
Figure 6. Average growth and EBIT* by performer group

Performers groups
- High 5
- Next 5
- Middle 10
- Lagging 5
- Low 5

Mail volume growth 2011 to 2012
- Mail revenue growth 2011 to 2012
- Mail EBIT percentage in 2012

Note: For low five performers, corporate EBIT was taken as a proxy for mail EBIT due to limited data availability.
Source: Accenture analysis.
*Earnings Before Interest and Tax.
High performers are evolving into digital businesses.

As we reported in last year’s research, for many years digital mail as a stand-alone product has failed to drive the revenue and margin growth that postal operators expected. Postal operators have struggled to define a compelling value proposition—either for consumers or mailers—that competes with bill payment and presentation solutions offered by financial institutions or e-mail, which, in most cases, is free of charge.

However, our research has shown that high performers are embarking on bold strategies across the digital economy and are leveraging digital across all facets of products, services and channels to meet customer needs.

Taking full advantage of the mobile opportunity

High performers recognize the consumer’s technology shift to mobile. They are reaching their customers through new, mobile channels and using the power of mobile devices to augment and create more value for existing products and services. For instance, high performer Australia Post offers a new Video Stamp product that enables customers to record a video that launches on their smartphone when the QR code on the package is scanned. Meanwhile, new solutions on handheld devices launched by Royal Mail Group allow the postman to ask questions and capture the responses of consumers as they receive their deliveries; the data is then available to sell to organizations.

Postal organizations are experimenting with other technologies such as quick response (QR) or near-field communication (NFC). By connecting mail with mobile devices, postal operators can create an omnichannel marketing experience that combines physical mailings with online, mobile and even retail channels.

High performers also offer better visibility on mail and parcel delivery while using mobile devices to provide information in real time on the status of a package. By using the channel of choice—such as e-mail or SMS—for senders or recipients and improving tracking or notification capabilities, high performers are providing an enhanced eCommerce experience that enables seamless delivery and improved customer satisfaction.

Establishing relationships directly with consumers

One of the clear imperatives within the industry is the need to establish a relationship directly with consumers—high performers have made this a priority. New solutions provide consumers with control over the delivery experience while giving the organizations we studied a direct communication channel. As a result, high performers tend to capture more information about the recipients of their products who, until recently, have remained anonymous. The net value provided to consumers, especially around visibility, preferences and delivery options, is high and a possible source of additional revenue generation. For example, UPS’ My Choice service offers new levels of flexibility and control over home deliveries, with alerts before the first delivery attempt and the power to redirect or reschedule packages to fit the consumer’s needs. Our research shows consumers are beginning to expect this level of control and postal organizations that provide these services could gain the advantage as markets become more competitive.

Figure 7. Average one-, three- and five-year CAGR by performer group

Source: Accenture analysis.

Revenue growth one-year

Revenue growth three-year

Revenue growth five-year
Becoming an embedded partner in the eCommerce ecosystem

While all postal organizations are benefiting from the increased parcel volume driven by eCommerce, high performers are taking full advantage by becoming an integral part of the entire eCommerce value chain. Several high performers have developed eCommerce logistics networks that expand far beyond their domestic market to capture volumes at source and to act as a hub for a region. For example, Poste Italiane’s dedicated eCommerce solution, known as Poste e-Commerce, boasts that Italian businesses can now “sell to millions of new buyers in Italy and all over the world.” For small businesses that are seeking a quick and easy online presence—including a website, catalog configuration, Web promotion, warehouse, shipment and payment details—Poste Italiane offers a single point of contact and support. For medium to large enterprises Poste Italiane offers a more complex solution tailored to customer needs with the potential for a full outsourcing service. Fueling keen interest globally in the “Italian brand,” and its association with high-quality, exclusive items, Poste Italiane has initiated a presence in broader markets such as the Netherlands, China and Russia.7

Another high performer that is aggressively implementing new eCommerce logistics capabilities is Singapore Post, which has a strategy of becoming a regional leader of eCommerce in Asia-Pacific through a series of acquisitions across geographies and capabilities. Singapore Post has made three recent acquisitions (Quantium Solutions, Famous Holdings and Indo Trans Logistics Corporation) that enable new services such as sea freight, freight forwarding, warehousing and fulfillment capabilities across at least six countries and in the Indo-China region.8

High performers are also taking advantage of their brand and expertise to create a bigger role in enabling eCommerce, developing eCommerce platforms and Web services that integrate with eTailer websites and eCommerce payment and fulfillment platforms. A distinctive example that combines these solutions with a new physical product is bpost’s “shop and deliver.”9 This service allows consumers to schedule a weekly delivery time where the postman brings parcels as well as other goods such as groceries or laundry. Consumers pay for the added delivery convenience and the sender receives a lower-priced product, as well as access to new customers.

Another example is an innovative payment solution offered by Australia Post called PostPay.10 This solution builds on the trusted brand of the postal organization to offer a confirmed delivery and payment solution. Consumers ordering from other consumers or small businesses give their payment to the postal operator who holds it in escrow. The sender then gives the item to the postal organization for delivery and upon successful delivery the post transfers payment to the sender.

Using digital channels to drive greater operational efficiencies

High performers acknowledge the retail trend of declining foot traffic and are using digital channels to enhance the value of their retail network. They are moving lower-value activities to self-service options such as kiosks and 24/7 lockers to offer access and convenience to consumers. And in their banking services they are also moving transactional activities such as bill payment, deposits, withdrawals and statements online to leverage the retail channel for more complex and higher “value-add” services, such as short-term loans and mortgages.
In the 2013 research we found that high performers were making changes to their operating model to address monopolistic ghosts. These efforts were providing significant financial benefit and creating a profound impact on the performance of these organizations. Our 2014 research has expanded this finding and shows that high performers have continued to tackle aggressively their legacy operating models. These high-performing postal organizations are embracing a new degree of autonomy and commercial focus, operating more like their private counterparts than ever before. And while they still maintain a significant relationship with the government and the associated universal service obligation, each high performer is in control of its own destiny and, increasingly, answering to a new set of private shareholders.

A significant catalyst to that new commercial focus has been the ongoing shift in ownership. Whereas historically postal organizations were government-run entities, over the last decade that ownership structure has evolved. Our research found that the top ten performers have, on average, 49.9 percent government ownership, whereas the bottom 10 performers are 89 percent owned by their governments—pinpointing a strong correlation between high performance and increased private ownership (Figure 8).

Performance anatomy

As a result of this new independence and commercial focus, the decision making and culture of these organizations has changed, significantly improving their performance anatomy (identified by our methodology as a building block of high performance). This improved performance anatomy is improving mission productivity and enhancing the ability to execute their strategy effectively.

The high-performing, commercially run postal organizations in our study operate differently in the following three areas:

**Commercial decision making**

Historically, major decisions were significantly influenced by government, making them less about the economics of the situation and more about the political dynamic. Our research shows that dynamic has changed, and the high performers are given significant autonomy to run their business. These high-performing postal organizations that are not “boxed in” by legislative demands can diversify into new markets as they see fit. In addition, they can make decisions about branch relocations or closures that might otherwise have given rise to emotionally charged debate. Posten Norge, while still 100 percent government owned, benefits from limited government involvement and can conduct merger, acquisitions and partnerships to improve its core capabilities, expand geographically and offer more to customers. For example, it has acquired 34 percent of the shares in Danske Fraktmaend AS and established a joint venture with Sweden’s Pressens Morgontjänst to deliver new logistics scale.11

**Redefining the Universal Service Obligation (USO)**

The trends of privatization and liberalization are shifting the parameters of the USO. High performers are successfully mitigating the rising costs of the USO and are better prepared to respond to new competitors entering the market. Meanwhile, their regulators seem ready to acknowledge that the economic and social realities of the USO are changing and more flexibility will be required to create a sustainable postal system. As a result, these high performers are gaining more freedom to adjust their retail and processing networks, their delivery methods and frequency and are beginning to achieve better control over their own pricing destinies. For example, Canada Post recently announced that it would end delivery to the doorstep and begin implementing community mailboxes that enable a much less expensive delivery service.12

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Figure 8. Degree of liberalization and percentage of private ownership by performer group

**Performer groups 2014**

![Figure 8](image-url)
**Workforce transformation**

Our research shows that high performers are focused on attracting and retaining new talent. For example, Austrian Post Group is offering apprenticeships as retail sales associates (quirkily referred to as “Postronauts”) with the emphasis on an aptitude for the latest mobile products and “a knack for apps, touchscreens and GPS systems.” These organizations are transforming their workforce with people familiar with creating consumer brands, operating eCommerce sites and creating and using analytics, cloud and mobile solutions. High performers have realized that they need to move away from the manufacturing culture of mail processing toward a customer service oriented organization. They are also more successful changing key performance indicators and making labor more flexible.

Working with postal organizations worldwide, we recognize that some postal operators have greater limitations than others in driving financial sustainability and there are considerable differences in the approach adopted according to these new ownership models (Figure 9). In many respects, postal operators continue to serve a social purpose. If governments consider this social purpose an integral aspect of their duty to citizens and as the primary role of their postal organization, then they should be prepared to subsidize their domestic postal operation. Alternatively, if governments see their domestic postal operator primarily as a commercial entity in a competitive market, then ownership could create a profit center to fund other government initiatives.

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**Figure 9. Comparison table of the approach taken based on primary role of postal operator**

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<th>Commercial focus</th>
<th>Social focus</th>
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<tr>
<td><strong>Government</strong></td>
<td>Limited government intervention in postal activities or decisions—government outlines commercial mandate.</td>
<td>Political considerations and intervention in operations to favor a specific policy or social mandate.</td>
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<tr>
<td><strong>intervention</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Strategic</strong></td>
<td>Driven by Board and executive committee.</td>
<td>Driven by department and regulator.</td>
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<tr>
<td><strong>decision making</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategic focus</strong></td>
<td>Achieve profitability and long-term financial sustainability.</td>
<td>Focused on revenues and delivering public service.</td>
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<tr>
<td><strong>Mergers and</strong></td>
<td>Conduct mergers and acquisitions to grow inorganically and seize opportunities.</td>
<td>Limited ability to conduct mergers and acquisitions—require department or regulator approval.</td>
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<tr>
<td><strong>acquisitions</strong></td>
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<tr>
<td><strong>Talent</strong></td>
<td>Able to hire at market rates and attract talent from other sectors of interest and build and maintain centers of excellence.</td>
<td>Government salary and banding policies apply to the postal operator and limit the ability to attract and retain talent.</td>
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<td><strong>management</strong></td>
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Source: Postal websites; Accenture analysis
As early as 2010, Accenture research noted the growing parcels opportunity, with postal organizations then experiencing as much as 13 percent of growth in the parcels business, a rate that often exceeded the various countries’ gross domestic product growth. Since that time, various factors—such as the weak economy—have affected how postal organizations are able to exploit the parcels opportunity, but overall revenue growth from parcels remains strong (an average of 6.5 percent for the high performers).

Our latest research shows that the top 10 performers are not only focusing on parcels as a natural extension of their mail business, but also they are highly successful at developing their parcel business as shown in their share of the market (37.1 percent). This market share success is more than twice that of the bottom 10 performers (17.2 percent). In addition, they are able to capture the full parcel value chain, not just the last mile (Figure 10). Revenues are also distinctive for the high performers, with courier, express and parcel as a percentage of total revenue in 2012 being on average 42.1 percent for the top 10, versus 25 percent for the bottom 10 performers.

We found three aspects about the parcels performance that differentiate high performers from low performers. Firstly, high performers have strategic clarity around the parcels opportunity. This means that they know their target segments, the value proposition they want to deliver and the capabilities required to be successful. For example, Austrian Post Group is positioning itself strategically as the parcel provider of choice in a geographic north-south corridor across Eastern Europe, aiming to gain a critical mass of customers from the Baltic Sea to the Adriatic Sea. It has achieved this through a series of acquisitions that have helped expand its footprint and business-to-consumer capabilities.14

Secondly, high performers are able to compete not only on the basics (reliability, visibility and price) but also they offer better integration with customers and enhanced delivery options that make them competitive and able to maintain and grow their market share. For example, Yamato provides its customers with a service called Kuroneko Members that allows consumers to redirect their deliveries, schedule or reschedule a delivery time and receive proactive delivery notifications. Kuroneko Members can be accessed by smartphone or personal computer.15 Yamato also uses Kuroneko Members to inform customers about delivery delays. These types of enhancements to the delivery experience are helping high performers seize market share from their competitors.

To compete today, postal organizations need to meet both sender and recipient expectations. High performers maintain the client relationship with the sender through being competitive and flexible on matters such as pricing and discounts, pick-up and cut-off times, the product range, geographic coverage, information and reports, and claims management, to name a few aspects of their services.

Finally, cross-border eCommerce remains a significant growth opportunity and the high performers are taking full advantage. For example, bpost, which has invested in origin operations in major inbound countries to position itself as the parcel hub of Europe, as well as to capture greater value from international shipments. The Belgian postal operator is building cross-border parcel capabilities to provide greater custodial control and seamless delivery.17

High performers invest to transform their parcel networks and seize market share.

On the recipient side, high performers connect with consumers to offer an excellent consumer experience. They establish a relationship through memberships, such as Kuroneko Members just described, that allow the consumer to determine user preferences and communication options (such as e-mail or SMS). High performers also interact with the recipient through better notifications and extend new delivery options that meet the needs of busy consumers. For example, Australia Post is simplifying its product portfolio and driving greater delivery options for eCommerce customers. It offers the ability to set parcel delivery preferences online and has invested in a series of delivery options such as 24/7 lockers.16
Our research shows that cross-border eCommerce will become even more important. For example, just 11 percent of Europeans are currently buying online from retailers located in other countries and this is far below the European Union Digital Agenda’s target of 20 percent or even the levels of domestic eCommerce, which were 41 percent in 2012. This growth presents a significant opportunity for postal organizations to continue to expand their parcel market share in a typically high-margin segment.

Yet alongside the opportunity there is a serious challenge as postal organizations struggle to compete with the more focused integrators who have global reach. This conflict potentially creates a competitive disadvantage as commercial customers prefer the convenience of a single integration point for all global lanes. Postal organizations can offer global access as well, but it may only be available when they collaborate to better integrate their networks. If postal organizations can use the power of their domestic networks to deliver international shipments for each other, there is significant opportunity.

Figure 10. Courier, express, parcels (CEP) as a percentage of revenue and market share by performer group

Performer groups
- Top 10
- Middle 10
- Bottom 10

Source: Wik Consulting Reports, Annual reports, Accenture analysis
New competitive threats

Many postal organizations have been dealing with domestic competitors for a number of years. Competition has been especially fierce in the parcel business, where we have seen significant growth in the number of private, domestic competitors that are taking market share directly from the postal operator. Our research shows that this competition has increased recently and appears to be challenging growth. While eCommerce has been growing at double digit rates for the last two years, parcel volumes at postal operators have averaged less than 4.9 percent growth. Single digit growth may be considered acceptable in a declining market, but when the market is growing in double digits, postal players must keep pace—or risk missing out on the industry’s strongest growth platforms and losing significant shareholder value.

Even more problematic is a new threat on the horizon—competition from retailers or eTailers. These companies are experimenting with their own delivery services as they seek to lower costs and improve the customer experience. Many suppliers, such as Amazon, 360Buy, Asda, Rakuten or eBay, are bypassing the postal sector completely, with direct-to-consumer offerings that are reinventing delivery services.19

It is not only online retailers that are raising the stakes; an additional threat comes from traditional retailers. New services which enable local delivery of online purchases mean many companies can offer free shipping and faster delivery times. For example, in the United Kingdom retailers Tesco and Waitrose are finalizing details with Transport for London to install click-and-collect facilities at up to six London Underground stations each.20 Retailers will continue to define new models that take advantage of their often extensive physical presence, while also addressing the impacts of smartphone-driven trends such as showrooiming. Such new models are likely to involve using their network to provide logistics which, in turn, reduces volume and yield of postal delivery networks.

To grow parcels while maximizing the efficiency of their vast networks, postal organizations must actively develop competitive strategies that address the large, international integrators, smaller, domestic competitors, and the emerging threat of eTailers and retailers developing their own networks. These strategies must include improved consistency of service, innovative products, direct relationships with consumers and a new level of customer insight and integration to truly be effective.

Digital economy

Our research uncovered three new capabilities that could be important for postal organizations to consider as they plan for their future in the digital economy.

Identity services

As eCommerce becomes more integrated into our daily lives and we become a more “digital society,” identity management and authentication will become far more important. Postal organizations are well positioned to become the organizations that manage identity and provide authentication as a service; leveraging their broad retail presence, often with units in areas where other services are limited. For example, Post Office Limited in the United Kingdom has begun offering driving license renewal and passport services.21 As trusted brands, postal organizations are known for secure, safe, government-backed products. Several postal operators have already begun to develop these types of services, and those that successfully capture this market will secure a vital role in the future of eCommerce and the digital economy.

Mobile commerce

In the Accenture 2013 mobility survey, 83 percent of CIO respondents said mobile would significantly affect their business overall and 84 percent said it would significantly improve customer interactions.22 For postal organizations, mobility not only offers a path toward becoming a digital business, but also presents new challenges. For example, new models are beginning to evolve that significantly simplify payment processes and have the potential to change dramatically the retail shopping experience. These changes use mobile technologies and smart devices to create mobile wallet solutions that offer improved convenience and access than exist today.

But mobile purchases also require a new type of interaction that involves eliminating keystrokes and creating single-click convenience. Postal organizations need to watch carefully how these technologies evolve and work aggressively to incorporate easy-to-use, one-click postal shipping options into these mobile purchase services. In addition, postal organizations that include banking and mobile virtual network operator (MVNO) business lines are well positioned to bring their own mobile wallet solutions to the market.

Analytics

A recent Accenture survey identified that use of predictive analytics is up nearly threefold since 2009, with 68 percent of executives saying they are committed to analytics.23 Postal organizations have a wealth of data around customers and operations they can use to drive better results. Financially difficult markets stress the importance of capturing every possible efficiency or advantage; data analytics can offer postal organizations a competitive edge. From an operational perspective, data analytics means capturing more data at the source electronically and using this
data in near real time to help drive the next steps efficiently throughout the supply chain. To do so requires knowing the volumes and profile of inbound mail and parcels and being able to drive intelligent operations, such as better labor scheduling, better equipment usage and achieving service levels more efficiently.

Customer data—and the related insights that can be created—is also quickly becoming a competitive necessity. For example, USPS recently developed a predictive model based on customer data to prioritize leads for its sales force. These efforts have improved the close rate of leads by 28 percent, while increasing the revenue from these leads by 55 percent.\textsuperscript{24} Historically, postal organizations have gathered this data in silos associated with their separate business units, with limited data sharing across businesses or even channels. Gone are the days when that separation is acceptable and postal organizations are already starting to aggressively aggregate customer data to develop effective customer relationship management (CRM) solutions. These solutions must focus on commercial customers as well as small businesses and consumers and need to coordinate those experiences across channels. Using analytics effectively, based on customer data, can lead to competitive advantage.

Technology horizon
Recently, media interest has spiked concerning the use of two new technologies: drones and 3D printing. These technologies represent game-changing opportunities for the industry and for postal organizations that invest wisely in the right technology. While these technologies seem well suited for reaching more expensive rural deliveries, they also present a significant opportunity in the heart of cities where congestion is increasing the price of delivery. Using a drone network to deliver to parcel lockers in a congested city center, for example, could benefit urban consumers looking for secure deliveries while lowering costs and making them environmentally friendly. While they appear far-fetched today, these technologies may be closer than they seem. For example, an integrator in China has already begun to use drones for rural deliveries.\textsuperscript{25} And UPS has already begun to provide 3D printing services in their outlets in the United States.\textsuperscript{26} Accenture believes these technologies have the ability to disrupt significantly existing networks and practices. As a result, postal CIO's should evaluate these areas in the context of their technology roadmaps. In addition, executive committees should develop strategies that not only address but also take advantage of the competitive threat posed by these technologies.
Our research has found that there are three critical dimensions that serve as a roadmap for postal organizations as they outline and execute their high performance strategies. This model, illustrated in Figure 11, is designed to help postal organizations prioritize their actions to achieve future success.

Step 1. Defend the core business
While mail may be declining, high performers have a clear plan that involves both costs and revenue. Their efforts prove that if postal organizations focus on managing the rate of mail decline, while aggressively managing costs, they can deliver solid profitability from mail. Sample actions include: Rationalize operations, foster product innovation, promote aggressive pricing and pursue inorganic growth.

Step 2. Grow the parcels opportunity
For the past four years, the parcels opportunity has shown itself to be a viable alternative to mail growth. High performers have achieved significant market share and are able to drive value from their network. Now, postal organizations must continue to focus on strategies that effectively deliver market share while driving more value from their domestic networks. Sample actions include: Integrate digitally with senders and recipients, enhance capacity and efficiency, employ route optimization, and introduce telematics.

Step 3. Diversify selectively
Revenue growth, and a sustainable future, comes from diversification. To achieve high performance, postal organizations need to invest in targeted diversification to gain scale and material market share in their chosen area or areas. Our research shows that these growth strategies are organized around one of three strategic assets.

Retail network
Postal organizations have an opportunity to leverage the retail network—especially around financial, consumer and government services to provide higher value added services and move away from transaction-based services. The opportunity lies in an organization’s ability to “sweat the asset”—delivering new services with existing infrastructure and labor. In some cases, this requires new self-service options that enable more customers to be served by a single postal clerk. In others, there is an opportunity to leverage digital channels to create a new user experience that integrates the digital experience with the physical, seamlessly.

Logistics network
Some postal organizations may choose to build upon their expansive logistics network while moving up the supply chain. This diversification extends beyond transportation of mail and parcels into supply chain services such as order management, inventory management, warehousing, distribution and reverse logistics for both the business-to-business and business-to-consumer markets. Such an approach requires new network assets (for example, warehouses) as well as new labor skills. Successful logistics strategies are founded on scale and it will be critical for postal organizations choosing this strategy to invest appropriately to acquire critical mass.

Delivery network
Postal organizations are unique in their ability to go door-to-door every day across the country and some are starting to exploit this asset. As postal organizations rethink home delivery, there is an opportunity to offer new services such as surveillance, data collection, local deliveries and value-added services such as in-house installation. Many of these services are new and focus on customer segments that are not traditional mail buyers. The challenge lies as much in product innovation and sales as in the technology and operational aspects to deliver these services.
Figure 11. The three dimensions of a postal high performer

Digital organization

- Financial services
- Government services
- Retail services
- Authentication
- MVNO*

Retail
- Freight
- Warehousing
- Logistics
- Customs brokerage
- Hybrid mail

Logistics
- Data collection
- Surveillance
- Local deliveries
- Home services
- Payments

Delivery
- Achieve scale
- Drive operational excellence
- Focus on technology
- Establish partnerships or grow inorganically
- Seek differentiation

Grow the parcels opportunity

- Get the basics right (reliability, visibility)
- Manage yield
- Increase capacity
- Enable network agility
- Offer new delivery options

Defend the core business

- Right-size operations
- Drive ongoing automation
- Foster product innovation
- Manage product and pricing
- Promote USO flexibility

*Mobile Virtual Network Operator

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Research methodology
This report consists of analysis based on publicly available information, content published by the postal organizations and Accenture industry knowledge and experience. For a full overview of the Accenture high performance postal industry process model, please visit www.accenture.com/postal.

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