International Post Corporation

Strategic Perspectives on the Postal Market
2010

THE NATURAL PARTNER FOR THE POSTAL INDUSTRY

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Executive Summary

This publication, *IPC Strategic Perspectives on the Postal Market*, provides a distillation of the cooperative work carried out between member postal operators and IPC throughout 2009.

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 six key areas: mail volume, business-to-consumer (B2C) e-commerce delivery, direct mail, the future postal workforce, productivity and sustainability.

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 contributors to this work are IPC's Senior Executive Forums (SEFs), Best Practice Seminars (BPS), the first *IPC Postal Sector Sustainability Report*, and exclusive research commissioned by IPC to gain greater insight into the cross-border markets for home delivery and direct mail.

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 four SEFs held in Europe and Asia that together represent input from more than 100 senior postal executives with leadership roles in their areas of responsibility.

Our Best Practice Seminars benchmark the operational management processes of members and leading firms both within and outside the postal industry. *Strategic Perspectives* this year draws on two seminars on the future workforce and productivity, both led by Elmar Toime, former chief executive of New Zealand Post and former deputy chairman of Royal Mail.

Taking the Long View on Mail Volume

It is impossible to predict for certain how far physical mail volumes will decline over the next 15 years, but it is safe to say that overall volume will be lower than it is today.

In the face of a trend for volume decline, it is imperative that postal operators decide now how they can adapt their business models in order to maintain profitability in core postal services. The key is to introduce a much higher degree of flexibility to the workforce, bringing a greater degree of variable rather than fixed cost into the business.

An immediate challenge relates to return on investment and the period over which this can be achieved for new assets being planned or purchased now under modernisation programmes.

With a strong likelihood that mail volumes will be at half their present level in 15 years' time, the universal service obligation as it exists today will be untenable. Already, it seems clear that delivery frequency needs to reduce while the "first mile" will increasingly be managed by outsourced suppliers.

For much needed changes to take place in a planned and efficient way, regulators and other postal stakeholders must be persuaded to engage with the reality of a sector whose bedrock on volume operation is being eroded fast.

B2C Parcels Set to Grow the Core Business

E-commerce is one of the fastest-growing retail channels across the world and the success of e-commerce is boosting the volume of home delivery parcels to consumers.

Early indications from research commissioned by IPC into cross-border e-commerce in Europe and the United States have revealed a number of barriers to growth. These include language, national attitudes to credit/debit card payment online and establishing an effective system for returns.

The greatest barrier, however, is the cost of transport, followed closely by the need to manage inventories cost-effectively, while supplying relatively low volumes in international markets.

Consumers have taken to e-commerce in large numbers over the past five years purchasing a wider range of products being made available online.

Three main types of e-retailer have emerged: Pure players operating entirely on the web with low-cost structures that enable them to adapt quickly to customer desires; multi-channel operators that have moved online to supplement traditional retail operations; traditional distance sellers that have now replicated their entire catalogue ranges online in order to target a wider customer base – and to stay in business in the long term.

Ideally, e-retailers want postal operators to take more responsibility for a complete logistics service, including preparation of parcels, transportation, delivery and returns, as a true partner who will enable them to concentrate on selling and marketing products.

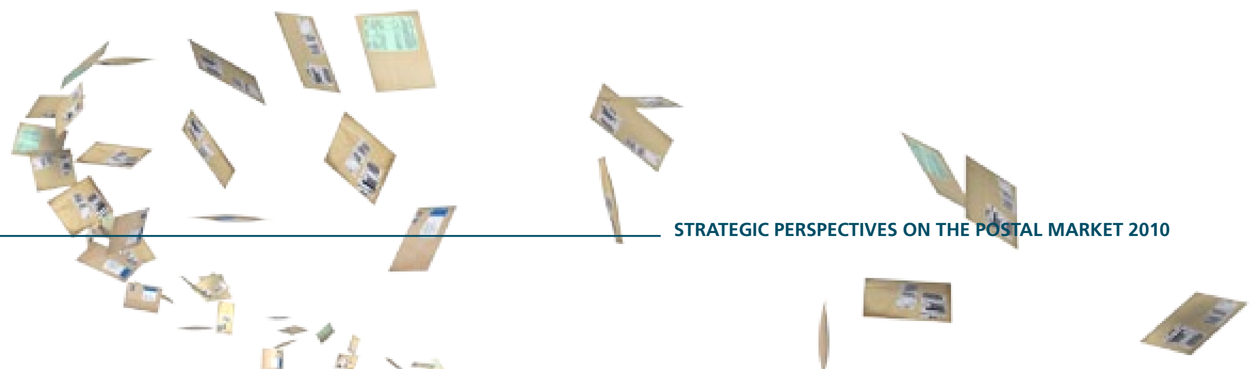
Online e-retailer PIXmania offers one million products in 26 countries, selling relatively high-value electronic products, toys, household appliances and tools. It selects carriers against five criteria, not only price but product security, the capability of IT systems, ability to operate track and trace through an EDI system and a dedicated customer service facility.

PIXmania says postal operators need to innovate, improve their track and trace visibility and offer an evening delivery option.

International returns for cross-border online shopping present a complex challenge for postal operators. Deutsche Post DHL has been trialling a cross-border returns solution with Austrian Post and IPC is preparing to pilot an easy returns solution in Europe with Groupe La Poste, Deutsche Post DHL, Parcelforce Worldwide, Taxipost and TNT.

In the United States, USPS is targeting lightweight parcels as a growth business and is encouraging e-retailers to minimise the size of their packages.

USPS has understood that senders in the e-commerce environment are shippers, not mailers. It sets out to speak the sender's language, highlighting the post's strengths such as Saturday delivery, and demonstrating its right to be the first-option supplier by sharing research showing how it is meeting customer delivery preferences.



Direct Mail: In Need of a New Mission

Direct mail provides an effective, targeted connection that strengthens customer relationships. It is perceived as a more effective medium for customer retention, but it also achieves good results for customer acquisition, short-term sales and product advertising campaigns.

There is a case for rebranding and repositioning direct mail in order to remedy perceptions that it is "traditional" and less dynamic than online direct marketing options. There is also a need to educate advertisers about the qualities of the direct mail product and the different benefits to be gained from addressed versus unaddressed direct mail. A rebranding effort should concentrate on direct mail's usefulness in relationship building.

To combat perceptions that direct mail represents high cost, it must be highly-valued by receivers, advertisers and media agencies. Direct mail can bridge the gap between online and offline communication by delivering targeted, personalised messages that bring the highest return on investment.

There is, however, potential to re-examine postal pricing for direct mail to ensure that structures reflect the trend to lower volume campaigns.

Cross-border direct mail has potential to grow, particularly as an advertising medium for products offered online. A partnership between Hongkong Post and China Post offers an example of cross-border activity: China Post provides address data to Hongkong Post for mailings by traders wishing to reach potential Chinese tourists to Hong Kong.

Direct mail is an important element of integrated, cross-media campaigns. Innovative use of technology could facilitate the flow of information between databases and address management systems, making the addition of paper-based messaging seamless with online marketing activity.

The Postal Workforce of the Future

As postal operators move from dependence on letter mail to a more diversified and technology-rich business, current employee demographics will no longer match requirements and potential transition problems will result.

The economic recession eased labour shortages in some economies, but it is not expected to solve the recruitment problem long-term. In the future, postal workers will be drawn from new labour pools (women, students, minorities, immigrant groups) with different aspirations that will need to be acknowledged and met.

Postal operators that still have a high proportion of employees on fixed civil service contracts need to find ways to replace them. They might be helped by an ageing employee profile which will provide natural attrition in the next five to ten years but there is no guarantee that phased retirement will not be overtaken by accelerating volume decline.

Very few postal operators have planned for the degree of labour flexibility achieved by TNT Post, the benchmark leader; in fact many have not yet begun to implement more flexible use of labour.

The need to make labour costs more variable and better matched to workloads will ultimately drive postal operators to use a greater range of labour markets: permanent, part-time, casual workers for relief and peak, outsourcing, business partnerships etc.

Front line managers need to understand current labour market issues and become engaged in trying to create a more flexible workforce – change has to start at the bottom.

Many postal operators have objectives to become employers of choice, especially in recruiting leaders of the future. They will need to build employee-centric flexibility tools into their organisations to achieve that aim in future.

Productivity, a Fundamental Strategic Tool

By creating future business scenarios for productivity growth based on reasonable forecasts, postal operators can create business models that produce profitable results in the future. Challenging scenarios can show where the business will be stressed, helping posts as they contemplate the future in the face of declining letter mail volumes.

Productivity measurement can assist operational and cultural transformation. The optimal conditions for these include:

- Overall business environment: creation by senior management of high level goals that include and reward productivity growth
- Good productivity measures: defined elements that create useful measures
- Good reporting: ensuring that measurement is reported and understood by all levels
- Engagement of front line managers: making productivity relevant
- Engagement of employees: creating a culture where employees contribute
- Elimination of causes of blocks to productivity: identify the factors that inhibit a productivity culture

Useful productivity measurement systems are relevant, accurate and consistent; timely, objective, and produced with minimal effort; simple to understand and scalable from work unit up to corporate level.

The postal industry needs to bring a productivity culture alive for front line managers and employees. More could be done to train, empower and engage these groups but, today, translating corporate productivity goals into uniform, understandable local targets remains work-in-progress.

The postal productivity equation addresses how productivity is affected by customer need and product design; automation and technology; regulation, business process and labour pools.

Some postal operators have already introduced total factor productivity at work unit level, for example in delivery or post offices. The concept requires managers to look at all costs – labour, property, plant and technology – in evaluating productivity. This is one way to help employees understand the value drivers for the total business.

Several postal operators have implemented, or are developing, theoretical constructs of the cost drivers of comparable operational areas (sorting centres or delivery offices). The mathematics in these models is too complex to be understood by local managers, but they do produce useful data that allows senior management to drill down and discover why productivity varies between similar work areas.

The advantages and disadvantages of financial productivity measures (cost in cents to deliver a mail item) against physical measures (the number of items delivered per delivery point) are appropriate for internal benchmarking in some circumstances, but have less significance for international comparisons.

At the end of the day, the operating margin of a postal business (operating profit as a percentage of revenue) is a universally understood industrial measure. Linking operating margin from the corporate result right down to each operating unit would suggest that financial measures should also be used universally in the postal industry.

A Sector-Wide Target for CO_2 Reduction

IPC and its members launched the postal industry's 20 percent emission reduction commitment at the global climate change conference in Copenhagen in December 2009, together with the first *IPC Postal Sector Sustainability Report*.

CEOs from participating IPC member postal operators took part in a mediated discussion at the Copenhagen launch event, explaining the industry's commitment to emission reduction.

Through the commitment the postal industry is demonstrating a mature desire to cooperate in the interests of customers to provide transparent, measurable data on the post's carbon footprint as a supplier to business.

The commitment to and publication of the sustainability report were made possible by the efforts of 20 IPC members to gather first-year results from the IPC Environmental Measurement and Monitoring System (EMMS).

EMMS provided credibility to the postal industry commitment to reduce its CO_2 emissions by 20 percent by 2020. Plans to enhance the system reporting in future include developing ways for postal operators to account for Scope 3 emissions generated along their value chain.

There is an expectation that total emission reduction will align with reductions per mail item or postal parcel. IPC will publish a sustainability report each year to track the postal industry's progress towards its carbon reduction target.

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Mail Volume: The Bucket is Leaking but How Big is the Hole?

- Determining how far mail volume will decline is the greatest strategic challenge for the posts; scenario planning can help to provide focus.
- Postal operators must shift from a volume to a value business model in order to maintain profitability.
- Starting now, there is a need to assess the impact of a lower volume base on operational planning, labour and return on investment.
- Physical mail needs to provide added value that responds to customer needs for data, analysis and ease of use.
- Letter mail products must be designed for an integrated, interactive and digital environment.
- Direct mail and home delivery parcels are sectors of the core postal business with enduring potential; however margins from these businesses will never replace high margin priority letter volume at the current level.
- Social responsibility requirements will increase and a way through must be found at a time when structural change will impact on all stakeholders.
- The current scope of the universal service obligation (USO) will be untenable and regulators need persuading to accept major reductions in delivery frequency and standards.

Taking the Long View on Mail Volume

This chapter is based on cooperative, strategic work in preparation for the Annual Conference of IPC member CEOs in 2009.

Mail volume is disappearing into the sand like water from a leaking bucket. The economic downturn across the entire area covered by IPC members has accelerated volume loss and we do not know yet how much, if any, will return with economic growth. Determining the ultimate extent and rate of mail volume decline is the greatest strategic challenge facing the postal sector.

> Determining the extent and rate of mail volume decline is the greatest strategic challenge that we face

We need to address key questions urgently: how the value of physical mail can be maintained in an ever more electronically connected world; how paper, print and mail can be repositioned in the online environment, and how social responsibility in the post can be advanced during a period when structural change will impact on all stakeholders.

To open up a debate, a strategic working group of senior executives from IPC member postal operators came together at the request of the IPC Board. They undertook preliminary work on issues planned for discussion at the IPC Annual Conference 2009: "*Delivering Customer Value – The Next 20 Years*".

That group of strategic thinkers agreed to set the time horizon of their discussions at 2025, beyond the range of current strategic planning in postal businesses. The longer perspective freed the group from undertaking a forecasting or planning exercise and allowed them to discuss likely scenarios for the postal sector, possible business responses, and areas where IPC members can legitimately collaborate to optimise business performance.

> Future postal businesses cannot rely on letter mail profitability

The working group's strategic debates covered only postal business activities. They excluded supply chain and financial services and did not cover possible diversification routes for postal operators (they did acknowledge that diversification is necessary by way of product development and geographic expansion).

It was generally agreed that future postal businesses cannot continue to rely on letter mail profitability as many posts do today. New business models are required and that simple fact presents strong restructuring challenges for everyone in the postal industry.

What's Driving the Postal Business?

The IPC strategy executives identified drivers that will shape postal business operations in the next 15 years:

- Uncertainty about the relevance of mail to customers in the future
- The role of both senders and receivers in establishing mail relevance
- A more diverse choice of business communications through broadband access and development of mobile technology (smart phones etc)
- The impact of falling mail volumes on competition, market liberalisation and regulatory attitudes
- Environmental sustainability as a societal force to limit paper-based marketing
- The risk of mail volume lost in economic recession failing to return when economies improve
- Demand from both senders and receivers for higher service levels and lower prices for home delivery parcels
- Changing customer and workforce demographics (ageing workforces, extended working life, changing sources of labour, increasing numbers of delivery points)
- Opportunities to leverage the postal brand arising from customer needs for trust, privacy and security

These drivers are common to the future businesses of all IPC members, but the timing and extent of their impact will be determined by different rates of change. Strategic responses, therefore, will also differ.

Where is Mail Volume Heading?

The strategy executives discussed in depth the direction of change for addressed letters, agreeing that volume will be lower in 2025 than it is today. Most group members believed mail could decline by 50 to 90 percent in economies with currently high per capita mail volume.

> Scenarios for volume decline should influence planning and investment

In broad terms, a postal operator experiencing gradual volume decline of three to four percent a year will have lost half its current volume in 15 to 20 years' time. That scenario should have a major impact on operational planning and related labour and investment strategies.

All postal businesses need to determine what mix of diversification, price increases, regulatory change and productivity growth will be needed to maintain a viable return on capital employed. The challenge is great, but it's not insurmountable.

Already, a number of posts have made significant moves from fixed to variable costs – one or two have indicated they expect to have an entirely part-time delivery workforce in the future. Achieving such a shift will be hard work, presenting a dual challenge of planning manpower through a period of transition from current models, and gaining stakeholder understanding of the need for change.

The challenge will be more pressing for incumbent postal operators facing increased competition from new market entrants free from legacy cost structures and universal service obligations (USOs).

Sharing Volume Data

In 2009, IPC launched a quarterly market intelligence report for CEOs of member postal operators. *IPC Global Monitor* is the result of collaboration between 21 IPC members sharing detailed and up-to-date information on how domestic and international postal volumes have evolved since the beginning of 2005.

The report offers postal CEOs quarterly volume trends, combining these with key market drivers for:

- Total addressed mail
- Letter mail split by priority, standard and non-priority services
- Addressed and unaddressed admail
- Periodicals mail
- Postal courier, express and parcels

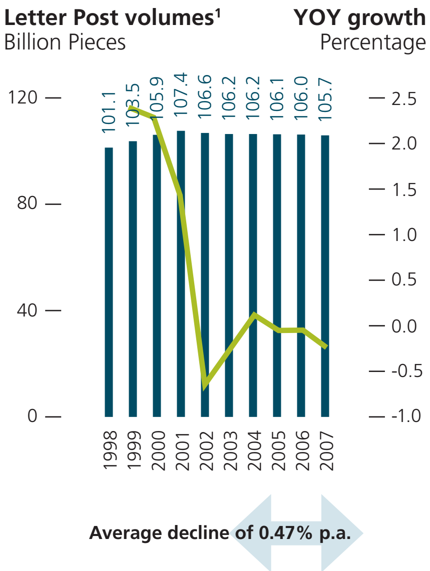
The Q3 2009 year-on-year trend showed that IPC members' total volume declined in all categories. The most severely hit were higher priced postal products suchs as priority letters, periodicals and addressed admail.

The international mail market saw the steepest decline; inbound addressed mail dropped by double digits in the Q3 2009 year-on-year comparison.

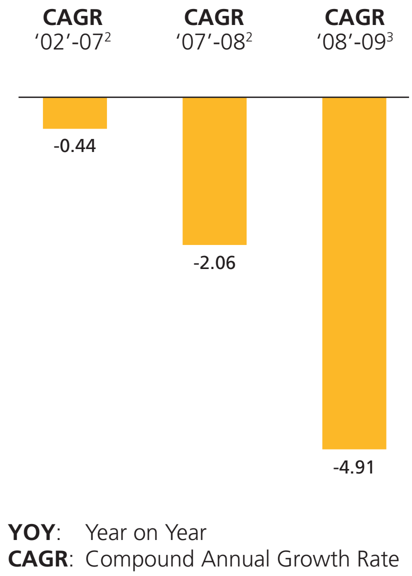
Postal industry profitability is under severe pressure as costs increase faster than revenue. Alongside overall mail volume reduction is a simultaneous decline in average mail prices arising from changes in the mail mix and increasing mailer preference for delayed delivery at lower rates.

Total earnings before interest and tax (EBIT) were minus EUR 1.4 billion in Q3 2009 for six operators publishing quarterly results (this figure was influenced strongly by results from the United States Postal Service).

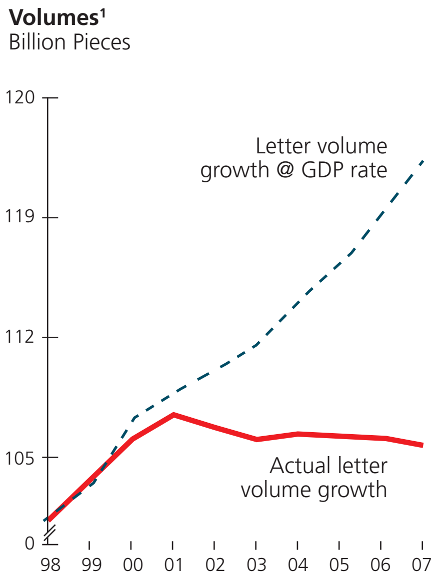
INTERNATIONAL POSTS HAVE EXPERIENCED STEADY DECLINE IN MAIL VOLUMES SINCE 2002...



...ACCELERATING IN 2008 AND 2009



GROWING DISCONNECT BETWEEN MAIL VOLUMES AND GDP INDICATES LOSS OF RELEVANCE



1 Based on Australia, Czech Republic, Denmark, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Portugal, Spain, Sweden, and the United Kingdom
2 Based on the following countries: France, Germany, Italy, Japan, Netherlands, Sweden, and the United Kingdom as only these operators' 2008 mail volume data was available
3 Based on Australia, Singapore, New Zealand, and the United Kingdom as only these operators' 2009 mail volume data was available

Note: The USPS' mail volume increased 4.64% from 2002 to 2007 (but decreased 4.2% from 2007 to 2008 and 13% from 2008 to 2009)
Sources: Country Fiches of the EC study on 'The evolution of the European Postal Market since 1997,' DG Internal Market and Services, August 2009; operators' website; USPS 2002 and 2007 annual reports for U.S. mail volumes; USPS Household Diary, Accenture analysis

First Hit, First to Stabilise

Countries that were hit early by economic downturn were first to suffer loss of mail volume; they are also first to see stabilisation with advertising mail leading the trend.

In markets where digitisation started earliest, mail volumes declined fastest across all mail categories when recession hit. The more digitisation expands in a market, the greater the impact on mail volume *(see Chapter 4 – Direct Mail)*.

Postal operators facing competition from new entrants to liberalised markets are experiencing faster volume decline. In these markets, priority mail and unaddressed mail are hardest hit.

Transactional Mail: Competition and Substitution

The strategic working group of IPC member executives agreed that transactional mail will succumb to electronic substitution in the longer term at rates linked to broadband penetration and usage, the level of conservatism in society and demographic change. Substitution effects will be compounded by loss of volume to competitors in the short term.

In the Netherlands in the past, two-thirds of mail volume decline was due to competition from other mail carriers and one-third to electronic substitution; that ratio reversed in 2008. Loss of market share on account of physical mail competition is expected to be around zero in future, while loss of volume on account of electronic substitution is set to accelerate fast.

> The viability of the final mile could be under threat

If mail volumes shrink at the anticipated rates, there will be implications for the viability of the last mile.

In Finland, the final catalyst for growth in electronic substitution was the introduction of a flat-rate fee for broadband. Consumer attitudes changed rapidly in favour of online transactional mail. As a consequence, telecom operators in Finland recently started charging customers EUR 1 for each physical invoice sent (EUR 3 in Norway). Interestingly, "easy" money for posting invoices might cause telecoms companies to pause in trying to migrate customers away from physical mail.

Postal operators' efforts to prolong the life cycle of transactional mail profitably must take account of customer needs, including the quality of service they require. Next day letter delivery might become irrelevant to customers in future.

Direct Mail: A More Optimistic Outlook

The outlook for direct mail is more optimistic. True, economic recession hit direct mail volumes hard, but most postal market analysts view that loss as a cyclical effect, believing that direct mail will hold its own in overall marketing communication strategies. A strong future is a relative term, however, and does not necessarily mean direct mail volume will grow.

> A strong future for direct mail does not mean volumes will grow

Direct mail could have strong potential as an alternative to the "noise" of increasingly crowded online communication, reaching consumers and businesses in a more engaging and measured way. For example, research by Forester on the younger internet generation indicates resistance to advertising on social networking sites such as Facebook, and on mobile phones.

Nonetheless, for direct mail to stand out, the services and attributes it offers will have to be shaped so that they fit with a world of electronic communication and a new generation of online consumers.

In 2009, the ratio of addressed direct mail to transactional mail in Canada was between 1:4 and 1:3 – in the Netherlands, the ratio was already 1:1. In markets where use of mail for advertising is under-developed, achieving growth will be a challenge. New research commissioned by IPC analyses whether other megatrends will help or hinder direct mail development in under-developed markets *(see Chapter 4 – Direct Mail)*.

Network Investment and ROI

Many posts are investing – and reinvesting – significant capital in transport, processing and sorting technologies to upgrade the mails pipeline from posting to delivery. Business cases to justify investments should consider low volume scenarios; the timescales allowed for return on investment should take account of volume decline.

> Expectations for ROI should be influenced by low volume scenarios

Postal operators should reflect on how operational strategies would differ under a scenario of three to five percent annual volume decline compared with one for stable volume.

Volume has a number of operational implications for posts. Improving productivity in order to maintain profitability will require labour flexibility together with changes in operational processes and service characteristics.

High volume mailers will trade-off delivery frequency against price; IPC's strategy executives believe there is a large market for services offering delivery one or two days a week. That level of service is, of course, incompatible with the current USO and the group suggests that postal operators have a shared need to influence the evolution of the USO.

> There is a market for services delivering one or two days a week

Some postal operators believe the days of full-time employment for letter carriers are coming to an end *(see Chapter 5 – The Future Postal Workforce)*.

TNT has been surveying younger members of its workforce (20-year-olds) to understand their thinking on the future of mail.

Crucial Megatrends that Cannot be Ignored

The group decided to restrict their discussions to letter mail, parcels and the postal retail network – the core postal business. The influence of megatrends on businesses is often overplayed so the challenge is to ensure they relate to the mail business.

Three post-related megatrends were identified: the value of mail in an ever-more electronically connected world; repositioning paper, print and mail in the online environment; advancing social responsibility in the post during a period when structural change will impact on all stakeholders. These megatrends should be considered in conjunction with scenarios for 2025.

The Value of Mail in an Electronic World

The internet will be ubiquitous. Its evolution is giving rise to dramatic changes in the way organisations and households operate. How can postal operators adapt, using web-enabled technologies to support and grow the core business? How will they use data and analysis to drive performance, understand and respond to customer needs and add value to the mail?

Repositioning Paper, Print and Mail in the Online Environment

The global mailing industry must collaborate in entirely new ways. The challenge is to apply technological innovation to paper, print and mail while continuing to focus on internal operating efficiency. Letter mail products and services must be designed specifically for an integrated, interactive environment, not as a standalone, traditional product category. It is increasingly clear that postal operators must align their business models to value rather than volume.

> Postal business models must align to value, not volume

Mail – and the mailing process – must be easier to use, especially for advertisers. Major advertisers not sending direct mail to any significant degree have to be convinced of its value. Target sectors for persuasion include large consumer product companies, small businesses and industries such as health provision undergoing significant change and growth.

The focus of postal businesses is likely to remain primarily in the domestic market. However, many postal operators will seek to generate new revenue in international markets. That will require greater levels of collaboration among postal operators, competitors and the mailing industry.

Parcel Home Delivery: A Brighter Star

Package services will assume a more important role in revenue generation for posts.

The home shopping market is growing fast as it shifts to online channels, especially in the face of economic depression.

In Europe, the retail market overall is worth EUR 2,200 billion and is growing at 2.5 percent a year. Online shopping is growing at more than 20 percent, although it still represents a small proportion of total retail spend. By 2011, the online share of the retail market is expected to be eleven percent.

The courier/express/parcels (CEP) market in Europe is worth about EUR 40 billion and is forecast to grow considerably. It is split 50:50 between express and standard parcels. The business-to-consumer (B2C) parcels segment is growing at a much faster six to eight percent than business-to-business (B2B) parcels. The small but fast-growing cross-border segment is growing at 15 percent.

CEP markets in North America and Australia/New Zealand are believed to follow the same trend as Europe, although growth in cross-border traffic is heavily influenced by swings in foreign currency, market access, returns services, ease and cost of customs clearance and other barriers to purchase.

E-commerce is the main growth driver for home delivery parcels. The current decline in traditional, offline mail order is expected to accelerate, although the sector currently remains dominant in the large markets of France, Germany and the United Kingdom. Large mail order firms will adapt their business model to e-commerce and will therefore continue to exercise strong buying power, a well-established trend in North America *(see Chapter 3 – Shop@Home)*.

In Italy and Spain, distance selling with personal contact remains the dominant model. It is unclear currently whether that structure can be expected to continue in the longer term. East European markets are at an early stage in e-commerce and will remain minor players in the European market for the next ten years.

Incumbent postal operators remain the dominant players in B2C parcels, but the market will be highly competitive, bringing tighter margins. For postal operators, benefits from growth opportunities in the parcels market will be offset by continuing decline in mail volumes.

> Parcels growth will be offset by mail volume decline

IPC is facilitating a cooperative initiative, DirectPoint, which aims to strengthen the post's advantage in the parcel home delivery market. Current work entails assessing customer needs and product definitions (branding, services, sizes and volumes, packaging, distribution, promotion and IT).

Social Responsibility in the Postal Sector

IPC members have already created measures for sustainability and global energy reduction backed by third party certification, but such measures need to incorporate the entire mail product lifecycle if they are to allay criticism from environmental groups.

Many postal operators are engaged in a range of employee health and safety initiatives, including a move by some to more ergonomic work centres.

Like all businesses, postal operators will be subject to greater demands for ethical management, transparency, accountability and engagement with stakeholders *(see Chapter 7 – Sustainability)*.

Unlike other businesses, many postal operators have numerous legacy public service obligations, beyond those of the USO, that add costs to the mail business.

The Universal Service Obligation (USO)

There is a real possibility that the USO will evolve in the next 15 years to mean access to broadband rather than a physical mail service.

> In a scenario for mail volume decline the USO becomes untenable

In a scenario of declining mail volumes, the present scope of the post's USO would be untenable unless it were subsidised. If the USO could be relaxed, the post could take advantage of opportunities for productivity growth such as fewer delivery days each week and lighter delivery standards.

Regulators and other stakeholders have a focus that is too short-term for them to be engaged successfully in dramatic changes to the USO. However, stakeholders do need to be convinced that fundamental change is occurring in the mail market. As mail declines, different regulatory approaches must be found.

> Stakeholders must be convinced that the mail market is changing fundamentally

Individual postal operators will find it difficult to raise the issue of the USO's scope for fear of attracting negative reactions.

Scenarios for 2025

Scenario analysis provides an effective model for considering the challenges facing the postal sector in the next 15 years. Scenarios need to present challenging environments if the debates they stimulate are to be effective.

Scenarios are not predictions; they are a common basis for discussion, providing a starting point for identifying risks and new options for growth. The proposed scenarios are based on the following assumptions:

- By 2025, most consumers will be sophisticated users of information and technology.
- The digitally literate consumer group is growing rapidly and is already shaping how businesses and households communicate.

Scenario One – Steady Decline:

Addressed letter mail volumes fall by between 40 and 60 percent by 2025, arising from continuation of the current 2.5 to four percent annual decline.

Scenario Two – Collapse:

An outlying scenario based on a long-term, 90 percent collapse of addressed letter mail. Assume that current decline of up to 15 percent in some markets is not recoverable and that, as the economy improves, letter mail decline actually accelerates. The "silver" (old age) market adopts new technology, following the trend set by the "Net generation" raised in an environment where mail is largely irrelevant and becoming the high-earning socio-economic group by 2025.

The Implications for Postal Operators:

In both scenarios, household delivery reduces to one, two or three days a week, depending on population and drop density, and the USO is covered by broadband access.

Postal industry consolidation will accelerate; postal workforces will be part time and flexible; first mile access to postal services will be via retail partnerships and websites, rather than postal operator-owned retail and collection networks *(see Chapter 5 – The Postal Workforce of the Future)*.

Global carbon trading schemes will result in optimised mail transport, using hybrid vehicles and delivery consolidated between carriers.

Parcel home delivery will grow by 40 percent in the next 15 years on the back of growth in online shopping – letters could be delivered along parcel drop-off routes.

Direct mail will be a premium medium used to complement online advertising, which will be the dominant medium by 2025.

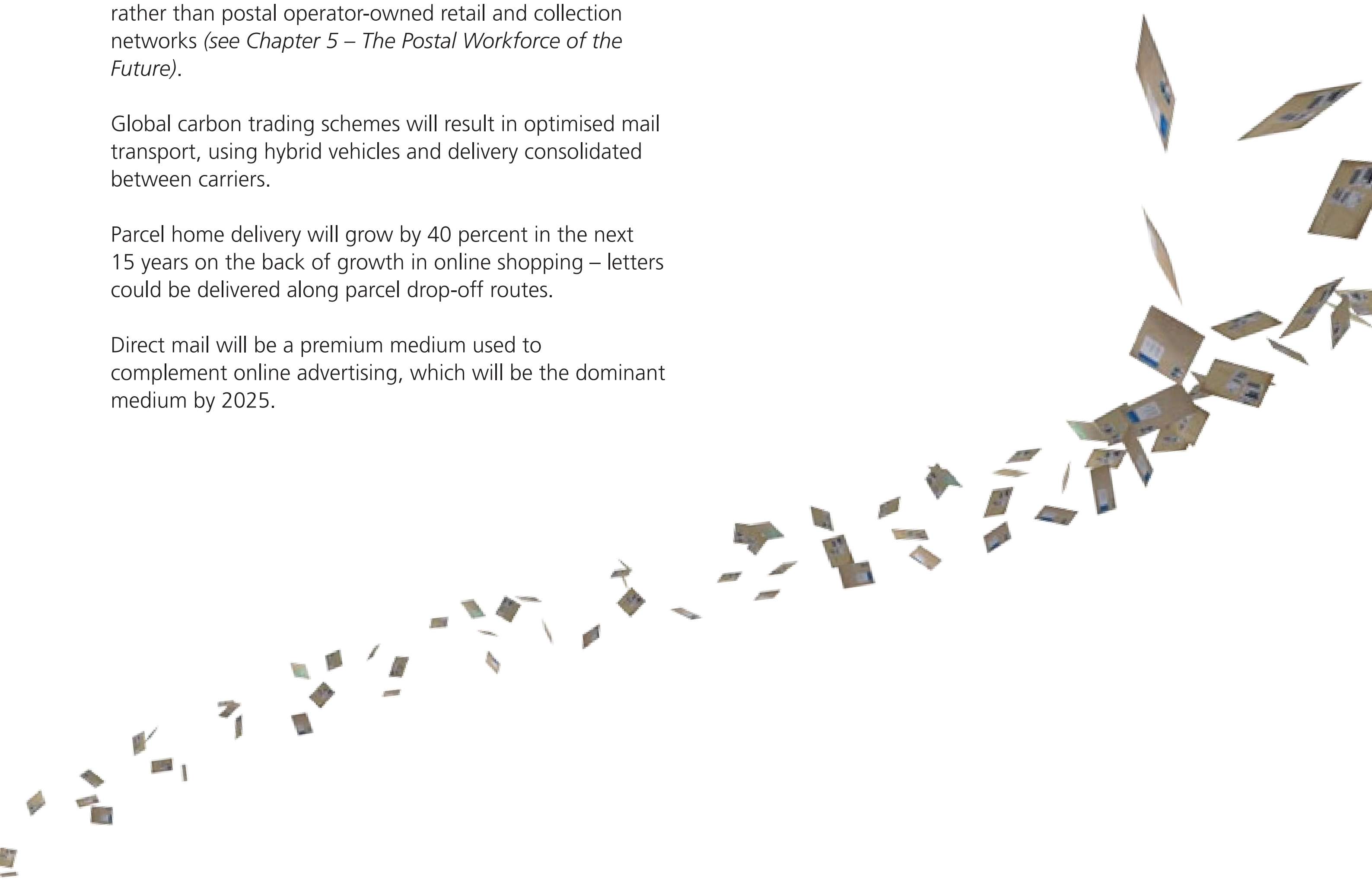
Conclusions

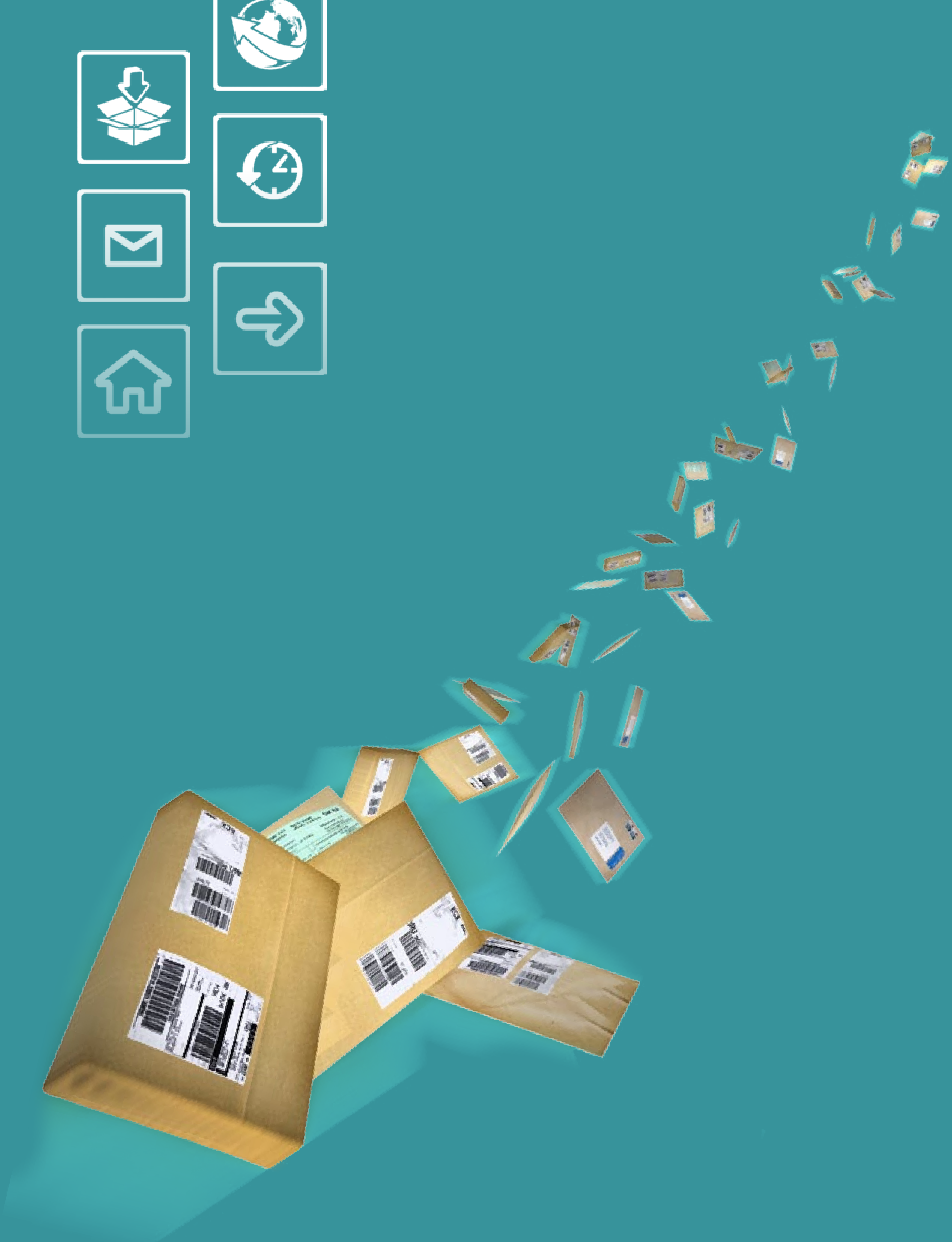
It is impossible to predict for certain how far physical mail volumes will decline over the next 15 years, but it is safe to say that overall volume will be lower than it is today.

In the face of a trend for volume decline, it is imperative that postal operators decide now how they can adapt their business models in order to maintain profitability in core postal services. The key is to introduce a much higher degree of flexibility to the workforce bringing a greater degree of variable rather than fixed cost into the business.

An immediate challenge relates to return on investment and the period over which this can be achieved for new assets being planned or purchased now under modernisation programmes. With a strong likelihood that mail volumes will be at half their present level in 15 years' time, the USO as it exists today will be untenable.

Already, it seems clear that delivery frequency needs to reduce, while the "first mile" will increasingly be managed by outsourced suppliers. For these changes to take place in a planned and efficient way, regulators and other postal stakeholders must be persuaded to engage with the reality of a sector whose bedrock on volume operation is being eroded fast.





3

Shop@Home: Can Posts Become the Logistics Partner of Choice for E-retailers?

- The CEP market offers a range of segmentation models; postal operators must evaluate whether to compete in all segments or be selective and play to their strengths.
- Business-to-consumer parcels are bringing growth to the post's core business and e-commerce is the main driver for growth.
- In Asia-Pacific, mega online operators Alibaba and Rakuten have close to 100 million registered users between them.
- Total e-commerce sales in the United States in 2009 are estimated at USD 135 billion.
- In Europe, e-commerce has been driving six to eight percent growth in business-to-consumer parcels.
- Despite its headline-grabbing growth, e-commerce is still in its infancy, accounting for example for barely four percent of total retail sales in the United States.
- Three strategic models for e-commerce have emerged: distance sellers putting their catalogues online, traditional retailers developing their online channel and pure internet merchants.
- Research commissioned by IPC into cross-border e-commerce reveals that the cost of transport and inventory management is a major barrier to growth in Europe.
- The vast majority of US e-retailers consider cross border sales as incidental to their business model.
- In the US, the inability to authenticate non-US credit cards is the major barrier to growing cross border e-commerce.
- E-retailers want a complete logistics service from a single partner who will enable them to concentrate on selling and marketing products.
- Online e-retailer PIXmania selects transport partners, not only on price, but on product security, IT capability, track and trace and dedicated customer service.
- E-retailers are seeking an integrated solution for international returns of cross-border online purchases, presenting a complex challenge for postal operators.
- Deutsche Post DHL has been trialling a cross-border returns solution with the Austrian Post.
- The United States Postal Service has leveraged its delivery network by targeting small packages priced on weight and size.
- The US Postal Service has understood that e-commerce senders are shippers, not mailers; postal operators have to speak their language, demonstrating why they should be the first delivery option on websites.

B2C Parcels are Set to Grow the Posts Core Business

This chapter is based on the findings of new research on cross-border e-commerce, commissioned by IPC, and Senior Executive Forums held in Hong Kong and Brussels during 2009.

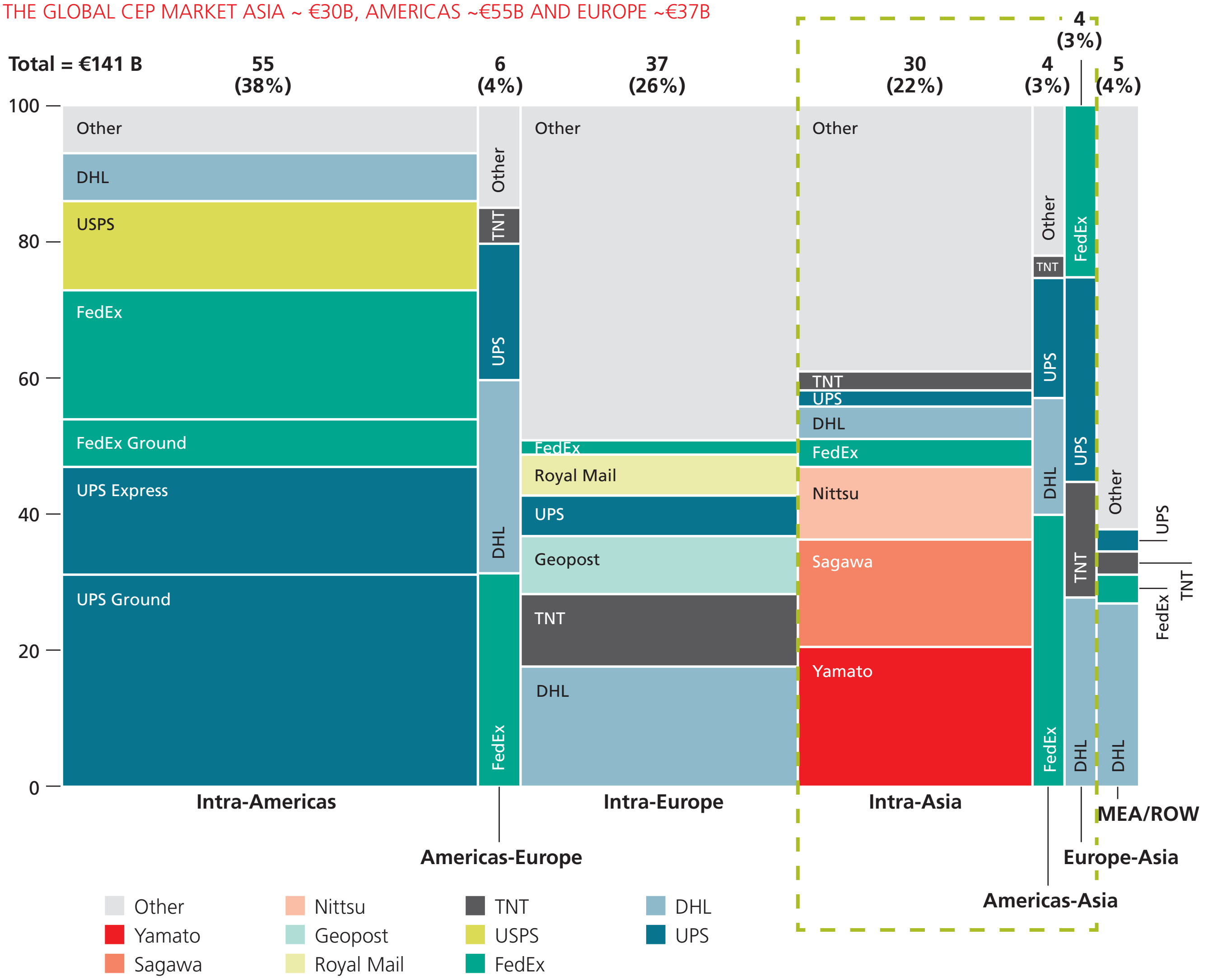
Parcels, specifically business-to-consumer (B2C) home delivery parcels, are looking increasingly attractive to postal operators. They are a sector of the core business offering growth that could compensate, at least in part, for loss of mail volume.

The Global Market

In the international business, parcels traffic within the big regional blocks of Europe, North America and Asia-Pacific is vastly greater than inter-regional traffic (see chart below). Therefore, rather than being fully globalised, the courier/express/parcels (CEP) market is still largely regional and domestic.

Intense consolidation in North America has resulted in just two or three players having an 80 to 90 percent share of the overall market. This is not the case in Europe which is largely a multi-domestic market. In Asia there are many domestic networks and no dominant integrator has yet emerged.

THE GLOBAL CEP MARKET ASIA ~ €30B, AMERICAS ~€55B AND EUROPE ~€37B



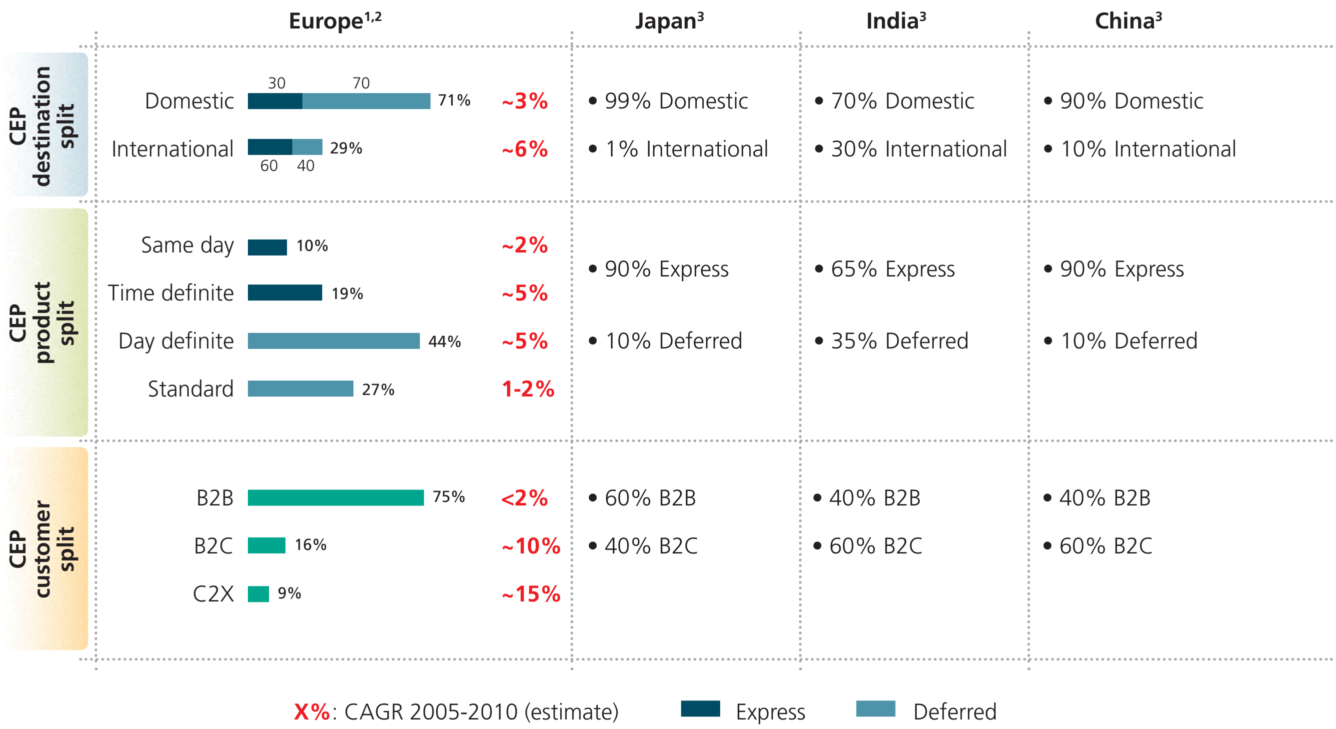
Note: Market shares in 2005 at 2005 exchange rates; Total market sizes include from and to region ie double counting occurs; Intra Europe 2007 €39.1B
Source: FedEx; UPS; DHL; ACMG; The Colography; ING; Data monitor Express House View; FK-Mards, JMAR/Marketing Data Bank, BCG analysis

The CEP market is largely regional and domestic

Different Segments:
How Many Networks?

What will this market look like 20 to 30 years from now? There are many different business models and the chart below shows some of the main types of traffic flow.

DEFERRED PRODUCTS MAKEUP ~70% OF THE MARKET IN AND EUROPE, BUT EXPRESS IS MORE POPULAR IN ASIA



1. European CEP market including Belgium, France, Germany, Italy, Netherlands, Spain, Sweden, United Kingdom; figures for 2005 through 2009 are forecast data;
2. Market segmentations by value for 2004;
3. Market segmentations by IPC SEF Parcels Asia delegate estimates;
Source: Datamonitor Express House View 2005; Datamonitor Express Logistics; Express Leaders; ATKearney, METI, Fk-Mards, JMAR/Marketing Data Bank, CARE Research; BCG analysis, IPC

The market is segmented by geography, delivery speed and type of recipient

There are different business models. Market segmentation can include a domestic or international focus, or differentiation by speed, for example, deferred or express delivery.

In the European cross-border market, express services have accounted for a major share of traffic. Price pressure resulting from recession, and the increasing reliability of all parcels services, could tip the balance towards deferred services.

Equally, there are discussions during the current economic downturn about the value of express in domestic services. Delivery within three to four days is often acceptable to senders, providing there is good process control in place.

A third way to segment the market is by type of recipient, differentiating between business-to-consumer (B2C) and business-to-business (B2B) services.

A key question is the extent to which it is economically viable to use one network for a range of different services: express and deferred; domestic and international; business and home delivery.

Postal operators must decide whether to compete in all sectors

Postal operators have to evaluate whether they will compete in all segments or be selective, playing to their strengths.

What's Driving Growth?

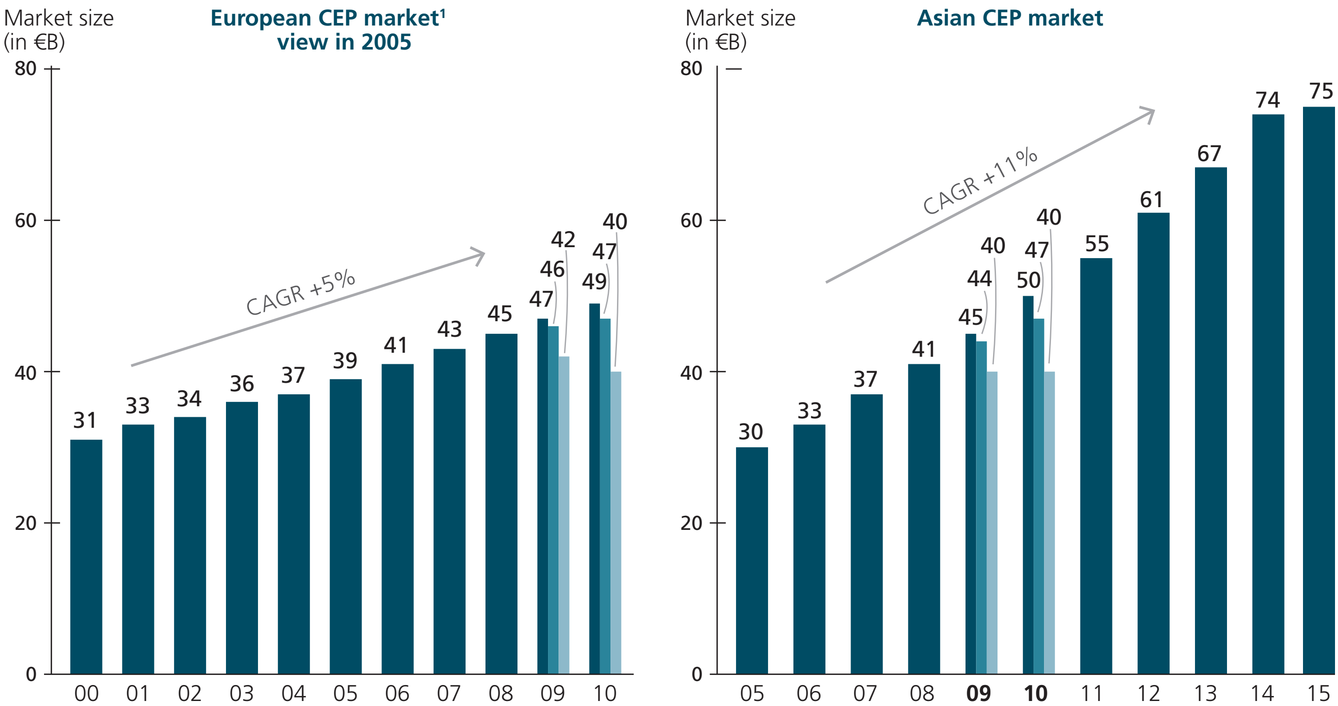
The European CEP market has been growing steadily over the past decade at around five percent per annum. Asia by contrast has shown annual growth above eleven percent that has continued during the economic crisis and is forecast to continue at a similar rate for at least the next five years.

The CEP market in Asia is fuelled by the incredible growth of the region's e-commerce companies such as Alibaba in China and Rakuten in Japan.

Alibaba.com now has offices in more than 50 cities across Greater China, Japan, Korea, Europe and the United States. As of September 30, 2009, the company had 10.5 million users registered on its international marketplace and more than 34.8 million registered on its Chinese domestic marketplace.

Rakuten is the biggest online shopping mall operator in Japan with over 50 million registered users. Its site ranks second in Japan, as measured by Unique Audience, with only Yahoo! logging more monthly visits.

COMPARISON OF EXPECTED GROWTH BETWEEN ASIA AND EUROPE OVER THE NEXT FIVE YEARS



Growth drivers

- Increasing international trade
- Higher velocity supply chains and Just-in-Time production
- Growth in e-commerce (B2C/C2C)
- Technological advances on express services

Growth drivers

- Increasing parcel penetration
- Growing GDP/population
- Increasing international trade

1. European CEP market including Belgium, France, Germany, Italy, Netherlands, Spain, Sweden, United Kingdom; figures for 2005 through 2009 are forecast data;
2. Indication of how a downturn (with a 1% or 4% drop in GDP growth) may affect total market values based on the assumptions that market values are affected similar to the effect of volumes during the 00-01 downturn in the USA;

Source: Datamonitor Express House View 2005; Datamonitor Express Logistics; Express Leaders; BCG research

The Asian CEP market is expected to grow faster than Europe

E-commerce is also one of the fastest growing retail channels in Europe and North America. Despite the economic crisis, the United States Census Bureau of the Department of Commerce estimated total e-commerce sales for 2009 at USD 135 billion, an increase of two percent on 2008.

US e-commerce sales in 2009 are estimated at USD 135 billion

In Europe, e-commerce has been driving strong six to eight percent average growth in B2C parcels and is also fuelling a small but fast-growing consumer-to-consumer (C2C) segment, however certain markets are growing much faster than the average.

The German national association for mail order trading (BVH) says that online retail in Germany in 2009 showed sixteen percent growth. In the United Kingdom, the Interactive Media in Retail Group (IMRG) Capgemini index shows average growth of 14 percent in 2009, with UK shoppers spending online over GBP 5.4 billion in December alone.

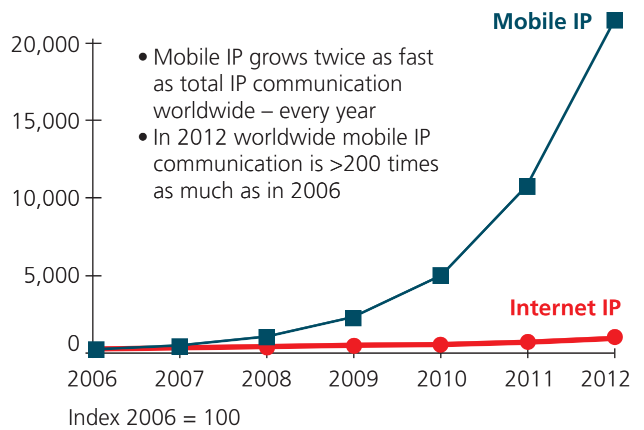
Despite headline-grabbing results, e-commerce is still in its infancy. For example, in the United States, online shopping accounted for barely four percent of total retail sales in 2009. However, as many merchants only set up their online stores around five years ago, the growth potential is huge.

Technology will fuel growth. Mobile technology – internet access from smart phones – is making it easier for consumers to shop any time, any place, anywhere. Already, in the US, UK and France, Apple has launched secure payment applications for the iPhone using PayPal.

Mobile internet penetration is forecast to grow exponentially in the next two years, as shown in the chart below.

MOBILE IP ENLARGES WINDOW FOR ONLINE SHOPPING

Mobile IP should be multiplied by 200 by 2012...



... and thus create a significant new channel for retailers

Source: Medietrenger 08, Synovate and Norweian eComMarket report (2007); Cisco visual networking index and BCG mega trends, M6 boutique survey

E-commerce has boosted volume for letter-sized packages and parcels in both the B2C and C2C segments. That has had a direct impact on postal operations. In the light of the decline in letter mail volumes experienced over the past year, growth in e-commerce could change significantly the product mix in the mail pipeline.

E-commerce growth could change the mail pipeline's product mix

Postal operators have to adapt their services to the needs and expectations of their e-retailer customers and, ultimately, the nature of their organisations will change as they respond to new service requirements from consumers.

Understanding E-retailer Requirements

IPC has an important mandate from its members to understand and share learning and developments relating to key industry and business trends that affect all postal organisations. Cross-border e-commerce is one such important trend and IPC, as an industry association, is committed to providing support.

In 2009, IPC commissioned a major programme to research the cross-border e-commerce market. The research, carried out in selected countries in Europe and North America, covered consumers, small e-retailers and major e-commerce merchants. The results will be published in a detailed report later in 2010, however, in this chapter we share some initial findings that shed light on the activities of some of the largest e-commerce merchants operating in Europe and the United States.

Three major, strategic, commercial models are evolving for e-commerce although some e-retailers are combining elements of two or all three in their propositions.

Three strategic models are emerging for e-commerce

The main models are pure online players, multi-channel operators and traditional distance sellers moving to the online channel.

Pure Players

Pure players operate entirely on the web generating all their orders electronically. They have low-cost structures that enable them to adapt to quickly to changing customer demands. Often they are offering specialized products and are focused on generating customer loyalty.

Multi-Channel Operators

Multi-channel operators are established bricks-and-mortar retailers with strong brands that have developed online trading sites as an additional shop window. Often, customers ordering online will go to the store to collect or return goods. In the past three to four years, however, management focus in these retail companies has turned increasingly to the potential of the online channel.

> Retailers are focusing more on their online channel

Traditional Distance Sellers

Traditional distance sellers are the mail order catalogue companies. These have now replicated their entire ranges online in order to target a wider customer base – and to stay in business in the long term. In France, the distance sellers are reporting that more than 50 percent of their clothing sales are now ordered over the internet.

Online retail sites only really became viable in 2004-2005 owing to three factors:

- Distance sellers put their entire catalogue ranges online, switching from partial online offers viewed merely as a support to the main, catalogue channel.
- Free delivery (or delivery charges built into the price) became widespread, boosting sales that were also driven by newly developed parcel pick-up networks.
- E-retailers adopted the classic internet sales strategy – offering goods online at low cost, changing the offer according to stock availability and varying their prices regularly through sales and promotions.

Cultural Differences

National culture and habits affect uptake of online shopping. In France, for example, consumers are happy to pay online with debit or credit cards. La Poste enjoys a favourable image offering a guarantee of delivery that gives consumers added confidence to shop online.

This is not the case in other countries where willingness to pay with a bank card online is not always culturally acceptable.

National markets in Europe also offer different levels of opportunity for market entry. Big e-retailers taking part in the IPC study of cross-border e-commerce told us there are three types of market with a strong north/south difference.

> Eighty percent of online purchases in Italy are paid for by cash-on-delivery

Mature markets, for example in Germany and the UK, have reached saturation in terms of operating retailers in some areas, making it difficult for a new entrant to become established. Secondly, markets in the process of maturing, such as France and the Benelux countries, are still in their growth phase. Finally, markets in southern and eastern Europe present big variations in culture and technological development. In Italy, for example, 80 percent of the online shopping purchases are paid for by cash-on-delivery, because consumers refuse to give their bank details.

Barriers to Growth – Europe

The purely online players tend to have a loyal customer base. They are offering a specialist range of products, often to a middle income clientele searching for a specific product at a reasonable cost with the guarantee of great customer service. The pure player's products are often difficult to obtain from more generalist e-retailers and their average basket price is in excess of EUR 30; the cost of delivery is not necessarily as important as delivery reliability.

> Pure players are reluctant to engage in cross-border selling

These e-retailers believe it would be risky to develop an international online sales strategy on account of the software investment required without any guarantee of profits. Their preferred strategy is to continue developing their domestic market until they can be sure of profit from foreign markets.

For businesses with a multichannel strategy, future internet growth will depend on the cost of the last mile. In fact, the single biggest barrier to increased online purchasing is the cost and the quality of delivery services.

The role that postal operators play in e-commerce growth will depend largely on how much flexibility they can provide. That means adapting to changing volumes, identifying the right delivery price point and showing customers their services are reliable. Indeed, the ability to manage growth is crucial; delivery operations need to grow in line with the e-retailer's business in terms of volume and cost. Many e-retailers interviewed by our researchers said they wanted to concentrate on commercial activity, not on the logistics.

E-retailers want to concentrate on commerce, not logistics

E-commerce is a price sensitive environment – many consumers go online to find products at the cheapest price. The level of delivery charge can be crucial to a sale and should certainly not exceed a third of the product price. Consumers will be less price sensitive on orders costing more than EUR 50 but they will be concerned about reliability and the good condition of their purchase.

Some e-retailers are starting to manage the entire delivery chain of their products in order to optimise their costs. In France for example, Mondial Relay, a subsidiary of distance seller, the 3 Suisses group, provides national home delivery and pick-up point networks, not only for its parent company, but also for e-retailers including 2Xmoinscher.com, decathlon.com and webdistrib.com.

E-commerce will certainly benefit from developments in technology: photo quality and presentation online is improving with features such as magnification allowing consumers to view products in detail; progressively, consumers will accept secure online payments. Experience of successful purchasing online also generates increased confidence for future purchases.

The Challenges for the Future for Cross-Border E-commerce

E-retailers that respond to a cross-border customer demand must overcome language and distribution difficulties, as well as legislation and consumer protection which can vary by country.

If a website is in a single language, growth is restricted to countries where the language is understood, for example, e-retailers with French sites are largely limited to Belgium and Switzerland and French-Canada.

Sites translated into different languages need to establish delivery solutions and costs for each market targeted. How would a retailer set a realistic price for delivery to Denmark or to the Ukraine for goods dispatched from a warehouse in France? How long will they take to deliver? And more importantly, what volume will be required for the operation to be profitable? At what point does it become cost-effective to establish a local fulfilment depot in the overseas market?

At present, e-retailers depend on their delivery company. Many may never be capable of developing a cross-border logistics strategy that can meet the variations in market demand and remain cost-effective.

Cross-border e-commerce growth depends on specific delivery solutions

For cross-border e-commerce to take off, specific logistics solutions will need to be found. In our research, a number of e-commerce businesses said they had pulled out of cross-border markets because the volume of products they sold was not financially viable relative to the cost of transport.

There are opportunities for postal operators in facilitating growth in e-commerce. One e-retailer was quoted in IPC's research as saying: "If they want to have a slice of the e-commerce cake, the posts must help to increase the size of the cake, because without that the cake will be squashed and disappear."

Postal charges for cross-border delivery must be reduced

A particular complaint levelled at postal operators was that charges for delivery cross-border were too high and should be reduced to reflect the actual distances travelled.

The Changing Flows of E-commerce Logistics

In cross-border e-commerce logistics, the challenge is to manage delivery speed and level of stock at the lowest cost.

Most consumer products bought globally are made in Asia and transported by sea to points of consumption in Europe or North America. Goods are stocked in central depots specialized in meeting the needs of e-commerce. Orders are picked ready for delivery by the e-retailer's distribution partner. To be cost-effective, volume throughput has to be very high, particularly in the case of clothing.

The map (on the following page) depicts the main characteristics of the supply chain in France as described by major e-retailers. The merchandise is transported from Asia by sea in large quantities to centralized e-commerce depots situated mostly in the north of France. From this central location, products are sent to local transit depots in the French regions and certain key neighbouring countries.

BULK MAIL FLOWS FROM E-RETAILERS IN FRANCE

Source: IPC Cross Border E-commerce Research, 2010

These transit depots supply local orders and control stock. Big markets (Germany, Spain, Romania, Poland and increasingly Ukraine) might have their own depots, depending on the volume of cross-border deliveries; stock management is optimised to reduce the need for satellite depots. Direct injection is another potential solution, benefiting from competitive tariffs and bulk discounts. The objective is clear; limit the costs of transport and inventory and improve the delivery reliability in all cases.

The aim is to limit transport and inventory costs while improving reliability

The map (above) gives a view of how interviewees in the IPC research described parcels flow management. The larger stars correspond to hubs for merchandise from which direct injection is carried out on a large scale. The smaller stars represent local depots whose profitability depends on the volume of transit merchandise.

The Delivery Challenge

Access to the final mile is the advantage offered to e-retailers by the post, but managing that final mile successfully is becoming increasingly challenging. In 30 to 40 percent of cases, the consumer is not at home to receive their order; if a delivery time is established with the customer, the costs increase. The more bulky the parcel, the higher the associated delivery costs.

Customers want to choose delivery arrangements to suit their needs and this helps to explain the success of pick-up point networks.

Returns Solutions

Returns can take weeks to be logged. In the case of exchanges, customers fade away when time is lost, however, only a limited number of long-standing customers can be offered exchanges based on trust that the original goods have been returned.

Clothing is a special case with regard to returns. Customers used to traditional distance selling expect to purchase several items, try them on at home and return those they do not want. For clothing, a returns solution is essential to removing barriers to purchase.

Traditional distance sellers, particularly clothing sellers, offer free returns to their retail outlets and sometimes to other drop-off point networks. Sometimes, however, sellers charge in order to reduce a high return rate, causing major operational challenges.

Clothing returns in Germany are as high sixty percent

In France, the returns rate for clothing purchased from distance sellers is fifteen to twenty percent; in Germany this rate rises to sixty percent. One e-retailer in France described their experience with clothing returns in Germany as "a nightmare". Though essential, return solutions must limit the volume of returns to prevent additional transportation and stock management costs from eroding margins.

E-commerce Business Strategy in the United States

Among the major e-retailers interviewed for IPC in the US, the internet is viewed as a key sales channel, particularly for the domestic market. With few exceptions, cross-border sales are considered to be an incidental part of the business model; they account for a very small percentage of revenue today, and are not likely to be significantly larger in the next three to five years.

Cross-border sales account for a very small percentage of sales

There may be double digit growth because the market is small today, but overall growth will generally not be larger than five to ten percent of total revenue for most of those interviewed. Country expansion is most likely to occur in English language countries first; Canada, United Kingdom, Australia, New Zealand and then countries in Western Europe.

The majority of US e-retailers reported their domestic sales have suffered during the recent economic downturn. However, those that were engaged in cross-border sales reported their associated revenues have held steady or increased. The stronger value of foreign currency generally is the explanation given, or in the case of one e-retailer, the nature of the merchandise being sold was so unique and desired, that it could not be obtained from other sources.

Barriers to Growth – United States

The main impediment to growing the outbound cross-border parcels business is a concern about fraudulent orders. Because foreign buyers do not have US credit cards which can be authenticated, those not engaged, or only marginally involved in cross-border e-commerce are very reluctant to expand their cross-border activities. There are however a number of third-party vendors who are willing to assume the financial risk of securing the merchandise, accepting payment and taking the responsibility for the international delivery.

The second major barrier often quoted in the research is a lack of internal resources; the lack of personnel and money which prevents e-retailers from being as aggressive as they would like to be. The economic difficulties of the last few years have resulted in numerous layoffs and scale-backs. As a result the remaining employees have more domestic responsibilities.

The third barrier is due to a small segment not wanting to be bothered figuring out the address and delivery requirements, customs, duties, tariffs, and possible return issues.

Finally, the fourth barrier is identifying and implementing effective cross-border acquisition activities. Today many e-retailers are not making use of sophisticated marketing techniques to aggressively prospect on the internet for cross-border sales. All the barriers quoted could be addressed by postal operators.

In the US, domestic customers can choose the delivery speed; standard, two-day and overnight. International options tend to be more limited. Typically, domestic and international customers are not given the opportunity to choose their delivery carrier. It will be the e-retailer that makes this choice to take advantage of economies of scale, to secure better discounts, and to achieve a more consistent service. In some instances, the carrier is determined by the distance between the origin of the products purchased and the customer's delivery destination. In the US, when standard options are chosen, home delivery could actually be performed by the USPS (e.g. Mail Innovations, SmartPost etc.), although the packages would carry FedEx or UPS logos.

When duties and customs may apply, international customers are rarely given specific delivery dates as the amount of time for customs is generally unknown. Third-party fulfilment firms will take care of the documentation and, together with the e-retailer, have developed systems to produce such documentation and to track the delivery package status.

Overall, US e-retailers are satisfied with their current arrangements, both domestically and internationally. They also welcomed the postal easy returns solution that was outlined to them for its simplicity and ease of use.

> Postal operators should collaborate with third-party vendors

In the US, it would be wise for postal operators to collaborate with third-party vendors to understand how they operate, and how cross-border e-commerce from the US could be stimulated to capture more domestic and international parcels. In addition, there is a need to reduce concerns over potential fraudulent transactions and to continue development of an easy returns solution.

Is There a Role for the Post in E-commerce Operations?

E-retailers certainly believe there is a role for the post in e-commerce operations. Interviewees in our research described the need for strong partnerships with their delivery carriers allowing them to take commercial decisions in real time.

Ideally, e-retailers want postal operators to take more responsibility, offering a complete logistics service, including preparation of parcels, transportation, delivery and returns. Achieving that, the post could become a global service partner, enabling e-retailers to concentrate on selling and marketing products.

Europe: A Major E-Retailer's View of E-commerce

Online e-retailer PIXmania was first established in 2000 in France, where the group still generates 35 percent of its EUR 774 million turnover.

Originally selling relatively high-value electronic products, the company has extended its e-retailing concept to new sectors such as toys, household appliances and tools trading in 26 European countries.

Its offer now includes online photograph printing, a specialist website selling products for pregnant women and a business-to-business site.

PIXplace, launched in 2007, brings products from other online traders into its site and has expanded the range offered through its website from 52,000 products to one million. A further brand, e-merchant offers third-party companies an e-retailing platform and provides expertise on each part of the e-commerce value chain.

PIXmania provides a multi-option fulfilment channel

PIXmania's transport strategy is to provide a multi-option fulfilment channel. It does this by appointing third party carriers to operate a series of national and pan-European distribution networks.

It believes in charging for delivery, even if competitors are delivering free, and aims to break even on its supply chain costs. All 52,000 product lines sold directly by PIXmania are stored in a single warehouse located at Brétigny, 40km from Paris.

The company is launching an association with DHL Global Mail for delivery across Europe of all its shipments up to 2kg. For shipments above 2kg (average shipment weight is 3kg) the company has found it impossible to select one carrier for all its standard deliveries across Europe; instead it has a series of national delivery service suppliers.

Price is just one of five criteria for choosing a carrier

PIXmania measures prospective national carriers against five main criteria, not only price. Product security is the primary concern owing to the relatively high value of its goods. Carriers' IT systems must be capable of interfacing with PIXmania's own systems; carriers must operate track and trace through an EDI system and offer a customer service facility dedicated to PIXmania.

The company believes the way to be sure of receiving the service level it expects is to make carriers responsible financially for the products they handle. National delivery contractors include Chronopost, Colipost, Mory, La Poste, Kiala (operating via pick-up points), DPD, SLS, Dacher, Royal Mail, Curry's (a fellow company of the DSGi retail group), PNL, Posten Norden, Bartolini and Seur.

For its standard B2C delivery option, PIXmania appoints line-haul operators to transport goods from Paris to each of its national carriers' hubs. FedEx delivers all orders requiring express delivery outside France direct from Paris (Chronopost handles French express deliveries).

The overall return rate averages two percent

Reverse logistics are crucial to PIXmania's business. Its national delivery operators handle normal returns from consumers, receiving packages from them via the local postal service.

Free pick-up and return for repairs under warranty or faulty goods are carried out across Europe by UPS. Consumers print out their own shipping label and arrange a collection within half a day. UPS delivers returned items direct to the PIXmania warehouse.

The overall return rate from both channels averages two percent. In Germany and France, regulations now require e-retailers to pay for normal customer returns, a move that PIXmania believes will increase prices for all customers.

PIXmania offers a number of delivery options in each country

PIXmania offers a number of delivery options in each country; in France it has seven, ranging from same-day to two-to-three days, and a specialist option for two-man installation of more complicated equipment.

The company is launching an ordering application for the iPhone. It does not think initial take-up will be great but does believe that mobile phone business will be crucial in future. It is possible to pay for orders in Euros via mobile phone but currently there are very few transactions.

Executive director, Ulric Jérome has said that postal operators need to innovate, improving their track and trace visibility and offering an evening delivery option.

International Returns: A Solution from Deutsche Post DHL

International returns for cross-border online shopping presents a complex challenge for postal operators. According to Deutsche Post DHL, e-retailers rank returns as the second most important service attribute for a delivery provider.

In 2009, Deutsche Post DHL began trialling a cross-border returns solution with Austrian Post. To make their return, consumers request a PDF shipping label, supplied by email. They take the return package to their local post office in Austria where it enters the international postal system.

ACCESS CHANNELS

The service can be accessed through three different channels

TRIGGERED BY THE E-RETAILER	TRIGGERED BY THE CONSUMER	
Customer service input mask The return label is generated via an input mask provided by DHL to the e-retailer. It is used by the e-retailer's customer service.	**Process integration on e-retailer's website** The service is integrated into the e-retailer's website. The consumer is forwarded to a DHL input mask, where they can order the return label directly, without contacting customer service.	**Full integration on e-retailer's website** Full intergration of the service into the e-retailer's website. The consumer orders the return label directly.

Source: DP DHL B2C Parcel Europe

To interface with the consumer making returns, e-retailers can choose between three levels of integration with the Deutsche Post DHL system: full integration into their e-commerce website; receivers ordering the return label from Deutsche Post DHL via their e-commerce website; or their customer service staff inputting data in a label template.

The international label contains a barcode that can be read by systems in Germany and Austria. It carries the logos of both postal operators and an identifier for the postal partner.

LABEL AND BARCODES FOR THE RETURN SOLUTION

A barcode that can be read in all production systems in both countries enables the international return solution

- Provider logos and product name
- Receiver: Through post office box Linz and receiver Germany

- Identifier of postal partner (in this case: routing code post.at, because German identifier can be read)

- Routing code Germany
- Identcode or license plate Germany

Source: DP DHL B2C Parcel Europe

IPC is working with an executive group of commercial directors from Groupe La Poste, Deutsche Post DHL, Parcelforce Worldwide, Taxipost and TNT to pilot a cross-border easy returns solution in 2010, as part of its DirectPoint initiative.

As cross-border online shopping expands, e-retailers will look for a single, pan-European returns solution. Cycleon, a private sector company, is already operating across Europe, leveraging the post to offer a returns service: consumers post return parcels to Cycleon which consolidates them at national level for return to e-retailers. The company is using the post and third party warehouses to generate EUR 200 million in revenue.

Cycleon's model highlights another business opportunity for the post in collecting and returning products being recalled and printer cartridges for recycling.

North America: US Postal Service is Growing E-Commerce Delivery

The United States Postal Service (USPS) has devised a strategy to be the market leader in small package delivery to households, a business estimated at more than one billion items a year. It has been successful, gaining more than USD 500 million in new revenue and increasing its share of the package market from 20 to 25 percent.

The strategy plays to the strength of USPS; its universal coverage and consequently its lower cost base for consumer delivery and pick-up. That provides a differentiator against UPS and FedEx, giving USPS the edge on its bigger parcels competitors.

Lightweight parcels can be delivered on the letter carrier's round

The products to be found in small lightweight parcels between 450g and 2.25kg can often be packed small enough to fit in mailboxes and can, therefore, be delivered by letter carriers on their normal round.

A key element of the USPS small package strategy has been to restrict the size of the parcel through the introduction of pricing based on both weight and dimensions. USPS is supplying a range of pre-priced, flat-rate boxes, and is encouraging clothing e-retailers to use soft packs which compress when transported.

Home delivery of online purchases is well adapted to the postal network, but USPS has understood that senders in this environment are shippers, not mailers. It sets out to speak the sender's language, highlighting its strengths such as Saturday delivery, demonstrating its right to be the first-option supplier by sharing research showing how it is meeting customer delivery preferences.

There is a prevailing view among postal operators and e-retailers that online shoppers are impatient to receive their goods. The USPS has found that consumers are more likely to return goods the longer they wait to receive them. A key challenge, therefore, is to achieve first time delivery, both in terms of cost and convenience to receivers.

Tracking plus alerts facilitates successful delivery

Tracking facilitates successful delivery, although research in the United States has indicated that only three percent of consumers receiving trackable parcels actually access the data. Making tracking active rather than passive by combining it with alerts, both enhances the receiver's experience and provides a better chance they will be at home to receive their delivery.

There are issues concerning who pays for added value elements such as tracking and alerts. USPS says it's a conversation to have with e-retailers backed by research into consumer preferences and behaviour.

In the United States, where returns of online purchases are as high as 35 percent in some product sectors such as clothing, the USPS is using its letter carriers to collect return packages on their delivery rounds. As mail volumes fall sharply, the collection service is in line with a key objective to find new ways to gain productivity from letter carriers.

Conclusions

E-commerce is one of the fastest-growing retail channels across the world and the success of e-commerce is boosting the volume of home delivery parcels to consumers.

Early indications from research commissioned by IPC into cross-border e-commerce in Europe and the United States have revealed a number of barriers to growth. These include language, national attitudes to credit/debit card payment online and establishing an effective system for returns.

The greatest barrier, however, is the cost of transport, followed closely by the need to manage inventories cost-effectively, while supplying relatively low volumes in international markets.

Consumers have taken to e-commerce in large numbers over the past five years purchasing a wider range of products being made available online.

Three main types of e-retailer have emerged: Pure players operating entirely on the web with low-cost structures that enable them to adapt quickly to customer desires; multi-channel operators that have moved online to supplement traditional retail operations; traditional distance sellers that have now replicated their entire catalogue ranges online in order to target a wider customer base – and to stay in business in the long term.

Ideally, e-retailers want postal operators to take more responsibility for a complete logistics service, including preparation of parcels, transportation, delivery and returns, as a true partner who will enable them to concentrate on selling and marketing products.

Online e-retailer PIXmania offers one million products in 26 countries, selling relatively high-value electronic products, toys, household appliances and tools. It selects carriers against five criteria, not only price but product security, the capability of IT systems, ability to operate track and trace through an EDI system and a dedicated customer service facility.

PIXmania says postal operators need to innovate, improve their track and trace visibility and offer an evening delivery option.

International returns for cross-border online shopping present a complex challenge for postal operators. Deutsche Post DHL has been trialling a cross-border returns solution with Austrian Post and IPC is preparing to pilot an easy returns solution in Europe with Groupe La Poste, Deutsche Post DHL, Parcelforce Worldwide, Taxipost and TNT.

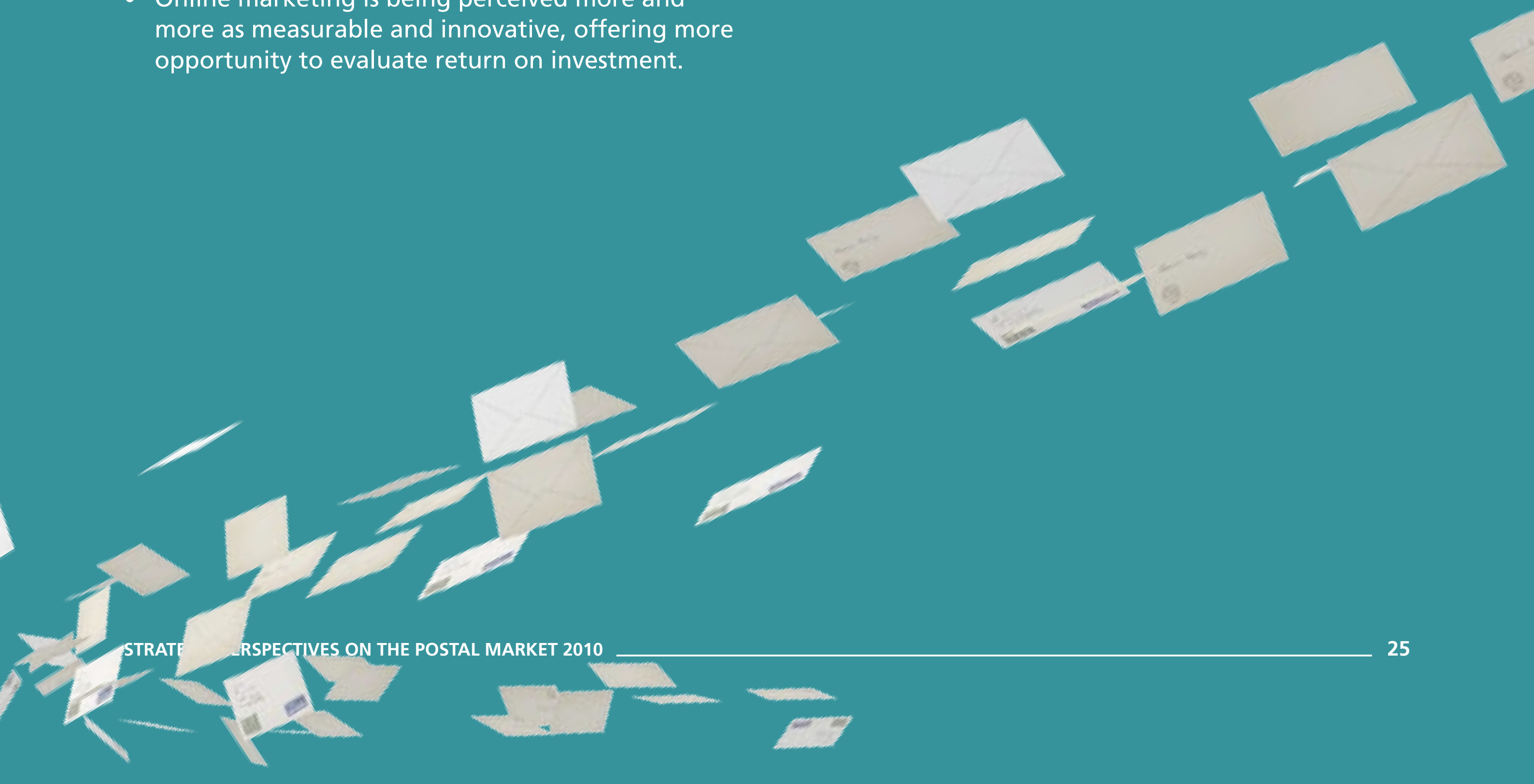
In the United States, USPS is targeting lightweight parcels as a growth business and is encouraging e-retailers to minimise the size of their packages.

USPS has understood that senders in the e-commerce environment are shippers, not mailers. It sets out to speak the sender's language, highlighting the post's strengths such as Saturday delivery, and demonstrating its right to be the first-option supplier by sharing research showing how it is meeting customer delivery preferences.

4

Direct Mail

- In markets such as the UK and Sweden, spend on online advertising now equals spend on direct mail (addressed and unaddressed).
- Direct mail needs to be repositioned to combat views that it lacks dynamism and to link it strongly with concepts of relationship and proximity marketing.
- To ensure direct mail's longer term future, younger marketing and advertising executives need to be convinced it is relevant and attractive as an element in the direct marketing mix.
- New adopters of online marketing show the greatest enthusiasm for digital marketing, whereas advertisers in more mature online markets tend to focus more on the benefits of cross-media campaigns.
- Direct mail can be seen as a higher impact, more personal form of communication valuable as both a strategic and tactical tool.
- Online marketing is being perceived more and more as measurable and innovative, offering more opportunity to evaluate return on investment.
- Postal operators should evaluate direct mail pricing structures and offer proactive solutions for database management.
- Strategies developed by some postal operators in Asia include integrating direct mail with online platforms for e-commerce and the delivery of marketing resources.
- Cross-border direct mail is forecast to be a growth area in Asia where Hongkong Post and China Post are already cooperating on the supply of mailing lists.
- Direct mail strengthens the customer relationship; it is effective for one to one marketing rather than mass promotion.
- Innovative use of technology could make the addition of paper-based messaging seamless with online marketing activity, thereby enhancing direct mail's position as an important element of integrated cross-media campaigns.



A Mail Product in Need of a New Mission

This chapter is based on the findings of the IPC Direct Marketing Intelligence study and a Senior Executive Forum in Hong Kong in September 2009.

In a mail market increasingly defined by falling volume and substitution, direct mail stands out as a rare opportunity for development. But if it is going to achieve its potential, postal operators will need to recognise that it's an advertising medium first and a mail product second.

It is essential for the posts to develop (or buy in) marketing expertise capable of adding value to direct mail products so that they can meet the needs of modern advertisers. That process will involve re-engineering direct mail to be relevant, up-to-date, flexible, cost-effective and fully aligned to advertisers' changing requirements. Only then, when advertisers understand fully direct mail's unique proposition of targeted, personal communication, will they allocate spending at levels the product deserves.

The direct mail product needs to change if it is going to thrive

The most important group to reach are younger marketing and advertising executives who currently view direct mail as less relevant in an increasingly online world. In re-engineering the direct mail product, it will be worthwhile to change its image as well, showing the younger group of executives who control many marketing budgets that direct mail is the best medium for relationship building and proximity marketing, terminology that they understand clearly.

There is no doubt that direct mail is competing with online communication such as email for a share of marketing budgets. There are lessons to be learnt from email about measurability and feedback and postal operators can leverage the digital technology by offering proactive solutions such as database management and cross-media approaches that combine electronic and physical mail.

There are, of course, already examples of ways in which postal operators have added value to their direct mail. In *IPC Strategic Perspectives on the Postal Market* last year, we explained how De Post/La Poste is offering marketers expert know-how and advice on building successful marketing campaigns; how TNT is demonstrating the benefits of direct mail in integrated campaigns, and how Deutsche Post DHL has developed online tools for media agencies that maximise response to direct mail.

We report this year on how similar developments are taking place in Asia, where Hongkong Post and Singapore Post have strategic approaches to direct mail development, integrating their offers with online platforms for e-commerce and marketing resources.

Mail vs. Online Advertising

In last year's *IPC Strategic Perspectives on the Postal Market*, we published the findings of direct marketing research commissioned by IPC in six national markets (the United States, Belgium, France, the Netherlands, Sweden and the United Kingdom).

A key finding of the 2008 *IPC Direct Marketing Intelligence* study was that spend on online advertising now equals spend on direct mail (addressed and unaddressed) in highly developed advertising markets such as the UK and Sweden. However, in markets such as France, spend on online marketing remained considerably lower than spend on direct mail.

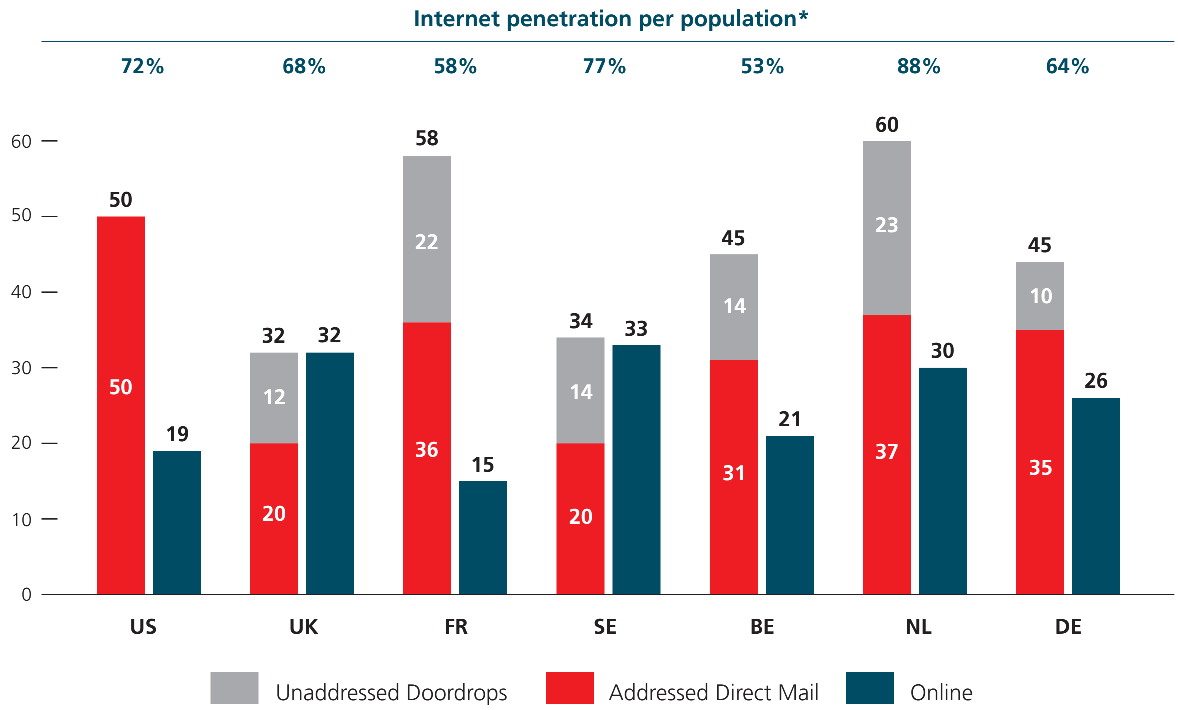
The 2008 *IPC Direct Marking Intelligence* study was completed prior to the onset of the global economic crisis. Its task was to find out the split between mail and online advertising illustrated in the graph on the following page.

Direct Mail in Europe

IPC commissioned more research at the end of 2009 in four European countries (Spain, Italy, Belgium and the Netherlands).

We conducted qualitative surveys with a representative sample from the top 100 advertisers in each market, together with specialist direct marketing agencies and media buyers in each country. Our aims included understanding the impact of growth in electronic communications, exploring the scope for cross-media campaigns and investigating opportunities for direct mail. In particular we wanted to understand the effect of the economic crisis on the online/offline marketing split.

MAIL VS ONLINE DIRECT MARKETING EXPENDITURE



Data: All values in %
Base: All companies with a turnover of at least € 0.25m/year and which are doing direct marketing
* www.internetworldstats.com (updated June 2008)
Source: *IPC Direct Marketing Intelligence* 2008

Share of addressed direct mail expenditure is highest in the US. Online expenditure is on a par with direct mail in mature markets such as the UK and Sweden.

North/South Divide on the Value of Physical Direct Mail

Our study uncovered a north/south divide in attitudes to online and offline direct mail.

Advertisers in Italy and Spain have embraced online media as a panacea in the face of restricted budgets. Most believe strongly in a continuing drift to online usage and a consequent reduction in paper and postal channels. Online marketing is being used increasingly in these markets, resulting in greater acceptance for the new media.

Advertisers in Italy and Spain demonstrated a somewhat negative view of physical direct mail, believing it will become more of a niche channel for targeted campaigns and customers and premium products.

The view is different in Belgium and the Netherlands, where advertisers have more experience of online advertising. Having included online channels in the direct marketing mix for five to six years, advertisers in Belgium and the Netherlands have noted the weaknesses in using them extensively. These include declining conversion or redemption rates from click through, the negative aspects of spam, a rising level of complaints about intrusive and aggressive emails and the risks of encouraging customers to focus on price comparisons.

Email is seen as purely promotional and a channel to use with care

Email is now seen as a purely promotional channel for customer acquisition to be used with care – advertisers in Belgium and the Netherlands believe email carries a risk of irritating customers and of making brands seem more banal; it is perceived as poorly adapted to products looking for premium price positions.

In these countries, advertisers are more persuaded by potential benefits from cross-media approaches and the synergies between physical and online direct mail.

Economic Constraints on Choice of Channel

Advertising spending in all four national markets has been affected by worsening economic conditions. Loss of revenue, coupled with marketing budget cuts, have caused advertisers to switch from brand marketing to short term sales initiatives.

In all the markets surveyed, some companies faced with budget cuts turned to the cheapest communication channels such as massive viral and email campaigns.

In the southern countries, especially Spain, media and marketing costs reduced by between 20 and 70 percent in response to revenue decline. Advertisers cut above-the-line spending, while trying to retain and acquire customers through digital marketing, a relatively new channel in both Italy and Spain.

Advertisers are focusing on sales generation in tough economic times

On the whole, advertisers in the northern countries initiated cost reductions earlier than their counterparts in Spain and Italy. They continued with restraints in 2009, making less drastic budget cuts of 10 to 30 percent. They also refocused their activity on sales generation, making some cuts in direct mail activities and attempting to maintain above-the-line advertising. Companies that had already adjusted to a more sales oriented approach focused on achieving return on investment by combining communications channels. That group has sought to measure and optimise all their marketing and sales actions. For them, direct marketing is becoming web and database driven channel.

Age Influences Attitudes to Physical Direct Mail

The research carried out for IPC indicates that age influences overall perception of paper versus online direct mail.

Advertisers and marketing specialists aged over 40 are more positive and enthusiastic about physical direct mail. They consider it more pleasant to receive paper mail than email and are sensitive to the quality and respectful approach of addressed mail.

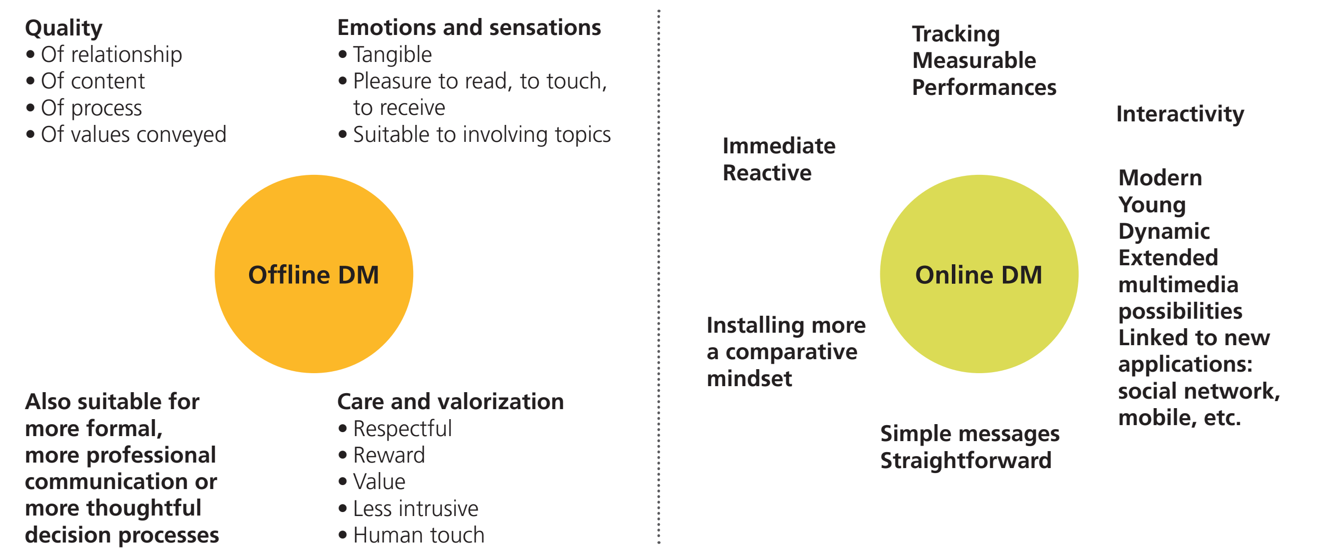
The older group attributes positive values to physical direct mail such as elegance, refinement, premium quality, valorising receivers, warmth, trustworthiness and long-lasting.

Younger marketers aged 30 to 35 tend to view physical direct mail as slow, one-way, complex to implement, poorly adapted to current business requirements and offering limited usage.

This group considers digital media to be the norm and is looking for interactivity in their personal lives as well as their campaigns. They are fascinated by the instant aspect of online action and its convenient measurability.

For most advertisers and communication specialists, online and offline direct mail have appeal for different objectives and have different values attached to them as shown in the chart below.

ONLINE VS OFFLINE DIRECT MARKETING



Strengths and Weaknesses of Physical Direct Mail

Overall, physical direct mail is perceived as having greater impact than online, offering a more personal form of communication and greater ability to reach specific customer groups and sectors.

In the research, respondents agreed that physical mail is more effective for catalogues, coupons and incentives or gifts. They acknowledged that it is less intrusive with a longer lasting effect and they believed that postal addresses have more validity than electronic addresses, especially for new customer acquisition. Direct mail is, therefore, both a strategic tool for brand awareness and a tactical tool for promotional messages.

Direct mail is both a strategic and tactical tool

On the downside, direct mail is perceived as too expensive compared with online marketing, becoming almost prohibitive in the current economic climate. This is a significant barrier that postal operators need to tackle.

Direct mail has an image of a traditional medium that lacks the dynamism of online media. In the research, respondents found the vocabulary around direct mail and mailing outdated and sometimes confusing (they associated direct mail with unaddressed mail and promotional actions).

Strengths and Weakness of Online Marketing

Online marketing is seen as very low cost, suitable for high volumes, faster, easier, less labour intensive and more flexible. It is viewed as the cheapest way to get in touch with existing customers and to reach young targets and professionals.

Respondents liked the opportunities to measure, track and evaluate return on investment of online marketing. They welcomed continuous innovation such as search engines, social networking, text mining, link and site sponsorship and synchronised databases, and they perceived online marketing as a way for companies to supplement their databases.

The weaknesses include blocked delivery from anti-spam and firewall protection, waste and low click-through rates. Online messages are seen as more transitory and there are concerns about their ability to stand out against all the background noise in cyber space.

There are clear concerns also about privacy and opt-in legislation and mistrust of the quality of external email address lists.

Opportunities for Postal Operators

It is crucially important for postal operators to capitalise on the strengths of physical direct mail and link it firmly with the more up-to-date marketing concepts of customer relationship and proximity.

Direct mail's values should be communicated effectively. It is a powerful enhancer of relationships between brands and customers, offering in particular a means to justify premium price positions. It is a vehicle for a wide range of communications, including magazines, newsletters and inserts in invoices and statements, all of which will help to enhance contact with the customer.

The "mail moment" when recipients collect and open their mail makes direct mail effective for all sectors; it is universal, reaching every type of target across class, age and location.

It is important to stress that direct mail is an effective response generator, particularly with the use of coupons; in cross media campaigns it can call recipients to action such as logging on to a website or making a telephone call.

In addition to communicating the benefits of direct mail, postal operators must answer concerns among advertisers who have clear demands associated with cost, delivery time and measurability.

The cost of direct mail is very high compared with email and the biggest single cost element is distribution. Postal pricing mechanisms should be adapted to acknowledge the shift from high-volume to more targeted mailings. Prices could be aligned to mailing frequency rather than volume, perhaps via annual contracts.

Annual contracts and pricing aligned to mail frequency could be ways forward

Advertisers are asking for faster processing along the value chain from printing and enveloping to collection and delivery. Accelerating these processes will make direct mail more responsive to the advertisers' need for quick turnaround. Postal operators' investments in modernisation might help, but automation cannot be given as a reason to curb direct mail creativity and originality.

Posts need to build relationships with marketers' groups, investigating how direct mail can be used effectively through web-based platforms that are now the main point of customer contact for most companies.

Environmental concerns will become more important, so strong arguments and solutions need to be in place for the sustainable development of direct mail.

Direct Mail in Asia

Like Europe, markets in Asia are seeing a rise in the popularity of electronic communication as a direct marketing medium.

IPC's Senior Executive Forum: *"Direct Mail: Growing Business in Asia"*, took place in Hong Kong in September 2009, bringing together six postal operators and the Asia regional mail divisions of TNT and Deutsche Post DHL.

Delegates discussed direct mail's share of advertising budgets, its role in relation to electronic marketing and communication, the objectives and usage of cross-media campaigns and environmental factors.

Common trends are apparent, including the need to integrate direct mail with other media and the increased use of email across the region as a response channel.

A big challenge for postal operators in Asia is the widespread exclusion of direct mail from advertising spends owing in part to the lack of agency commission paid. There are no official figures on direct mail spending and its share of total advertising budgets, but forum delegates gave their own estimates of its share in their countries:

COUNTRY	%
Hong Kong	4.0
Japan	6.5
Singapore	5.0
Thailand	0.5
China	5.0 to 15.0
Vietnam	15

The higher figures given for China and Vietnam include inserts in transactional mail and unaddressed mail. A share for direct mail of between four and six percent means that Asian markets are less developed than many IPC members' markets where direct mail has easily a double-digit share of advertising spend (about 24 percent in the United States and about 14 percent in the United Kingdom).

Posts in the region are aware of the growth potential for direct mail and the need to protect direct mail revenue in the face of electronic competition. A number of postal operators are pursuing growth strategies.

Australia Post

A sustained focus on direct mail by Australia Post has paid off in volume growth of 45 percent over six years.

Australia Post works with Nielsen to gather consumer intelligence and competitive insights that it can use to good effect in its conversations with advertisers and agencies.

Its direct mail service, MailPix, leverages a representative Nielsen panel of 2,000 homes across Australia to gather all the addressed mail that panellists receive each month. The mail is scanned into a database that allows it to be analysed through filters for prospect mailing (customer acquisition), loyalty and transactional mail.

MailPix shows creative treatments as well as demonstrating the role played by direct mail in multi-media campaigns. First launched in 2005, it gives trend data on products using direct mail, the timing, volume and estimated cost of campaigns and strategic direction.

Direct mail volume in Australia
has grown by 45 percent in six years

Australia Post is active in marketing direct mail via agency and conference presentations, editorial in specialist marketing and trade publications, case studies and its own marketing collateral aimed at prospects. It also monitors mail's share of total media spending by companies and sectors.

Hongkong Post

Hongkong Post's objective is to make sure direct mail retains its role within multi-media marketing. As in Europe and North America, Hong Kong has been hit by both economic downturn and electronic substitution; in the twelve months to September 2009, addressed direct mail volume declined by ten percent.

Advertising budgets have been cut and, as in Europe, the focus for marketers has switched to new customer acquisition. To win over advertisers to direct mail, Hongkong Post is taking a three-pronged approach.

It is positioning direct mail as an integral part of the post's advertising and promotion offering by bundling it into ShopThruPost, its e-commerce platform. Through ShopThruPost, direct marketers can choose a one-stop postal solution that includes web postage, direct mail promotions, logistics and payment services.

The second part of Hongkong Post's strategy it to collaborate with China Post and other postal operators to develop cross-border direct mail. As more people in mainland China have access to visas for Hong Kong, Hongkong Post provides local merchants with mailing lists for residents in Shenzhen and Dongguan, helping them to contact these visitors to promote their goods.

> Hongkong Post collaborates with China Post to develop cross-border direct mail

The third part of the strategy is development of effective marketing tools and programmes for direct mail customer acquisition and retention. Hongkong Post works with TNS HK to research consumer preferences. Direct Mail Tracker, a service launched in May 2009, provides marketers with tools for monitoring creative treatments, campaign duration and the media channels used. Hongkong Post is using this service itself to generate statistics on direct mail usage for use in its conversations with customers.

One challenge is the low level of accuracy and response rate achieved by current mailing lists and customer databases. Hongkong Post is exploring the potential for partnerships to improve quality.

For unaddressed mail, Hongkong Post has introduced geo-marketing segmentation which divides its 2.2 million households into nine neighbourhood groups and 28 sub-groups. Marketers can select their mailing targets by geographic area and group type, for example "upper echelons" or "suburban locals".

Singapore Post

In Singapore, marketing budgets are shifting towards interactive advertising. A 2009 Epsilon study indicated that 63 percent of digital/interactive marketing budgets increased during the year while traditional advertising budgets decreased. Companies facing cost reductions said email was the last item they would cut back on.

Singapore Post is building awareness, positioning itself as the direct mail expert having recently established a dedicated mail acquisition sales team.

> SingPost is positioning itself as a direct mail expert

It has created a direct mail brand, DMrocket, through which it provides a range of added value and information services. Its list rental service offers segmentation based on GIS Progams, Data Source and Mosaic Singapore giving geographical and lifestyle selections.

To support DMrocket, a portal www.mymailmoments.com provides insight to customers' product and service perceptions and preferences. The portal can be used to qualify databases and enhance direct mail campaign responses.

SingPost launched a Singapore lifestyle survey in September 2009, delivering the questionnaire to all the country's 1.14 million households and offering prizes to encourage completion. It plans to repeat the survey every three years.

Japan Post

In 2008, direct mail accounted for 6.8 percent of Japanese advertising spend at JPY 443 billion.

Japan Post's ability to grow direct mail is constrained by privacy laws that prevent mailers from using rented lists; its main competition comes from inserts in newspapers, the most popular of which have strong circulations of eight to ten million. Catalogues are an important source of direct mail volume but catalogue mailers are under threat from online shopping, which is now the most used medium for making purchases. A large proportion of web surfing and internet shopping is done in Japan via mobile phones, a trend that has been encouraged by flat-rate pricing by phone companies. More than 90 percent of Japanese people in their 20s, 30s and 40s are using mobile phones to surf the web; more than on their computers.

A survey conducted by Japan Post in 2008 found that 75 percent of consumers received one to five pieces of direct mail a week and 95 percent said they read them.

In an effort to provide new services for advertisers targeting both businesses and consumers, Japan Post has created a new subsidiary, JP Media Direct. This will help advertisers move away from mass mailings to more targeted communications.

The Global Mailers' Perspective

Deutsche Post DHL believes cross-border direct mail will be the next growth area in Asia, driven by the large number of small companies consolidating trade between countries.

TNT Mail has identified an opportunity to develop cross-media campaigns and stresses the importance of having know-how in online marketing as well as physical direct mail. It believes postal companies should take time to explain online applications linked to direct mail, making sure they do not offer solutions that are difficult to implement.

Selling new direct mail products and services should always involve providing evidence of success via case studies and research and examples of creative treatments. TNT Mail believes it is important to invest in staff and joint promotions with direct mail customers for initiatives that have proven success. There will be no instant results; direct mail providers need to experiment and research the combinations that work for the communication needs of customers, it says.

Conclusions

Direct mail provides an effective, targeted connection that strengthens customer relationships. It is perceived as a more effective medium for customer retention while also achieving good results for customer acquisition, short-term sales and product advertising campaigns.

Targeted and effective to boost customer retention

There is a case for rebranding and repositioning direct mail in order to remedy perceptions that it is "traditional" and less dynamic than online direct marketing options. There is also a need to educate advertisers over the definition of direct mail and the different benefits to be gained from addressed vs. unaddressed direct mail. A rebranding effort should concentrate on direct mail's usefulness in relationship building.

To combat perceptions that direct mail represents high cost, it must be highly-valued by receivers, advertisers and media agencies. It can bridge the gap between online and offline communication by delivering targeted, personalised messages that bring the highest return on investment.

There is, however, potential to re-examine postal pricing for direct mail to ensure that structures reflect the trend to lower volume campaigns.

Cross-border direct mail has potential to grow, particularly as an advertising medium for products offered online. The partnership between Hongkong Post and China Post offers an example of cross-border activity: China Post provides address data to Hongkong Post for mailings by traders wishing to reach potential Chinese tourists to Hong Kong.

Direct mail is an important element of integrated, cross-media campaigns. Innovative use of technology could facilitate the flow of information between databases and address management systems making the addition of paper-based messaging seamless with online marketing activity.

5

The Postal Workforce of the Future

- The postal industry needs a new type of employee who fits into a more flexible employment model.
- It is essential to convert labour from a fixed to a variable cost, aligning human resources to workload and generating greater productivity.
- As postal businesses adapt to declining mail volume and increasing competition, they will need employees with skills to operate effectively in technology rich environments.
- A more flexible workforce will have different aspirations which will have to be met if recruitment and retention are to be successful.
- Postal employees will be drawn from new groups such as women, immigrants and part-timers and the workplace culture will need to be attractive to them.
- A new breed of front line managers will be fully engaged with a more flexible work organisation and capable of driving attitudinal change.
- Employees in future will provide customer service rather than public service.
- Regulation will impact on employers' scope to achieve flexible labour models. The European Union has embraced the concept of flexicurity which strives for a balance between social needs and competitiveness.
- A new work model based on the needs of customers, employees and the organisation can engender greater customer responsiveness.
- Flexible work organisation can facilitate retention of skilled employees, improved engagement, reduced absence and increased productivity.

A New Type of Postal Worker

This chapter is based on the findings of the IPC Best Practice Seminar on the Future Postal Workforce held in Brussels in April 2009.

As postal operators make their strategic plans to meet the challenges of greater competition and declining mail volumes, there is an urgent need for a new type of postal workforce, a new employment model, and well trained, empowered front line managers. Increasingly, the postal business will need employees who are more flexible, efficient and competent to undertake tasks required by a revitalised postal business.

A more flexible workforce will have a different set of needs

The quest for ever-greater productivity and continuous improvement will involve finding innovative ways to match resources to a variety of tasks according to work flow demands. To achieve success, postal operators need to recognise that a more flexible workforce will have a different set of aspirations that must be met as traditional securities are being reduced.

Management will certainly focus on changing operational and work processes, but it must also accommodate employees of the future in terms of work organisation, job design, workplace culture and management style.

Postal Workforce Evolution

New postal products and services are being developed to compensate for continuing decline in physical mail volumes. That transformation will shape the postal workforce in the future. Employee skills and attributes will need to fit with postal businesses using a high level of information technology in operations and business processes as well as in the provision of new-style, electronic services.

Employees will need skills and attributes to work with information technology

Many postal operators are concerned that transition to a more technology rich business model will be hampered by the inability of current employees to adapt sufficiently to changing needs. Currently, internal postal labour markets are polarised between older, long-serving employees on expensive, inflexible contracts and new, non-vocational workers who do not necessarily have the skill-sets required in the longer term.

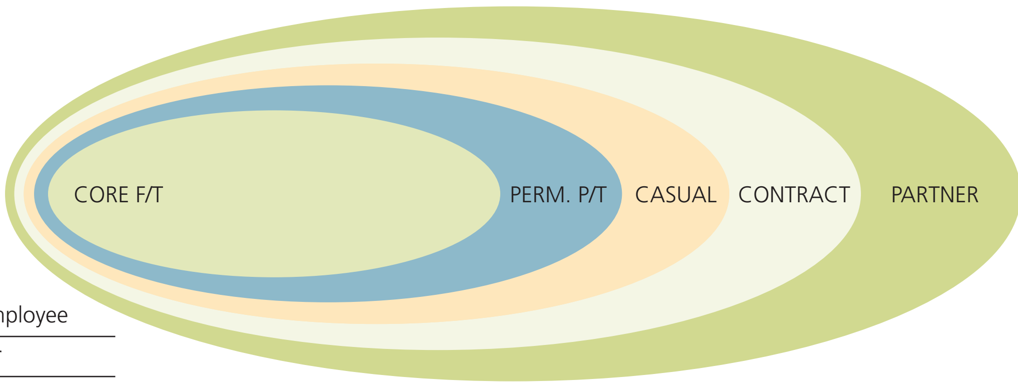
It is essential to reduce the impact of civil-service contracts on postal businesses while converting labour from a fixed to a variable cost and aligning human resources to workload.

It is essential to convert to a variable cost labour model

Postal operators are at different stages in the introduction of flexibility to working patterns and in measuring its effect. Before the new-style employees can be put to work effectively, operators must establish the processes, resource levels and customer service objectives required to ensure the efficiency of new business models. That endeavour will include establishing the optimum mix of full-time, part-time, casual and outsourced labour.

A large number of postal employees on traditional, fixed contracts are nearing retirement and will soon be off the payroll. With the working-age population in decline in IPC member countries and fewer young people entering the job market, new sources must be found for future postal employees.

MULTIPLE LABOUR MARKETS AND THEIR OPTIMISATION



CORE F/T	Career employee
PERMANENT P/T	Peak hour
CASUAL	Relief; peak loads
CONTRACT	E.g. owner-driver
PARTNER	E.g. franchise; agent

There remains a cultural mindset that equates full time work with indefinite contracts based on standard working days. Evidence from across Europe, however, suggests a different picture:

- In the UK, only 60 percent of the workforce fits the full time employment model.
- 85 percent of UK contracts are indefinite – the proportion of fixed-term contracts rose in the UK from around twelve percent in 1997 to close to 15 percent in 2005.
- Part time workers' share of total employment in the UK has risen, especially between 2000 and 2005, from 16 to 18 percent.
- The proportion of part-time workers ranges from two percent in Bulgaria to 46 percent in the Netherlands.
- Across the EU, 32 percent of women in employment had a part-time job in 2005 compared with only seven percent of men; that gender difference is visible in all member states but to varying degrees.

Postal operators must reach out to new sources of labour

To achieve a flexible workforce with the skills required, postal operators will have to reach out to new pools of labour such as women, immigrants, part-time workers and students, finding ways to attract them to employment in the postal industry.

Successful recruitment and retention will depend on making the internal culture in postal organisations attractive to new types of worker. Postal operators will need to identify new recruitment channels – social networking sites on the internet for example – and to be aware of perceptions of the post held by non-insiders. It will be essential, at senior level, to define desirable employee attributes and opportunities for advancement; to communicate these to local managers and to work with them to carry out the recruitment process.

Talent on the Front Line

As the postal business model changes, so must the role of front line managers. It is essential that these managers understand labour market issues and are fully engaged with the creation of a more flexible workforce. They are the key to attitudinal change, successful selection, effective training and worker involvement.

Front line managers have a strong part to play in transformation

Front line managers have a strong part to play in transformation programmes; they need to gain skills in team-building and personnel development. Flexible labour models involve employees in job design and improvement projects; front line managers must, therefore, have the confidence to facilitate that process and to participate in target setting, measurement of outcomes and performance management.

Senior management needs to provide front line mangers with the training to carry out their new responsibilities effectively, encouraging them to believe in their abilities and the abilities of their staff.

Customer Service not Public Service

The future postal workforce will provide customer service rather than public service, a difficult cultural shift for long-serving postal employees to embrace. The required changes in attitude – selling in post offices rather than serving, for example – are hard to achieve in the existing workforce.

In competitive postal markets, customers demand customised products accessed through new technological channels with the emphasis on service, product knowledge and relationships.

Skills that satisfy customer demands are needed in the future postal workforce. To nurture these in a shrinking labour market (current projections show the EU working age population decreasing by about 15 percent in the next 50 years) the emphasis will be on retention, albeit in a flexible model, and lifelong learning to update skills as the technology component of work increases.

The emphasis is on lifelong learning to update skills

Drivers for Change

Technology facilitates different ways of working, allowing organisations to establish more complex networks and supply chains; technology also allows faster reorganisation in response to changing needs but requires workers with the skill to use and develop it effectively.

Changing demographics means that postal workforces will be more diverse, bringing with them a new set of expectations. Employees will seek employment contracts which fit their personal and social requirements and give them the flexibility to create a work/life balance.

The challenge is to leverage technology and create work processes which can drive productivity by utilising labour groups (women, immigrants, students etc) with different aspirations. While achieving this aim, postal operators must maintain the functional flexibility of employees to undertake a wider range of tasks and satisfy customer demand for individualised services.

Regulation

Increasingly, employment is regulated by statute rather than by collective bargaining. The level of contract protection required by law will have profound implications for achieving flexible labour models and postal operators should monitor the development of policy closely.

Within the EU, the concept of flexicurity involves striking the right balance between flexible job arrangements and the secure transition between jobs so that more, better jobs can be created. Flexibility and security are seen as complementary: flexibility is about developing flexible work organisations where people can combine their work and private responsibilities; security means providing people with the training they need to keep their skills up-to-date and develop their talent as well as providing them with adequate unemployment benefits if they lose their job for a period of time.

Flexicurity: a social model that improves competitiveness

Flexicurity is also seen as a way to preserve the social model while maintaining and improving the competitiveness. It has been adopted as a main theme within European employment strategy and the revised Lisbon Strategy for Growth and Jobs.

Stakeholder Flexibility

Successful models will balance the needs of employees, customers and the organisation, focusing on leadership and employee engagement, trust and communication. A new work model based on stakeholder flexibility can engender greater customer responsiveness.

Flexibility can engender greater customer responsiveness

Labour flexibility can be viewed from the point of view of different stakeholder groups. Customers want flexible access to services and individualised options (choice of delivery time and place, for example). Employees seek employment close to affordable housing, development opportunities and flexible work hours. Postal operators need to match resources to work in order to reduce labour costs and raise productivity by employing workers capable of undertaking a wide range of tasks.

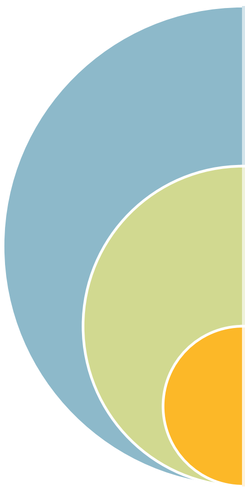
Optimising these conditions is the ultimate goal. To achieve innovation in processes and productivity, postal operators will need to incorporate elements of employee-centric flexibility into work patterns, job design, workplace culture and management style.

A work model based on stakeholder flexibility can provide a basis for postal operators to become employers of choice, retaining skilled and experienced employees, improving engagement, reducing absence, achieving a culture of equality and increasing productivity.

A NEW WORK MODEL FOR FLEXIBILITY

Strategic success
- Provide business solutions
- Balance the needs of employees, customers and organisation
- Consider the implications for the whole model of work

Operational success
- Focus leadership and management
- Build employee engagement
- Trust and communication
- Use of technology
- Evaluate and evolve



CUSTOMER
- Responding to demand for customised services as and when they want them

EMPLOYEE
- Balancing work and life at different times in the lifecycle
- Having a fulfilling job with opportunities for development

EMPLOYER
- Ability to drive productivity and reduce cost
- Risk managed labour supply

Tools for Creating Flexibility

There are many contractual and work organisation processes that can create flexibility. These range from the employer-centric to the employee-centric. The challenge is to align contracts to underlying business needs, while remaining in line with labour markets and employee expectations for work/life balance.

TRADITIONAL EMPLOYER-CENTRIC TOOLS

Concept	Work Arrangements	Implications
Split shifts Work time is arranged in two separate time periods	Example: An 8-hour contract split into early morning and evening periods of work	Socially unattractive Inflexible working periods Reduced quality
Casual labour Used to meet peaks	Recruitment on temporary basis normally for a fixed period on reduced terms Agencies often used to offset contractual responsibility	Numerical and pay flexibility Quality/productivity issues Needs structured work and team processes
Relief Pools On call labour to meet unplanned absence	May require retainers Can be integrated into queuing system, but questions on quality of incoming labour	Meets numerical and peak flexibility requirement Risks sub-optimised productivity especially in team output structures
Contracting and franchising	Work given to contractors Quality managed by service level agreements Remuneration structures critical Used to acquire competence, economies of scale and cost/service flexibility	Need to define areas of activity and contract structures
Paid overtime	Sometimes attractive to employees Mandatory or excessive overtime can have implications for quality and productivity	Issues for total unit cost of labour

The employer-centric flexibility tools will become increasingly outdated as new working arrangements become more widespread and flexicurity is established as a driver for recruitment and retention.

More balanced flexibility tools will contribute to skills retention

More balanced flexibility tools will contribute to skills retention in a more fluid labour force.

BALANCED FLEXIBILITY TOOLS

Concept	Work Arrangements	Implications
Annualised hours Hours are calculated annually Most shifts allocated, but workers can be called in at short notice to work remaining hours	Employees can put in/take out time when it suits them; employers can flex up staffing levels to cope with busy periods without paying overtime This is likely to require some investment in a time recording system The main challenge may be if employer and employee's time needs fail to match	Formal processes required to record and monitor time

Concept	Work Arrangements	Implications
Team working	Work spread across the team Output based management Team decides if extra resource needed – can drive productivity in an inclusive way Key challenge is getting agreement on work standards/expectation and creating balance between self direction and management	Needs to be developed within a total system of work model
Family contracts Members of immediate family can also cover shifts	Employees can cope with short-term/last-minute issues Reduces sickness absence levels Provides better continuity of staffing Reduces costs associated with temporary or agency workers Will only be appropriate for some jobs and may require some investment in training	Management and training of teams with changing members
Working time accounts Hours worked are banked and may be saved or withdrawn – loan facility possible	Enables employees to put in/take out time when it suits them Supports employers to flex up staffing levels for busy periods without overtime Investment in some form of time recording system necessary Need to ensure a balance between employer/employee needs and to manage potential complexities if the employee leaves	Negotiation required to ensure that employees take their accrued hours at suitable times
Home working/tele-working All or part of week spent working from home or off premises	Employees have greater control over work and time Many employers find home-workers more productive; discretionary effort can be higher Overhead cost savings Retention and absence rates often improve Needs to be part of a wider job redesign and be supported by effective communication with employees Trust becomes very important, as does investment in technology and any training required	Arrangement lends itself to management by objectives/outputs
Part-time working Working less than standard basic full-time hours	A stable working pattern allows employees to accommodate regular home responsibilities Easier for employers to plan work Costs less than a full time employee Requires good management to ensure employees are working when they are most needed	Need to ensure effective communication Realistic expectations of achievable workload Employees need to consider reduced income, career progression and development opportunity associated with part time work Employees need to manage pressure to work more hours and possibly being seen as less committed
Flexitime – formal Choosing when to work outside core hours	Enables employees to accommodate short and long term commitments outside work Can reduce overtime payments and levels of sickness absence Can help to release discretionary effort from employees	Coordination and service cover

Concept	Work Arrangements	Implications
Job sharing of a full-time post Split across two workers who agree hours between them	An opportunity for employees to remain in or obtain jobs making full use of their skills Enables employers to retain and deploy highly skilled workers effectively Potentially provides greater flexibility for holiday/absence cover Employees need to work closely with their job share partners	Good communication between job share partners
Term-time working Team manages workload across year/ month/day to create flexibility for its members and enhance productivity	Gives employees a regular income even though they have periods of non working Allows time off from work when children not at school, saving on childcare Can give employers flexibility over staffing levels to cope with busy periods without using overtime or temporary staff Some businesses may find this more difficult to implement as it is less able to accommodate seasonal working	Employees still need to be considered during their non-working periods
Shift swapping Workers arrange shifts between themselves	Enables employees to manage their own working time Management essential Coverage of unpopular shifts complex	Management of output and quality
Self rostering Staff nominate their preferred shifts, which are allocated as far as possible to fit preferences	Enables employees to manage their own working time Develops higher levels of trust and camaraderie between peers Employers likely to have fewer absences and spend less time work planning Some difficulties may arise in ensuring that unpopular shifts are covered	Management input required to ensure that all shifts are staffed by those with requisite skill levels
Voluntary time working Hours can be reduced for a short period of time (usually several months)	Preserves long-term job security while reducing costs during quiet times Retains skilled workforce Avoids redundancies Good management required to avoid increased voluntary labour turnover and employee relations challenges	Good consultation and employee engagement mechanisms important
Compressed hours Cover total working hours in fewer days	Enables employees to release blocks of time to meet commitments Employer retains skilled staff Lower absence rates likely Needs to be well managed to prevent pressure on employees to work very long hours	Must ensure that working time regulations are not breached

Employer Flexibility Case Studies

Many employers are already well advanced in applying new, more flexible approaches to resourcing.

The need to source and retain labour with appropriate skills and experience at optimum cost has been a significant driver for the introduction of these new approaches, however, their application has accelerated during the economic downturn as employers have sought ways to avoid redundancy and retain their skilled workforce.

The following selection of mini case studies provides examples of action taken by companies and the benefits they derived.

Company	Driver	Response	Outcomes
Jet Blue Airline	Improve customer and employee satisfaction	Customer reservation agents work at home Install PC and phone at home to allow reservation agents to work from home Online monitoring to check on quality	Savings on office space and less staff turnover Increased employee and customer satisfaction
Inland Revenue (UK)	Improve customer service through extended hours Improve employee satisfaction	Flexible working, experimenting with different shift patterns in response to customer and employee needs Staff consultation on what would work best for them	Improved customer and employee satisfaction
ASDA (part of the Wal-Mart group)	Shortage of staff during the summer when parents are away	Differential flexible working policies for different groups Introduced Benidorm Leave for over 50s going away in the winter – they are working in the summer to cover school holidays	Cover available all year round, hours suit different age groups
Sola-glass Private	Flexible hours to meet customer demands	Annualised hours Home-based working for glaziers through use of IT Flexible start times Customers served at times to suit them Employees get better terms and conditions and autonomy over working time	Increased productivity, flexibility, profitability
Airbus, Germany	Prevent excessive working hours owing to cyclical fluctuations	Work time accounts Employees gain security	Airbus was able to react faster to changing market conditions Valuable staff retained Minimal industrial action
McDonalds	Improve retention and cut absenteeism	Flexible working Crew choose hours in advance Rotas published 10 days in advance to give planning opportunity Part time management opportunities Family contract an innovation in flexible working	Reduced absence
B&Q	Expansion at a time of low unemployment Recruitment of older workers as a relatively untapped source of labour	The company removed all age restrictions surrounding recruitment No compulsory retirement age Over 21% of the workforce is over 50 Many older staff act as mentors The approach was piloted by opening a branch staffed entirely by people over 50 Each store has a diversity champion	Macclesfield's store profits were 18% higher than average Staff turnover was six times lower Absenteeism was down 39%

Company	Driver	Response	Outcomes
Sainsbury's	Respond to the challenge of changing demographics	From 1986 targeted older workers Introduced flexible working and a retirement plan and pension protection mechanism Members can draw partially on their pension to top up a reduced salary and can contribute to their pension up to age of 75	Mixed-age workforce led to improved customer satisfaction The workforce was better motivated and felt more valued
BT	Retaining returning mothers and cutting overhead costs	Anytime, anywhere approach allows many employees to control hours and location of their work Use of home working, nomadic workers and annualised hours	Absenteeism reduced to 3.1% compared with national average of 8.5% Move to output-based management system
Newcastle Building Society	To become employer of choice in tight labour market	Introduced a range of flexible working arrangements, including different working hours, compressed hours, reduced hours, term-time working and home working	Good levels of take up including managers Opportunities vary according to the type of work

The Ideal Picture

Optimising labour to meet the different flexibility needs of customers, employees and postal businesses is the ultimate goal.

Arriving at the ideal for postal productivity by aligning labour fully with work flows will be a long process.

IDEAL FLEXIBILITY

PROCESSING	• Part-time unskilled for mail preparation • Full-time sorting shifts (manual, video or OCR feed)	• Managing relief • Dynamic rostering • Productivity measurement
TRANSPORT	• Full-time: load & drive • Outsource or owner-driver models	• Vehicle care • Collections critical for service
DELIVERY	• Part-time skilled walk sorting • Full-time walk sequencing • Full-time delivery • Daily hours variation for weekly volume cycle	• Managing relief • 'Cut-ups' • Productivity measurement • Health and safety • Seasonality
RETAIL	• Rosters to meet foot traffic	• Part-time options

Aligning postal labour fully with work flows will be a long process.

Employers will need to incorporate some elements of employee-centric flexibility

To achieve process and productivity-led innovation, employers will need to incorporate some elements of employee-centric flexibility in their total review of work organisation, job design, workplace culture, management style and performance management systems.

Conclusions

As postal operators move from dependence on letter mail to a more diversified and technology-rich business, current employee demographics will no longer match requirements and potential transition problems will result.

The economic recession eased labour shortages in some economies, but it is not expected to solve the recruitment problem long-term; the future postal labour force would be drawn from new labour pools (women, students, minorities, immigrant groups) whose aspirations need to be met.

Postal operators retaining a high proportion of employees on fixed civil service contracts need to find ways to replace them; in a few cases the age profile will provide natural attrition in the next five to ten years, provided volume decline does not accelerate further.

Very few postal operators have planned for the degree of labour flexibility achieved by TNT Post, the benchmark leader; many have not yet begun to implement more flexible use of labour.

The need to make labour costs more variable and better matched to workloads will drive postal operators to use a greater range of labour markets: permanent, part-time, casual workers for relief and peak, outsourcing, business partnerships etc.

Front line managers need to understand current labour market issues and become engaged in trying to create a more flexible workforce – change has to start at the bottom.

Many postal operators have objectives to become employers of choice, especially in recruiting leaders of the future. They will need to build employee-centric flexibility tools into their organisations to achieve that aim in future.

Postal operators tend to lag behind other businesses in exploiting new communications channels such as social networking (Facebook, Twitter etc); there are some examples of use of the Internet for recruitment although these are not as widespread as might have been expected.

6

Productivity Measures

- Productivity measurement can be a driver for structural transformation, creating a common language for discussing business improvement.

- Productivity measures must be relevant to the task and the employee, scalable up through the organisation and easily understood.

- Total factor productivity (TFP) is a measure that requires managers to look at all costs; it can help employees to understand value drivers for the total business.

- The postal productivity equation is a management model that examines the interaction between five dimensions and how they affect productivity:

  – Customer need and product design
  – Automation and technology
  – Regulation
  – Business process
  – Labour pools

- Productivity implications will result from the emergence of a more diverse and flexible postal workforce.

- The service standards set by regulators are key productivity drivers so postal operators should engage in the debate, armed with a full understanding of cost structures for flexible resourcing.

- The hardest challenge is to achieve continual renewal of management and work processes that focus on unit cost rather than labour cost measurement.

A Fundamental Tool for Postal Strategy

This chapter is based on the findings of the IPC Best Practice Seminar on Productivity Measurement held in Brussels in November 2009.

As postal operators contemplate the future of letter mail volumes, maintaining and improving profitability depends not only on movements in price, volume and costs but also on productivity growth. It is possible to create a business model for productivity that will produce future profitability. The way to achieve that is through business scenarios based on reasonable forecasts; challenging scenarios can highlight where the business will be under stress.

A business model for productivity can bring profitability

Productivity and its measurement are, therefore, fundamental to postal business strategy. Management can use productivity measures to show customers, owners and employees that the business is achieving continuous improvement. Productivity growth provides value and stability by showing what the future can bring. Well managed and measured productivity growth will produce postal services that meet social and community expectations and build trust.

A Driver for Structural Transformation

Productivity measurement can assist operational and cultural transformation. The optimal conditions for transformation include a goal-setting business environment that rewards productivity growth; useful productivity measures; good reporting at all levels; front line manager and employee engagement and the elimination of factors that inhibit a productivity culture.

Today, postal operators have to deliver increasing productivity in more demanding environments. All aspects of the corporate model will come under pressure to increase output and reduce input to meet these challenges.

Measuring Productivity

Productivity measurement gives an organisation a common language to discuss what is happening in the workplace, the business, the industry, or indeed the economy as a whole. It provides a neutral basis for discussing change and business improvement and allows for relatively quick and easy feedback.

Measurement creates a common language for discussing business improvement

Good productivity measures allow for benchmarking, either between comparable business units within the business, or between companies and industries.

Measures commonly used in the postal industry include revenue per employee, letters per employee and percentage of EBIT to revenue. These measures are simple and effective but they can be misleading, particularly when benchmarking between organisations.

The choice of which productivity measures to apply must be relevant to the level of the work and the worker. Measures should scale upwards from the work task or function to the business unit and the company as a whole. They should be easy for all employees to apply and understand and should not involve complex calculations.

Measures must be reliable, consistent and capable of meaningful benchmarking

Measures must be reliable and take into account factors that control productivity such as cost and quality. They should be consistent, and measure like-for-like comparisons, thus ensuring that benchmarking is meaningful. Timeframes should be appropriate and tied to relevant business cycles, for example monthly, and results need to be available as soon as possible.

Data should be cheap and simple to obtain, drawn as far as possible from existing management information systems.

Postal operators are at different stages in their development of a productivity culture. Systems are in place but they vary in sophistication and effectiveness. Often, systems evolved at company level combine industry processes with unique postal characteristics. What is appropriate now will not necessarily be adequate in future business scenarios. For example, narrowly targeted measures of present-day operational concerns and usage of automated sorting equipment will not give a view of overall productivity.

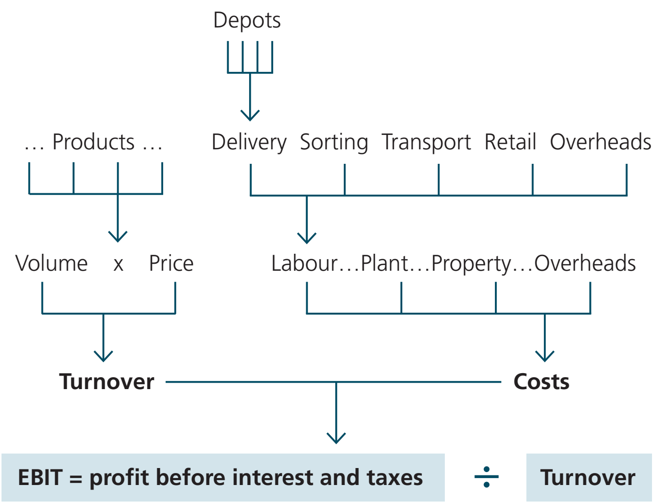
Total Factor Productivity

Total factor productivity (TFP) provides a more relevant measure. Managers are expected to look at all costs – labour, property, plant and technology – in evaluating productivity. This can be one way to help employees understand the value drivers for the total business.

Total Factor Productivity looks at all costs in evaluating productivity

TFP accounts for effects in total output that have not been caused by inputs. For example, a year with unusually good weather will tend to have higher output because bad weather hinders agriculture. A variable like weather does not directly relate to unit inputs, so weather is considered a total-factor productivity variable.

FROM FRONT LINE TO GROUP …



TFP should scale up from the front line to group headquarters

For the postal industry, TFP has to be built up from the front line to group headquarters (see diagram above). Productivity measures need to be in place for all operating units including retail, sorting, transport, delivery and overheads. The charts opposite show the productivity measures deemed to be appropriate for each operating unit.

RETAIL

Physical	Financial	Purposes
Time series (day, month etc)	Time series (day, month etc)	To measure and reward improvement
Office comparisons	Office comparisons	To develop a sales culture
Transactions per labour hour	Labour cost per transaction	To focus on earnings
Sales per square metre	Total cost per transaction	To enable correct pricing
Queue waiting time	Sales per FTE	To measure customer satisfaction
Time per transaction	Sales and profit per office	

Appropriate measures for retail units

SORTING

Physical	Financial	Purposes
Time series (day, month etc)	Time series (day, month etc)	Rostering
Office comparisons	Office comparisons	To measure and reward improvement
Letters processed per hour (manual, machines)	Unit cost per letter (labour, total factor etc)	To plan and schedule resources
		To improve quality
		To allow TQM processes

Appropriate measures for sorting units

DELIVERY

Physical	Financial	Purposes
Time series (day, month etc)	Time series (day, month etc)	Productivity improvement
Office comparisons	Office comparisons	Workload measurement and rostering
Letters per delivery point	Unit cost per item delivered	Objective measurement
Letters per postman walk		Quality management
Weight/distance/ delivery points per walk		
Missorts (per depot, per walk)		

Appropriate measures for delivery units

END-TO-END TRANSPORT

Physical	Financial	Purposes
Time series (day, month etc) On time delivery of mail (quality of service) Carbon footprint	Time series (day, month etc) Transport cost per mail item	Customer quality End-to-end cost

Appropriate measures for transport

OVERHEAD PRODUCTIVITY

Head Office	Head office costs might add 10-25% to total direct operating costs These costs should be benchmarked and monitored Overall cost is driven by extent of centralisation
Marketing and sales	What % of sales (2-5%)?
Information technology and communications	What % of cost base (3-6%)?
Human resources	What % of cost base (3-6%)?
Finance and administration	Also, central vs devolved costs

Productivity measures for overheads

The Balanced Scorecard Framework

Over the past decade, best practice has linked productivity measurement to decentralised, balanced scorecards. This recognises that productivity is also an outcome of other processes (see diagram below).

The balanced scorecard approach has value on a number of levels. It can ensure clarity of strategy across an organisation and translate strategic objectives into operational terms. It is a way to communicate through measurement, while the process of developing a scorecard can create consensus and teamwork.

> The measures in scorecards bring more breadth to planning discussions

As a performance driver, balanced scorecards help management translate corporate objectives into performance goals and promote understanding of the ways in which goals and objectives can be achieved. The measures in scorecards bring more breadth to planning discussions.

BALANCED SCORE CARDS IN PRACTICE

FINANCIAL

GOALS	MEASURES
Survive	Cash flow
Succeed	Quarterly sales growth and operating income by division
Prosper	Increase market share and ROE

CUSTOMER

GOALS	MEASURES
New Products	% of sales from new products % of sales from proprietary products
Responsive supply	On-time delivery (defined by the customer)
Preferred supplier	Share of key accounts' purchases Ranking by key accounts
Customer partnership	Number of cooperative engineering efforts

PROCESS

GOALS	MEASURES
Technology capability	Manufacturing geometry vs competition
Manu-facturing excellence	Cycle time Unit cost Yield
Design productivity	Silicon efficiency Engineering efficiency
New product introduction	Actual introduction schedule vs plan

INNOVATION

GOALS	MEASURES
Technology leadership	Time to develop next generation
Manufacturing learning	Process time to maturity
Product focus	Percent of products that equal 80% of sales
Time to market	New product introduction vs competition

The model recognises that productivity is an outcome of other processes

Lessons Learnt by the United States Postal Service

The United States Postal Service (USPS) first developed balanced scorecards in 1992 as a key to driving strategic objectives throughout the 700,000 employee organisation.

The principle lessons learned are that top management support, consistency and the creation of a performance management discipline are required. Measurement has to be simple because its outputs are discussed with 700,000 employees and millions of customers. There has to be clarity and focus (a limited number of top-line goals) combined with cross-functional integration and alignment.

Measures must reflect what most people in the organisation do and how each person contributes.

The Approach by New Zealand Post

New Zealand Post has built meaningful metrics for each organisational level and has enhanced implementation with extensive front line management development. Key performance areas reflect the company's business principles, providing the four quadrants of the company-level value scorecard:

- Making money – measure: operating margin
- Winning customers – measure: on time delivery of mail
- Building relationships – measures: public favourability, employee satisfaction, accident reduction
- Delivering the future – measure: revenue

The Postal Productivity Equation

Postal operators now have to deliver increasing productivity in more demanding environments, so all aspects of the corporate model will come under pressure to increase output and reduce input to meet these challenges.

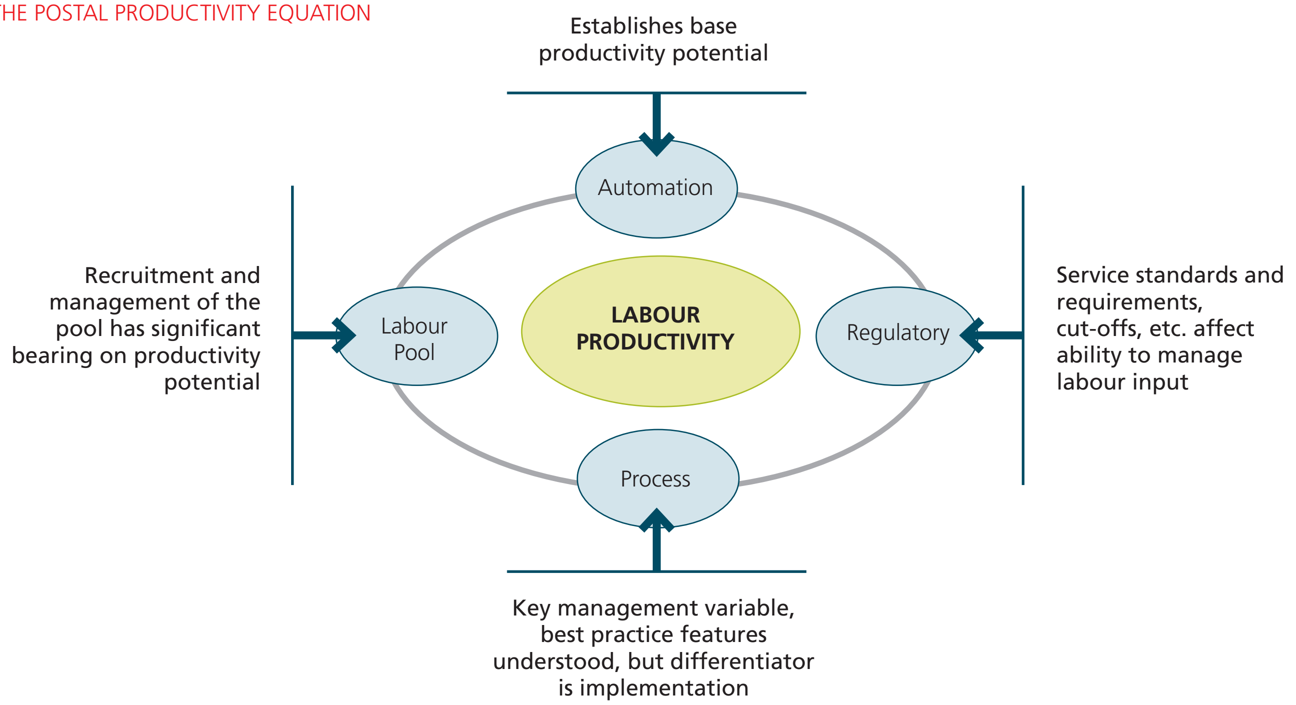
The key drivers affecting this change are the volume decline and change in composition of mail together with regulatory pressure for downstream access, increasing competition and consolidation. These are resulting in a requirement to move the delivery network to J+2 operation.

> A productivity culture requires flexible work practices and new contractual arrangements

The postal industry is used to historic increases in mail volumes supported by high levels of automation in sorting centres. The move to a productivity culture requires postal operators to be successful in introducing more flexible work practices and new contractual arrangements for employees in order to optimise the trade-offs to be gained from productivity decisions.

The postal productivity equation is a management model that examines the interaction between five dimensions: customer need and product design; automation and technology; regulation; business process, and labour pools, and how these affect productivity.

THE POSTAL PRODUCTIVITY EQUATION



Productivity is determined by the development and balance between different forces

Each dimension can be influenced to improve productivity. A big regulatory change might evolve to assist productivity, for example a move to a five-day week. However, smaller changes might also be worth pursuing, for example permission to confine delivery to the ground floor of apartment blocks.

A small regulatory change could assist productivity

A postal operator's productivity potential will be determined by the development and balance between different forces (see chart on the previous page).

Labour Pools and Flexibility

Typically, postal labour pools have had common characteristics: full time employees; unionised and stable workforces. All present indications suggest that more diverse and flexible workforces will have to emerge and this will bring new productivity implications (see table below). The recruitment process itself will require postal operators to make *de facto* "productivity potential" decisions.

LABOUR POOLS AND FLEXIBILITY

Feature	Issues	Implications
DEMOGRAPHIC	Gender and community	Workplace harmony, different work ethics, home/work balance
	Skills	Focus on unit labour cost results in loss of skills, local knowledge and know-how
	Age	Ageing workforce less fit and less suited to physical demands
STABILITY	Turnover rates	High turnover increases training costs and lowers quality
	Attractiveness	Physical jobs less attractive in mature societies
	Comparison to market	Higher labour costs must be offset by higher productivity
COMMITMENT	Absence	Diverse workforces tend to have higher absence rates
	Attendance	Part-time or casual workers are more likely to have lower priorities
	Satisfaction	Engagement may be harder in a more diverse workforce
CONTRACTS	Mix and balance	All the above issues emerge if the basic workforce traditional structure is changed under the pressures to lower costs
	Full time	
	Part time	
	Casual	
COLLECTIVE AGREEMENT	Agreed work standards	Unions are more resistant to flexibility if they see degradation of job quality and employment stability
	Restrictive practices	The language of productivity is preferable to one of reducing hourly rates
	Historic allowances	
	Work organisation	

Technology and Logistics Enablers

High performing postal operators have common and established practices in relation to logistics design and technology deployment. While these do not guarantee maximised labour productivity, they establish an underlying platform and potential (see top chart opposite).

Regulatory Framework

Postal operators can have a direct effect on future process and flexibility initiatives by engaging in the regulatory debate on universal service standards and requirements.

The service standards set by regulators are key productivity drivers. Over the past decade, standards for the universal service have been driven by a common set of assumptions:

- Rising volumes, inelastic prices
- Customer demand for next day service
- Customer demand for increasing quality of next day services
- These standards place operational restrictions on productivity development such as:
- Number of collection points
- Collection cut-off times
- Delivery times
- Quality standards
- Access conditions

TECHNOLOGY AND LOGISTIC ENABLERS

Service Requirements
- Quality targets and regulation
- Mail and packet mix
- Product features
- Shapes/sizes/machineablity
- USO-cost impact
- Multi media and notifications

Infrastructure
- Network facilities
  - Structure and location
  - Quality "Fit for purpose"
  - Supports productivity culture
- Customer
  - Integration and induction

TECHNOLOGY AND PROCESS FOR A HIGH PRODUCTIVITY ENVIRONMENT DESIGN, OPTIMISATION AND IMPLEMENTATION

Technology
- Containerisation
- Material handling
- Coding
- Sorting
- Sequencing
- Dynamic work routes

Information Technology
- Mail and pipeline visibility – IMS
- Meaningful MIS
  - Business intelligence
  - Planning and control
  - Performance management
- Database and address management
- RFID- handhelds- notifications

Established practices for logistics design and technology deployment create an underlying platform for labour productivity

Factors imposed by regulation will impact on both resourcing and flexibility, therefore, a full understanding of the cost structure will be fundamental to postal operators' arguments against regulatory impositions.

Process and Management

Postal operators have implemented a range of schemes to change productivity cultures. The hardest challenge is the implementation and continual renewal of management and work processes which focus on unit cost, rather than labour cost measurement (see table below).

PROCESS AND MANAGEMENT

Feature	Objectives	Best Practice
Front line management	Create a change agent Commercial leader	Front line management-business skills Measurement targets and empowerment Support-training and development
Standard process	Development of standard procedures Compliance as norm Ensure local input	Rigorous definition of service standards Roll-out to minimise service disruption and create process champions TQM -discipline engaged, e.g. six sigma, information relevance and timeliness
Job design	Postal productivity requires greater labour flexibility to reflect work flows-achieving the ideal is a long process	Full time, part time, casual, divisions of labour Match work flow to hours e.g. annual hours, dynamic rostering, relief etc Labour pools and employee/employer-centric flexibility model
Team working	Change work practices and demarcations End shop steward work process control Introduce team approaches	Local managers allocate resource in a flexible way against volumes and operational financial targets, maximising productivity potential Team working, dynamic rostering, and flexible hours in remuneration agreements
Quality circles	Create team involvement Focus on quality and unit cost Engagement of employee, not shop steward	TQM – Six sigma Incentives-financial-enrichment Internal communication and process
Measure and incentives	Measures used to develop leadership and commercial capabilities relevant to unit and related to pipeline maximisation, not unit maximisation	Devolution of budgetary system to provide good local information Issue is not manpower or costs but ensuring unit costs Ability to reward unit level productivity

Leading Labour Productivity Process, Management and Teams

Of the four drivers in the postal productivity equation, postal operators have the strongest and most mature understanding of automation and its productivity potential. They are, however, at the beginning of their journey towards understanding the productivity potential of labour pools and regulation.

Understanding the productivity potential of labour pools is just beginning

Postal operators have implemented many work process changes such as standardisation, team working, six sigma and quality circles, but research is indicating that the "softer" aspects of work process change are becoming increasingly important in maximising productivity within a given technology/labour pool environment. These softer aspects include:

- Establishing productivity cultures
- Front line management
- Team working

Establishing Productivity Cultures

Companies with low productivity manifest a number of key symptoms and causes of their condition (see table below) but too often, management seeks an explanation from external factors. Research indicates increasingly that key differences are driven by management practice.

Management Matters

According to recent research, productivity performance is more strongly influenced by adoption of best practice management processes than by external factors. A McKinsey/London School of Economics study of 700 companies in the United Kingdom, United States, France and Germany reviewed the relationship between productivity and the systematic deployment of clusters of best practice management behaviours.

The study grouped eighteen key best practice processes into three clusters:

- Shop floor operations-adoption and spirit of lean manufacturing
- Target setting and performance-set goals to communicate incentives
- Talent management-recruit and retain

From these three groups, the researchers created an index of good management in relation to Total Factor Productivity (TFP).

A one-point improvement on the management scale had the following outcomes:

- Eleven percent output increase in labour productivity
- Thirty percent increase in return on capital employed

In fact, the variance in TFP had a far higher correlation to the cluster of good practices than to country, sector, geography or company size.

LOW PRODUCTIVITY COMPANIES

Symptom	Causes
Variable quality and high rework rates	Low quality leads to an increase in rework and probable fall in demand
Poor workflow	Flows mismatched, time under-utilised, or overtime drives up labour cost per unit
Process downtime/utilisation	Breakdowns have a negative effect on morale. They impact on the workflow, driving up costs and reducing quality
Low discretionary effort	Work to rule mentality, low flexibility
Lack of clear performance expectation feedback and recognition	Clear goals and consistent, regular and fair feedback lacking
Lack of standards and measurement	Consensual, cooperatively created minimum standards required
Unsafe work environment	High accident and absence rates reduce productivity. Both increase the requirement to cover resources, further reducing morale in the workplace
Poor leadership	The most common cause of low productivity. Training front line managers to coach shop floor workers is increasingly being shown empirically to be the key differentiator in productivity performance improvements

Continental countries scored higher on shop floor organisation behaviours, while Anglo Saxon countries fared better on softer areas.

High scoring companies had more employee-centric working environments

High scoring companies had more employee-centric, flexible working environments including full time and part time options and child care arrangements. There was also a strong correlation between high TFP and the amount spent on training.

Front Line Managers

In the postal industry, more work is needed to bring a productivity culture alive for front line managers and employees. These groups do use measures and are frequently assessed against productivity targets but more could be done to train, empower and engage them. An ongoing objective is to bring corporate productivity goals down to consistent, understandable local targets throughout postal organisations.

Managers at all levels must spend a significant amount of time on two activities: helping teams understand the company's direction and the implications of that for team members; coaching for performance.

Research indicates that insufficient front line management time is spent on coaching

Research indicates that insufficient front line management time is spent on coaching, the key to driving productivity. Front line managers do not have the skills or opportunity to address the coaching requirement.

In best-practice companies, front line managers allocate sixty to seventy percent of their time to the floor, enabling them to provide focused coaching. They are also empowered to take decisions. The bottom-line benefit is significant, but its achievement requires a redefinition of expectations and a redesign of the front line manager's role and work.

Transformation over the past decade has shown that successful implementation is highly dependent on front line managers understanding and committing to change. It is crucial to ensure that the front line is trained and supported in their role as leaders of change.

Working in Teams

Postal businesses, like many other work environments, have moved significantly towards team working. That creates many challenges to historic, control-based management practices, shop steward control and measured work standards. New challenges are created by more flexible, high turnover labour pools.

To develop effectively in postal workforces, teams require significant changes in the role of managers and the organisation. They require central support; autonomy should not mean abandonment. The table below outlines the role of organisations and managers in best practice management of teams.

BEST PRACTICE IN MANAGING TEAMS

The Role of the Manager	The Role of the Organisation
Respect and belief	Targets
• Belief in the team approach and trained to work within new relationships	Resources
Confidence	Information
• Not seeing team empowerment as a reduction of authority but as a way of increasing good productivity	Training
Training	Feedback
• Encourage and facilitate identification and delivery of training	Technology and process support
Boundaries	Benefits resulting from performance
• Establish where team responsibility/autonomy ends and decide on clear interfaces/boundaries • Ensure that accountability rests with responsibility	
Information	
• Ensure flow of relevant information	
Progress	
• Ensure feedback and rolling targets linked to benefit	

Conclusion

By creating future business scenarios for productivity growth based on reasonable forecasts, postal operators can create business models that produce future profitable results. Challenging scenarios can show where the business will be stressed, helping posts as they contemplate the future in the face of declining letter mail volumes.

Productivity measurement can assist operational and cultural transformation. The optimal conditions for these include:

- Overall business environment: creation by senior management of high level goals that include and reward productivity growth
- Good productivity measures: defined elements that create useful measures
- Good reporting: ensuring that measurement is reported and understood by all levels
- Engagement of front line managers: making productivity relevant
- Engagement of employees: creating a culture where employees contribute
- Elimination of causes of blocks to productivity: identify the factors that inhibit a productivity culture

Useful productivity measurement systems have the following characteristics:

- Relevant, accurate and consistent
- Timely, objective, and produced with minimal effort
- Simple to understand and scalable from work unit up to corporate level.

Work is needed to bring a productivity culture alive for front line managers and employees. More could be done to train, empower and engage these groups. Translating corporate productivity goals into uniform, understandable local targets remains work-in-progress.

The postal productivity equation addresses how productivity is affected by customer need and product design, automation and technology, regulation, business process, and labour pools.

Total factor productivity has already been introduced by some posts at work unit level, for example in delivery or post offices. The concept requires managers to look at all costs – labour, property, plant and technology – in evaluating productivity. This is one way to help employees understand the value drivers for the total business.

Several postal operators have implemented, or are developing, theoretical constructs of the cost drivers of comparable operational areas (sorting centres or delivery offices). The mathematics in these models is too complex to be understood by local managers, but they do produce useful data that allows senior management to drill down and discover why productivity varies between similar work areas.

The advantages and disadvantages of financial productivity measures (cost in cents to deliver a mail item) against physical measures (the number of items delivered per delivery point) are appropriate for internal benchmarking in some circumstances, but have less significance for international comparisons.

At the end of the day, the operating margin of a postal business – operating profit as a percentage of revenue – is a universally understood industrial measure. Linking operating margin from the corporate result right down to each operating unit would suggest that financial measures should also be used universally in the postal industry.

Further information on postal best practice can be found under the intelligence section of www.ipc.be.

7

Sustainability

- IPC member postal operators came together in 2009 to agree the first service sector global emissions reduction target.
- A postal industry commitment to reduce its CO_2 emissions by 20 percent by 2020 was made credible through the implementation of the IPC Environmental Measurement and Monitoring System (EMMS).
- Twenty postal operators took part in the first formal year of EMMS operation with verified and audited data.
- Participating postal operators account for 80 percent of global CO_2 emissions; they operate 100,000 buildings and 600,000 transport vehicles.
- First year EMMS results provided the basis for the first ever *IPC Postal Sector Sustainability Report*.
- The industry's 20 percent emission reduction commitment was launched at the global climate change conference in Copenhagen, together with the sustainability report.
- CEOs from participating IPC member postal operators participated in a mediated discussion at the Copenhagen launch event, explaining the industry commitment to emission reduction.
- Emission reduction in the postal industry demonstrates a mature desire to cooperate in the interests of customers in order to provide transparent, measurable data on the post's carbon footprint as a supplier to business.
- Enhancements in future for EMMS reporting include development of ways for postal operators to account for Scope 3 emissions generated along their value chain.
- There is an expectation that total emission reduction will align with reductions per mail item or postal parcel.
- IPC will publish the sustainability report each year to track the postal industry's progress towards its carbon reduction target.

A Sector-Wide Target for CO_2 Reduction

2009 was a landmark year for sustainability in postal operations. IPC members took the initiative, making the post the first service sector to set a global emissions reduction target. That goal was made credible by the IPC Environmental Measurement and Monitoring System (EMMS) a transparent, scientific, sector-specific carbon measurement and monitoring system developed for the postal industry in collaboration with sustainability experts at IPC member postal operators.

An industry commitment to a 20% CO_2 reduction by 2020

EMMS began formal implementation by 20 major postal operators in May 2009 following a pilot conducted with 16 postal operators in 2008. Results from EMMS measurement and monitoring provided the basis of the first ever *IPC Postal Sector Sustainability Report* published in December 2009. The report is a starting point for assessing the postal industry's progress year-on-year towards its carbon reduction target.

Public Commitment

IPC members made public their intentions on carbon reduction at a high-profile press conference in Copenhagen during the global conference on climate change in December 2009. They announced they are working towards a minimum 20 percent reduction in their collective carbon emissions by 2020, based on 2008 levels.

The postal carbon reduction commitment demonstrates that postal operators can work cooperatively as a sector while competing with each other for business from individual customers.

There is no desire to use carbon reduction as a competitive lever. Instead, postal operators have taken a strategic decision to show that a mature postal services industry, embracing the opportunities presented by liberalisation, is nonetheless conscious of the need for transparent, uniform data that helps customers understand and report on the carbon footprint of their value chains.

A mature industry helping its customers understand the post's carbon footprint

IPC members participating in EMMS account for 80 percent of global mail volumes, operating 100,000 buildings and 600,000 transport vehicles. They are determined to ensure the posts will be reputational assets for customers. They are committed to identifying new ways of doing business that will enable them to reduce energy use within their facilities, introduce economically viable alternative fuel vehicles and implement programmes that engage postal employees and suppliers.

A further strategic objective is to optimise the business opportunities to be gained from good carbon management. Already, postal operators are well advanced in their introduction of energy saving initiatives within their own businesses. Measures including building energy reduction programmes, energy audits, and vehicle replacement policies that introduce more energy efficient models to fleets are featured as case studies within the *Postal Sector Sustainability Report*.

IPC member CEO's at a press conference in Copenhagen, 11 December 2009

Postal chief executive officers took part in a moderated debate during the press event in Copenhagen, representing the postal industry rather than their individual companies. They were:

- Jean-Paul Bailly, chief executive officer of Groupe La Poste and chairman of IPC
- John E. Potter, chief executive officer of the United States Postal Service and vice-chairman of IPC
- Frank Appel, chief executive officer of Deutsche Post DHL
- Peter Bakker, chief executive officer of TNT
- Lars Nordström, chief executive officer of Posten Norden
- Herbert-Michael Zapf, chief executive officer of IPC

Nearly 1,500 individuals around the world from the postal industry and the media logged in to view the press event as it was webcast live. The recorded webcast is available for viewing on IPC's website at www.ipc.be.

What a 20 Percent Reduction Target Involves

Postal operators are aware that a 20 percent reduction in carbon emissions by 2020 is a challenging target. They believe, however, that their goal is realistic and achievable; the EMMS will allow the postal industry to monitor and quantify its carbon emissions year by year and track progress.

The commitment is in line with the reduction targets of the European Union and the Obama Administration and demonstrates that the postal sector is working in tandem with political goals. Reducing CO_2 emissions by 20 percent represents a first step for the sector; in the medium term the commitment could be broader in scope embracing, for example, specific targets for use of renewable energy and increased energy efficiency.

In the medium term the commitment could be broader in scope

The 20 percent reduction is based on a range of criteria, including both individual postal operators' own targets and data from EMMS monitoring. These embrace full Scope 1[1] and Scope 2[2] emissions data in line with recognised standards such as the Greenhouse Gas Protocol and ISO 14064.

IPC aims to develop guidelines on how postal operators can account systematically for Scope 3[3] emissions generated along their value chains.

Emissions from subcontractors and suppliers have a significant impact on the postal sector's total carbon footprint. Comparison between individual operators is a challenge, however, owing to the diverse outsourcing strategies applied. IPC could not guarantee accurate auditing of Scope 3 data in the initial sustainability report for the sector but future reports will publish Scope 3 emissions.

Working Together Towards a Common Goal

All 20 founder postal operators participating in the EMMS subscribe to the 20 percent reduction target for their combined CO_2 emissions. They came together to agree a target they believe they can achieve over ten years – it means cutting their collective CO_2 emissions by almost two million tonnes.

By setting an industry target, the postal sector has a greater chance of success than any individual operator could have by setting its own target.

Total emission reduction is expected to align with per item reductions

The expectation is that the total emission reduction will align with emission reductions per item of mail and per postal parcel.

EMMS and How it Works

The EMMS provides postal operators with a common reporting structure through which they can disclose their environmental management strategies, performance and achievements. It supplies a uniform carbon accounting system that will track progress year by year.

It has been developed in cooperation with acknowledged third parties according to internationally recognised standards. It was devised by Maplecroft, in collaboration with IPC and its members, on the basis of wide stakeholder consultations, including a survey of major postal customers.

Using a management systems approach, EMMS is rooted in international best practice standards including the Dow Jones Sustainability Index, FTSE4Good, the Global Reporting Initiative, the Greenhouse Gas Protocol, the Carbon Disclosure Project and ISO 14000 environmental standards.

Self-assessment by each participant is subject to second party audit by Maplecroft and third party assurance by PricewaterhouseCoopers. This ensures data reliability and consistency, facilitating peer review and acting as a check that provides feedback and monitoring to stimulate further improvement in future years.

EMMS fosters a spirit of continuous improvement

The 20 participants in the EMMS in 2009 supplied IPC with performance data against the agreed set of indicators. Postal operators select indicators on which they can report; IPC works actively with each participant to collect data and share knowledge on best practice. The system accommodates work in progress by participants in order to foster a spirit of continuous improvement.

1 Scope 1: Direct GHG emissions occurring from sources that are owned or controlled by the company.
2 Scope 2: Electricity indirect GHG emissions accounts for GHG emissions from the generation of purchased electricity consumed by the company.
3 Scope 3: Other indirect GHG emissions that are a consequence of the activities of the company, but occur from sources not owned or controlled by the company.

Overall measurements include total CO_2 in tonnes per EUR 1,000 turnover; total CO_2 in grams per item, percentage of renewable energy used, percentage of delivery kilometres travelled by foot or bicycle, and percentage of alternative fuelled vehicles in fleets.

A scorecard from each participating operator provides information in two parts: carbon management proficiency across ten areas; carbon performance data relating to emissions figures supplied by each participant.

Reporting in the first year focused on mail and parcels

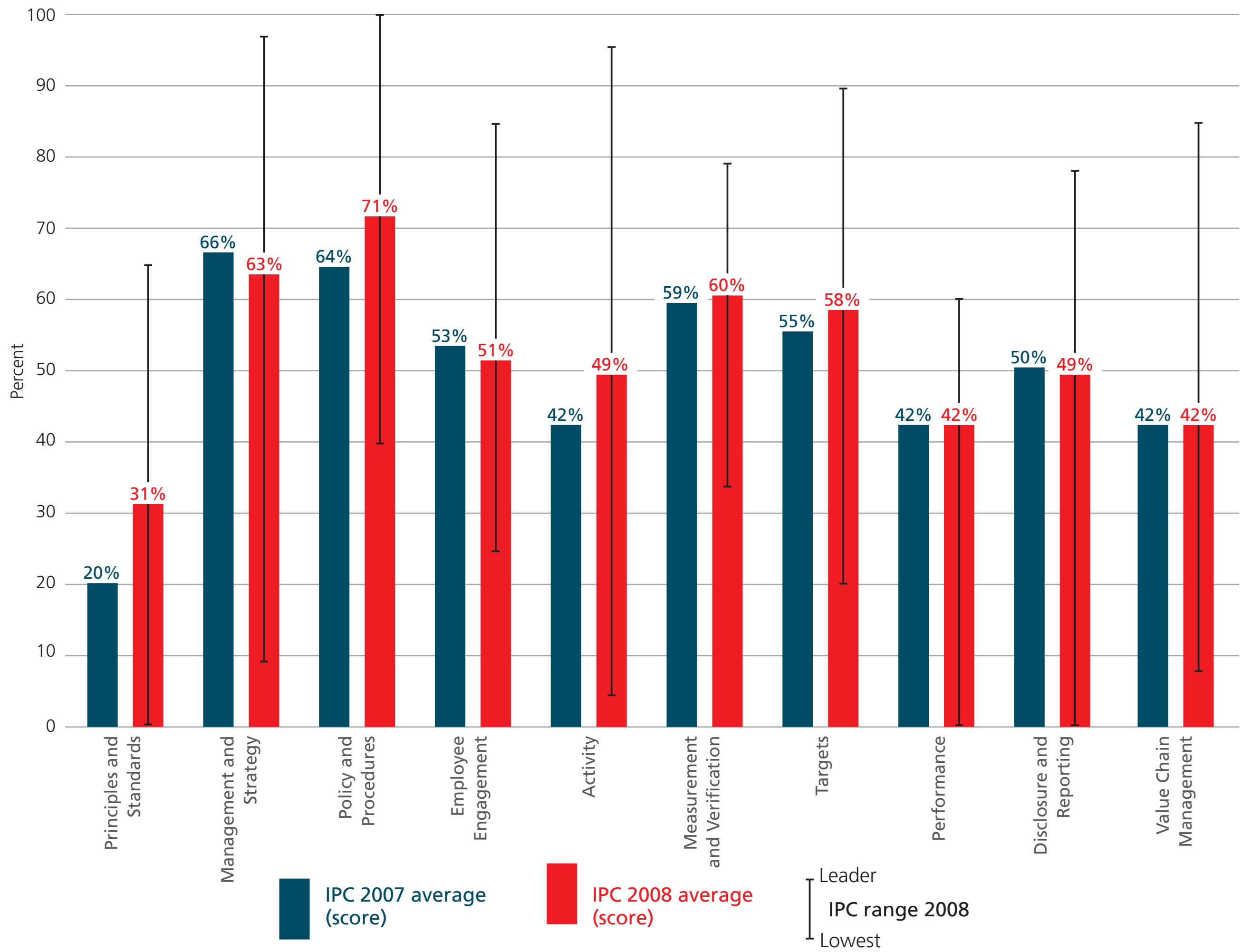
2009 was the first formal year of the EMMS implementation with verified and audited data. That 2009 cycle – and associated 2008 data – is the baseline year. Reporting in the first year focused on the mail and parcels services of participating postal operators. The dedicated express and logistics businesses of three operators were excluded to ensure that the data related mainly to core mail and parcel delivery services.

Best practice benchmarking and sharing between postal operators

Postal operators are not "ranked" according to the data they supply. The aim of the EMMS is to take a sector approach, establishing best practice that can be benchmarked and shared among operators.

IPC is a signatory to the UN Global Compact and an organisational stakeholder in the Global Reporting Initiative; it is sharing information with the European Federation for Transport and Environment and the European Environment Agency.

RANGE AND AVERAGE CARBON MANAGEMENT PROFICIENCY SCORES BY MANAGEMENT PROFICIENCY AREA (2008)



EMMS participants performed best on issues relating to management and strategy, policy and procedure and measurement and verification. There is strong evidence of well-entrenched internal reporting processes and governance structures.

International Post Corporation

IPC' s mission is to be recognised as the natural partner for the postal industry and the industry organisation for improving service quality, promoting cooperation and interoperability, and providing informed analysis about the postal and related markets.

IPC Publications

IPC produces a broad range of publications and electronic information that provide insight into the complex and evolving postal sector. Here are some examples of industry intelligence available to you through IPC.

***Market Flash* –** A biweekly newsletter covering the latest news from the global postal industry, with a focus on market changes, mergers and acquisitions, financial reports and personnel actions.

***Green Flash* –** A quarterly newsletter that provides our readers with the latest developments in sustainability initiatives among postal operators worldwide.

***Strategic Perspectives* –** Our series of think pieces that provide in-depth analyses of key issues in the industry including regulation, market research, industry trends and the future of the post.

Members-Only Publications and Online Tools

***Regulatory Flash* –** Monthly newsletter detailing the latest developments emerging in the world of international regulatory affairs.

***IPC Strategic Perspectives on the Postal Market* –** This annual report provides a distillation of the cooperative market intelligence projects carried out between member postal operators and IPC throughout the preceding year.

***IPC Global Monitor* –** IPC's quarterly report provides detailed information on how domestic postal volumes have evolved since 2005 combined with key macro environment information on economy and substitution.

***Global Postal Industry Report* –** A comprehensive annual overview of the state of the postal industry.

***Statistical Database* –** Web-based tool providing information on IPC members and other key postal operators including their macro environment; consolidated income statements, balance sheets and cash flows added with key ratios; and key postal division financials.

***IPC Carrier Intelligence* –** This impressive online tool provides concise intelligence reports on each IPC member and key operators from Asia, Central Europe and South America.

***Regulatory Portal* –** Online interactive database that provides members with a synoptic overview of regulatory options for 37 countries, with specific attention paid to USO (quality of service, accessibility, retail network); USO Financing (and USO cost); price control (tariff and price cap regulation, format-based pricing); and downstream access/ licensing (worksharing and downstream access).

***IPC-TV* –** This online tool allows our members to view videos and presentations of key speakers at select IPC-sponsored events and conferences.

For more information about IPC,
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