International Post Corporation

Strategic Perspectives on the Postal Market
2009

THE NATURAL PARTNER FOR THE POSTAL INDUSTRY

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Executive Summary

This publication, Strategic Perspectives on the Postal Market, provides a distillation of the cooperative market intelligence projects carried out between member postal operators and IPC throughout 2008.

We have drawn out the key trends, challenges and solutions identified by our intelligence platforms to give an overview of strategic thinking in the postal industry in five key areas: parcel home delivery, direct marketing, environmental sustainability, financial services and resource management in mail sorting centres.

We believe that in a rapidly changing market, a cooperative platform to share best practice, provide short and long-term industry forecasts and monitor industry trends is an efficient way to inform strategic choices.

Key inputs to this publication are IPC's Senior Executive Forums (SEFs), Best Practice Seminars (BPS) and primary research commissioned by IPC over the last year.

The topics for SEFs are set by the IPC Board, and their senior participants are nominated by member chief executive officers. Strategic Perspectives this year draws on five SEFs that together represent input from more than 100 senior postal executives with leadership roles in their areas of responsibility. In addition, to enhance thought leadership and strategic analysis, SEFs in 2008 involved external experts from leading research organisations such as IPSOS and Boston Consulting Group, academics and specialists from adjacent industries.

Our Best Practice Seminars benchmark the operational management processes of members and leading firms both within the postal industry and outside. These seminars were facilitated by Elmar Toime, former chief executive of New Zealand Post and former deputy chairman Royal Mail, and contribute to the content of Chapter 6 of this publication.

During 2008, we undertook a major pilot study into direct marketing and the role of direct mail in six national markets. The results from that study also provide input to Chapter 3.

Growth Opportunities in Parcel Home Delivery

The post offers access to more homes than the internet and is in an excellent position to expand its final mile parcel delivery service to consumers. The trusted postal brand, combined with reliable parcels networks, offering delivery within two or three days, backed by good process control is ideal for growing the parcel home delivery market - providing the costs are acceptable to the consumer.

The European home shopping market is growing fast with a shift from retail to online and this is being stimulated by the economic crisis. In Europe the retail market is worth EUR 2,200 billion and is growing at 2.5 percent. Online shopping is still a very small part of this but is growing at over 20 percent. Most of this is physical delivery (EUR 132m). The share of online shopping will be eleven percent of retail by 2011.

The CEP market in Europe is currently worth around EUR 40 billion. This will grow considerably. Half of this is express and half is standard parcels. B2C parcels are growing much faster (six to eight percent) than B2B parcels. Cross border traffic is growing faster than the domestic segment at fifteen percent, but it is still small. The CEP market in the Americas is currently worth around EUR 55 billion and EUR 30 billion in Asia.

Traditional mail order is declining and this trend is expected to accelerate, but remains dominant in the large markets of Germany, UK and France. Large mail order firms will partly change their business model to e-commerce and therefore continue to exercise dominant buying power, a trend that is well-established in North America.

Not only are distance sellers seeing an increasingly high proportion of orders made online, the internet is providing an attractive route to market for traditional retailers and new types of merchants taking advantage of the reach it provides.

Postal operators have long-standing relationships with traditional mail order companies but have difficulty initiating and building relationships with the increasing number of online merchants that in many cases are failing to offer the post as a delivery option.

Big increases in B2C parcel volume have placed pressure on postal parcel processes and delivery networks. Growth in B2C demand has attracted the attention of new low cost base competitors prepared to make a strong market entry, such as Hermes which is going head-to-head with postal operators in Germany and Austria, providing enhanced IT capability and a simpler interface with senders.

Parcels could be the leading postal product in 10 years' time, generating a higher proportion of the mail mix than letters as letter mail continues its overall decline. To take full advantage of parcel growth, it is essential to retain market share by ensuring that both customer recipient and sender needs are met.

The first priority is to ramp up operational capability to levels of demand while at the same time reducing operating costs. Postal parcel operations must achieve greater productivity as well as reliability and transparency.

Direct Marketing Intelligence

Direct mail accounts for the highest spend within direct marketing in most markets but the exponential growth in online advertising and marketing will continue, especially in markets with growing broadband adoption.

Targeting and response generation are likely to improve as online advertisers become more sophisticated. There is a need, therefore, for postal operators to understand different types of online media and how the unique strengths of direct mail can integrate with online in order to build more effective campaigns.

Direct mail is perceived as a more effective media for customer retention. It is also seen as effective for customer acquisition, short-term sales and product advertising. However, the distribution costs element of direct mail campaigns is proportionally high – the post is seen as the major external cost and this could be driving advertisers to online channels.

Asked what they need most to facilitate their direct mail marketing, advertisers say they require effective means to assess the ROI of their campaigns as well as to manage address lists.

It is estimated that between twenty and forty percent of all direct mail spending is business-to-business (B2B), yet this sector is not as well researched or understood.

There are substantial gaps between the perceptions of advertisers and those of recipients in terms of the relevance of B2B direct mail and its environmental impact. Recipient perceptions need to be addressed in order to drive up the effectiveness of direct mail.

Postal operators have recognised the role of direct mail in the mail mix, its growth potential and equally, the competitive threats it faces. They have applied a range of strategies to the development of their direct mail offer. A common theme in these is the recognition that direct mail is about advertising and not about distribution; it is crucial therefore to build close relationships with marketing specialists and their agencies.

TNT is constructing its own concepts for cross-media campaigns to attract new customers to direct mail. It is working with partners to link direct mailings to e-mail or SMS; to use direct mail as a driver to websites and as a supplier of product samples as part of integrated campaigns.

De Post/La Poste is well into a three-stage strategy. First, it earned the right to be a player in the advertising market; second, it developed its advice and consultancy, offering customers creative solutions and data on the value of direct mail; third, it is shaping the market by positioning direct mail in today's multi-channel environment, building it into a core medium and defining common measurement and tracking standards.

Deutsche Post has increased direct mail volume through online tools for agencies that match classic media audiences with direct mail recipients, linking offline and online channels in order to optimise response.

Environmental Sustainability

The post operates large and comprehensive national transport networks. These provide a unique opportunity to take the lead and show the way towards a sustainable future based on renewable energy.

Green postal buildings can be developed not only to minimise carbon emission but also to act as generators of sustainable power; in the transport operation, postal operators have the means to be first-movers in creating a distributed power grid and providing the infrastructure for hydrogen production.

Recognising the postal industry's potential and obligations in the global response to climate change, the first results from the IPC Environmental Measurement and Monitoring System (EMMS) will be published in 2009, based on the state of play for carbon reduction in IPC members' businesses during 2008.

EMMS enables postal operators to measure their improvements in carbon management and to illustrate their achievements to stakeholders in a consistent manner. It will provide information for the first postal sector sustainability report which IPC will launch during the United Nations Framework for Climate Change Conference (UNFCCC) in Copenhagen in December 2009.

As part of the post's response to emission reduction, more and more postal operators are turning to green building design and construction. In addition to the undoubted environmental benefits, energy reduction and waste and water reuse have been shown to bring significant benefits to the bottom line through cost savings.

The next challenge is to collect sufficient renewable energy to transform postal buildings into a distributed network of positive power plants generating surplus energy for other uses.

In addition to work on carbon-neutral buildings, the logistics and transport chain is the crucial component of a new, sustainable future for the post. Vehicles need new types of power and the postal industry can be an early adopter because of its huge vehicle fleet.

General Motors believes that no single sustainable fuel technology will be dominant as a solution to climate change and energy shortage. It plans to add hybrid electric vehicles, extended range electric vehicles and hydrogen fuel cell electric vehicles to its product range over time and envisages that second generation ethanol and fuel cells will power larger vehicles in the future.

Hydrogen is highly energy efficient owing to its high energy density. It can be applied to energy production in buildings (power, heat and cooling) and enables system synergies between transport and fixed facilities, a key opportunity for postal operators.

Hydrogen fuel cells can also be used to optimize integration of other renewable energies. Postal infrastructures provide a ready-made hydrogen fuel cell network which means that start-up would require less capital.

Fuel cell technology could respond to many challenges faced by the postal industry but the business case will have to be proven.

Financial Services through Retail Outlets

While a foray into global lending and credit guarantee, albeit at a micro level, might be a step too far for most postal operators, there is no doubt of the potential in more traditional postal financial services.

Postal operators have an opportunity to use both their extensive retail networks and their postmen and women as contact points with the public and self-employed/small businesses to build a new type of customer relationship based on a more professional, but not necessarily more complex sales proposition.

There are several successful models for postal financial services ranging from operating a fully-fledged bank such as Groupe La Poste's La Banque Postale, to partnerships, as in the case of Royal Mail's Post Office and Bank of Ireland, cooperation agreements such as between Magyar Posta and Erste Bank, and joint ventures as between De Post/La Poste and Fortis. Each of these models has the potential to bring income and profits to postal groups.

Resource Management in Mail Sorting Centres

Mail sorting centres are the engine-room of postal operations. They represent the largest concentration of people and capital assets in the pipeline. In the short to medium term, mail sorting centres are largely fixed cost structures with the opportunity to vary costs only at the margin. The application of sorting technologies, production planning techniques and skilled people management are key ingredients to achieving continuous productivity improvement.

Postal operators need to engage employees and extract ongoing productivity improvement by introducing best practice techniques developed in other sectors. Internal communications, first line manager training, job design, and structured lean management programmes are essential for this.

There is a need to evaluate the benefits of supporting employee engagement processes based on external best practice as a means of continuous productivity improvement.

If addressed letter mail volumes continue to decline at the rates being seen today, postal operators are going to require diversification and growth strategies in new business areas to compensate for this. Postal management has to face up to the operational implications of significant volume loss given the extensive technology investments that continue to be proposed. Indeed posts need to communicate the future volume risks to stakeholder groups including employees as part of their ongoing engagement exercise.

Conclusion

Pooling resources is especially important at a time of economic difficulty and increasing competition. We believe that this Strategic Perspectives publication provides a showcase for our intelligence creation aimed at helping members better to understand and manage the impact of industry and economic trends.

2

Growth Opportunities in Parcel Home Delivery

- The post offers access to more homes than the internet and is in an excellent position to expand its final mile parcel delivery service to consumers.
- The courier-parcels-express (CEP) market in Europe is largely multi-domestic; in Asia it comprises many domestic operators, whereas in North America, consolidation has left two or three operators dominant.
- The current economic downturn creates opportunities for postal parcels as customers turn from express to reliable deferred services.
- The business-to-consumer (B2C) and consumer-to-consumer (C2C) parcels markets are seeing incremental growth thanks to online shopping which is prevailing despite the economic downturn.
- Big increases in B2C and C2C volumes have put pressure on postal parcel processing and delivery networks; New Zealand Post and Canada Post are among the operators to take strategic steps to solve these issues.
- Postal operators in Europe retain a dominant share of the B2C market but new low cost competitors are moving in on the back of the trend for volume growth to offer segmented solutions.
- To consolidate their position, postal operators should look for business opportunities and partnerships along the home delivery value chain.
- The B2C market demands innovation in price, IT systems, the quality and flexibility of delivery, and reporting.
- E-commerce receivers have considerable power over delivery choice and their experience of delivery will influence strongly the extent of their online shopping.
- International B2C postal parcel services need agreed standards and a system for returns. The Direct Point initiative is assessing how this can be achieved.

The Parcels and Express Market

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The post offers access to more homes than the internet.

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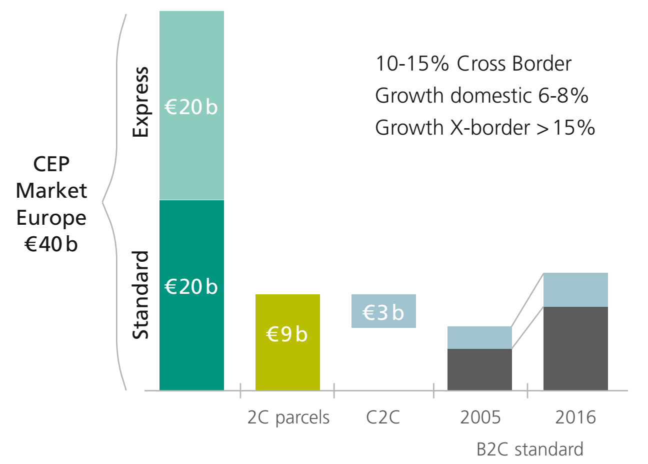
In the global courier-parcels-express (CEP) market, business within the regions of Europe, North America and Asia is significantly larger than the business between regions. Therefore, rather than being fully globalised, the CEP market is still largely regional and domestic.

The CEP market is largely regional and domestic and not fully global.

Within North America, there has been consolidation so that today two or three players jointly control eighty to ninety percent of the overall market.

This is not the case in Asia, where there are many domestic networks and no dominant integrator has yet emerged. Europe is largely a multi-domestic market with an overall value of around EUR 40 billion. This is forecast to grow considerably.

EUROPEAN CEP MARKET: SIZES AND GROWTH



Source: IG&H, BCG, TNT

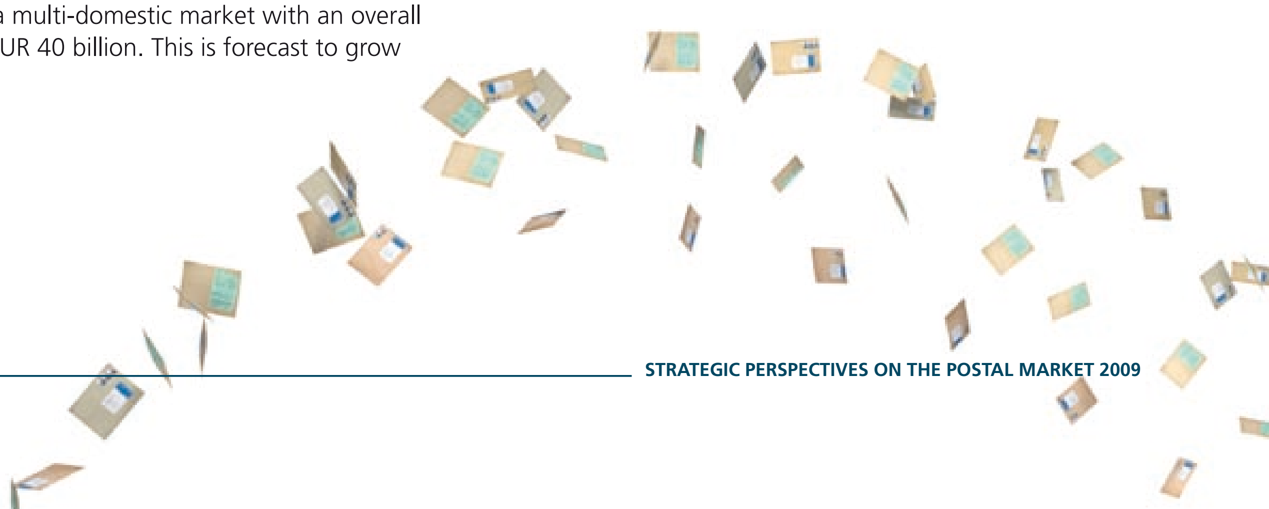
Business-to-consumer parcels are growing faster than business-to-business.

Market value in Europe is split evenly between express and standard parcels. Business-to-consumer (B2C) parcels are growing by six to eight percent, much faster than business-to-business (B2B) parcels. Cross border traffic is low at present but is growing faster than the domestic business at 15 percent.

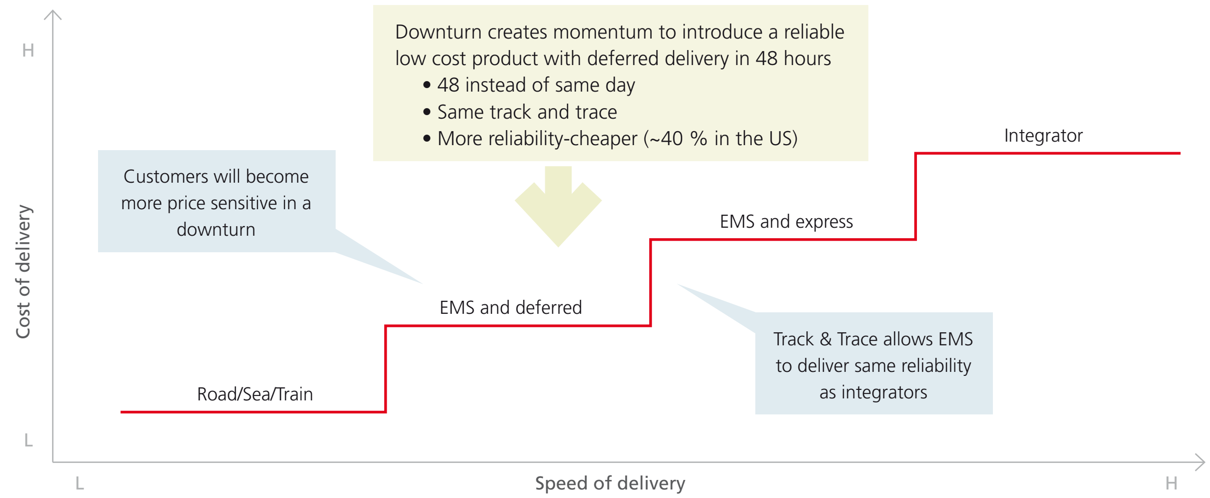
Segmentation in the CEP market currently includes a domestic or an international focus and differentiation according to delivery speed (deferred or express), destination (households or businesses) or location (large centres of population only).

There are discussions in the current economic downturn about the value of express.

There are discussions in the economic downturn about the value of express. Delivery within two or three days is often acceptable to senders, provided operators have good process control.



DOWNTURN CREATES OPPORTUNITY FOR DEFERRED PRODUCTS TO TAKE MARKET SHARE



Source: BCG, IPC

Good process control will be the lever for winning business for deferred services from express in the current downturn.

In the current climate, there is much debate about whether express and deferred parcels can merge within the same network operationally and whether this would be economically viable.

International Business

Today, the post offers access to more reliable deferred networks, for example, GeoPost's DPD parcels operation and the Kahala Post Group (KPG) which is an EMS alliance between Australia Post, the United States Postal Service, Correos, Groupe La Poste France, Royal Mail, China Post, Japan Post, Singapore Post, and Hong Kong Post.

International supply chain managers are most concerned with process control, and having reviewed their contracts, may permanently switch to deferred networks. This could be a good opportunity for postal parcel operators to win new international business, but to maximise this opportunity they must work together.

The composition of parcels is also changing – GeoPost has seen a large growth in their B2C business which is greater than B2B. The growth of B2C and the trading down to deferred networks could provide a real advantage for posts.

Business to Consumer Parcels and Online Growth

The non-express, B2C parcel is enjoying a renaissance thanks to growth in shopping via the internet. Not only are long-established distance sellers seeing an increasingly high proportion of orders made online, the internet is providing an attractive route to market for traditional retailers and new types of merchant are taking advantage of the reach it provides.

TRENDS IN HOME SHOPPING

European home shopping market is growing fast
– Shift from retail to online
– E-delivery grows faster than physical delivery

Market value 2008

Retail	€2 200 b	2.5%
Online shopping	€161 m	23.3%
Physical delivery	€132 m	21.1%
E-delivery	€29 m	33.6%

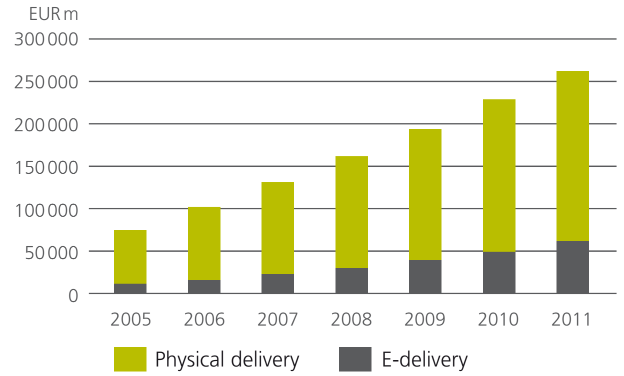
Share of online shopping will grow 3.5% to 11% of retail by 2011
Share of e-delivery will grow to 22% of physical by 2011

Source: Forrester, pre-crisis data

Online shopping was growing at a rate of some 23 percent in 2008.

Currently, the whole European home shopping market, both online and from catalogues, is growing fast with a shift to online being stimulated by the economic crisis. The overall retail market is worth EUR 2,200 billion and is growing at 2.5 percent. The online segment, however, is growing at 23.3 percent and in 2008 was worth an estimated EUR 161 million.

RETAIL AND HOME SHOPPING



Growth is still increasing
Market for support services will grow to 20% of online revenue of which delivery takes the largest part

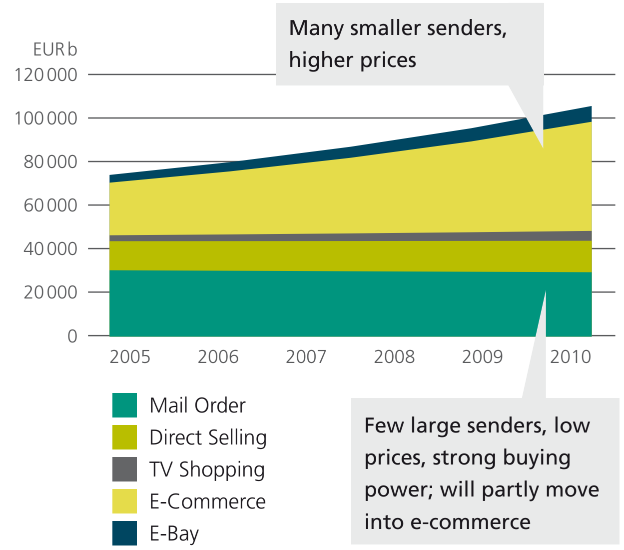
Source: Forrester, pre-crisis data

E-delivery is forecast to account for 11 percent of retail in Europe by 2011.

E-commerce is the main driver for growth with the E-bay model driving the consumer-to-consumer C2C growth. The share of the retail market taken by online shopping is estimated by TNT to grow to eleven percent of retail by 2011.

Traditional mail order is declining, but remains dominant in the large markets of Germany, the UK and France. Large mail order firms will partly change their business model to e-commerce and therefore continue to exercise dominant buying power.

CHANNEL SHIFT IN DISTANT SELLING REVENUE



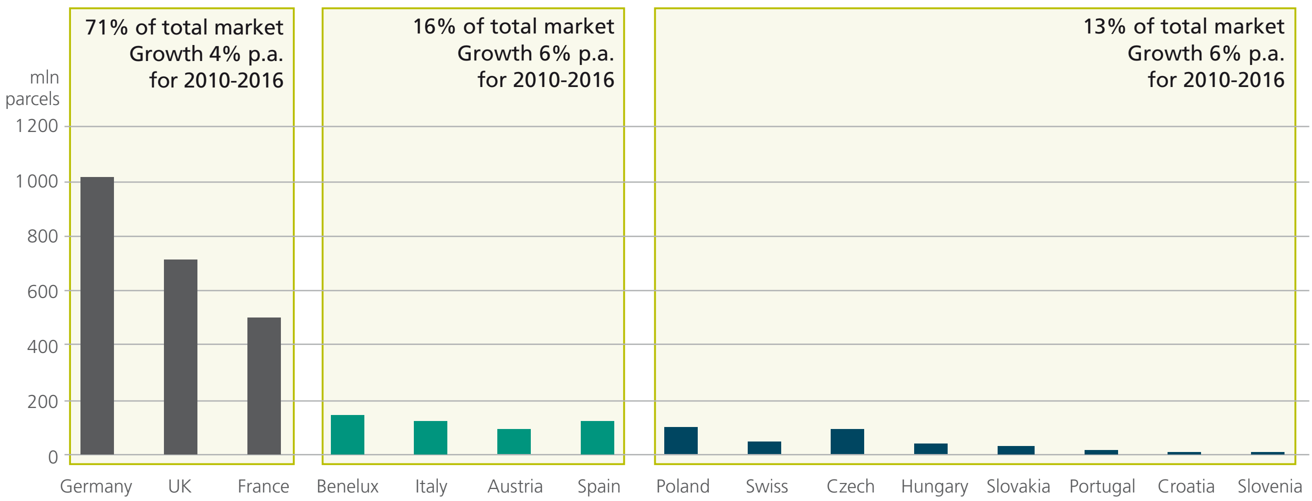
Source: BCG, Forrester, TNT, physical delivery only

The e-commerce market will be made up of a large number of smaller senders, the reverse of the catalogue market dominated by major brands.

Italy and Spain have a different structure—distance selling with personal contact is the dominant model. East European online markets are still at a very early stage and will remain a minor part of the European market for the next ten years.

EUROPEAN PARCEL MARKET 2016 VOLUME OF BUSINESS-TO-CONSUMER STANDARD

Total market: 3.1 b parcels, €8-11 b



Key market is still the same in 2016: Germany/UK/France, but lower growth
Market structure not very different compared to 2005

Source: TNT

Volume in Europe's B2C parcels market is dominated by Germany, the United Kingdom and France.

Profitability

Big increases in B2C parcel volume have placed pressure on postal parcel processes and delivery networks.

New Zealand Post and Canada Post have both taken strategic decisions to grow profitable B2C parcels businesses as the following two case studies illustrate.

New Zealand Post balances Price and Capacity

New Zealand Post witnessed enormous growth in home delivery parcels until the business could no longer be viewed as marginal. It became clear that the cost structure was no longer appropriate – the home parcels business was losing money.

A new focus on small, lighter parcels and a realignment of prices doubled the cost of sending many parcels and turned a loss-making business into profit while achieving an overall unit rate increase of 18 percent.

A joint venture company between New Zealand Post and DHL handles courier and express shipments. With home delivery growing, New Zealand Post conducted a review three years ago to decide whether or not to remain in parcels or "give it all to the joint venture".

The decision to stay in the market was based on four factors: New Zealand Post has the universal network; it offers individuals and small businesses access to parcels services; it is trusted and reliable; and can deliver small parcels more efficiently than the joint venture by using postmen and women on their normal round.

New Zealand Post only delivers parcels weighing up to 5kg.

The relaunched service is now bedded in. It handles small parcels weighing less than 5kg – New Zealand Post priced itself out of larger, heavier items, which are delivered by the joint venture.

Small businesses benefit from transparent pricing and safe, secure, reliable solutions for returned items. A pre-priced package is popular and senders have changed their behaviour by packing goods smaller. They have exceeded New Zealand Post's volume forecasts.

New Zealand Post has 30 percent of the B2C market (the joint venture has a further 35 percent). There is strong competition; an operator entered the market the day after New Zealand Post announced its new service, however, as the only rural service, New Zealand Post also delivers on behalf of competitors.

There is no history of catalogue shopping in New Zealand, therefore the market is still underdeveloped in terms of online shopping. There is also potential for international inbound traffic as consumers look abroad for products such as cosmetics and pharmaceuticals.

Canada Post builds Parcels Margin

Canada Post has a 62 percent market share of home delivery. It is forecasting volume growth of more than seven percent a year through to 2015 and compound average revenue growth of more than nine percent a year. In the medium term, this growth rate will create capacity problems in the network that will have to be resolved through investment.

Canada Post has increased the margin in its parcels business by six percent and its productivity by 30 percent.

Canada Post is embracing new ways to reach online senders and receivers; it has increased the margin in its parcels business by six percent and its productivity by 30 percent; it has devised new ways for senders to pay parcels postage and is working on a consumer preference database designed to solve its 60 percent failure rate for first time home delivery.

The idea is to use the Canada Post website to offer all citizens a password-protected and authenticated preference page. This will allow them to manage their deliveries by requesting SMS or e-mail alerts, or notifying Canada Post when they will be away and requesting that parcels be either held or delivered to another address. The hope is that ultimately there will be a database of Canada's 14 million addresses linked to customer preferences so that real time intervention will be possible.

Competition

In Europe's B2C market, incumbent postal operators remain the dominant players with market shares in excess of fifty percent, however there is strong market entry and growth from mail order networks such as Hermes, which is going head-to-head with the posts on universal home delivery in Germany and Austria, providing enhanced IT capability and a simpler interface with senders.

Equally, major parcels and express networks with a B2B focus are starting or planning to develop B2C. These competitors are entering the B2C market with differentiated offers, often with much lower-cost operations and delivering on two to three days of the week only.

> The traditional one-size-fits-all postal home delivery service is at risk from competitors.

The traditional one-size-fits-all postal home delivery service is at risk from competitors with segmented solutions: while some can leverage express networks to offer high-level services, others can offer low-cost deferred services linked, perhaps, to local collection rather than door-to-door delivery.

> Lower factor costs could allow entrants with small market shares to be profitable therefore postal delivery costs need to reduce.

Lower factor costs could allow entrants to be profitable at market shares as low as five or 10 percent.

Postal delivery costs need to reduce and postal operators should develop business models that will prevent competitors from “cherry-picking” sectors within the home delivery parcels market.

In Norway, for example, Posten has 1,300 franchised postal outlets and 100 post offices but these are twice as expensive to run as competitors’ collection points. If competitors cherry-pick, leaving the post only rural delivery via downstream access contracts, Norway Post believes its service will no longer be profitable.

> In Germany parcel rates are as low as EUR 2.00.

In France shops are creating their own distribution channel by setting up pick-up points for online purchases. In Germany, some low-cost parcels operators are offering senders prices of EUR 2.0 to 3.0, while United Parcel Service and DPD are competing on quality, offering parcels services off the margin of their express networks.

In Switzerland, competitors to Swiss Post have to pay the regulated wage for the sector but are offering lower prices – the average price of a Swiss parcel is EUR 4.0 to 5.0.

There are five likely strategies for new market entrants:

- Use of drop-off points for receiver collection
- Reduced delivery frequency
- Leveraging an existing business-to-business parcels network
- Providing fulfilment for large e-merchants only
- Offering only urban delivery

In Canada, for example, cosmetics company Avon has created sufficient density to run a dedicated, customised system for distributing stock to agents who sell in their local communities. Independent owner-operators and small delivery firms pick up loads every third Thursday from specified collection points. They deliver multi-drops on specified routes the next day, Friday, which is normally a low-volume day for parcels operators.

Postal operators need to offer their own solutions to segmented approaches. They will never compete effectively on cost, so they must aim for differentiated, quality services and higher prices.

> A big market share will not in itself provide protection from competitors.

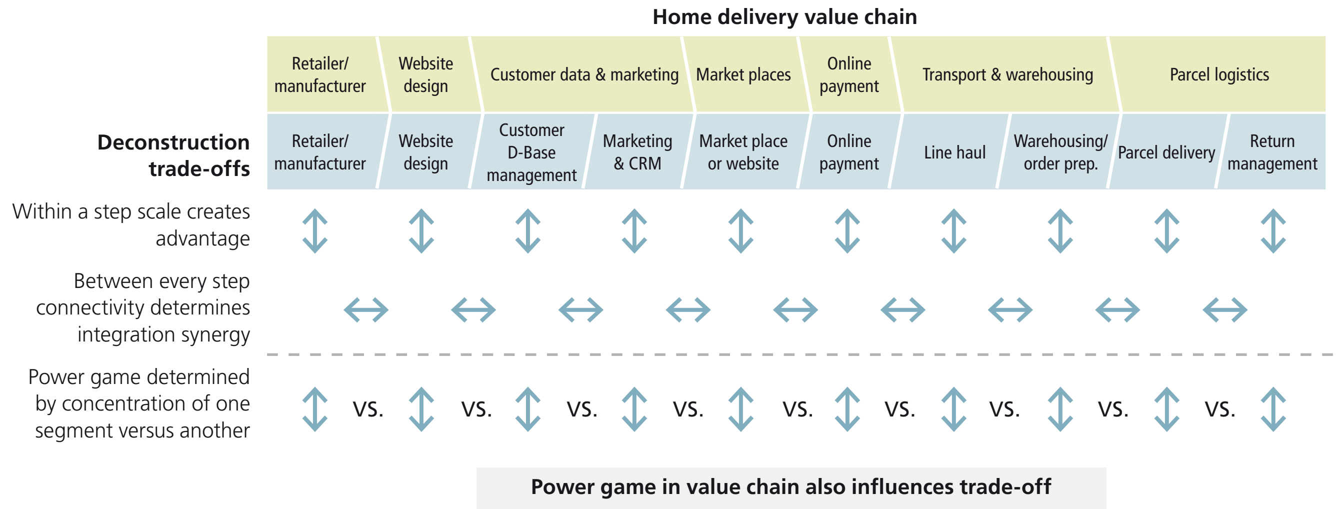
A big market share will not in itself provide protection. The requirement for postal operators is to consider their cost base and segmentation model and decide what position they want in the value chain.

Postal operators with close to 100 percent of their domestic B2C market will know the catalogue senders but not the online merchants – they will have difficulty finding them; often, the post is not offered by online merchants as a delivery option.

The Home Delivery Value Chain

Postal operators can find synergies with their core delivery capability along the home delivery value chain from product offer to delivery. To consolidate their position, they should see where it might be beneficial to have a greater involvement and where new partnerships are appropriate. It will increasingly be an advantage to control processes that facilitate e-commerce.

DECONSTRUCTION OF THE VALUE CHAIN IS DRIVEN BY A TRADE-OFF BETWEEN INTEGRATION SYNERGIES AND SCALE ADVANTAGE



Source: BCG, IPC

Postal operators can become more involved along the value chain and should they look for partnership opportunities.

It is essential to watch the trend. In general, postal operators have good market share and thus a good starting position. However, could one small element of the value chain control the market? For example, a single company with the most trusted system for online payment.

Consolidation

Online retailing is consolidating. In France, for example, the top 10 online sellers already account for about a third of the market. Many elements of the value chain are scale sensitive which means that postal operators could be serving a small number of senders in future.

Consolidation by big internet operators such as Amazon and eBay means that postal operators are facing large e-commerce customers similar to those in the traditional home delivery market. The bargaining power of these companies over postal delivery costs will increase.

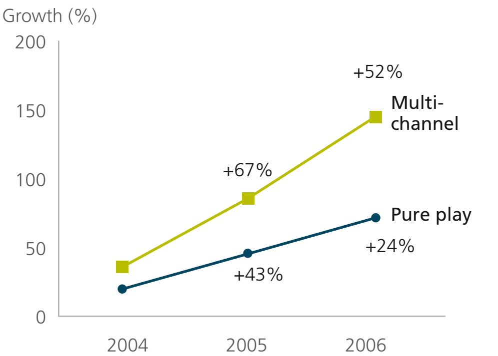
Postal operators might need also to consider entering the value chain themselves as a defence against dominant online merchants.

Multi channel retailers have proved they can generate more revenue for each channel than single channel operators. Each channel requires a different delivery solution.

RETAILERS INCREASINGLY START TO USE MULTIPLE CHANNELS

Multi-channel strategy drives above average online growth

Online sales growth*

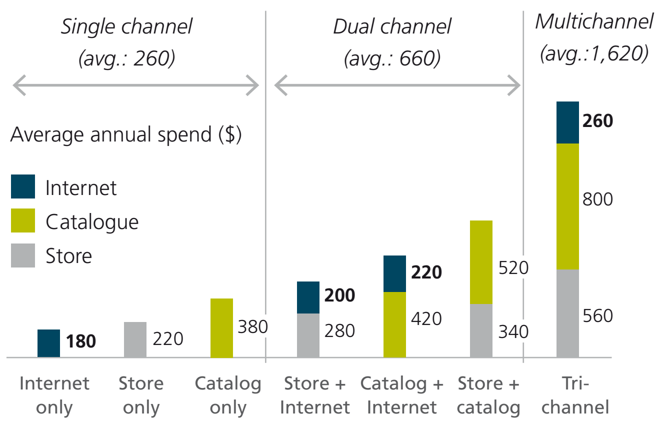


* Top 12 multi-channel players (Office Depot, Steples, JC Penney, Victoria Secret, Wal-Mart, Castro, Apple, Best Buy, Sears, Circuit City, Target, Barnes & Nobles) vs. top pure players (top seven excluding Dell) Source: Forrester Research; BCG analysis

Multi-channel retailing will drive significant growth in home delivery market

Multi-channel customers prove to generate more revenues for each single channel

Example multi-channel spend from a women's apparel retailer



Source: BCG, IPC

Multi-channel retailers require a range of delivery solutions.

Growth Opportunities for Posts

Postal operators are in a good position to offer the full range of B2C services, both domestic and cross-border.

With growth in the B2C sector apparent and set to continue, postal operators are in an enviable position. They have home delivery networks that are both well established and comprehensive and a high share of the B2C market.

Parcels could be the leading postal product in 10 years' time.

Many believe that parcels, long the poor relation to mail, could be the leading postal product in 10 years' time, generating a higher proportion of the mail mix as letter mail continues its overall decline.

Singapore Post believes that last mile delivery capability can be developed into a first mile sales opportunity. It points to Yamato in Japan whose 1,600 delivery personnel establish personal contact with delivery customers to become first mile ambassadors, collecting parcels as well as delivering them.

In Japan, Yamato delivery personnel have become first mile ambassadors both collecting and delivering parcels.

Yamato personnel deliver to forty or fifty houses a day in Japan whereas Japan Post's delivery routes take in several hundred delivery points. This gives rise to a strategic question about whether to split delivery networks for parcels and letters.

Any attempt to convert final mile to first mile would involve training delivery personnel to identify and sell to customers who actually send parcels. Increasingly Singapore Post's management is regarding delivery staff as a revenue generating opportunity.

Market Barriers

Postal operators have a role to play in breaking down barriers to online retailing so that the market can achieve its full potential.

Innovation is needed in price, delivery quality, IT systems and reporting, because the B2C parcels market is demand driven. Both senders and receivers are requiring more – lower prices, more delivery options and specific delivery windows. By meeting those needs postal operators can release the market's growth potential.

There are issues that deter consumers from taking the step into online shopping:

- Inability to see the product
- Worries about disclosing personal financial information
- No perceived need to buy online
- Preference to buy in a store
- Distrust of delivery
- Knowledge of others' bad experiences online
- No credit or debit card
- Complicated processes
- Perception that delivery costs are too high
- Reluctance to wait for a desired product

Action by Postal Operators

A number of the barriers to growth can be addressed and solved by postal operators. To optimise the advantages presented by B2C, however, all postal operators need a profound understanding and strategic vision.

In some sectors of the B2C delivery market a 20 percent margin at EBIT (earnings before interest and tax) is a viable objective. To take advantage of the top prizes, retain market share and gain economies of scale, postal parcel operations must achieve reliability, transparency and greater productivity.

Operations

The first priority is to ramp up operational capability to forecast levels of demand while at the same time reducing operating costs.

Niche versus integrated operation is an important trend bringing especially challenging management issues.

Receivers of online orders inhabit many locations and want their deliveries at times and places convenient to them.

The all-important receivers who order online should not be regarded simply as an "address". They inhabit many locations – home, work and sometimes another address at weekends. They want to receive their deliveries at times and in locations that are convenient to them and postal operations need to find the necessary solutions.

Receivers do not appreciate the difference between the online technology of the merchants from whom they purchase and postal systems – tracking should be simple, transparent and accessible. Growing use of m-commerce (mobile commerce) and online shopping require interfaces with a range of systems up and down the value chain and new payment methods.

Interfaces with major online customers such as eBay are particularly important. Canada Post has provided a pricing engine that allows eBay sellers to look up service and price options via a single click. The system also generates a pre-paid label so that parcels can be posted directly into street mailboxes.

Receivers

The receiver's attitude and experience of online shopping and delivery is more important than price alone.

New consumers are experiencing home delivery for the first time as a consequence of their choice to shop online. Equally, those with an established record for online shopping are encountering a range of delivery experiences arising from the options offered when they place their order.

Online purchasers are selecting who delivers to them; the clear threats here are that postal delivery is being commoditised, or that the post is not even an option offered by some merchants. Postal operators need to get into the distribution chain through their relationship with the sender but they also need to make sure receivers choose them, especially when competitors are present in the market.

> French consumers value delivery flexibility and do not want pick-up points.

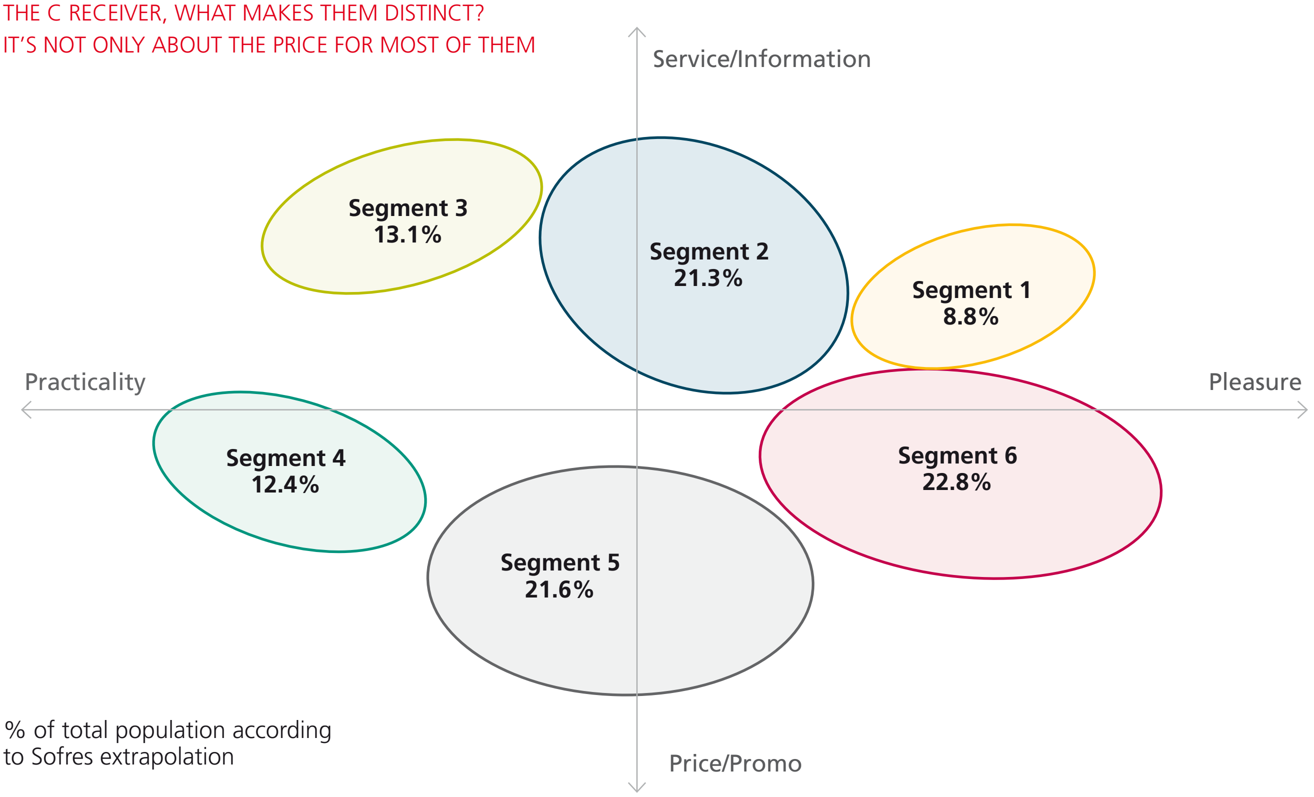
Research conducted in France indicated that consumers do not want parcel pick-up points as a solution to failed home delivery. In Finland, however, receiver collection is the standard postal service; door-to-door delivery carries a premium and receivers are not choosing to pay the price.

French consumers surveyed valued flexible delivery. More than a quarter of respondents said evening and Saturday deliveries were important or indispensable. The proportion is even higher – 44 percent – in favour of delivery within pre-defined, two-hour slots.

Postal operators can overcome barriers related to the delivery experience, for example, by offering on-demand delivery. In Austria, receivers are offered pick-up points and an SMS message to say their parcel is ready for collection.

In Canada, no new house built since 1990 receives door-to-door delivery – mail and small parcels are delivered to

THE C RECEIVER, WHAT MAKES THEM DISTINCT?
IT'S NOT ONLY ABOUT THE PRICE FOR MOST OF THEM



Source: GeoPost

Consumers have many reasons to distance buy and to opt for home delivery.

a community mail box. These boxes are used by about 40 percent of the population, but large parcels and those requiring a signature cannot be left in them, bringing severe first-time delivery problems.

Canada Post sees a solution in giving the receiver choice through its delivery preference database. The ultimate goal is for the database to communicate with sorting machines so that receivers will be sent an SMS when a parcel is ready for despatch asking them to choose one of three delivery options that they have already logged in the database.

Canada Post believes that power lies increasingly with receivers and it wants a strong relationship with them.

By improving the delivery experience, postal operators can encourage online shoppers to purchase more frequently. That means understanding why and how consumers purchase online.

Postal operators need to work with online merchants to identify segments with specific requirements. These must be served within the postal network without introducing too much complexity or an increase in costs.

International B2C Parcels

Senders are looking for a full service for both domestic and international deliveries; they do not want to cope with different IT systems or prices for a small number of international parcels.

Canada Post's Borderfree service has attracted interest from other postal operators. The service is directed at consumers in the United States wishing to purchase goods online from Canada. It provides a portal that translates US prices into Canadian dollars and offers receivers commercial customs clearance. Canada Post takes the currency risk. Borderfree is achieving six percent year-on-year growth.

The starting point is a need for common labelling, agreed standards and a seamless returns service – operating up to 12 barcodes on international postal parcels means that delivery personnel find it difficult to choose the right one to scan.

IPC member postal operators have identified an opportunity to develop the EPG parcel network further to meet B2C and C2C senders' needs more fully. A cooperation initiative called Direct Point is currently in development to assess customer needs, define service standards, parcel sizes and volume, packaging, distribution, and IT requirements.

Conclusion

Today, the post offers access to more reliable deferred networks, offering delivery within two or three days backed by good process control. These services have been challenging expensive express services as their reliability and transparency have increased.

Demand for B2C parcels services has increased with growth in online shopping. In Europe, for example, the overall retail market is worth EUR 2,200 billion and is growing at 2.5 percent. The online segment, however, is growing at 23.3 percent and in 2008 was worth an estimated EUR 161 million.

Not only are distance sellers seeing an increasingly high proportion of orders made online, the internet is providing an attractive route to market for traditional retailers and new types of merchant taking advantage of the reach it provides.

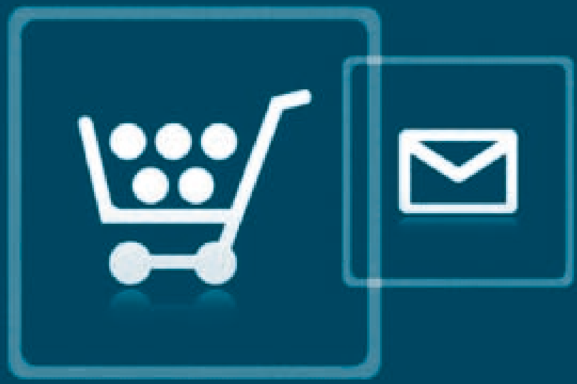
Postal operators have long-standing relationships with traditional mail order companies but have difficulty initiating and building relationships with the increasing number of online merchants that in many cases are failing to offer the post as a delivery option.

Big increases in B2C parcel volume have placed pressure on postal parcel processes and delivery networks. Growth in B2C demand has attracted the attention of new competitors prepared to make a strong market entry, such as Hermes which is going head-to-head with the posts in Germany and Austria, providing enhanced IT capability and a simpler interface with senders.

Parcels could be the leading postal product in 10 years' time, generating a higher proportion of the mail mix than letters as letter mail continues its overall decline. To take full advantage of parcel growth, it is essential to retain market share by ensuring that both customer recipient and sender needs are met.

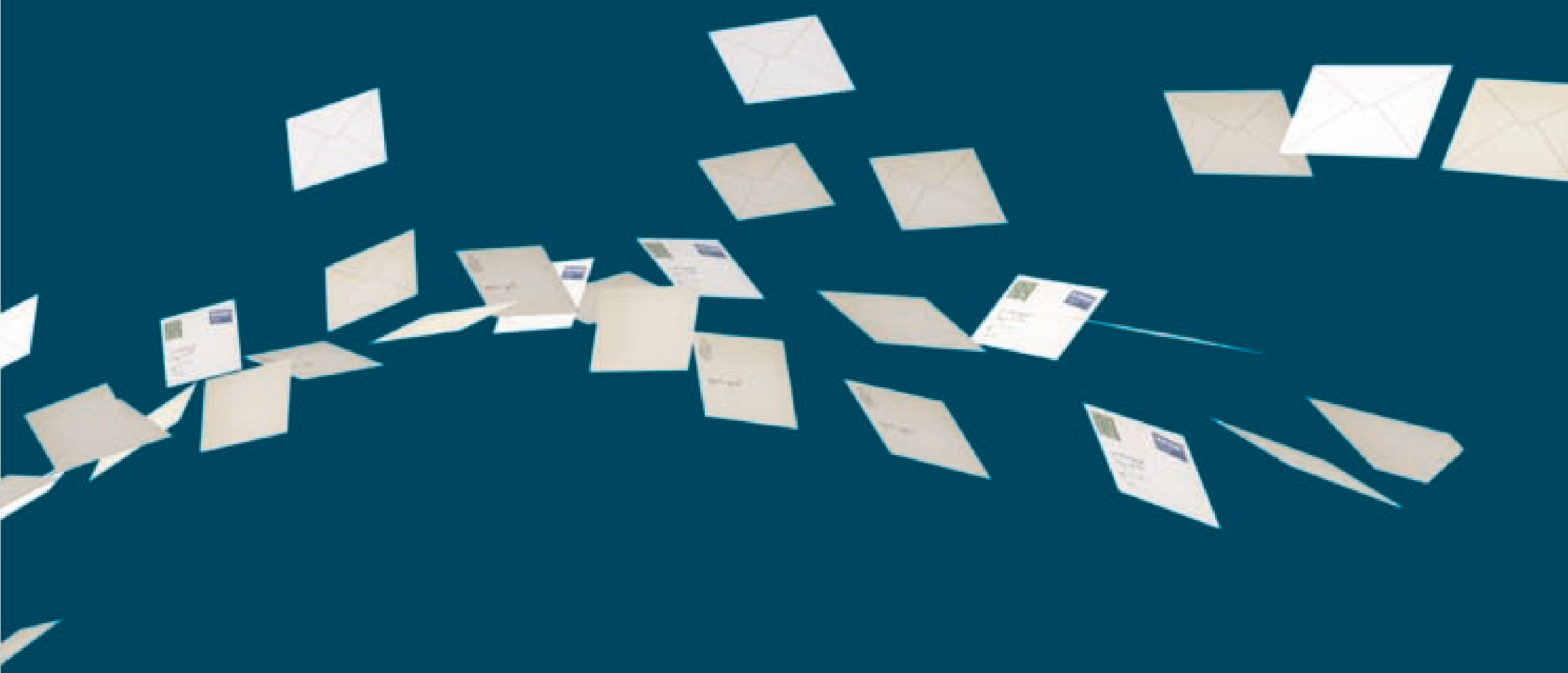
The first priority is to ramp up operational capability to levels of demand while at the same time reducing operating costs. Postal parcel operations must achieve greater productivity as well as reliability and transparency.

3



Direct Marketing Intelligence

- Major direct marketing research conducted by IPC spans six national markets plus Germany where research has been conducted separately by Deutsche Post.
- The study defines direct marketing and reports on the choice of media by advertisers in trade, service and manufacturing sectors.
- Findings include spend on direct mail compared with other media and perceptions of the value chain and effectiveness of direct mail.
- Analysis of cross-media campaigns indicates how direct mail is being used in the media mix.
- Business-to-business (B2B) direct mail research identifies a significant sector largely ignored by postal operators.
- Business recipients are unconvinced of the usefulness of the mailpieces they receive but are more likely to read it if they already have a relationship with the sender.
- TNT has developed cross-media concepts in order to show advertisers how direct mail brings benefits in an integrated campaign.
- De Post/La Poste has positioned itself as a player in the media market by offering marketeers expert know-how and advice on building successful direct mail campaigns.
- Deutsche Post has forged relationships with media agencies and marketeers by developing online tools that maximise response to direct mail.



Multi-Market Research on Direct Marketing

IPC funded a major pilot study into direct marketing and the role of direct mail in six national markets: Belgium, France, the Netherlands, Sweden, the United Kingdom and the United States.

The research took place during 2008 and was developed based on a study conducted by Deutsche Post in Germany; comparable findings are also included in the IPC market research report.

The study provides data on the effectiveness of direct mail in each national market; the relative positions of direct mail and online advertising, and the performance of direct mail within cross-media campaigns. It also indicates areas for improvement in business-to-business direct mail.

It is based on quantitative, qualitative and desk research into the perceptions of advertisers in the manufacturing, service, trade, finance and public sectors in order to understand the role of direct mail in marketing strategies (see table below).

CLASSIFICATION OF SECTORS

The universe of companies is divided by sectors and constructed with 3 levels of detail:

First Level	TRADE	SERVICES			MANUFACTURING
Second Level	**Trade**	**Finance**	**Public Services**	**Other Services**	**Manufacturing Industries**
Third Level	• Trade (Wholesale, Retail) • FMCG (Food, household products, etc.) • Mail order	• Banks • Insurances • Other financial services	• Non-profit • Utilities (Energy, Telecom) • Government • Health services • Education	• Media • Travel/Tourism • Leisure/ Entertainment • Automotive repairs • Other services	• Construction Industry • Agriculture • Mining • Production

Exclusion: Postal service, Defence, Private households

Source: Ipsos, IPC Direct Marketing Intelligence 2008

The advertisers surveyed in the IPC Direct Marketing Intellience were from the trade, finance, public, service, and manufacturing sectors.

A Wide Definition of Direct Marketing

Definitions of direct marketing vary making it difficult to assess total spending and how it breaks down. IPC chose a broad definition incorporating traditional channels, four areas of online marketing and response advertising linked to classic media (see table below).The survey asked advertisers which media they use and their level of investment

CLASSIFICATION OF MEDIA CHANNELS

Broad scope of direct marketing reflects fragmented media choices

DIRECT MARKETING			CLASSIC MEDIA	OTHER MEDIA
Traditional Direct Marketing	**Online Marketing**	**Classic Media with Response**		
• Addressed mailings • Unaddressed door drops • Outbound telemarketing • Inbound telemarketing • Mobile marketing	• E-mail marketing • Internet site • Banner advertising • Paid search	• Print with response • Insert with response • Outdoor with response • TV with response • Radio with response • Cinema with response	• Print • Insert • Outdoor • TV • Radio • Cinema	• Events • Promotional campaigns • Loyalty magazines • Fax advertising

Source: Ipsos, IPC Direct Marketing Intelligence 2008

IPC chose a broad definition of direct marketing embracing traditional channels, online marketing and classic media incorporating response.

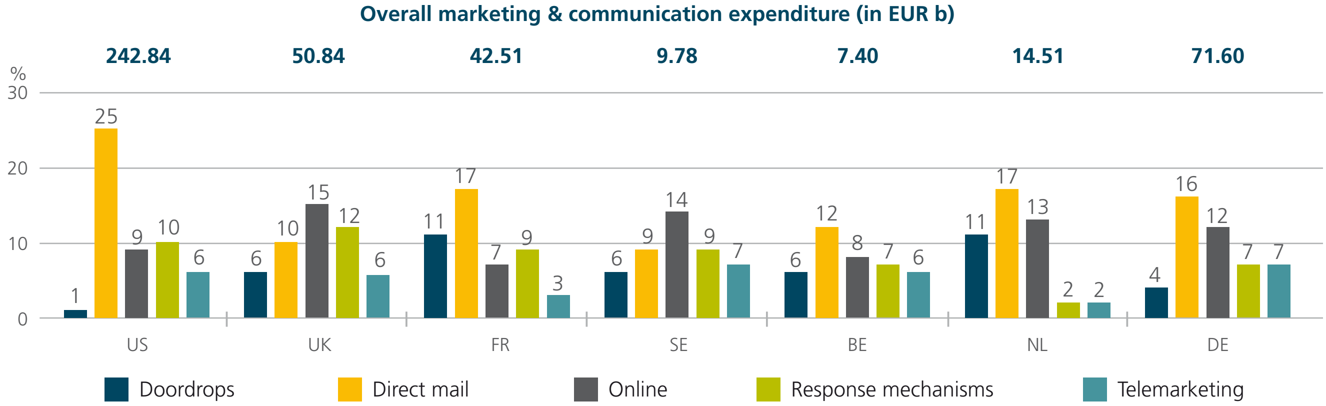
Direct Marketing Spend

The advertisers in the markets surveyed spend between forty-five and fifty percent of their total advertising and communication budgets on direct marketing (see chart below). Direct mail accounts for the highest spend within direct marketing in most markets but online advertising has overtaken physical mail in the United Kingdom and Sweden.

MARKETING & COMMUNICATION EXPENDITURE

Direct Marketing Media Share

Share of addressed direct mail expenditure is highest in the US. Online expenditure most important in UK and SE.



All values in %. All companies with a turnover of at least 0.25 m EUR/year.

Source: Ipsos, IPC Direct Marketing Intelligence 2008

Direct mail is the biggest direct marketing spend in most markets but online advertising has overtaken physical mail in the United Kingdom and Sweden.

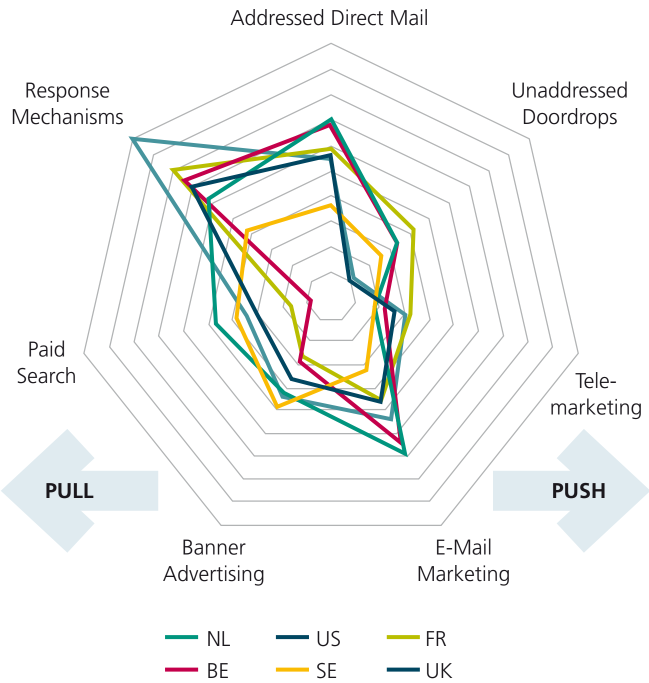
The prevalence of addressed and unaddressed direct mail varies significantly from market to market. At one extreme, the US Postal Service has exclusive access to mailboxes, making unaddressed mail non-existent, except perhaps in the form of newspaper inserts or leaflet drops on the front porch.

By contrast, as a proportion of direct marketing expenditure, online advertising spend in the UK and Sweden matches spend on addressed and unaddressed mail combined; in France where internet penetration has not yet reached such high levels, advertisers spend almost four times more on mail than on online advertising.

For advertisers in all countries, the company's own internet site, linked to a response mechanism, is the first choice for direct marketing. The next three choices are response mechanisms, e-mail marketing and addressed direct mail (see chart opposite).

DIRECT MARKETING MEDIA CHOICES

All Advertisers exc. Internet Site



Source: Ipsos, IPC Direct Marketing Intelligence 2008

Response mechanisms, e-mail marketing and addressed direct mail were strong media choices within direct marketing.

The competitive challenges are different but the strategic threats are clear: the exponential growth in online advertising and marketing will continue, especially in markets with growing broadband adoption. Targeting and response generation are likely to improve as online advertisers become more sophisticated.

The research findings confirm the need to understand different types of online media and how the unique strengths of direct mail can integrate with online in order to build more effective campaigns. In the UK, online expenditure is moving into more complex media such as search engine optimisation. Easy and comfortable online experiences, from an end-consumer's perspective, will only continue to drive communication expenditure online.

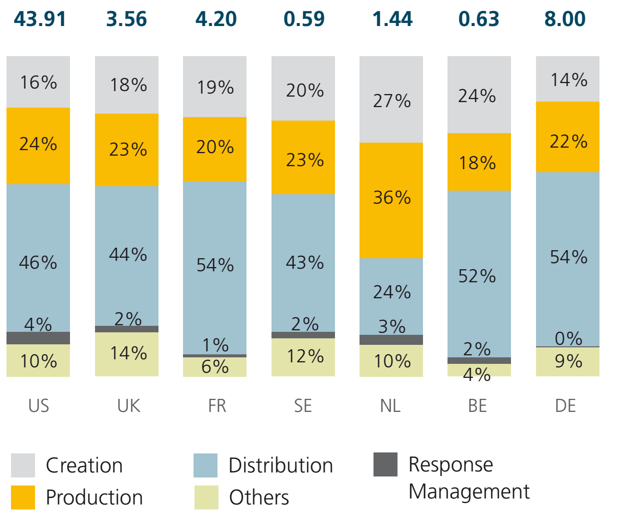
The Cost of Distribution to Direct Mailers

THE VALUE CHAIN FOR DIRECT MAIL

External Cost Breakdown

- Overall, distribution accounts for highest share of external costs – this may squeeze creative elements
- In the highly competitive market structure of NL, advertisers perceive lower distribution costs for direct mail

External costs for Direct Mail (in EUR b)



All companies with a turnover of at least 0.25 m EUR/year and who are doing Direct Mail.

Source: Ipsos, IPC Direct Marketing Intelligence 2008

Distribution costs are a high proportion of direct mail costs and could be driving advertisers to online solutions.

In all markets, the cost of direct mail distribution is well above forty percent of external costs; distribution accounts for fifty-four percent in France and Germany (see chart above).

There is a clear implication to be drawn from advertiser perceptions that distribution costs are proportionally high – the post is seen as the major external cost in direct mail campaigns. In difficult economic times this could be driving advertisers to online channels and could even be putting pressure on design budgets.

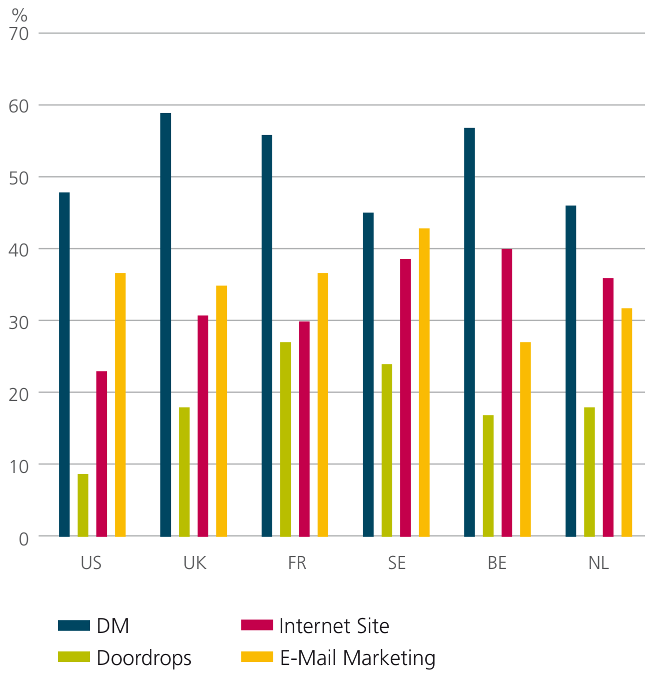
The next most important share of costs, accounting for twenty-plus percent of external costs, is production of direct mail. Spend on creation is relatively low, however, at fifteen to twenty percent; as media fragmentation continues, this level of expenditure share casts some doubt on the ability of mailpieces to cut through and engage customers effectively.

Response management also represents a very small spend at one to four percent of external costs. Advertisers could be managing response internally but the perception of low cost could equally indicate a less-than-robust approach to all-important follow-up on direct mailshots.

Amongst users of direct mail in all markets surveyed, direct mail is perceived as a more effective media for customer retention (see chart below). It is also seen as effective for customer acquisition, short-term sales and product advertising.

EFFECTIVENESS OF DIRECT MARKETING MEDIA

Customer Retention



All companies with a turnover of at least 0.25 m EUR/year and who are doing direct marketing and using specific medium.

Source: Ipsos, IPC Direct Marketing Intelligence 2008

Advertisers in Sweden believe that e-mail marketing performs almost as well as direct mail for customer retention. This could be a trend for other markets also.

However, a competitive threat to direct mail's top-of-the-league position for customer retention is already apparent in some markets. In Sweden, internet sites and e-mail marketing are close to matching direct mail's perceived effectiveness, while perceptions in the Netherlands are not much further behind.

Direct Mail's Role in Cross-Media Campaigns

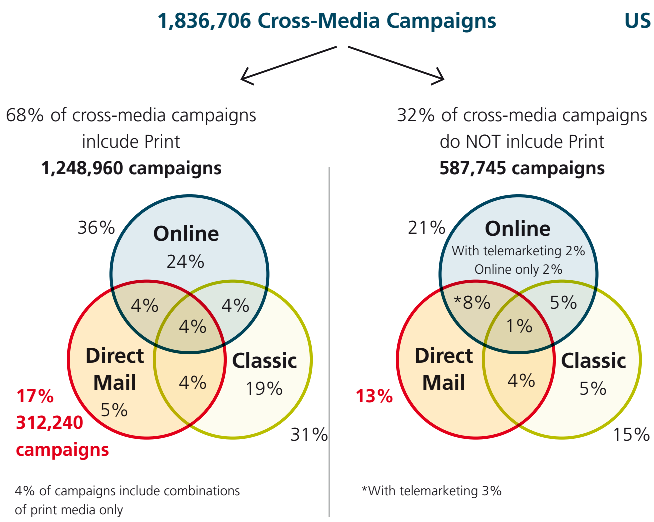
IPC's research quantifies cross-media campaigns in each national market. For example, thirty percent of US and thirty-eight percent of UK cross-media campaigns use direct mail (in the UK this may also include unaddressed door drops). Online advertising is combined with about half these campaigns.

In the US, around seventy percent of cross-media campaigns include print. Seventeen percent of cross-media campaigns combine print and direct mail, while twenty-four percent combine only print with online advertising.

When advertisers do not include print media, direct mail is more strongly linked with online advertising than classic media (see chart below).

CROSS-MEDIA CAMPAIGNS

Combination Overview



- Online and Classic Media perceived as synergistic to print advertising in cross-media campaigns.
- Direct Mail included as 3rd and 4th media.
- Greater leveraging between Direct Mail and Online when print not inlcuded in cross-media campaign.

Source: Ipsos, IPC Direct Marketing Intelligence 2008

Direct mail is included in seventeen percent of cross-media campaigns using print but in just five percent as the only other medium combined with print.

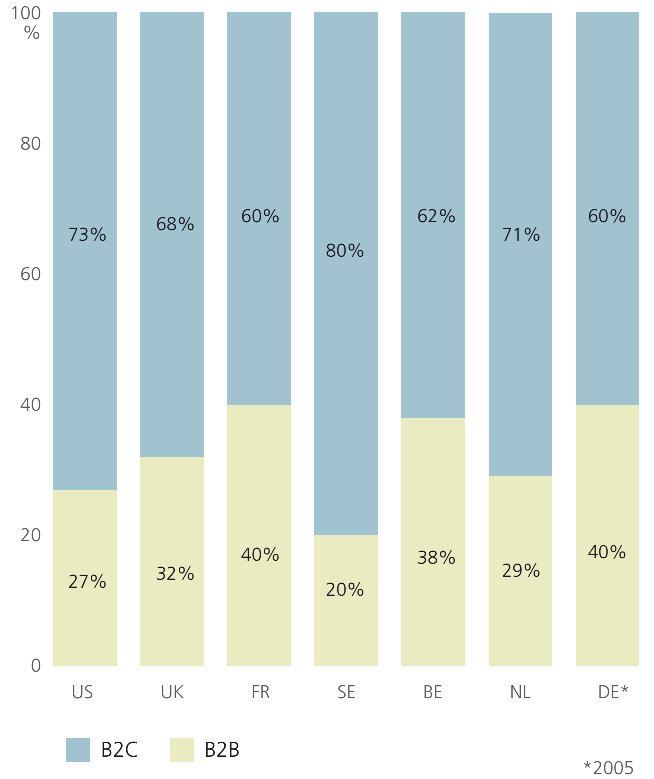
Business-to-Business Direct Mail

IPC research into recipients of business-to-business (B2B) direct mail is incorporated into the bigger study of advertiser perceptions.

It is estimated that between twenty and forty percent of all direct mail spending is B2B, yet this sector is not as well researched or understood (see chart below).

B2B VS. B2C DIRECT MAIL

Share of Expenditure



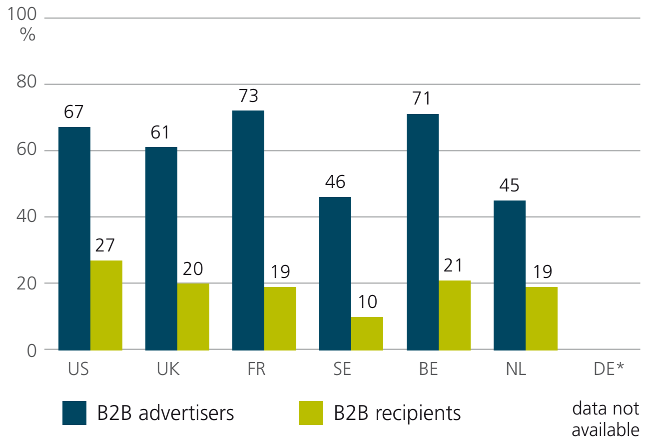
All companies with a turnover of at least 0.25 m EUR/year and who do direct mail advertising.

Source: Ipsos, IPC Direct Marketing Intelligence 2008

B2B direct mail accounts for a significant proportion of the total direct mail market in all countries surveyed yet it is largely ignored by postal operators and little understood.

There are substantial gaps between the perceptions of advertisers and those of recipients in terms of the relevance of B2B direct mail and its environmental impact. These need to be addressed in order to drive up the effectiveness of direct mail. An example of the gap can be seen in advertiser and recipient perceptions of the usefulness and importance of information communicated in B2B direct mail – predictably, advertisers believe the information supplied is useful and important while recipients are much less convinced (see chart on the next page).

DIRECT MAIL PROVIDES USEFUL AND IMPORTANT INFORMATION

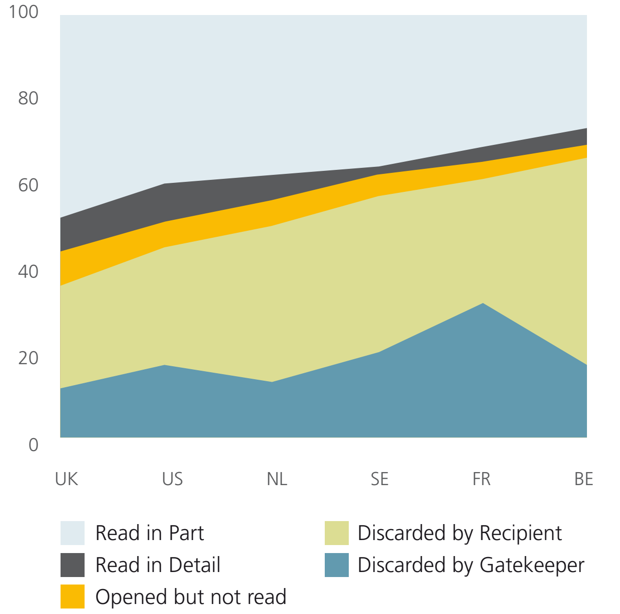


Data: % companies strongly agreeing /agreeing with statement
Base: Direct Mail B2B Advertisers: Companies with a turnover of at least EUR 0.25/year and sending B2B Direct Mail
B2B Mail Recipients: Companies with less that 200 employees receiving B2B Direct Mail

Source: Ipsos, IPC Direct Marketing Intelligence 2008

B2B Direct Mail Senders have much stronger belief in the usefulness of direct mail that receivers.

SCREENING & READING OF B2B DIRECT MAIL



Source: Ipsos, IPC, Direct Marketing Intelligence 2008

Between thirty-five and sixty percent of B2B direct mail is discarded unopened.

B2B Funnel – How Much Direct Mail is Read?

IPC research estimates that between forty-five and sixty-five percent of B2B direct mail is not read by intended recipients (see chart opposite). Interestingly, the highest proportion is read in the UK where direct mail is facing strong competition from online advertising.

There is a clear correlation between addressing direct mail to a named individual and willingness to open it. Equally, B2B recipients are more likely to read direct mail if they already have a relationship with the company sending – an important aspect of cross-media campaigns.

Asked what they need most to facilitate their direct mail marketing, advertisers said they require effective means to assess the ROI of their campaigns as well as to manage address lists.

Cross-Media Concepts to Show Direct Mail Works

TNT Post Case Study

TNT is constructing its own concepts for cross-media campaigns to attract new customers to direct mail. It is working with partners to link direct mailings to e-mail or SMS; to use direct mail as a driver to websites and as a supplier of product samples as part of integrated campaigns.

TNT has a series of cross-media products to attract new customers to direct mail.

The company has a series of new, cross-media products; one concept carries its own brand, "Send Me Now" and has been incorporated in classic advertising to form part of cross-media campaigns.

Send Me Now is a consumer product trial concept involving the mail out of samples or information. Through use of its logo in classic elements of campaigns, the brand is itself gaining awareness so that consumers seeing it linked to product advertising know they are being offered a sample.

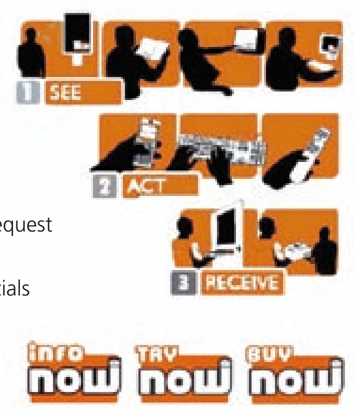
Typically, a Send Me Now campaign uses classic media to invite consumers to request a sample via SMS (keying in the postcode plus a number) or a dedicated website; TNT then handles fulfilment by mailing out the sample and managing the database.

SEND ME NOW: CONSUMER IN THE LEAD

Concept:
- Response channel
- Fulfilment
- Brand

Goal:
- Generating trail/information request
- Building customer database
- Fit for use in existing commercials

Results:
- Multiple successful campaigns



Source: TNT

Send Me Now and its sub-brands are gaining awareness after featuring in classic advertisements.

TNT owns Send Me Now response address data—it believes that fast-moving consumer goods (FMCG) companies do not want to invest time in database management.

The concept involves significant effort to get the timing right and to link each element of the cross-media campaign. Quality of service is crucial because customers want to know when the samples will drop.

TNT has been able to demonstrate success. In a Send Me Now campaign for Nescafé, 80 percent of consumers requesting a sample tried the product and 20 percent purchased. Specialist direct mail consultants sell the concept and considerable management time is needed to get a campaign running. Once one brand in a big FMCG company takes up the concept, however, others in the same organisation tend to follow.

Offline to Online Drivers

TNT has other cross-media solutions. Its "e-Teaser" enhances a direct mailshot by sending target recipients an e-mail or SMS linked to the mailpiece. In one campaign for a retailer, TNT achieved a 17 percent increase in reach and a 13 percent increase in recall.

A further concept, the interactive card, drives recipients to a personalised website via a URL printed on the mailpiece. In a campaign for an insurance company, recipients accessing the URL could play a game online. Compared with earlier mailings, the campaign achieved a forty-eight percent increase in response, a twenty percent cost reduction and was twice as well remembered.

eBridge is similar to the interactive card but the mailpiece is a personalised CD-ROM which is online and trackable. The device generates web traffic and offers high-quality visuals, but it is more expensive to produce than other concepts.

TNT researches awareness of specific mailings and sells the data under the brand MailMonitor.

TNT conducts research to assess awareness of specific mailings and sells the data under the brand MailMonitor. The research is based on a questionnaire completed online by a consumer panel.

Lessons learnt along the road to developing cross-media solutions are: make the concept simple for the customer to implement and provide case studies and creative examples of how it works; use specialist online know-how, partnering with specialists in the first instance before investing in online capability in-house.

Building Relationships with Marketeers

De Post/La Poste Case Study

De Post/La Poste has a four-year programme, entitled Boost, designed to convince advertisers of the return on investment (ROI) to be gained from direct mail and the benefits of including it in the media mix.

Boost is a three-stage strategy designed to convince advertisers of the benefits of direct mail.

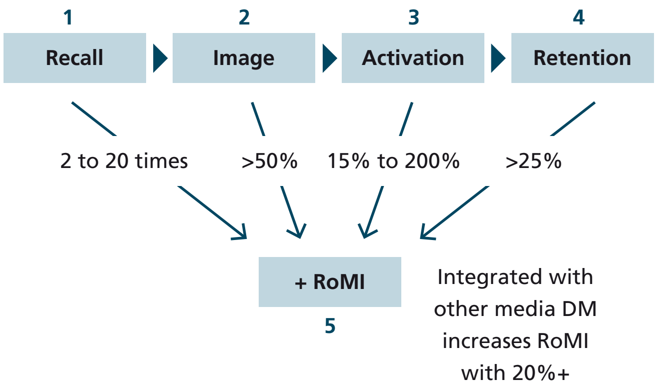
Boost is a three-stage strategy; first, earn the right to be a player in the advertising market; second, act as an advisor providing consultancy, creative solutions and data on the value of direct mail; third, shape the market by positioning direct mail in today's multi-channel environment, building it as a core medium and defining common measurement and tracking standards.

Six consultants work with key account managers explaining the benefits of direct mail to marketing departments and how to go about using it. In research, customers said campaign coaching was the greatest need, followed by direct mail checking.

Working with McKinsey, De Post/La Poste has developed a measure for ROI from direct mail. This is based on a telephone questionnaire on buying behaviour and advertisement awareness for different media in specific campaigns. Results show that direct mail has a higher recall rate and improves brand perception – it can reinforce brand attributes (see chart below).

The research indicates that ROI improves if direct mail is in the advertising mix and shows that different media mixes work in different industries.

DIRECT MAIL PILOT SURVEYS: EVIDENCE OF ROI AT 5 STAGES OF THE MARKETING FUNNEL



Source: De Poste/La Poste

Direct mail has a higher recall rate and improves brand perception. ROI increases if direct mail is in the advertising mix.

The Barometer is a simpler version of the research. It analyses only direct mail in order to understand the success of individual mailings at each stage in the marketing funnel from recall of receipt to intention to act.

Based on real campaign data, the graph shows average success rate plus performance spread from high to low. Customers can plot the relative position of their mailing for each of the five stages (see chart below).

De Post/La Poste now considers itself a fully-fledged player in the media market and can point to its success factors:

- The quality of basic mail handling processes improved considerably through a modernisation programme
- The corporate mindset changed during a Boost pilot programme conducted with McKinsey
- The programme employed smart pricing
- The company achieved customer intimacy with those contacts who matter in the marketing and advertising function, responding to their character and interests
- It worked closely with the direct mail industry and its trade associations

The key structural issues to resolve now are the complexity of the direct mail value chain and the perception that direct mail is labour-intensive and not sexy. Other issues include the need to: integrate direct mail measurement with that for advertising overall; leverage agencies and respond to consolidation; find profitable solutions for smaller companies. Potential threats include any changes to privacy legislation, environmental concerns and liberalisation.

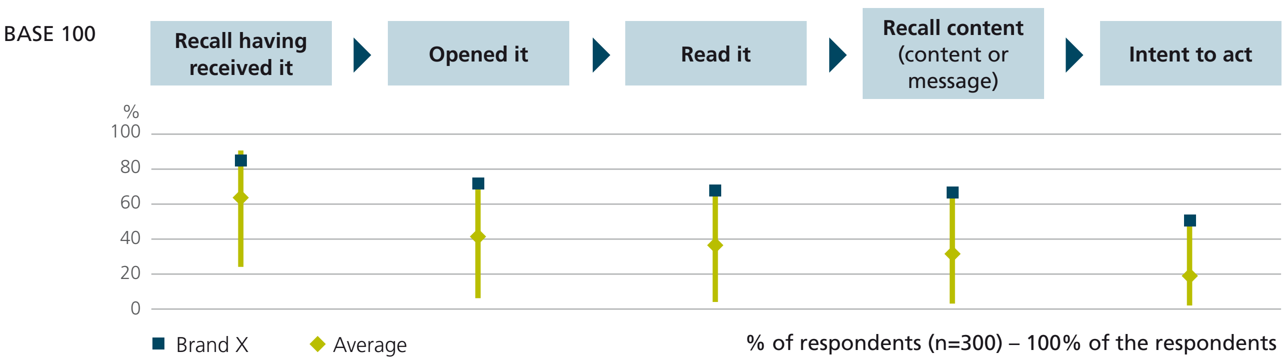
Tools That Take the Pain out of Direct Mail

Deutsche Post Case Study

Deutsche Post has increased direct mail volume through online tools, Mediamail and Adressdialog. These match classic media audiences with direct mail recipients and to link offline and online channels in order to optimise response.

It realised that agencies own the media strategy and that it needed therefore to get close to them. Initially this was a major challenge because the environment in which agencies work was alien to the Deutsche Post culture.

THE BAROMETER MEASURES JUST THE DM FUNNEL



Source: De Poste/La Poste

The Barometer measures the success of individual campaigns against average, high and low performance rates for other campaigns.

Mediamail launched in mid 2008 for advertisers who do not use direct mail. It matches target consumers for classic advertising with a recipient group for a direct mailshot, thus creating a cross-media campaign that will bring enhanced results.

Mediamail Planner is designed for agency media planners. It is an online tool that works out which households should receive the optimised mailshot and has been welcomed by agencies.

Mediamail Planner is an online tool designed for agency media planners.

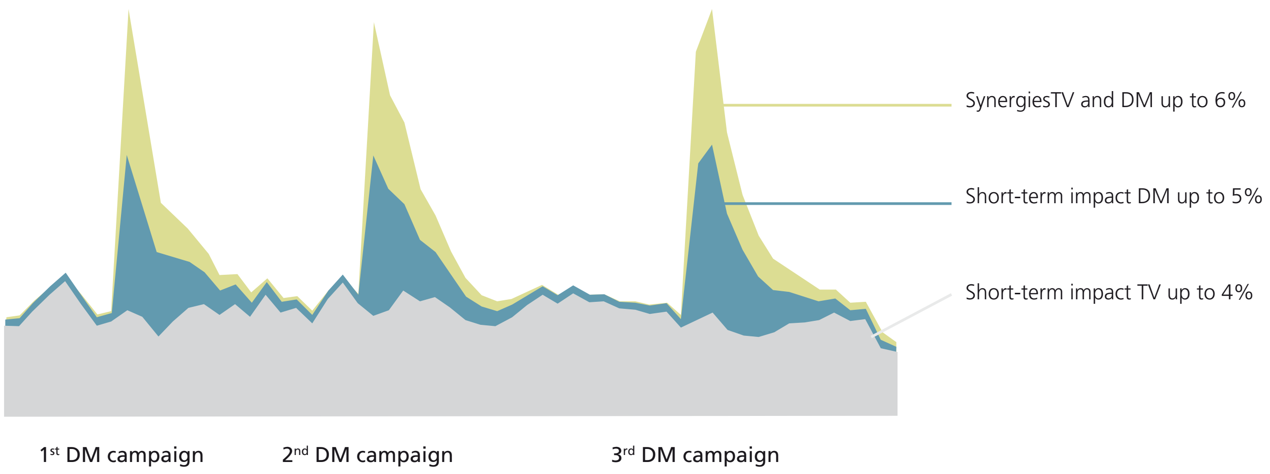
Deutsche Post used a wide range of data sources, including its own household data, readership data for newspapers and magazines, 1,800 product categories, brand preference information, PC usage and demographics. It was more difficult to gather data on the effectiveness of TV advertising but Deutsche Post has designed measures to demonstrate there is an impact.

In an automated process, Mediamail Planner links an advertiser's classical advertising choices to a complementary recipient database for either addressed or unaddressed mail. It tracks response rates for each customer's selected recipient group and, using data from previous campaigns, it shows advertisers how direct mail can take them through the sales funnel.

Deutsche Post can demonstrate the sales impact of constructing an integrated cross-media campaign. Its case study of a TV and direct mail campaign for the Dove brand charts the short-term sales peaks when each of three mailshots is injected (see chart below). The cross-media approach increased sales for Dove by eleven percent over using TV alone.

TESTS DEMONSTRATE CLEAR SYNERGY EFFECTS FROM COMBINING CLASSIC MEDIA AND DIRECT MARKETING

Advertising impact on basic sales



Source: Deutsche Post DHL

The integrated campaign for Dove increased sales by eleven percent above the use of TV advertising alone.

Online Address List Tool

Adressdialog is Deutsche Post's second online tool. It provides a way for advertisers to gather up-to-date customer information and to generate response from one mailshot.

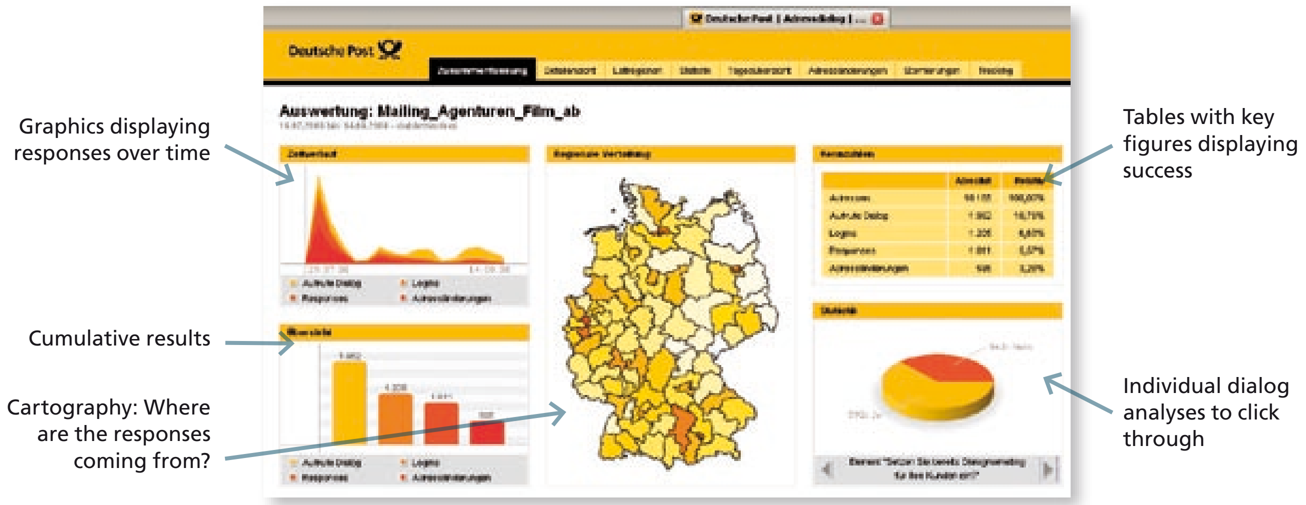
Adressdialog provides a way for advertisers to gather up-to-date customer information.

The cycle begins with a mailshot to an advertiser's customers. The mailpiece includes an individual code and a special URL for a landing page designed via Adressdialog where the customer can respond without having to re-enter personal data. An analysis tool allows the advertiser to monitor responses and build up a picture of the campaign effectiveness.

The process drives customers to websites and generates more responses than direct mail alone, giving advertisers a simple way to set up a one-to-one dialogue with their customers.

Deutsche Post provides back-office functions as well as response management and hosting. These include Infopost certified coding, an online calculator, order forms supported by Excel and a web editor for webpage design (see chart on the next page). Adressdialog has security features, including a tool for encrypting customer address data.

RESPONSE ANALYSIS (SUMMARY)



Source: Deutsche Post DHL

Advertisers can use Adressdialog to design their own landing page via a series of screens, they can analyse responses in detail.

Advertisers can use Adressdialog to design their own landing page and supply their database to Deutsche Post which produces and delivers their mailing. Via a series of screens, they can analyse responses in detail.

Conclusion

Direct mail accounts for the highest spend within direct marketing in most markets but the exponential growth in online advertising and marketing will continue, especially in markets with growing broadband adoption.

Targeting and response generation are likely to improve as online advertisers become more sophisticated. There is a need, therefore, for postal operators to understand different types of online media and how the unique strengths of direct mail can integrate with online in order to build more effective campaigns.

Direct mail is perceived as a more effective media for customer retention. It is also seen as effective for customer acquisition, short-term sales and product advertising However, the distribution costs element of direct mail campaigns are proportionally high – the post is seen as the major external cost. This could be driving advertisers to online channels.

Asked what they need most to facilitate their direct mail marketing, advertisers say they require effective means to assess the ROI of their campaigns as well as to manage address lists.

It is estimated that between twenty and forty percent of all direct mail spending is B2B, yet this sector is not as well researched or understood.

There are substantial gaps between the perceptions of advertisers and those of recipients in terms of the relevance of B2B direct mail and its environmental impact. These need to be addressed in order to drive up the effectiveness of direct mail.

Postal operators have recognised the importance of direct mail in the mail mix, its growth potential and equally, the competitive threats it faces. They have applied a range of strategies to the development of their direct mail offer. A common theme is the recognition that direct mail is about advertising and not about distribution; it is crucial therefore to build close relationships with marketing specialists and their agencies.

TNT is constructing its own concepts for cross-media campaigns to attract new customers to direct mail. It is working with partners to link direct mailings to e-mail or SMS; to use direct mail as a driver to websites and as a supplier of product samples as part of integrated campaigns.

De Post/La Poste its well into a three-stage strategy; first, it earned the right to be a player in the advertising market; second, it developed its advice and consultancy, offering customers creative solutions and data on the value of direct mail; third, it is shaping the market by positioning direct mail in today's multi-channel environment, building it into a core medium and defining common measurement and tracking standards.

Deutsche Post has increased direct mail volume through online tools for agencies that match classic media audiences with direct mail recipients, linking offline and online channels in order to optimise response.

4

Environmental Sustainability

- Formal reporting of postal operator sustainability has begun in 2009 under the IPC Environmental Measurement and Monitoring System (EMMS).
- IPC will launch the first EMMS-based postal sector sustainability report during the United Nations Framework for Climate Change Conference in December.
- Results from the EMMS scorecard will allow participating postal operators to compare their score against indicator values for the industry and best practice customers.
- As major fleet operators across the globe, the post is at the centre of transition to new forms of energy as policy and practice on energy usage develops.
- The post can be an early adopter of distributed energy networks generated from renewable sources; it can be at the centre of the European Union's initiative to install a hydrogen infrastructure across Europe.
- The environmental and cost-saving potential of sustainable buildings is better understood and postal operators are incorporating energy reduction and reuse technologies in construction projects.
- New types of power are needed for vehicles; electric production is becoming a reality and hydrogen fuel cells will follow.
- General Motors has a strategy to add hybrid electric vehicles, extended range electric vehicles and hydrogen fuel cell electric vehicles to its range over time.
- The success of hydrogen fuel cell technology will depend on availability of a refuelling infrastructure; the post with its huge fleets and depot networks could provide charging facilities in-house.

CO_2 Emission Reporting for the Postal Industry

Last year, in our Strategic Perspectives on the Postal Market, we announced a new, sector-specific carbon management and reporting tool for the postal industry – the IPC Environmental Measurement and Monitoring System (EMMS).

Following a pilot test conducted by sixteen IPC members during 2008, formal reporting of EMMS results has begun in 2009 with twenty of IPC's 24 member postal operators participating in the system.

EMMS results will be published this year based on the state of play for carbon reduction in our members' businesses during 2008. These will provide information for the first postal sector sustainability report which IPC will launch during the United Nations Framework for Climate Change Conference (UNFCCC) in Copenhagen in December 2009.

How EMMS Works

The Greenhouse Gas Initiative, sponsored by the World Resources Institute, provides the basis for EMMS. The EMMS approach applies recognised international best practice standards that incorporate elements of carbon management, including the Dow Jones Sustainability Index, FTSE4Good, Global Reporting Initiative, Greenhouse Gas Protocol, Carbon Disclosure Project and ISO 14000 standards.

It is based on a scorecard for each participating postal operator that shows performance across 10 management proficiency areas:

- Principles
- Management and strategy
- Policy and procedure
- Employee engagement
- Activity
- Measurement and verification
- Targets
- Performance
- Disclosure – reporting
- Value chain management

IPC members are submitting quantitative data for the calculation of an agreed set of indicators relating to their emissions from different sources and functions within their operations. The tool allows flexibility – members are free to select the indicators on which they are able to report. The exercise accommodates work in progress in the spirit of continuous improvement.

The scorecard for each postal operator is compiled from self-audited information. In the first year, all information supplied will be examined and verified by an independent auditor to check answers given by participants.

AN ILLUSTRATIVE EXAMPLE OF THE SCORECARD

The scorecards show performance across each of 10 areas and give details of the metrics and indicators used by the postal operator.

An Industry Benchmarking Tool

EMMS enables postal operators to measure their improvements in carbon management and to illustrate their achievements to stakeholders in a consistent manner. It offers the opportunity to compare performance with peers in order to promote continuous improvement and the sharing of lessons from best practice within the sector.

The scorecard results will allow each participating postal operator to compare their score against the minimum, maximum and average scores achieved and against indicator values for both the sector and best practice customers. In addition, it will highlight specific areas for improvement based on a management systems approach.

Contained in the scorecard are overall sector indicators linked to reduction targets, and Scope 1, 2 and 3 indicators under the Greenhouse Gas Protocol. These cover CO_2 emissions from postal operators' own fleets; emissions and CO_2 efficiency of buildings, and CO_2 emissions by sub-contractors, business travel and waste directed to landfill.

Activity indicators cover the percentage of renewable energy used in buildings; the percentage of alternative fuel vehicles in the fleet, and the percentage of total km travelled on foot or by bicycle.

Energy: The Next 20 Years

The post is at the centre of transition to new forms of energy. Postal operators provide logistics across the world, connecting individuals, businesses and organisations in cities, towns, villages, and remote areas served by no other communications provider.

To carry out its services, the postal operators necessarily are operating large and comprehensive transport networks. This provides a unique opportunity to take a lead and can show the way to a new industrial period based on renewable energy; they can use their buildings as power generators, provide the infrastructure for hydrogen production and be first-movers in creating a distributed power grid.

The post has a unique opportunity to show the way on renewable energy.

As an early adopter of new energy thinking, the post can use its expertise to create economic multiplier effects that cascade out to suppliers, customers and the economy as a whole.

The process has already begun with more postal operators turning to green building design and construction. In addition to the undoubted environmental benefits, energy reduction and waste and water reuse have been shown to bring significant benefits to the bottom line through cost savings.

Referring to the tremendous global footprint of the postal industry, John Potter, United States postmaster general and CEO, has said that postal operators are positioned to take a tremendous leadership role in addressing concerns about the environment.

"Collectively, we can share ideas on new technologies and specify requirements for both vehicles and facilities. Every action we take affects the environment," he said. "We want to encourage good stewardship of the posts and the environment at the same time."

Distributed Energy Sources

Jeremy Rifkin, president of the Foundation on Economic Trends is an advocate for the creation of a distributed energy network generated from natural, renewable resources such as sunshine, wind, geothermal energy, tidal power and hydro power, and from domestic waste.

He believes the world is moving into a new industrial period that will be built on four pillars:

- Reduction in global warming gasses
- The conversion of buildings to generators of renewable energy
- New ways to store the energy generated
- A new distributed energy grid

The European Union (EU) has laid down the first pillar with a policy to increase energy efficiency by twenty percent by 2020, and to reduce global warming gasses by twenty percent over the same period. There is hope the Obama administration in the US will adopt this standard. Mr Rifkin claims, however, that governments need to go further and aim for near zero emissions as an imperative by 2050.

Collecting sufficient renewable energy depends on harnessing the potential of buildings to create a distributed network of positive power plants generating not only their own energy, but surpluses for other uses.

Once generated, surplus energy from generating buildings needs to be stored and drawn off when renewable resources such as sunshine and wind are not available. According to Mr Rifkin, hydrogen can provide a clean, universal storage system. Surplus energy generated by the distributed network of buildings will be used to electrolyze water to form hydrogen – when the energy is needed it will be converted back.

The EU introduced a EUR 2 billion hydrogen R&D programme, followed in 2008 by an EUR 8 billion joint technology initiative to install a hydrogen infrastructure across Europe. Postal operators can be at the centre of this initiative.

A distributed energy network is an intelligent power utility using the same technologies that created the internet.

The final pillar in the concept of a distributed energy network is an intelligent power utility using the same technologies that created the internet. Second generation distributed grid IT is the cutting edge of the IT revolution. It involves harnessing desk top computers and connecting them, via software and the internet, to the distributed power grid. This is the same principle as network file-sharing and will be required for a 21st century distributed economy.

Postal services can take an active part by adopting solar, wind, geothermal, garbage and hydro distributed energies; they can store surplus energy created by their buildings as hydrogen; that will allow them to move off national power grids. Then, they can connect back to intelligent power grids adapted to varying power usage. These will operate dynamic pricing so that postal operators – and other participants in the distributed energy network – will be able to sell back surplus energy to the grid. Centre Point Utility in Houston and EDI in France are examples of this.

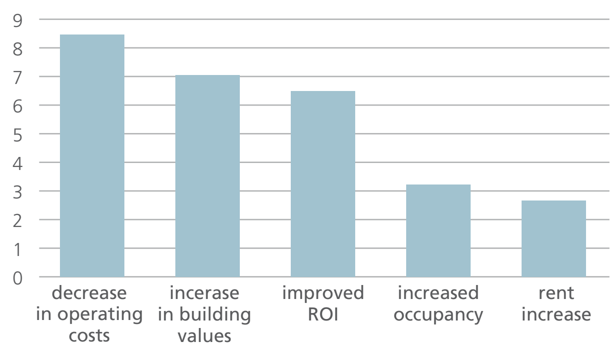
Sustainable Building Construction and Design

Most sustainable efforts in buildings are concentrated on early design. The focus is on decisions such as site selection and building layouts that minimize environmental burden; creating an efficient and integrated building enclosure system; integrating heating/air-conditioning and electrical systems to reduce energy use, and specifying reused, renewable or recycled materials.

Construction methods are also significant for achieving sustainable goals. What appear to be minor decisions, such as the selection of adhesives and sealants, may have long-lasting, negative effects on indoor air quality, maintainability or future flexibility in the use of space.

The advantages of sustainable building (see graph above/below) are becoming much more widely understood.

ADVANTAGES OF BUILDING GREEN



Source: US Green Building Council

Lower operating costs and a better return on investment are just two of the commercial benefits to be gained from sustainable buildings.

Zero net energy is a realisable goal for sustainable construction. This applies to a building that has a net energy consumption of zero over a given period of time. A zero energy building produces as much energy as it consumes.

There are numerous technologies that promote environmental sustainability within the construction industry. These include:

- Photovoltaic (PV) windows are double-glazed with semi-transparent solar cells. The window provides natural light transmission as well as producing electricity. A study conducted by Tokyo University of Agriculture and Technology showed electricity consumption could be by 55 percent below a single-glazed window.
- Lighting controls can reduce: the amount of power used during peak demand periods; the number of hours a year that the lights are on; internal heat gains (by cutting down lighting use). They can also allow building occupants to lower light levels and thus save energy.
- Air-conditioning systems are responsible for between five and nine percent of a building's energy consumption in Europe and the United States.

United States Postal Service

Prior to 1986, the United States Postal Service's Reno post office was renovated as an energy efficient site in the 1980s.

The building was a modern warehouse with high ceilings. The architecture firm hired to conduct the renovation proposed a lower ceiling making the building easier to heat and cool, and to improve the acoustics (there had been a high level of machine noise).

The ceiling was sloped to allow for indirect lighting and the harsh down lighting was replaced with energy efficient lamps.

The renovation cost an estimated at USD 300,000. The combined annual energy and maintenance savings were projected to be USD 50,000. Surprisingly, the productivity savings per-year was worth USD 400,000 – 500,000.

TNT

As of 2008, all TNT's operations in the Netherlands are using 100 percent green electricity.

The company aims to make its future buildings CO_2 neutral or even CO_2 positive (in 2007 about seventeen percent of TNT's emissions came from energy used in its buildings, including electricity and heating). While contributing positively to its CO_2 footprint, the company will also gain cost savings and a better working environment for its employees.

The Planet Me buildings concept in the Netherlands consists of a new CO_2 positive group head office by 2010 containing a total of 70,000 sq meters of CO_2 neutral or positive offices at increasingly accessible locations closer to employees' homes. This flexible office concept will not only impact TNT's own footprint and the commuting footprint of its employees, it will also generate significant savings on office expenses.

Groupe La Poste

Groupe La Poste has plans for a total of 40 carbon neutral buildings. It is integrating sustainable building criteria into its new and retrofitted buildings. Its goals are to reduce energy consumption, use renewable energy, and improve working conditions – including the provisions of access for those with disabilities.

The sorting centre in Montelimar integrated France's Haute Qualité Environement (HQE) criteria into the building's design. The HQE Association, through its certification of buildings (new and retrofitted), seeks to promote an emphasis on the comfort and health of users, while reducing the impact of buildings on the environment. The building in Montelimar is developing an industry specific certification – the NF-HQE Building Certificate for logistics buildings.

New Zealand Post

New Zealand Post has several building projects that will help reduce its environmental footprint, while reducing the company's energy dependency.

It has building projects for three environmentally sustainable mail centres in Auckland, Hamilton and Christchurch. Prior to construction, the company developed environmental criteria in order to establish and evaluate the environmentally sustainable design initiatives of the chosen architecture firm. It was keen to achieve a return on investment, specifically for energy and water.

The buildings incorporate timber from sustainable sources and have onsite waste management facilities that use rain water. Additional design features include: Solar water heating; energy-saving appliances; low energy lighting systems and zone lighting that makes use of natural light; fast acting doors that minimise heat loss and gain within the building, and double glazing in the Christchurch facility.

Cutting Vehicle Carbon Emissions

A crucial component of a new, renewable-energy, industrial period is the logistics and transport chain. Once a distributed power network is up and running and owners of buildings are producing and storing their own energy, new types of power need to go into vehicles. Here the postal industry can be an early adopter because of its huge vehicle fleet.

Electric car production is becoming a reality within the next two years. Hydrogen fuel cell vehicles will follow in 2011 to 2012 with mass production beginning in 2013.

Mass production of hydrogen fuel cell vehicles could begin in 2013.

Developments in France and Germany include power charging units developed in joint ventures between vehicle manufactures and utility companies. But postal operators, with their huge national vehicle fleet, can provide charging facilities in-house: in fact, as vehicles become portable power plants, there will be the opportunity for postal operators to sell back surplus energy created from their facilities, thus making vehicle fleets revenue generators for the first time.

Alternative Fuels at the US Postal Service

The US Postal Service has the largest fleet of alternative vehicles in the United States. It has been working with the US Department of Energy (DOE) on fuel cell vehicles and provides the DOE with documentation on alternative fuels.

The DOE works to promote best practice amongst all federal agencies. It believes that electric vehicles have improved to a point that, with suitable funding from Congress, the US Postal Service could become the leader in the deployment of electric drive technologies.

STRATEGIC PRIORITIES FOR ENERGY EFFICIENCY

PRIORITY	RECENT ACCOMPLISHMENTS
Utility Efficiency	National Action Plan for Energy Efficiency
Advanced Model Building Codes	Department of Energy 30% Vision
Appliance Standards, ENERGY STAR, Advanced Lighting	On Schedule; New Products; Commercial Lighting Initiative
Energy Efficiency Building	Commercial Building Initiative; Builders Challenge; Federal Mgmt.
Industrial Efficiency	Save Energy Now
Vehicle Efficiency	CAFE; PHEV; Clean Cities
Creating a National Energy Efficiency Ethic	Disney and Ad Council Collaborations
International Partnerships	International Partnership for Energy Efficiency Cooperation (IPEEC)

Source: US Department of Energy

The US Department of Energy promotes best practice among federal agencies. Its strategic priorities include standards for corporate average fuel economy (CAFE).

Sustainability at Deutsche Post DHL

Deutsche Post DHL has set itself the goal of achieving a thirty percent improvement in the Group's carbon efficiency by 2020. In order to reach this goal, the company approved the climate protection program GoGreen in February 2008. It will now be applied in all of the Group's divisions and regions.

The company's current footprint, including emissions from sub-contractors, is 31 million tonnes, the equivalent of 0.1 percent of global emissions.

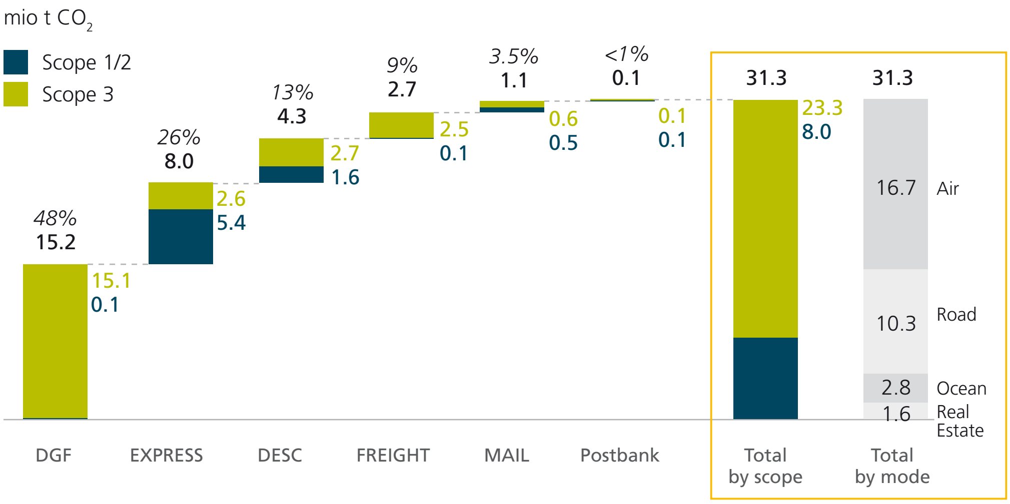
Since 1990, consumption per 100km has remained the same despite increases in engine efficiency because truck manufacturers have raised vehicle engine power, claiming they are responding to customer demand.

Deutsche Post DHL says it has been unable to persuade manufacturers to take note of its requirement for smaller engines, despite the fact that it operates the largest commercial fleet in Europe.

The targets to be achieved by 2020 require a steep decline in fuel consumption.

DPWN CARBON FOOTPRINT 2007 – CERTIFIED

A combination of top-down and bottom-up approaches was used to calculate the DPWN 2007 carbon footprint.



- Certified by external auditors
- More robust footprint than 2006 with changes in methodology and improvement in data quality (combination of top down and bottom up approach)
- Footprint expected to become increasingly accurate in 2008/09 and the following years as data availability and quality will increase further

Source: Deutsche Post DHL

The Deutsche Post DHL footprint includes sub-contractors and only twenty-five percent is generated by the company's own vehicles and facilities. Deutsche Post DHL is making greater efforts to motivate suppliers to make changes.

SHARE OF FUEL CONSUMPTION AND CARBON FOOTPRINT

A big part of DPWN's total emissions come from suburban and rural transportation.

	URBAN	SUBURBAN	RURAL	
<3.5 t	7[1]	90	2	5
	0.3	*4.6*	*0.1*	
3.5-12 t	100	545	56	37
	5.3	*29.2*	*3.0*	
>12 t	**110**	**614**	**390**	58
	5.7	*31.7*	*20.1*	
	11	**66**	**23**	**100**

(%) share of total fuel consumption | **SCOPE 1 footprint in 000 t CO_2** | **(%) share of total exposure**

[1] Source: McKinsey, GoGreen Team, Fleet, Sustainability Report and CO_2 Footprint and Fleet

- More than half of total emissions are produced through high mileages from trucks
- Three groups account for 81 percent of total exposure, driven in rural and suburban areas by vans and trucks
- For a significant groupwide CO_2 reduction biofuels play a role in rural traffic

Source: Deutsche Post DHL

Deutsche Post DHL believes that vehicle manufacturers have a major task to complete in helping it to reduce CO_2 from large, long-distance trucks and parcels delivery vans which account for 81 percent of its total emissions.

Deutsche Post DHL has evaluated the alternative vehicle technologies available and believes that electric vans are suitable only for urban areas. As urban vehicles account for only 0.3 percent of emissions, the focus should be on suburban parcel delivery vans and big, long-distance trucks which together account for 81 percent of total emissions. The company estimates the potential to reduce CO_2 emitted per large truck at 78.5 tonnes a year.

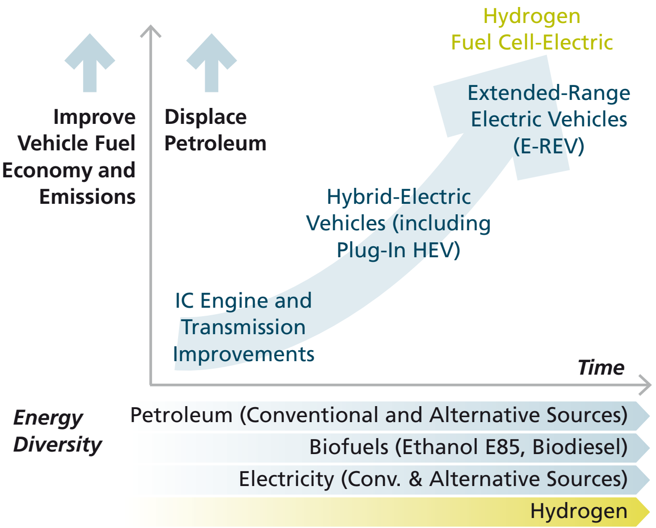
Deutsche Post DHL also remains interested in developing electric vehicles and is in talks with Daimler. It believes that second and third-generation biofuels will be effective in reducing its footprint, especially if these can be made suitable for aviation.

General Motors’ Response to Low Carbon Development

General Motors (GM) has developed an advanced propulsion strategy to deal with the twin challenges of greenhouse gas emissions and energy security. It plans to add hybrid electric vehicles, extended range electric vehicles and hydrogen fuel cell electric vehicles to its product range over time.

Worldwide, GM believes that no one technology will be dominant; the relative proportion of take-up for different technologies as a solution to climate change and energy shortage will differ in different parts of the world.

GM’S ADVANCED PROPULSION STRATEGY



Displacing petroleum and reducing GHGs with efficiency, biofuels and electricity

Source: General Motors

GM believes that the internal combustion engine will remain for some time supplemented in fleets across the world by electric and hydrogen fuel cell technologies.

Second Generation Ethanol

Ethanol remains a key development area at GM; it says that life cycle analysis has shown environmental net positive benefits. The next generation of technologies for ethanol is based on biotechnology and the conversion of waste material. The resulting ethanol costs less than one dollar a gallon to make, and results in a reduction of more than 84 percent in greenhouse gases.

Hybrid Technology

In its work with hybrid technology, GM started with the transit bus, a high fuel-consumption vehicle whose payback will be much faster. This is the opposite approach to Toyota.

There are more than 2,000 GM/Allison hybrid buses in operation in the United States. These are running at four to five miles per gallon compared with two to three miles per gallon. GM claims the buses are also cleaner than comparable natural gas vehicles thanks to the introduction of a clean, lower powered diesel engine.

Electric Vehicles

GM says that a pure electric vehicle with no mechanical motor would not be economically feasible in the United States.

It plans to include an additional gasoline engine to its new VOLT electric vehicle, allowing a range of an additional 400 miles. The new VOLT, which will go into production in late 2010, will operate as a purely electric vehicle for 78 percent of the time, according to GM.

The VOLT could be supplemented by a gasoline, a diesel, or a hydrogen fuel cell generator. To get the economies required for mass production, GM believes this adaptability is the only way fuel cell technology will ever reach the production line.

Hydrogen Fuel Cell Vehicles

GM’s “project driveway” involves around 100 hydrogen fuel cell vehicles on test with the US Postal Service, Virgin Airways and consumers who are all supplying analysis data on performance.

GM envisages that second generation ethanol and fuel cells will power larger vehicles in the future. This provides a viable alternative to electric trucks which would require 4,000-volt electrical circuits in the United States. A further limitation of electric batteries is the need to recharge them.

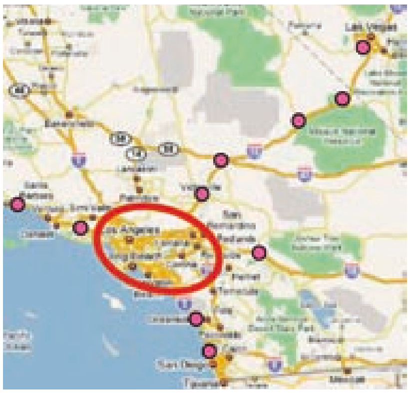
Vehicles operating with low carbon fuel cells can be refuelled as quickly as a gasoline vehicle.

LA AREA HYDROGEN INFRASTRUCTURE 40 STATION CONCEPT – 2012+

30 stations in LA Metro Area (illustrative placement)

10 stations for Destination Corridors

To: San Diego, Santa Barbara, Palm Springs & Las Vegas



Average distance to metro station = 3.6 miles

Source: General Motors

The whole of Los Angeles could be served by forty to fifty refuelling stations for hydrogen fuel cell vehicles, but public money would be needed to build the initial infrastructure.

To many, the idea of creating a hydrogen fuel cell refuelling infrastructure seems an insurmountable challenge. GM points out, however, that forty to fifty service stations could serve a customer base of 15 million people in Los Angeles effectively. A further forty to fifty could serve the 10 to 15 million population of New York.

Forty to fifty hydrogen fuel cell refuelling stations could serve the 15 million population of Los Angeles.

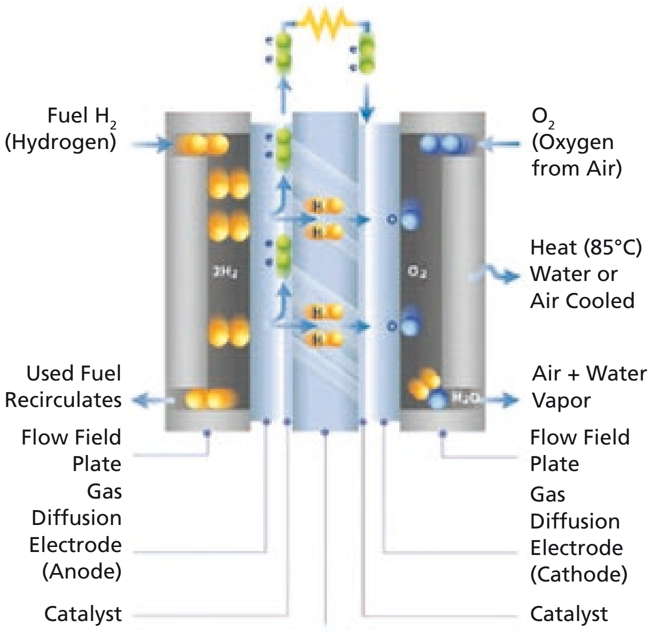
Establishment of an initial refuelling infrastructure would have to be subsidised until vehicle density increased. Whichever country supports and builds a hydrogen fuel cell refuelling network will be the place to where the industry moves, according to GM, whether it be Berlin, Shanghai, Dubai, Los Angeles or Tokyo.

Hydrogen Fuel Cell Technology

Fuel Cell Europe is an independent, privately funded European association representing producers and users and aiming to accelerate research and deployment of fuel cell technologies. Members include Royal Mail, Shell, Toshiba, Ballard and UTC Power.

The organisation has a lobbying role to ensure that hydrogen fuel cells are on the political agenda in Europe and that the right regulatory framework is in place to enable the technology.

FUEL CELLS: HOW DO THEY WORK?



Source: Fuel Cell Europe

Fuel Cell Europe aims to accelerate research and deployment of fuel cell technologies.

Fuel cell technology is based on the principles of electrochemistry. A fuel cell is like a battery that is constantly re-powered. Both electric and fuel cell vehicles are electric vehicles with a battery (the technologies work well together) but unlike a conventional battery which discharges, a fuel cell is always recharging.

Different types of fuel cell work with different fuels. However, hydrogen is highly energy efficient owing to its high energy density. It has a zero carbon footprint and is quiet in use with transport. It can be applied to energy production (power, heat and cooling) in buildings and enables system synergies between transport and fixed facilities, a key opportunity for postal operators. Hydrogen fuel cells can also be used to optimize integration of other renewable energies.

United Technologies Corporation – UTC Power, believes that combined onsite heat and power fuel cells as an alternative to national power grids is feasible in terms of energy efficiency and reliability of supply. Efficiency, coupled with clean fuel cell technology can reduce carbon footprint significantly.

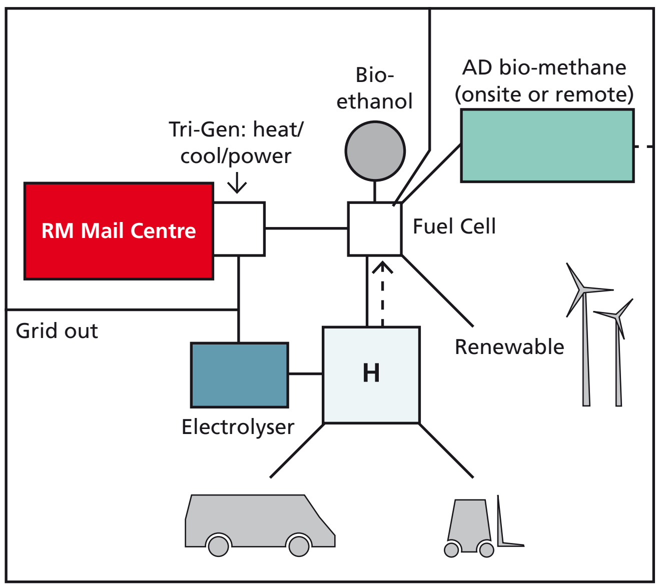
Fuel Cell Technology in Postal Operations

The US Postal Service commissioned a combined heat and power plant at a processing and distribution facility in Anchorage, Alaska. This consisted of five 200 kW fuel cell units supplied by UTC Power. This improved power back up, provided heating, reduced the environmental footprint and increased the availability of electricity. This installation resulted in a cost saving of USD 800,000 over a five-and-a-half year period.

In addition, USPS has been testing Hydrogen3 min-vans since 2006 and the Chevrolet Equinox since 2008.

Royal Mail is backing hydrogen fuel cells as the best way forward in the mid to long term. It has initiated a partnership with a UK based supplier, CENEX, to develop a universal design specification for a car-derived van. The next steps will be to invite other postal operators to join its initiative.

INTEGRATED HYDROGEN AND FUEL CELL SYSTEM APPROACH



Source: Royal Mail Group

Royal Mail is planning to integrate power generation to combine mail centres, forklift and vehicles with renewable energy and biogas.

Royal Mail is also working on an integrated approach to power generation that will combine mail centres, forklift and fleet vehicles with renewable energy and biogas.

In Japan, DHL has been testing a Daimler F-Cell vehicle in a densely populated area of Tokyo where more than 1,000 customers ship more than 500,000 documents a year.

Conclusion

The post operates large and comprehensive national transport networks. This provides a unique opportunity to take the lead and show the way towards a sustainable future based on renewable energy.

Green postal buildings can be developed not only to minimise carbon emission but also to act as generators of sustainable power; in the transport operation, postal operators have the means to be first-movers in creating a distributed power grid, providing the infrastructure for hydrogen production.

Recognising the postal industry's potential and obligation in the global response to climate change, the first results from the IPC Environmental Measurement and Monitoring System (EMMS) will be published in 2009, based on the state of play for carbon reduction in our members' businesses during 2008.

EMMS enables postal operators to measure their improvements in carbon management and to illustrate their achievements to stakeholders in a consistent manner. It will provide information for the first postal sector sustainability report which IPC will launch during the United Nations Framework for Climate Change Conference (UNFCCC) in Copenhagen in December 2009.

As part of the post's response to emission reduction, more and more postal operators are turning to green building design and construction. In addition to the undoubted environmental benefits, energy reduction and waste and water reuse have been shown to bring significant benefits to the bottom line through cost savings.

The next challenge is to collect sufficient renewable energy to transform postal buildings into a distributed network of positive power plants generating surplus energy for other uses.

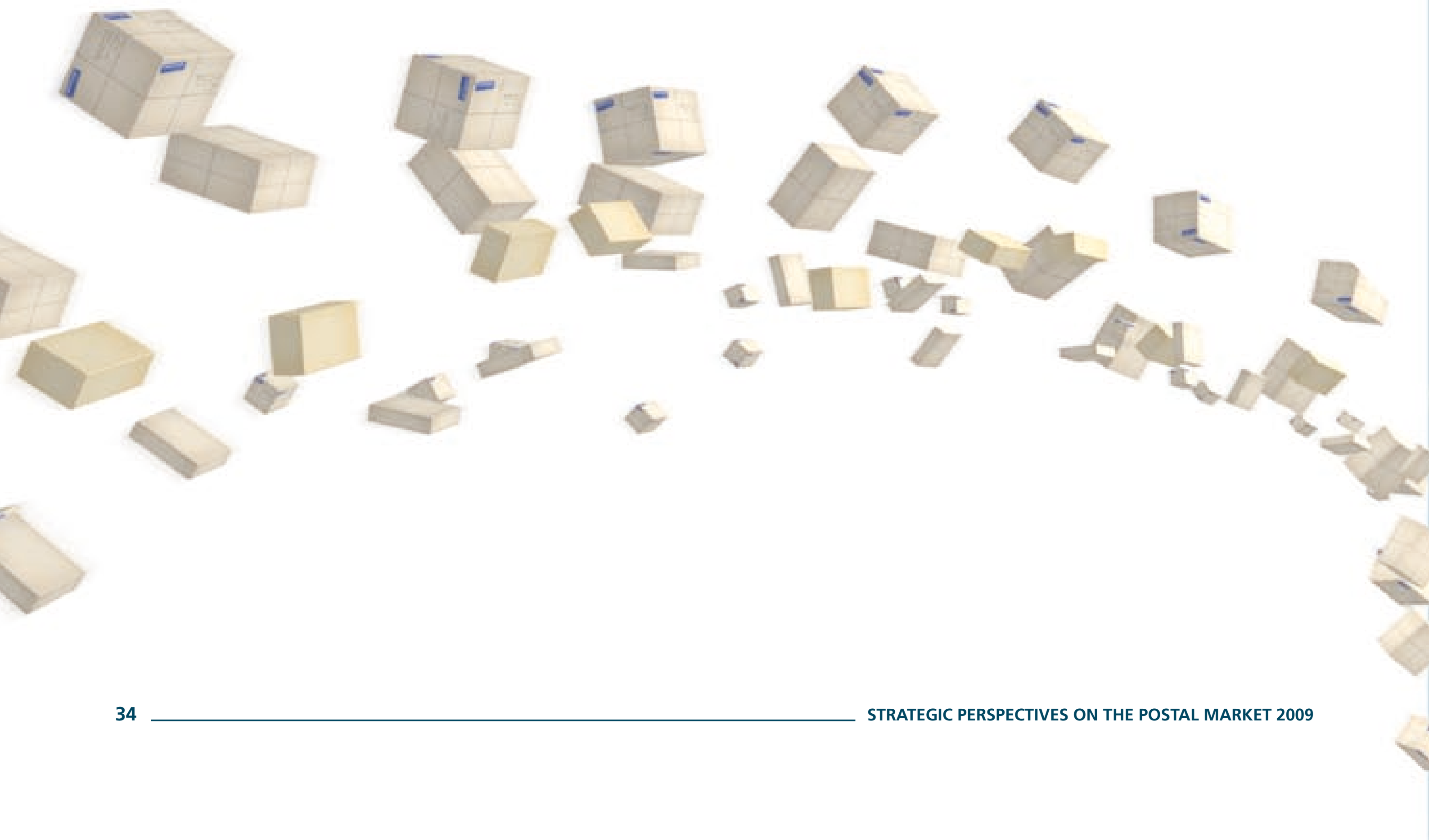
In addition to work on carbon-neutral buildings, the crucial component of a new, sustainable future for the post is the logistics and transport chain. Vehicles need new types of power – the postal industry can be an early adopter because of its huge vehicle fleet.

General Motors believes that no single sustainable fuel technology will be dominant as a solution to climate change and energy shortage. It plans to add hybrid electric vehicles, extended range electric vehicles and hydrogen fuel cell electric vehicles to its product range over time and envisages that second generation ethanol and fuel cells will power larger vehicles in the future.

Vehicles operating with low carbon fuel cells can be refuelled as quickly as a gasoline vehicle. While different types of fuel cell work with different fuels, hydrogen is highly energy efficient owing to its high energy density. It can be applied to energy production (power, heat and cooling) in buildings and enables system synergies between transport and fixed facilities, a key opportunity for postal operators.

Hydrogen fuel cells can also be used to optimize integration of other renewable energies. Postal infrastructures provide a ready-made hydrogen fuel cell network which means that start-up would require less capital.

Fuel cell technology could respond to many challenges faced by the postal industry but the business case will have to be proven.



5

Financial Services through Retail Outlets

- Postal operators have an opportunity to capitalise on their trusted status to develop their financial services businesses.

- The level of opportunity available depends on each postal operator's history and experience in financial service provision. A number of models are available from partnerships, cooperation agreements and joint ventures, to fully-fledged postal banks.

- Network strength provides all postal operators with an opportunity to reach customers with banking products and services, while some are also using postmen and women to connect directly with individual consumers on their delivery rounds.

- To realise full growth potential, a multi-channel approach is called for that incorporates internet, call centres and mail as well as the branch network.

- One of the most taxing challenges is deciding how best to develop financial services sales expertise in branch employees. Responses include dedicated branches; designated areas in selected branches operated by trained staff, and home visits linked to call centres.

- The high number of potential customers visiting branches each week provides opportunities for cross-selling and customer segmentation.

- Post Office Ltd. in the UK has a customer segmentation model that plots eight population groups and 19 sub-groups against their affluence and the stage they have reached in their lives.

- Group La Poste's La Banque Postale was created in December 2005 as a wholly owned limited company. In its first year La Banque Postale sold 700,000 life insurance contracts; it has seen its mortgage business grow by twenty-five to thirty percent a year.

- Poste Italiane's BancoPosta is a division of Poste Italiane. It is regulated as a bank but cannot take credit risk. Around sixty-eight percent of total business is in asset gathering, split between banking products and no-risk postal savings products guaranteed by the state.

- Erste Bank and Magyar Posta have an eight-year cooperation deal under which they share all income, margin and fees acquired through Magyar Posta. They have added products each year including a pension, a micro enterprise account and investment funds.

- The Bank van de Post (BPO) joint venture company between De Post/La Poste and Fortis bank has its own banking licence. BPO manages products, marketing and electronic distribution channels while De Post/La Poste provides back office services and Fortis provides banking know-how.

- A radical suggestion for growth in international postal financial services would see postal operators in the industrialised world engaging in micro finance in developing countries and facilitating global trade for small and medium-sized enterprises.

Leveraging the Retail Network

As commercial banks continue to devise new strategies for survival and future growth, postal operators have an opportunity to capitalise on their trusted status to develop their financial services business. They can build on their network strength to sell banking products and services, a step already taken by IPC members such as Royal Mail Group whose retail business, Post Office Ltd, has a joint venture with Bank of Ireland; De Post/La Poste and An Post, both in partnerships with Fortis, and Magyar Posta in partnership with Erste Bank.

Banking operations are built on seven elements:

- Distribution via all relevant channels
- Insight into transactions by converting data into information
- Risk management for products produced in-house
- Product creation
- Product processing
- IT system management
- Ability to manage the business

Banks have made the costly mistake of trying to do everything; among other failings, they are weak on branch distribution and customer relationship management. Their model has been built on transactions and not sales. They have changed the retail experience they provide and are funnelling transactional activities to the internet. For most, however, their channels are still not integrated – only a few banks can pick up internet activity in their branches.

Postal operators that are not banks in their own right have a role as product distributors; they have retail networks and postmen and women who connect directly with the customer. The level of opportunity available depends on each postal operator's history and experience in financial service provision.

Sales Expertise

One of the most taxing challenges for postal operators is deciding how best to utilise comprehensive retail networks and how to develop financial services sales expertise in employees. Products can be designed for simplicity so that leaflets will explain their key points, but this approach removes the need for staff to engage with customers and blocks any likelihood they will attempt to cross-sell related products.

Responses to the sales issue range from "do nothing", where financial products are introduced for sale across existing counters by tellers with no additional training; to dedicated branches; designated areas in selected branches staffed by specially trained financial services staff, and home visits by similarly trained sales people linked to call centres.

Royal Mail Group has found that customer retention is much greater on products bought in the branch.

Financial incentives have a role but their success is limited by the reluctance or inability of many postal employees to sell actively. Often the best sales result from staff having pleasant conversations with customers, an approach that is also beneficial for customer retention if not necessarily cross-selling. The United Kingdom Post Office has found that customer retention on products bought in the branch is much greater than for products bought online.

Managing customer traffic in post offices is a key issue – more attractive profitable customers are unlikely to wait in line to discuss product options for their savings. This is one of the strongest arguments in favour of dedicated areas within branches, however, it is an expensive option and is unlikely to be cost-effective for smaller branches.

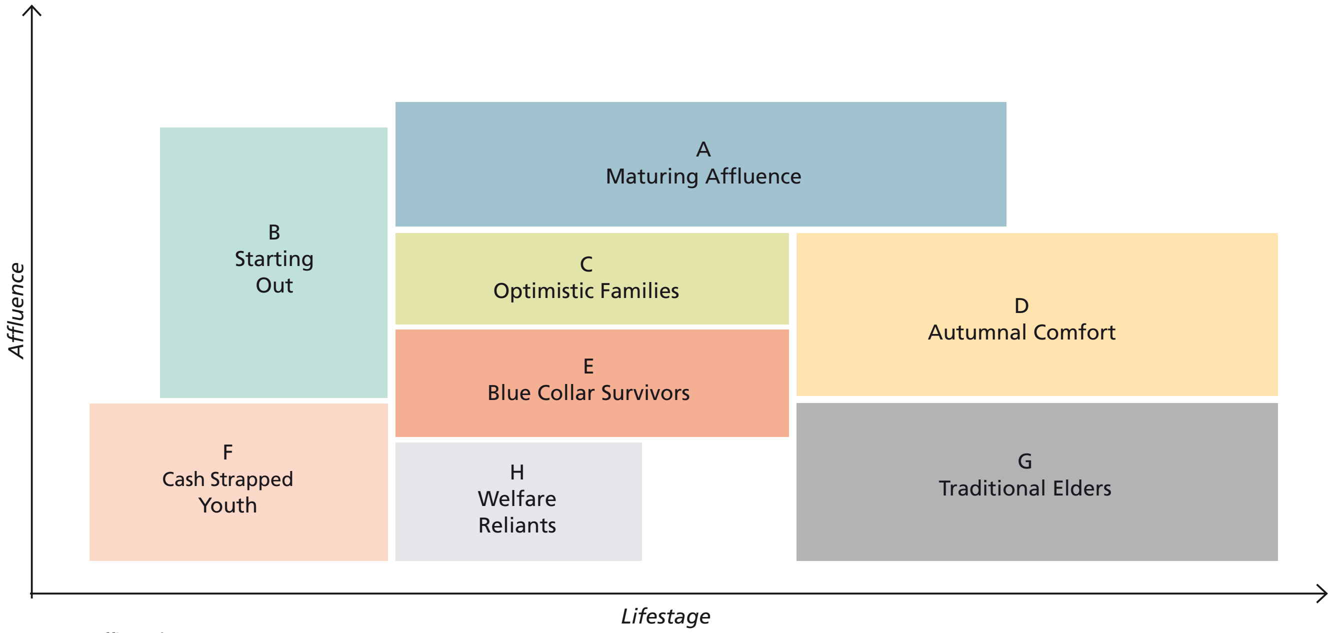
Royal Mail Group's Post Office Ltd

Financial services are of increasing importance to the United Kingdom's Post Office Ltd. Recently reintroduced under a joint venture with Bank of Ireland and partnerships with suppliers, Post Office is developing a range of products and is investing in modernising branches to look and feel more like banks.

Individual products are targeted selectively at appropriate customer segments through a range of supply channels (branches, internet, call centres and mail).

Thirty million customers visit a post office in the United Kingdom each week, but many leave without spending much money. Post Office has viewed the high traffic level as an opportunity to boost financial services revenue by cross-selling (most Post Office customers for financial services have currently purchased only one product). It believes the key is to look tactically at different types of customer and decide whether business from them could grow.

CUSTOMER SEGMENTATION



Source: Post Office Ltd.

The Post Office segmentation model plots eight main population groups against their affluence and the stage they have reached in their lives.

Customer Segmentation

Post Office has a customer segmentation model that plots eight population groups and 19 sub-groups against their affluence and the stage they have reached in their lives (see chart above).

Using colloquial descriptions, the model defines the postal products each group and sub-group is likely to buy and how they would prefer to obtain them. For example, "cash strapped youth", defined as struggling single people and young mothers on welfare, could find the Post Office useful to deposit cash and cheques, withdraw cash and pay bills. They are likely to be happy to use both branches and the internet as supply channels.

Affluent groups such as young adults "starting out" in their careers feel comfortable using the Post Office to purchase foreign currency but prefer to do so online. Older people experiencing "autumnal comfort" are purchasers of financial products and have savings, but do not necessarily think of the Post Office as an obvious supplier.

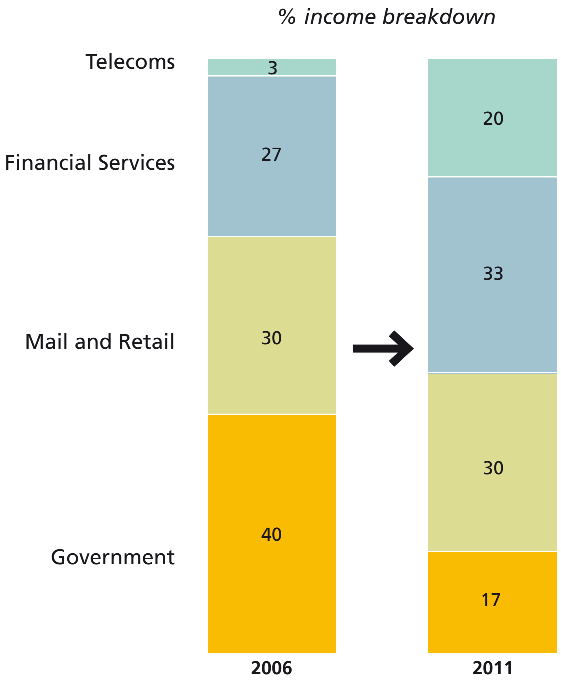
The UK Post Office's financial products target groups selectively, based on product uptake. For example, older, more affluent groups need to be persuaded to switch their home insurance to Post Office. Key actions to achieve the desired results include the launch in February 2008 of a new product with a cash-back offer, continued roll-out of an insurance premium estimating service in branches and the development of a new home insurance proposition.

The Post Office reviews its customer segments continually and conducts both mystery shopping and customer research in branches. The online channel captures data that highlights the customer segments and cross-selling opportunities: a customer buying travel insurance is likely to need currency; someone purchasing car insurance is likely also to buy home insurance. Channel selection can make a postal product relevant to more customer groups.

Channel selection can make a postal product relevant to more customer groups.

There is scope to develop new products for small businesses – business insurance for example – and for the socially excluded who deal in cash. Post Office continues to have a social purpose that fits well with government incentives to provide small cash loans as an alternative to unlicensed, super-high interest loans from money lenders.

DRAMATIC INCOME CHANGE IN FIVE YEARS



Source: Post Office Ltd.

Financial services are planned to grow to thirty percent of Post Office's income by 2011.

It is half-way through a five-year improvement plan up to 2011. To achieve its goals, it needs to generate more income from financial services both to compensate for a decline in business from the government and to secure profitability (see graph above).

Post Office has 1.5 million financial services customers and is the fastest growing UK car insurer. Its travel money service accounts for thirty percent of the market. Travel money looks set to continue booming provided the UK remains outside the Euro zone.

Groupe La Poste – La Banque Postale

Groupe La Poste's bank is just three years old. It was created in December 2005 when La Poste transferred to La Banque Postale all the rights, assets and obligations of its financial activities. La Banque Postale is a limited company wholly owned by Groupe La Poste but with its own supervisory and executive boards and control over its own governance structures.

The bank was created because Groupe La Poste's share of the financial services market had dropped from 13.4 percent in 1980 to 9.1 percent in 2004. Financial services growth was impeded by its inability to offer credit.

The bank has 12 million active customers of whom 700,000 have a high net worth. It provides payment services to 500,000 businesses and voluntary associations, although it cannot offer investment and funding services. It is the third biggest retail bank in France with 17,000 contact points, 7,585 financial and customer advisers and 1,463 advisers specialising in investment and property. Its market share has remained at nine percent in a market where there is little brand loyalty.

> La Banque Postale's dual mission is to match professionalism with access for the poor.

The dual mission is to match the professionalism of other banks while retaining access for the poor: Post offices provide the main distribution channel but La Banque Postale also uses the mail and e-mail. It introduced new insurance and mortgage products in 2006 and engaged in a wide publicity campaign.

In the first year La Banque Postale sold 700,000 life insurance contracts and it has seen its mortgage business grow by twenty-five to thirty percent a year. It believes customers feel they have the same relationship with the bank as before – they simply have access to more products.

In April 2008, La Banque Postale gained permission to offer non-life insurance and non-personal loans. It is growing a credit card business and developing private banking and asset management for businesses.

Challenges include a need to achieve rapid organic growth and to find more efficient ways to address the market via new distribution channels and partnerships with other banks. La Banque Postale has developed a strong offer in personal services, however, compliance is a big cost burden which makes it less competitive than other banks.

La Banque Postale trains post office branch staff and communicates its philosophy and mission. Financial advisers follow the bank's sales methods but report through branch management. The advisers have a separate space in post office branches where they account for seventy percent of the activity – La Banque Postale says it has no problem with visibility in branches.

Poste Italiane's BancoPosta

Unlike La Banque Postale, Poste Italiane's BancoPosta is not licensed as a bank. As a division of Poste Italiane it has no balance sheet and cannot take credit risk. It is, however, regulated as a bank and does sell third party products on a white label basis.

BancoPosta has a market share of about ten percent and 21 million customers. It offers its services from 14,000 post offices, and like other postal banks, a high proportion of customers – seventy percent – have only one BancoPosta product. It has only marginal penetration in key retail products such as mortgages, credit card provision, mutual funds and home banking and has been offering mortgages and credit cards for three years.

Around sixty-eight percent of BancoPosta's total business is in asset gathering.

Around sixty-eight percent of BancoPosta's total business is in asset gathering, split between banking products such as current account deposits and mutual funds (forty-two percent) and no-risk postal savings products guaranteed by the state and offering instant redemption (twenty-six percent). BancoPosta is paid commission rather than interest on these state-backed products.

The remaining thirty-two percent of the business is in transactional products: banking products such as current account payment services, prepaid cards and debit/credit cards; postal services such as bill and pension payments and money transfer.

Overall just over half the business now comes from banking products. Revenue from these newer products is growing while traditional postal products are static.

It offers products online, but operating systems are not integrated and online transactions are not visible to branch personnel.

BancoPosta has 253,000 business customers of which sixty percent are institutions that represent eighty-seven percent of the sector's total customer assets. Consumer customers number 21 million.

A core of around six million customers is "fully banked" with current accounts; these provide the greatest profitability and a 3.8 cross-selling ratio (see following chart).

KEY SUCCESS FACTORS – CUSTOMER BASE

Consumer: 21m Retail Individuals

	CUSTOMERS	TCA	X-SELLING
Investors (only)	1%	1.9%	1
Postepay-ers (only)	8%	0.1%	1
Saving Book Owners (without Current Account)	61%	47%	1.3
Fully Banked (with Current Account)	30%	51%	3.8

As of June 2007

Source: Poste Italiane

A core group of customers with current accounts offer a cross-selling ratio of 3.8 percent.

Poste Italiane has been considering a new strategy for BancoPosta involving asset gathering online. BancoPosta would also like to develop the SME market and partner large retailers to provide payments and electronic invoicing. In consumer lending, BancoPosta is only able at present to distribute third party products however, it has begun a loan-on-salary service and would like to develop business loans based on point-of-sale transactions.

Magyar Posta

Magyar Posta recognised the potential of financial services but felt that agency agreements alone would not drive growth. It sought a cooperation that offered joint business management, and development of a new postal financial services brand, backed by staff training and modernised branches.

Erste Bank and Magyar Posta share income, margin and fees.

It established a strategic partnership with Erste Bank. This focuses on retail banking and has a strategy for aggressive expansion; in 2003, Erste bought the former Postabank when the Hungarian government sold it off. Under an eight-year cooperation agreement, Erste Bank and Magyar Posta share all income, margin and fees acquired through Magyar Posta on a 50:50 ratio.

The agreement is jointly managed and has a joint budget for product development, pricing, marketing and sales. Product development began in 2004 with the introduction of the new Posta financial services brand, a current account and a personal loan.

The partners have added products each year including a pension, a micro enterprise account and investment funds. Product focus is on current accounts, savings and investment and consumer loans. The new financial services are supported by dedicated counters in new-look post offices and trained sales and support staff.

Joint marketing helps to bring the right products to market for postal customers. There was no cooperation agreement when Erste bought Postabank; the business model was created after the sale, and Magyar Posta now earns more than its previous transaction fee.

An Post has a similar arrangement with Fortis Bank. It owns 50 percent of a subsidiary and the two partners share the balances.

Swiss Post's PostFinance has a contract with the post office network; it takes a share of the assets on its accounts and splits the revenue.

De Post/La Poste

De Post/La Poste of Belgium has been operating a joint venture bank, Bank van de Post (BPO), for 12 years. With its partner, it has repositioned the bank to provide products more suited to the postal brand and customer base, while modernising branches to provide an open look and feel.

The first tender for a banking partner in 1996 awarded the contract to Generale de Banque, which was subsequently acquired by Fortis.

The joint venture company has its own banking licence owned 50:50 by De Post/La Poste and Fortis.

The joint venture company has its own banking licence owned 50:50 by De Post/La Poste and Fortis. The postal bank joint venture, BPO is forecast to account for thirty-two percent of De Post/La Poste revenue by 2015.

BPO manages products, marketing and electronic distribution channels. De Post/La Poste provides back office services and Fortis provides its banking know-how. The credit card product is outsourced to Fortis's credit card company. The postal bank has its own IT platform but will migrate to the Fortis platform.

BPO has 1.2 million customers of which 30 percent are active. Seventy percent have only one product and half are more than fifty years old. As a shareholder, De Post/La Poste receives dividends, but it is also paid for the products it sells and it has a sales level agreement for the back office transactions it undertakes for BPO.

Before Fortis was taken into state ownership in September 2008, the joint venture partners decided to reposition BPO to provide customers with a lower point of entry via a mutual fund that can be purchased for EUR 500. The partners also agreed to limit the number of products offered and to keep them simple and easy to understand. The new offer was communicated via an integrated advertising campaign positioning the bank as nearby, trustworthy and inclusive.

Meanwhile, De Post/La Poste is undergoing a branch rationalisation programme, rolling out new branch formats: high convenience postal branches; self service outlets, and high-value financial branches. It is introducing a more open layout with colour-coding to provide a red area for postal services and a blue area for banking services.

De Post/La Poste is responsible for motivating its own employees, but it does not see selling as its mission; its role is to create leads for the separate financial services sales force.

The Global Potential for Postal Banking

Vikram Seth, banking industry leader, north east Europe at IBM, believes that postal operators need to change their business model if they are to capture growth in retail banking.

> New areas of opportunity could be micro finance and facilitation of global trade.

He suggests there are new financing opportunities for postal operators in two new areas of the international marketplace: micro finance and facilitation of global trade, this latter particularly for small and medium-sized enterprises (SMEs) (See chart on the following page).

Micro finance provides very small, short-term loans to farmers, traders and vendors operating at subsistence level. It diverts loans from unlicensed money lenders to properly regulated institutions offering fair rates of interest.

TWO LARGE BANKING OPPORTUNITIES – WILL BANKS DOMINATE?

"providing financial services to the worlds over 1 billion un-banked population"

"eliminate the effeciencies and friction associated with the disparate supply chains in the trading of goods and services"

Both opportunities appear to be natural extensions of the business model for postal companies.

Source: IBM Corporation

Micro-finance and facilitating global trade have been suggested as a way ahead for postal financial services.

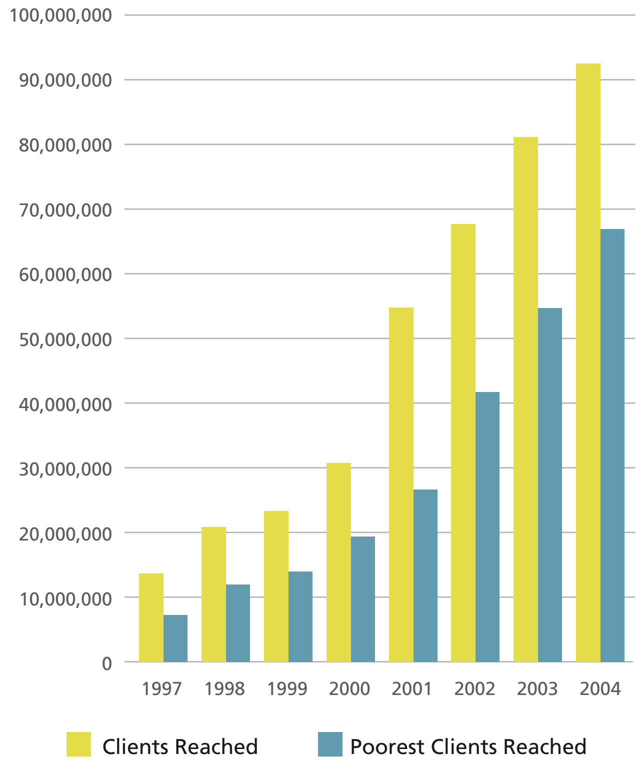
"Postal operators have relationships with postal institutions around the world. They have to think globally. They could be the capital providers," Vikram Lund says. He claims there is unmet demand from an estimated 475 million potential customers worldwide. The micro finance business needs distribution channels in remote towns and villages that are served by postmen and post offices but not banks (see chart below).

The second international opportunity involves exploiting growth in open account trading which is replacing letters of credit in global trade. With growth from globalisation and increased purchasing activity by SMEs in emerging markets, Vikram Lund suggests that postal operators can serve as the primary conduit for funds, information and customs clearance.

MICROFINANCE – PLENTY OF UNMET DEMAND

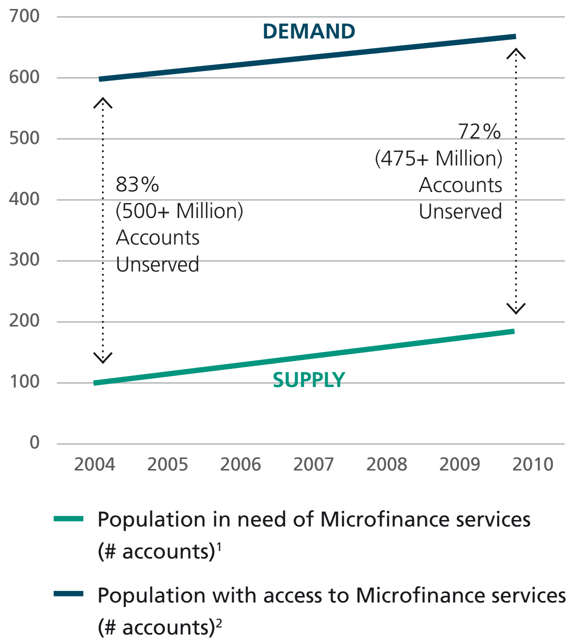
Microcredit Client Reach

Number of accounts



Supply and demand of Microfinance

Number of accounts, millions



Notes: 1 Based on CGAP data and population growth rates from the UN Population Division
2 Current and forecasted numbers based on Microcredit Summit Campaign data, 2005
1 Account = 1 Family = 5 People

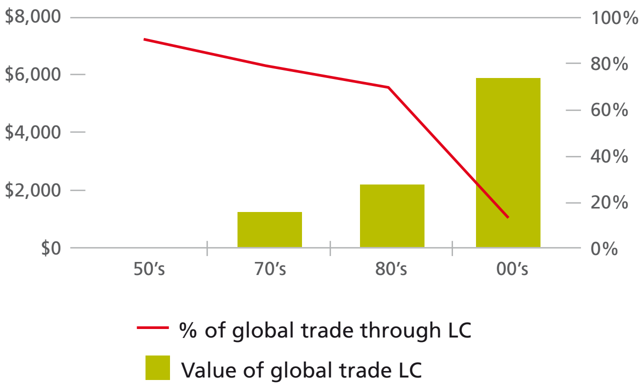
Source: Microcredit Summit Campaign Report 2005 , IBM Corporation

There is a potential worldwide customer base for micro-credit of 475 million.

Postal operators have logistics expertise, customs relationships and an international post office network, a better starting point than any other type of financial institution, he claims.

GLOBAL TRADE – BIG BUT INEFFICIENT

Global Trade Volume and LC Usage



Key Issues

- Open account trading represents 70% of global international trade with letters of credit declining
- Transaction cost is 8% of global trade
- Suppliers are paying more for working capital financing
- Suppliers are faced with significant risk of non-payment in the open account model
- Banks have limited visibility of the global value chain thus provide sellers with less working capital financing on account receivables

Source: WTO, Celent, Towergroup

To exploit growth in open account trading, postal operators could serve as the primary conduit for funds, information and customs clearance.

Conclusion

While a foray into global lending and credit guarantee, albeit at a micro level, might be a step too far for some postal financial services, there is no doubt of the potential in more traditional postal financial services.

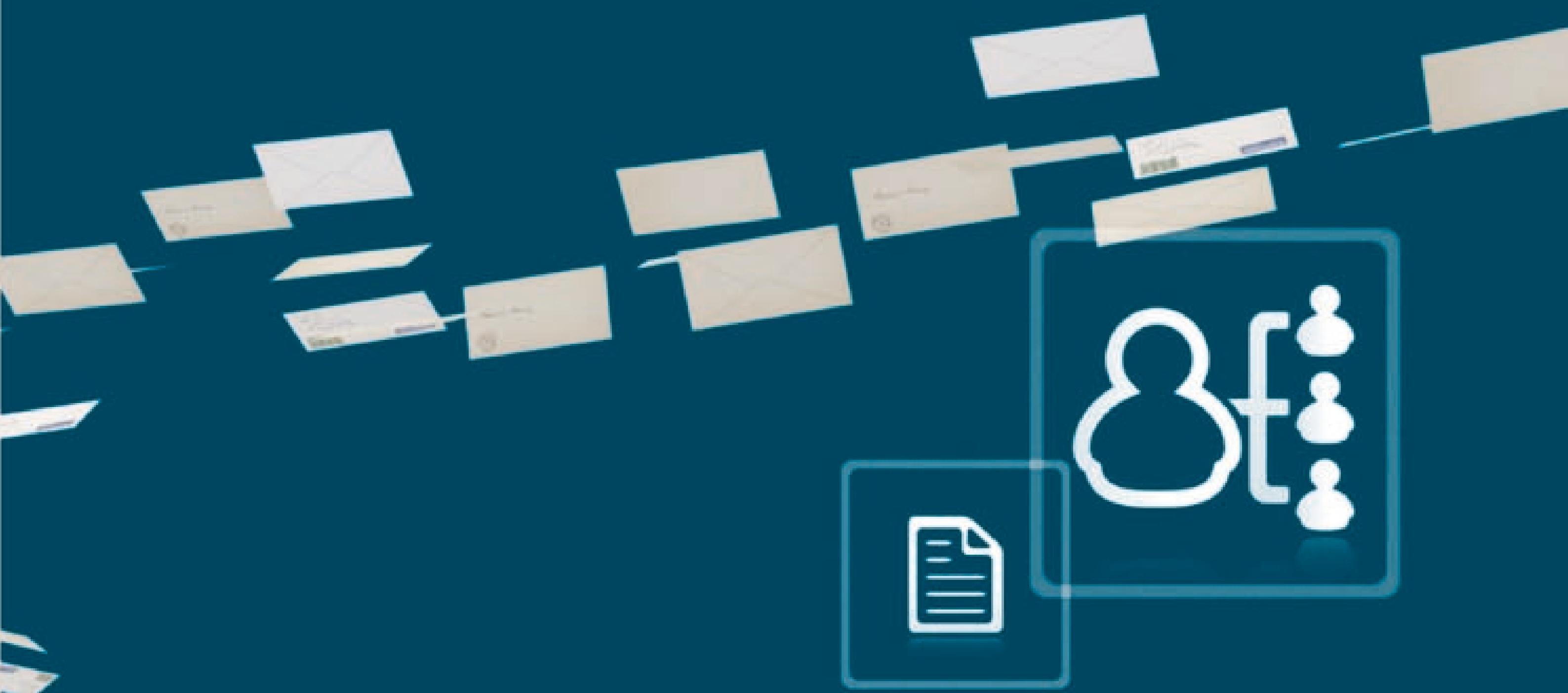
Postal operators have an opportunity to use both their extensive retail networks and their postmen and women as contact points with the public and self-employed/small businesses to build a new type of customer relationship based on a more professional, but not necessarily more complex, sales proposition.

There are a number of successful models for postal financial services ranging from operating a fully-fledged bank such as La Banque Postale, to partnerships, as in the case of Royal Mail's Post Office with Bank of Ireland, cooperation agreements, such as between Magyar Posta and Erste Bank, and joint ventures as between De Post/La Poste and Fortis. Each of these models has the potential to bring income and profits to postal groups.

6

Resource Management in Mail Sorting Centres

- Postal operators need to look beyond notions of best practice in the postal sector to companies and industries where employee engagement and lean management processes are fully embedded.
- Employee engagement in quality improvement projects is much lower in the postal sector than for lean industrial manufacturing best practice companies.
- Post Danmark reduced the number of its delivery routes and full time equivalent delivery workers by integrating sorting and delivery without loss of service quality.
- The postal industry needs to assess how volume decline should influence the extensive technology investments that are still being proposed.
- Manpower planning will have a key role in volume management in terms of labour scheduling, work rules and job design flexibility.
- Successful best practice in the utilisation of manpower resources will depend on achieving employee engagement.
- An Post is undertaking an employee engagement programme to gain commitment to the strategic need for change.
- New Zealand Post's programme to introduce resource management best practice to sorting centres identifies job design and team working as the major factor influencing engagement.



Resource Management in Mail Sorting Centres

Resource management in mail sorting centres should aim to achieve a level of operational performance equal to best practice in industry as a whole. Postal operators need to look beyond notions of best practice in the postal sector to companies and industries where resource management is developed to optimum performance, and where employee engagement and lean management processes are fully embedded to extract ongoing productivity improvement.

Postal operators should look to industries where employee engagement and lean management are fully embedded.

A focus on operations is distinct from, but complementary to, decisions about which technology to deploy for mail sorting, or how the network should be configured. Alongside the application of sorting technologies, production planning techniques and skilled people management are key ingredients to achieving continuous productivity improvement.

IPC held a Best Practice Seminar on this topic in September 2008, led by Elmar Toime, the former CEO of New Zealand Post and former deputy chairman Royal Mail. Operations managers from twelve member posts ranked key strategic issues in letter sorting management. Top of the list was operational integration in terms of interaction between sorting and delivery.

The key finding from this Best Practice Seminar was the overwhelming need for better processes to engage employees in the workplace. Best practice in industrial work environments ensures continuous productivity improvement, labour flexibility and weaker union influence in determining work process changes.

The major critical strategic issue identified by the participants was the urgent need to debate the implications of long term mail volume decline for investment in sorting. Participants also pointed to inadequate data and systems for best practice manpower allocation and to inflexible labour practices which meant sub-optimal results from the investment in technology.

All posts were a very long distance from external best practice on lean management techniques and employee engagement via project involvement.

Postal operators and labour management in mail sorting centres fall well short of best practice.

As an example of outside lean manufacturing industry best practice, the company Unipart in the UK maximises employee engagement by ensuring that each of their employees is involved in at least three quality improvement projects per year. By contrast, the best postal practice identified was the involvement of one front line employee in six, in one quality improvement project per year. It is evident that despite much progress in recent years, postal operators and labour management in mail sorting centres fall well short of best practice.

Key to achieving best practice is the creation of employee engagement and the communication of operational performance against target at local, regional and national levels. These should be clearly displayed and communicated in all mail sorting and delivery centres for all employees to see.

By introducing external best practice experts to the seminar it was evident that most posts had not begun to seriously consider ways to engage employees to achieve ongoing productivity improvement. Internal communications, first line manager training, job design, and structured lean management programmes are essential for this. Within this chapter there are further examples of identified postal best practice for resource management in mail sorting centres.

Sorting and Delivery in Denmark

Post Danmark has developed a solution to the sorting/delivery interface that is unique to its own marketplace where a major competitor is operating only in urban areas and is therefore achieving a low cost per unit.

It has maintained a service quality that averages 93.7 percent, while reducing the number of delivery routes from around 6,400 in 2007 to 5,400 in 2008. The number of full time equivalent postal delivery workers fell by about 900 in 2008 and is expected to fall by another 1,000 in 2009 without loss of quality or reduction in the universal service.

Post Danmark has cut 900 full-time equivalent delivery jobs without loss of service quality.

Post Danmark has built time into the production process to merge mail products with different delivery standards in sequence. In a restructured national mail sorting and delivery network, sorting centres have a role as cost-effective, short-term warehouses feeding mail into 309 delivery centres in volumes aligned to daily delivery route schedules.

Post Danmark has used technology and data to combine different addressed products with next day, two-day and four-day delivery standards, plus unaddressed mail, in the same delivery round without incurring overtime or late delivery.

Postal delivery workers visit each address every day. Their route, however, is divided into two sections. Next day priority mail is delivered every day, but non-priority letters, magazines and unaddressed mail are delivered on alternate days in one or other half of the route – the total volume of mail delivered is therefore spread evenly over the week.

Volume Forecasting

Long term volume decline is a major resource management challenge. The industry faces an urgent strategic need to assess how volume decline should influence purchasing decisions on new sorting systems. Postal operators have made substantial investments in technology over the past five years and investments are still being proposed – does this mean that postal operators have failed to face the operational implications of significant volume loss?

> Are postal operators facing up to the operational implications of significant mail volume loss?

If letter volumes fall in line with expectations, current network investment plans need to be reviewed. There is a risk that too much capacity is being created with little hope of earning a return. As it is investment in sorting technology tends to be sub-optimal because it is often not matched by effective labour flexibility.

Manpower planning will have a key role in volume management in terms of labour scheduling, work rules and job design flexibility.

A common complaint among postal operations management is that the manpower allocation data and systems are inadequate. Even though such systems exist, few posts have benchmarked short term volume forecasting systems to allow for better manpower planning.

Deutsche Post, however, operates an IT system that controls and plans operational workflow. PPS monitors productivity in mail centres by combining volume count with work hours. It controls label production and produces volume data for local operational planning and management reporting.

For postal businesses, a strategic manpower plan should take a view on the proportion of full time, part time and casual jobs required and the extent to which structured career paths can be offered in mail sorting and delivery.

Employee Engagement

Other key elements of manpower planning are job design, skills training, systems for staff promotion and development, and team working. These feed into initiatives in the postal sector for renewed employee engagement, a requirement for the successful implementation of any resource management best practice programme.

> Employee engagement is essential for the successful implementation of resource management best practice.

An Post is undertaking an employee engagement programme to regain control from a strong union in its sorting and delivery functions.

The objective is to gain commitment to the strategic need for change. For managers the challenges are to communicate with staff and take ownership of key messages. Supervisors need support and training to carry out their new role.

An organisation-wide engagement rollout is taking place in 2009. Workshops will be cascaded down, with managers first attending and then leading a workshop for their own team. Master facilitators have been appointed to help front line managers give workshops and understand the issues.

An Post will launch an attitude survey and communicate the results. It believes the engagement process will need to be reviewed and developed. Dialogue will be the key success criterion. The company will communicate its messages until employees hear, understand and believe in them. In that effort, visible leadership from the CEO down will play a crucial role.

The postal sector is playing catch-up with industries where employee engagement is fully embedded.

Work is being done by several IPC members to achieve employee engagement and culture change. But for most, current programmes represent a game of catch-up with industries where employee engagement is fully embedded. Outside the postal sector, the common factors of best practice in industrial work environments are continuous productivity improvement, labour flexibility and weaker union influence on work changes.

New Zealand Post's Best Practice Plan for Resource Management

New Zealand has a population of four million and the post processes and delivers one billion items of mail a year. Although the market was deregulated in 1998, New Zealand Post has retained a 94 percent market share. There are 23 mail processing centres and 164 delivery branches.

Faced with falling productivity, low performance from the sorting machines and increasing customer frustration, New Zealand Post is engaged in a three-year programme to introduce resource management best practice to its mail sorting centres.

New Zealand Post assessed the risk of low employee engagement and came up with two different risk categories of workers. Firstly those with low engagement where employees fulfilled the job basics with a varying level of commitment. This group of employees did not feel a sense of achievement and just wanted to get the job done in order to go home. The second group was categorised as active disengagement. Employees in this category are physically present but psychologically absent. They are unhappy with their work, unproductive, resistant to change and often feel isolated with a very low trust towards their management.

New Zealand Post recognised that achieving its aims depend in large measure on a fully engaged workforce. It believes that job design is one of the major factors influencing engagement, and a new mail processing network, developed for best practice in resource management, provides an ideal framework to get the design right.

The company drew up a checklist of attributes to include in jobs that would encourage engagement. Employees should:

- See the beginning and end of what they do
- Have an appropriate amount of planning / doing / checking
- Have some element of decision-making
- Perform a variety of tasks which extend their skills
- Contribute in an identifiable way
- Work in a team or similar job groupings
- Know the output of their work–the result
- Have opportunities to develop
- Get regular feedback and recognition

Work design and management teams identified their preferred leadership model: shared leadership based on a team focus, collective and shared responsibilities and leadership based on assignments (see chart below).

NEW ZEALAND POST'S PLACE IN THE TEAM CONTINUUM

This is the preferred leadership model identified by Work Design and management teams

Individual Working	Traditional Teams	Shared Leadership	Self Regulating	Self Management
• Self interest • Employees work in defined prescribed functions • Authority based leadership	• Some team focus • Emloyees know role of team • Collaborative working • Authority based leadership	**• Strong team focus** **• Collective working** **• Responsibilities shared** **• Assignment based leadership**	• Total team focus • Integrated team operating • Team based leadership • Team monitoring and control	• Team direction setting • Team member selection • Full input control • Team performance management

Source: New Zealand Post

New Zealand Post decided that the shared leadership model was suited to best practice in resource management.

Work Process

New Zealand Post changed its work processes to improve both productivity and engagement, introducing a standard process blueprint for all locations linked to its network renewal. A crucial requirement was to achieve cost savings.

It set up new teams and team-leader structures. Teams have defined roles and responsibilities and are seen as instrumental in creating labour flexibility and workload balance. They are expected to take a problem-solving approach:

- Take responsibility for their part of the production process
- Plan daily work including where team members are assigned
- Review team performance daily
- Work together to solve problems and improve
- Take responsibility for safety and housekeeping

Teams have become the main work unit inside the mail sorting centre operations at New Zealand Post. Teams are in place to cover the job families of both outward or national processing operations, and inward or local processing operations. Each team is responsible for a defined process or part of a process.

Providing training for supervisors was a priority as their role is key in ensuring that the team operates as planned. The responsibilities of supervisors are to:

- Support their team as needed day to day
- Help establish team participative working
- Coach their team and team members in shared leadership
- Facilitate the team taking on more responsibility over time
- Ensuring that job family runs smoothly

Each team has a tool kit that is used to measure their performance. This includes a charter to describe how the team will operate on a day to day basis. An operational skills matrix describes the functions and activities the team is responsible for and the skill level of team members in relation to these. A service level agreement describes what the team will deliver to its customers, and a scorecard is used to report the team achievements against the targets.

New work processes needed to be introduced with the support of strong and empathetic front line leaders.

There were significant implementation issues. First, attitudes needed to change and it was crucial to involve the union in the company's objectives at an early stage. The introduction of new work processes required support from strong and empathetic front line leaders. However, front line managers were themselves undergoing a significant development programme.

New Zealand Post aimed to create and develop a dynamic supervisory group. In line with current best practice, it realigned front line managers with company goals and not with those of the union.

Job structure follows core process functions and responsibilities are focused on maintaining standard processes in a team environment. Front line manager performance is measured against targets; supervisors work to score cards designed to drive change and reflect the goals set for the operational process.

The issues related to implementing change in front line management were common to other postal employee engagement initiatives: the cost of training, transition from existing work groups, and effective selection and promotion based on trust on both sides.

Key results for New Zealand Post from the introduction of participative working include improvement in all key performance areas: sort quality, productivity, machine throughput, employee engagement and managing within budget.

Issues to be tackled in future are changes in mail volume and the need for more flexibility.

New Zealand Post has identified emerging issues for work processes that will need to be tackled in the near future, namely, changes in mail volume and a consequent need for increased flexibility. It believes the correct responses are: continuous and active job design, an increase in part-time workers, local productivity bonus schemes, greater focus on total quality management, job rotation and enrichment and a renewed emphasis on annualised hours contracts.

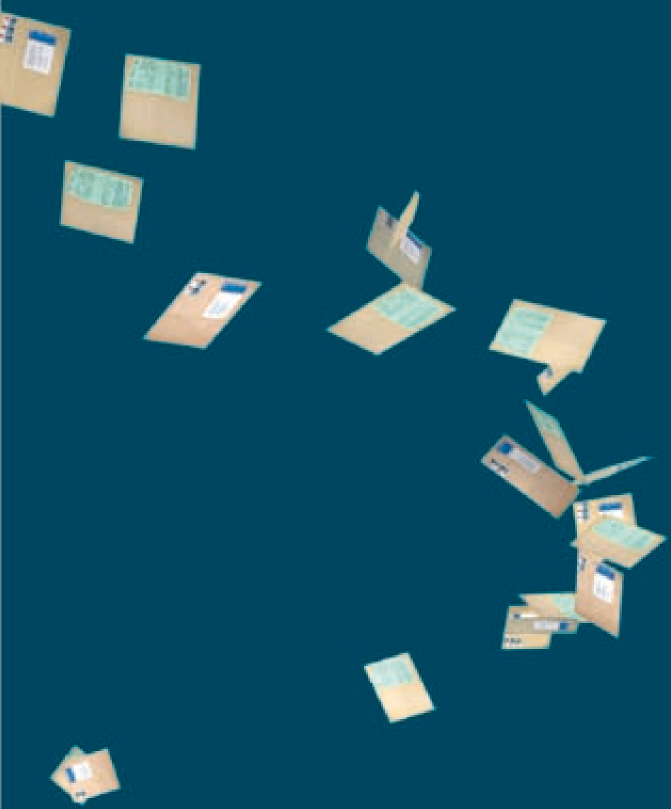
Conclusion

Mail sorting centres are the engine-room of postal operations. They represent the largest concentration of people and capital assets in the pipeline. In the short to medium term, mail sorting centres are largely fixed cost structures with the opportunity to vary costs at the margin. The application of sorting technologies and production planning techniques, and skilled people management are key ingredients to achieving continuous productivity improvement.

Postal operators need to engage employees and extract ongoing productivity improvement by introducing best practice techniques developed in other sectors. Internal communications, first line manager training, job design, and structured lean management programmes are essential for this.

There is a need to evaluate the benefits of supporting employee engagement processes based on external best practice as a means of continuous productivity improvement.

If addressed letter mail volumes continue to decline at the rates being seen today, postal operators are going to require diversification and growth strategies in new business areas to compensate for this. Postal management has to face up to the operational implications of significant volume loss given the extensive technology investments that continue to be proposed. Indeed posts need to communicate the future volume risks to stakeholder groups including employees as part of their ongoing engagement exercise.



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