Focus on the Future

Building a new compelling position for posts

International Post Corporation
The Boston Consulting Group

June 2012

International Post Corporation (IPC) and The Boston Consulting Group (BCG) have joined forces to produce a new type of report about the postal sector. Whereas most other reports on the industry are retrospective, IPC and BCG's joint publication ***Focus on the Future*** does just that: based on analyses of the current market situation and coming trends, it takes a detailed and in-depth look at the future prospects of the sector and makes recommendations as to how companies operating in the sector can thrive in a digital world. This publication combines the deep industry knowledge, breadth of experience and richness of data of the two principal thought leaders in the postal sector, IPC and BCG, to provide insights and ideas for discussion by the industry's leadership. The objective of this thought-provoking publication is to stimulate debate and action.

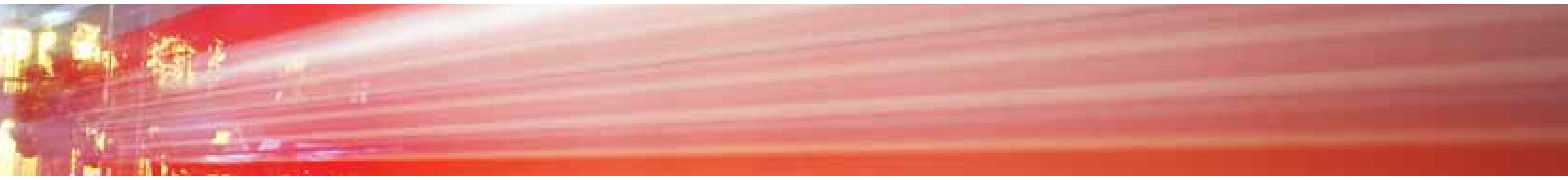
Scope

In this introductory edition of this new annual publication we have decided to take a broad view on the future of the sector, exploring its key drivers, examining its financial performance and portfolio options, and providing a business review of the main markets it serves.

Some principal considerations:

- The scope is on common denominators across most postal operators: corporate issues, the mail business, communications and marketing business, digital business, and parcels and e-commerce business. (We have not focussed on financial services, telecom or logistics businesses.)
- Market context, type and the degree of change vary by geography. We include some spreads in our analyses and recommendations, but have not done so for all variations, which would render the report unwieldy.
- We have not sought out a silver bullet for the industry, as we do not believe one exists.
- It was tempting to speculate about longer-term trends — what will happen if the cost of information keeps falling? Will interoperability destroy integrator models such as Express? Will consumer-managed real-experience information destroy the value of brands? Will someone figure out how to break the logic of scale curves in manufacturing? — but we have focussed on the mid-term challenges as we believe these will already generate sufficient food for thought.
- Some issues may not be new but are in this report quantified and contextualised within a greater story. It may well be that the main challenge is more about 'how to get there' rather than where the industry should go, however we consider it crucial to present in this first edition of *Focus on the Future* our recommendations on the direction the industry should take to evolve and flourish. Having established a view in this edition on what needs to be done, we will dedicate next year's report to examining how this can be achieved.

Table of contents



thinkstockphotos.com

1 The new customer experience

The following sample scenarios provide a sneak preview of future consumer experiences that will affect the postal sector. Most of these scenarios already exist in at least one market. As these scenarios suggest, the future is both exciting and offers great opportunities to postal operators. However developing the capability to deliver the promise of the most suitable of these services in any given market will require major transformation of posts' business models.

Delivery solutions for the busy

Jacques is only 30 but still somewhat forgetful. Boarding his train on his way to a birthday party, he realises that he has not bought a present. He checks his friend's preferences on Facebook with his smartphone, and orders a present online. Three hours later he receives a text message that the gift-wrapped present is about to be delivered at the party, requesting him to pick it up at the door.

Immediate delivery

*Today, delivery within 90 minutes is possible in London and some other UK cities. Shutl, an e-commerce online delivery start-up offers two services: delivery within 90 minutes of order or delivery in a given 60 minute window any time, 7 days a week. They operate 24 hours a day, 7 days a week, 365 days a year. In fact, when choosing their asap delivery option, their actual average delivery time is only 75 minutes (*www.shutl.co.uk*). UK retail giant Argos uses their services, as do an increasing number of retailers in the UK (*www.aurorafasions.com*, *www.coast-stores.com*, *www.argos.co.uk*, *www.karenmiller.com*). When checking out in their online store, the Shutl delivery options are shown.*

Mobile commerce

*Red Laser's iPhone ad enables users to shop for products, where to find it the cheapest and even gives directions to the store (**Video**).*

Tom is single, works long hours and spends weekends away from home. While he likes good food, design and nice clothes, he has neither the time nor patience to go shopping. Tom chooses to do his shopping online and to receive a bundle of all packages that he ordered during the week in the Friday evening 19.00-21.00 time slot.

Consolidated deliveries

*For orders consisting of several products, Amazon offers the option to have all orders delivered together on one given day, as soon as all separate products are available. It also offers to have products shipped directly yet then separate from each other. Dutch online delivery service of Ahold, albert.nl (**www.albert.nl**) offers delivery of orders made throughout the week, yet consolidates and delivers all products together within a chosen time window. Premium coffee retailer Nespresso has developed 'Nespresso YourTime', a service available to Nespresso Club members that offers express delivery on appointment. A Nespresso courier will personally deliver capsules at a chosen time between 10am-9:30pm, Monday-Saturday. If the customer wishes, the courier will collect the used capsules and take them to be recycled (**www.nespresso.com**).*

No need to leave home for international shopping

Twenty-seven-year-old Seema uses her webcam, directly linked to her PostCo online profile and a tailor's in Hong Kong, to measure her clothing sizes. Later that month she orders three made-to-measure dresses that will be delivered to her at her preferred time. She uses her smartphone to track in real time the parcel as it leaves Hong Kong and as it goes onto the plane, through customs clearance and into her domestic delivery network. She uses Facebook's 'like' function to express her pleasure at being proactively informed that the package is on the last leg to her home. By doing so, her Facebook friends are automatically informed of this service and of her own personal approval of it.

Tracking on smartphone

*Tracking on smartphones is possible with most large express operators, eg UPS (**www.m.ups.com**, **www.fedex.com**, **wap.dhl.com**).There are also possibilities to track goods to be delivered through Facebook or Twitter (**www.usetrackthis.com**).*

Virtual fitting

*ng Connect's Virtual Personal Stylist enables online shoppers to see how clothes would look on them by using a virtual version of themselves, bridging the digital gap between consumers and online products (**Video**).*

Seema receives the three dresses and tries them on. Although made to measure, one of the dresses does not fit well, and she orders its return using a cross-border returns solution.

Scheduled pickup

Scheduling a pickup is a common service offering for B2B. By removing some of the key barriers to international returns, IPC's Easy Returns Solution is a key enabler of cross-border e-commerce, heavily used by apparel e-tailers.

Two weeks later Seema finds a selection of lipstick in her mailbox upon her return home from work, which ideally match the dresses she ordered the previous month. Cosmetics are one of the product categories in which she is interested and for which she had accepted to receive marketing in her online PostCo profile.

Offers/coupons adjusted to preferences

*'Volly' is a secure digital online service from Pitney Bowes offering a platform for online bills, statements and also promotions and coupons. Customers can control what kind of promotions they are interested in and will only receive those that fit their preferences (**www.volly.com** or **this video**).*

Protecting privacy in a digital world

Enrique is a 65-year-old man with limited mobility. Although he lives in town, getting around is a bother for him. His last major excursion was to the medical clinic for his annual check-up. This morning via his secure email he is able to receive and read the full report of his medical check-up of the previous week. Not having to physically go back to the clinic to pick up his results is a great relief to him. He calls the clinic and schedules a call with his GP to discuss the results later that week.

Secure email
*Many postal service operator and other parties have developed secure email. Examples are NetPosti from Itella in Finland, IncaMail from SwissPost, or the ePostbrief from Deutsche Post (**NetPosti, IncaMail, ePostbrief**).*

Enabling customisation

Everyday this urban family of four receives its own fully-personalised newspaper. It includes major international and local news and politics, but is thinner on business news, which is of little interest to this family. In addition it includes as much detail as possible on the local volleyball team the family daughter supports, as well as a couple of pages of cartoons for the young son. Moreover this bespoke newspaper contains advertisements only for those products and services in which this family expressed an interest at the time of ordering their paper. The family can view fuller details of these products through the quick reference (QR) codes embedded in the adverts, and can change their preferences for advertisements at any time online. As the newspaper is published free of charge to them, they know that advertising is part of the package, and they prefer to see the advertisements that are relevant to them.

Custom news
*Swiss Post has launched the first personalised daily newspaper in Switzerland for a one-year market trial. MyNewspaper allows subscribers to select the content that interests them from various national and international newspapers, which is then assembled and printed for delivery in physical form (**MyNewspaper**). Of course in digital form there are many service providers that offer newspapers or magazines that meet set preferences or adjust according to you media use (**www.zite.com,www.flipboard.com,www.hitpad.com, www.reddit.com, www.dailyperfect.com**).*

Help is there right when you need it most

Johanna, A 20-year-old backpacker far from home, has had her wallet stolen. She cancels her cards via the secure card-cancellation app on her smartphone provided by her bank. On this she selects the delivery location for her new cards – half-way around the world from home. Her replacement cards are automatically generated and delivered to the pack station of the global PostCo network only three days later. She retrieves her card using the special code delivered via her securitised PostCo digibox.

Special counter
*DeutschePost DHL has opened hundreds of pack stations for convenient customer access (**DeutschePost DHL**).*

New ways to cater to rural areas

Maria is a 45-year-old woman who lives in the countryside with her ten-year-old daughter. Maria works remotely while her daughter commutes the 15km to school in the local town every day. Today Maria is busy preparing her daughter's birthday. In her secure online mailbox she receives a notification that 11 pieces of mail are awaiting her at her box in the nearby town. She does not have time to go into town, and does not want her daughter to collect the mail, as she know there are birthday surprises in it for her. Many of her daughter's friends are travelling from the town to her home for the party later that day, and Maria asks the father of one to pick up her mail for her, giving him her five-digit code to open the box. Later that day the school friend's father arrives with Maria's daughter's birthday cards and Maria quietly resets her secure code online.

'Mail is waiting' notification
*'Swiss Post Box' is a service from the Swiss post that acts as an electronic letterbox for physical mail. When choosing the service, subscribers receive a new correspondence address. The envelope of all physical mail received at this address is scanned as soon as it arrives, the original letter remains sealed. Through email the subscriber can then choose what should be done with the letter: 'open and scan' – letter will be opened, scanned and sent electronically; 'recycle' – letter will be disposed of; 'shred' – letter will be destroyed and contained information will be made unrecognisable, and 'ship' – letter will be sent to your specified address (**Swiss Post Box**). 'Zumbox' is a similar digital postal mail system available for the US market (**Zumbox**).*

Mailmen: the ideal part-time job

Olga, a 35-year-old mother, is socially gregarious and enjoys a good work-life balance. She gave up her full-time job as a social worker to have a family, and still wants to have lots of quality time with her family. Now that her children are in school she feels she also wants to work again. Twice a week after she drops her children to school she enjoys a cup of coffee with the other part-time postmen and women, who also pick up their post bags from the school, where the post route are dropped. She finishes her route in good time to do some grocery shopping before having to collect the children from school.

Part-time delivery staff
*PostNL makes use of part-time delivery staff and states that in the future all of their mail will be delivered by part-time delivery staff (**PostNL**). Sandd also uses part-timers for delivery (**Sandd).***

Providing additional services

After several years of the last of their children having moved out of home, Mr and Mrs Jones, a 60-something couple, have recently downsized from the four-bedroom family house to a neat city-centre apartment.

They need to downsize their furniture too, and being more of the outdoors than stay-at-home couple, they do not want to waste time doing the rounds of furniture stores. They order new furniture online and have it delivered a week-and-a-half later by PostCo, whose specialised furniture delivery unit also assembles the furniture for them. The Jones like this service, and also the peace of mind that one day, when they get older and more infirm, they can also rely on PostCo to deliver diagnostic tools and prescription medicines.

Assembly
*Ikea offers full assembly of their products. They work with professional, independent partners which are closely located to the customer. Their service includes a one-year workmanship guarantee and disposal of packaging in an environmentally friendly way (**Ikea**).*

Integrating commercial and government services

Thirty-year-old Paul is planning to buy a new car and has been trawling the websites of some of his favourite marques, where he subscribed for information and updates. He is pleasantly surprised to receive in the mail a model steering wheel with which he is able to simulate a test drive of the car at home through the marque's augmented reality feature online. He is so impressed that he sets up a real-life test drive afterwards, ultimately purchasing that car. Once he has bought the car he orders new licence plates online on the government site, which is delivered by post on the day the car is delivered to him.

Augmented reality through DM

Another example of augmented reality

*As part of Nissan's pre-lauch strategy of their 370Z model, the automaker made use of augmented reality technology. A distinctive and creative mail pack was developed and sent to the target audience which included a wheel. The wheel was used to drive the audience to a unique website where they could take the 370Z for a virtual spin, utilising augmented reality. Nissan's intrinsic integration of direct mail and digital allowed them to create a bigger, more involving consumer experience that ultimately took their audience a step closer to "Taking the Wheel for Real" (**NISSAN 370Z Launch**).*

Licence plate online
*NetPosti from Itella gives users a convenient access to more than 1,000 official forms. The forms are maintained by the organisations in charge and are always up to date. All of these forms are in electronic format, and about 100 forms can also be filled in and submitted electronically, meaning that there is no need to mail a letter or visit an office. Examples of forms include all tax forms, (application for a change in withholding tax rate, tax credit for domestic costs, deductions for commuting to and from work, deductions for work performed at home, etc), all forms of the Social Insurance Institution of Finland (Kela), all police forms (eg form for reporting an offence), forms of the Finnish Communications Regulatory Authority, (eg form for changing your television fee information), and forms of the Register Office (eg a motor boat registration form and a name change application) (**NetPosti**).*

Licence plate delivered by post

*When the new Belgian licence plates complying with European standards were launched, bpost was designated to deliver them and the related documentation to the consumers. Recipients can choose the delivery address: at their place of residence, at a designated address, at a post office or Point Poste. If they are not present for the delivery they will find a failure-of-delivery notice in their letter box, asking them to collect their delivery in a post office or in a Point Poste. The new licence plates are delivered to the costumers, who receive it after making a €30 cash payment directly to the postman. Together with their new licence plate, customers will receive the registration certificate, a sticker to send back their old licence plate cost-free and the receipt (**bpost**).*

Shopping when waiting

Min, a busy 25-year-old, is waiting for the underground train to go the gym straight from work. A few friends are coming around later that evening for some food and to watch a film together. Min has no time to get to the shops before getting home, but knows that some vital ingredients are missing. He pops over to the virtual product wall display of the local big-name retailer that is inside every underground train station, scans the QR codes of the few products he wants, and orders and pays via the store's app. When he gets home his shopping is waiting for him in his post drop box at the end of his street.

QR-code shopping

*In Seoul, South Korea, grocery retailer Tesco Home plus has set up virtual store displays in metropolitan underground train stations that allow consumers to shop for products by scanning the relevant QR code with their smart phones. The retailer delivers the shopping to the consumer's home. Scan this QR code to see a short film on this initiative or click on this link (**Video**).*

Getting the things you want

A 40-year-old woman scans a QR code on a shampoo poster while waiting for her bus. Three days later she receives a sample of the shampoo in her mailbox. Added to the sample is a further piece of advertising that allows her to scan more codes and receive additional samples or order the products directly.

Request sample

*Via service offerings as 'Try Now' from PostNL, users can request a sample or trial subscription – for free or at a discount. 'Try Now' offerings are communicated through magazines, TV, billboards for example at the bus stop, or online. If interested, the user can send a request by SMS or through the website (**TryNow**).*

After testing the shampoo she decides to order the shampoo and some additional cosmetics. While ordering she applies for the postal Twitter notification service. She will receive a notification on Twitter two hours before her parcel is delivered. She knows the one-hour time slot when the parcel will be delivered, so she is comfortable she will be back in time from the gym.

Notification by Twitter

*There are different forms of notifications available. DPD UK for example offers delivery notification by sms or email. Notification through Twitter messages or RSS are also possible. DPD Geopost sends notification on when a delivery will be made and when they will pick up a delivery. If the estimated delivery timeslot is not convenient, it can easily be changed (**DPD**, **Twitter/ RSS notification**, **DPD Geopost**).*

Other items of interest

The items below are several examples of technologies and applications, many of which will become commonplace in the following years.

Social media revolution

*This video presents some of the impressive facts and figures about social media and their impact on social behaviour. Social media have great commercial potential and could be valuable marketing tools because they have a wide reach and can strongly influence consumers' opinions (**Video**).*

Power of social media

*GAP was forced to abandon its new logo and revert to the old one after the newly launched design received an outpour of criticism on social networks (**Video**).*

Monitoring your brand

*This video shows an inside view of the Gatorade Mission Control, the company's social media command centre. Gatorade has taken full control of its online campaigns by monitoring when, where and how consumers are talking about the brand, in order to effectively engage them in a two-way dialogue (**Gatorade**).*

Augmented reality

*The Commonwealth Bank's Property Guide iPhone app allows consumers to inform themselves quickly on property prices, repayments, property value projections, etc. while being on the move (**Video**).*

Bank of America

*The Bank of America Mobile App allows consumers to do their banking on their smartphones. The app gives users a quick, easy and mobile way to control their finances (**Video**).*

Voice recognition

*This video shows several children testing the effectiveness of voice recognition on their smartphone by putting more and more sweets in their mouth, making their articulation less and less pronounced (**Video**).*

My shop in a box

*Australia Post provides prospecting e-tailers with an all-in-one e-commerce solution, enabling them to easily build online stores and giving them access to the post's network (**My Shop in a Box**).*

Updater.com

*This online service enables consumers to easily change their addresses and eliminate unwanted paper mail (**Updater.com**).*

Red Stamp

*The Red Stamp iPhone app is an example of modern mobile correspondence and allows consumers to send photo cards, notes and invitations via social media, as well as physical mail (**Red Stamp**).*

2 Accelerate transformation

As stated above, one of the purposes of this publication is to stimulate the debate and discussion that will help the postal industry transform to meet the future. To that end it has been our expressed intention to make this executive summary as actionable as possible, which is why this summary has been written in the form of recommendations. We do realise not all recommendations will apply to all operators, given major market and position differences. We have indicated (with the triangle symbol) where we think this may be the case.

We do see a bright new position for posts, but it will be a challenge to get there. We are looking forward to engaging in discussions with postal leadership and various stakeholders about how to successfully reach such a bright spot in the future.

Market context

- Adapt to increasingly declining mail volumes: beyond adapting the cost structure and portfolio, adapt to losing overall communication share and relevance.
- Build new business models to put consumers in control, urgently for e-commerce and more gradually and carefully for marketing services.
- Manage the implications of many other trends – such as aging and environmental concerns – to your advantage.

Corporate strategy

- Ensure sufficient return on capital employed to maintain the license to operate, then ideally manage for profitable growth.
  - ▸ For some operators new growth may be out of reach. These may need to manage for cash.
- Manage the business as if you were or will soon be privatised, but ensure an (intended) IPO does not lead to a short-term cash focus crippling the required longer-term transformation.
  - ▸ Some weaker operators may consider temporarily fostering their bond with government to support them during the inevitable transformation.

- Choose one or two businesses you can win in, rather than growing in multiple areas based on incremental synergy.
    - For some with significant diversification this may imply portfolio restructuring.

- Realise that in the current economic hardships, with many mature economies forecasting low or no growth, e-commerce is one of the very few growth areas. Posts have many or all the capabilities to establish a strong position in this area of spectacular growth.
    - Posts with a low B2C parcel market share may need to develop partnerships early on.

- Transform from a domestic mail operator into a regional, consumer-centric, marketing and/or e-retailer service provider.
    - The degree of regionality very much depends on the trade lane mix of the original home market.
    - Operators with a strong financial service position may need to decide to focus these financial services to e-commerce or develop their respective e-commerce and financial services positionings into more independent units.
    - Operators with (large) logistics businesses need to make the same trade-off.

- Mail profits should fund new growth, not the other way around; stakeholder complexity should not justify compromising on this principle.

- Prepare to join winning consolidation consortiums around parcels, rather than maintaining or building new last-mile attacker models.

Communication business

- Continuously remove costs in mail more quickly than revenues decline.
    - Prepare for various scenarios, including a double dip recession and further accelerated substitution. Do not expect a floor in mail volumes.
    - Transform the mail delivery service model to match underlying customer communications needs. Prepare for bolder moves, compressing the usual multi-year planning-approval cycle, as most operators have only 0-3 years before they reach bottom-line impact of service model changes.
        - Operators in high-growth economies need to focus on quality and growth.
    - Use insights into consumer preferences to determine new delivery models, rather than basing them on senders' legacy needs.
    - Work to transform the regulatory context to be allowed to deliver what the market wants. Pricing freedom seems more effective than adapting the USO, as USO regulation is lagging or even moving contradictory to market requirements.
    - Use cross functional teams to determine service model, regulatory and pricing strategy; service model changes are not operations projects.

- Change the direct mail business model to sell effectiveness.
    - Fix the basics, based on market needs, such as day-certainty being more important than speed.
    - Adapt to a new reality: targeted and interactive, rather than broadcast and single channel.
    - Sell marketing effectiveness (ROMI), as the digital channel sets this as the standard.

- Tap into the SME profit pool by adding value-added services and hybrid/digital channels, while improving go-to-market strategy.
    - Some may have lost this position to mail service providers beyond recovery and need to focus on the last mile.

Digital

- Focus digital initiatives on embedding core businesses into the new digital world. It is unlikely that posts can make digital a substantial business in itself.

- Focus on clear, unmet customer needs that match your competitive advantage and avoid focusing on those that do not. For example, security is not perceived as a standalone service, merely a feature valued for only some communication flows.

- Decide if you want to build your own platforms or build connectivity into others.
    - The best option (fully owned, JV, etc) varies widely by operator and platform.

- Build any platforms developed using the MIT-IPC ten recommendations[1], including the following:
    - Use open platforms supporting third-party business models.
    - Use a Visa model for organisational structure;
    - Use partnerships, seeding, two-sided network strategies, and pricing to resolve chicken-and-egg issues.
    - Re-evaluate the concept of trust, and consider integrating permission-based advertising.

1. as set out in the White Paper A Digital Postal Platform: Definitions and a Roadmap, Geoffrey Parker & Marshall Van Alstyne, MIT Center for Digital Business, January 2012

Parcel & e-commerce business

- Focus on the new core; if well positioned, posts will generate more revenues from parcels and related areas than mail in the next five years.
  - Increase the ambition level from 'grow with the market' to 'transform the retail landscape'.
  - Focus on business imperatives to build the business; synergy with mail is a secondary consideration.
    - Operators with a low share in parcels may need to leverage the mail supply chain, but also need to consider to partner for stronger and/or broader capabilities.

  - Fix the basics, such as tracking, returns and SME services.
  - Quickly take control of the control points for selected segments (eg international, SMEs), to avoid commoditisation of the B2C parcel position.
    - If too late to do so, posts may require acquisitions or partnerships.
  - Identify and resolve barriers to growth, based on barriers by customer or product segment, not by general prioritisation of barriers.

- Appoint a board-level champion for e-commerce and build a solid enterprise-wide road map with dedicated resources.
    - Bold movers who see e-commerce as the main long-term position may invest this board level role with full e-commerce P&L responsibility.

- Integrate the post office retail network into other retailers' networks, and focus the retail network on B2C parcels business. Bring all mail-related services online or migrate to self service.
    - Operators with a strong position in financial services need to split their retail network into financial service outlets and parcel service points.
    - Some posts may benefit from their current retail business in the short term.

- Offer multi-channel supply-chain capabilities and corresponding selected related logistics capabilities.

- Grow the B2B parcels segment once process control yields sufficient reliability for less critical industry verticals.
    - If competitor B2B capabilities are too strong posts should consider partnerships instead.

- Improve standards and interoperability to collectively become the global market leader in parcels.

Transformation

- Accelerate from evolutionary to revolutionary transformation
  - To accommodate revenue decline from increased substitution, and
  - Seize the window of opportunity in e-commerce.

- Adapt functional strategy and capabilities in line with business transformation requirements: stakeholder management, sales & marketing (including pricing), HR, IT and finance.

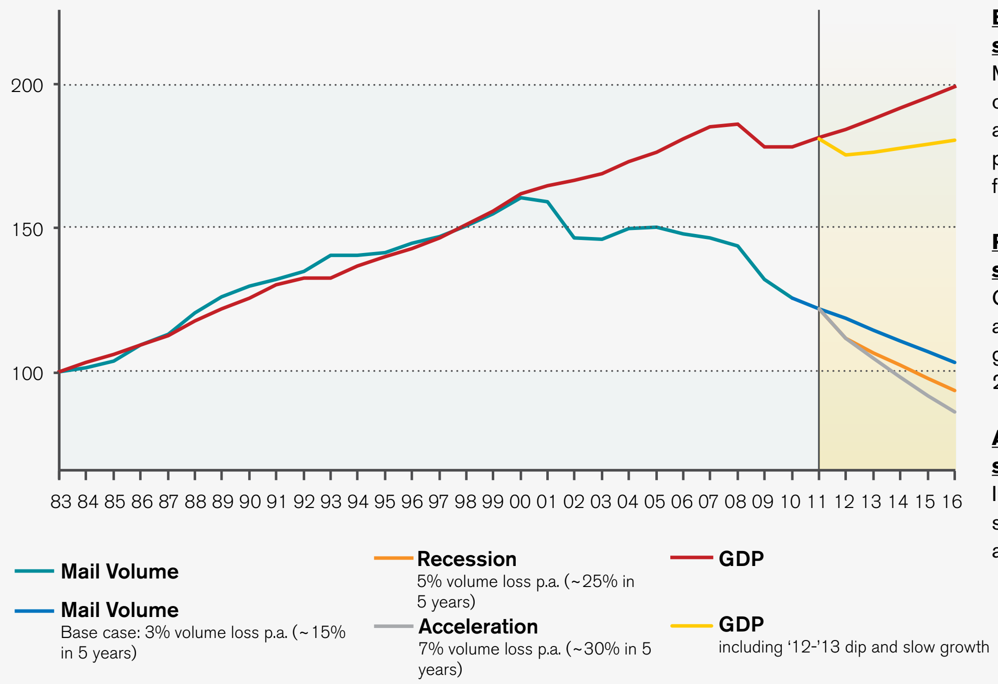
- Senior leadership to lead on three horizons:
  - Fund the journey – show some quick wins to gain credibility and cash;
  - Win in the midterm – make radical changes early on;
  - Build a new structure, team and culture to drive accelerated change.

3 Manage external factor implications

3.1 Postal operators need to adapt to declining mail volumes

Figure 1: Mail volume decoupled from GDP, volume decline is accelerating

Figure 1: Real GDP & mail volume
Index (1983=100) of six main countries[1]



Base-case scenario
Modelled on basis of GDP growth and broadband penetration as driver for substitution rate.

Recession scenario
Growth dip in 2012 and 2013 and low growth from 2013 to 2016.

Acceleration scenario
Increased substitution rate after recession.

1. Volumes for France, Germany, Italy, Spain, UK and US. 1983-2009 (actual), 2010 – 2011 (estimated), 2012 – 2016 (forecast)
Note: Although we know some of these mail volumes include (smaller) parcels we have modelled this as if it were pure mail volumes and revenues
Source: IPC, International Monetary Fund, Eurostat, EIU, Euromonitor, BCG analysis

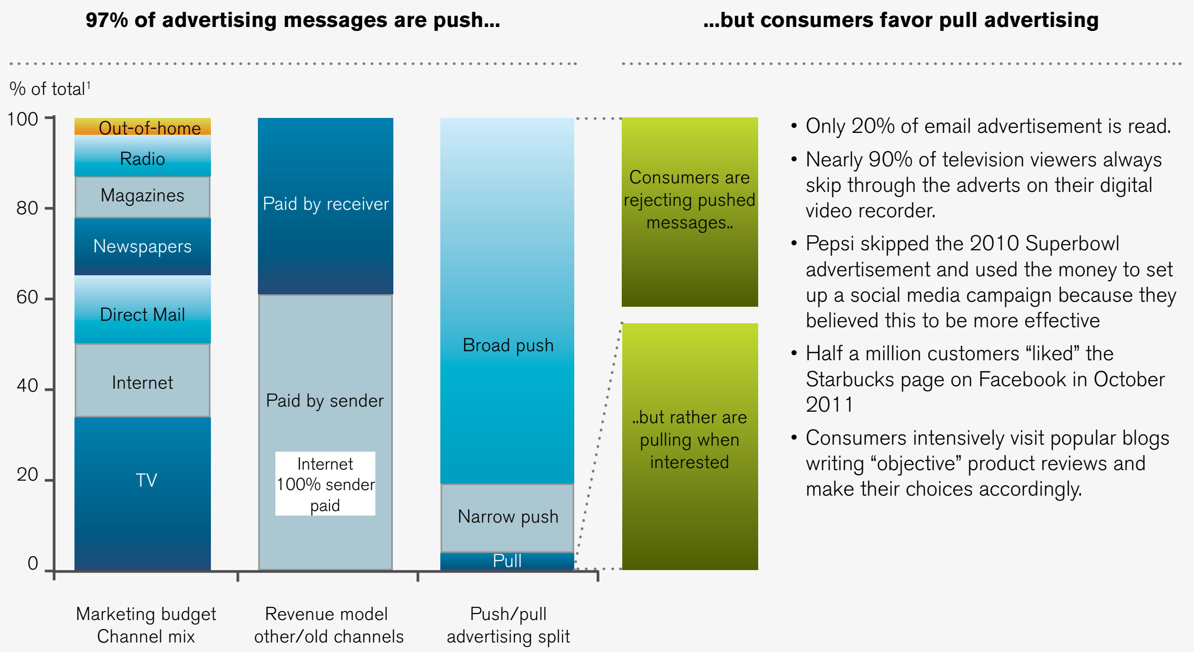
Figure 1 presents the macro evolution of GDP and its relationship to mail volumes. From 1980 to 2000 mail volumes rose in line with GDP. While GDP rose in real terms over the period during and following the 2000 dot-com crash, this marked a turning point where mail volume evolution decoupled from GDP evolution and has not paralleled it since. The stock market turmoil the dot-com crash engendered saw a sharp drop in mail volumes, which thereafter continued on their downward trend. The most recent recession (2008-2009) saw another sharp drop in mail volumes and seems to have exacerbated that downward trend, pushing mail volumes into steady decline. As we have shown in the joint IPC-BCG publication *Prepare for the worst, hope for the best*, the impact of a new recession is that operators have two fewer years for their transformation. In the sixth chapter we will revisit the forecast model and zoom into the drivers behind substitution.

Not only does the absolute mail volume decline, with the rise of digital communication and social media physical mail is also rapidly losing relevance. Measured in units of communication, its share in the communications market dropped from 13% in 2000 to 1% in 2010[2]. Without further measures relevance will decrease even more quickly in the following years. This implies that rigorous segmentation within senders, receivers and types of communication is required to define and sell the specific relevance of physical mail.

2. Communication market defined as: fixed and mobile phone calls, text messages, emails and pageviews. 90% of emails assumed to be spam and disregarded. Fixed and mobile call minutes divided by 1.5 (average call length) to convert minutes into calls

3.2 Build new business models to put consumers in control

Figure 2: Consumer in control: push models need to be transformed into pull models



1. US market
Source: Magna Global, Euromonitor24/7 Wall Street, bpost, Deloitte , BCG expert, BCG analysis,

We have come a long way from a supply-driven economy, when, as Henry Ford put it, any customer could have a car colour as long as it was black. The development of new digital channels such as social media and user-centred internet applications may overcome the last remnants of a push economy, such as oligopolies and market opacity. These channels facilitate interactive information sharing and collaboration, and increase the power of consumers to influence businesses, putting them in control (the 'like' button).

Currently senders are generating the majority of income for most advertising channels. Although this might last, as consumers seem unwilling to pay for services, especially on the internet, they demand more and more control over their information intake. Consumers are more and more eluding traditional push marketing: DVRs let consumers skip commercials and many households in some countries are registered not to receive unaddressed mail or sales phone calls[3]. It is not clear how this conflict will play out. Possibly it opens an opportunity for a neutral and trusted postal operator to build a consumer-managed preference profile, to be used according to consumer wishes. While traditionally posts have focussed on accommodating the wishes of the senders of mail, in this setup they would need to balance the needs of both senders and receivers. Once a significant part of retail is brought online, postal operators may even have the best overview of what consumers actually buy. They may be able to build a proposition based upon that, as long as the consumer asks for it.

3. The advertising channel mix is based on the Magna Global 2011 report. Revenue model: all advertising spend is sender paid, receiver paid based upon consumer spending from Euromonitor for Newspapers, Magazines and Books. The split between push and pull is estimated as follows:
   - Out-of-home, radio, newspapers and tv: 100% broad push
   - Magazines and Direct mail: 50% broad, 50 % narrow
   - Internet: 30% broad, 50% narrow, 20% pull

   Examples on the left are taken from Time Magazine, Wallstreet Journal, Radar.nl and bpost's dmplaza.be.

To play a role, operators will need to build database-management and CRM capabilities, and become integrated within digital communications with the consumer. This consumer connect is urgently required as e-commerce reddresses the balance of power away from large senders. In marketing terms, it requires a more gradual and careful approach to balance sender and receiver needs.

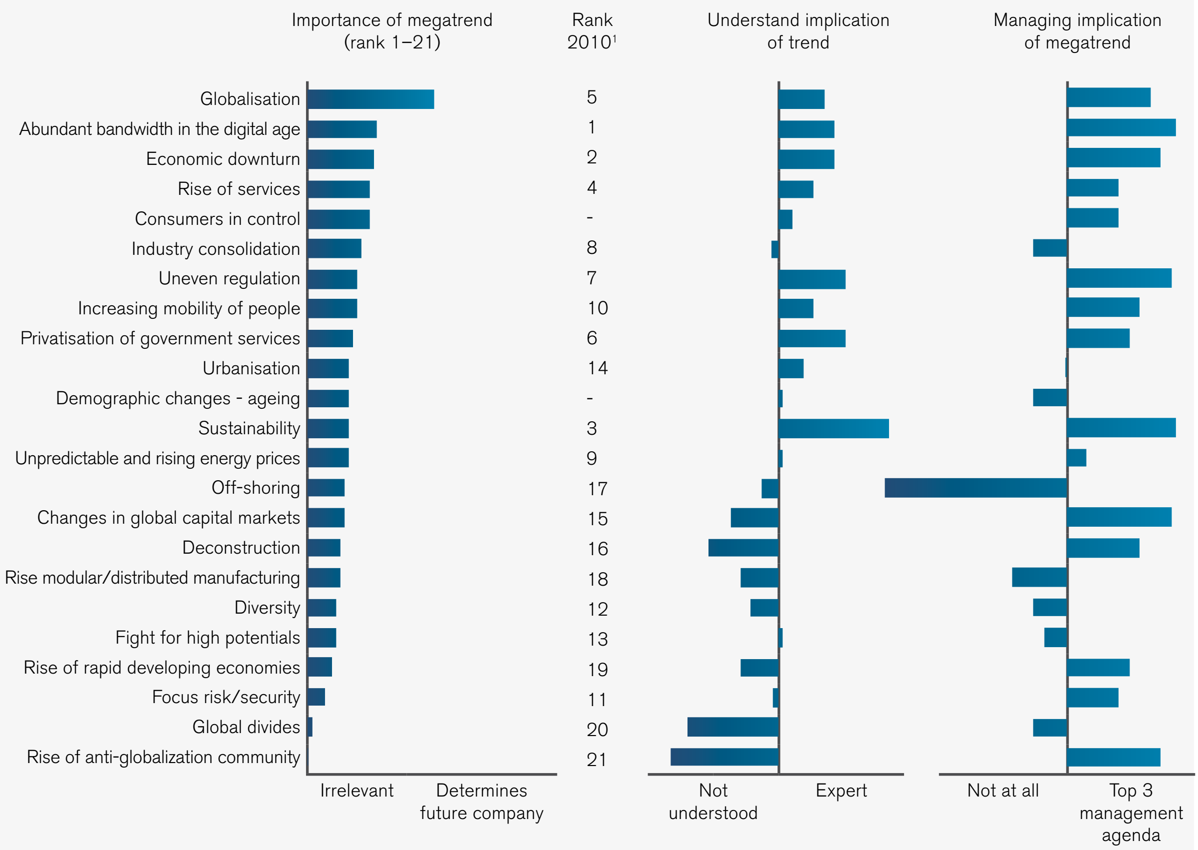
3.3 Manage the implications of main trends to your advantage

Many other trends affect the postal sector. Figure 3 shows how postal operators rank the importance of the main trends affecting the sector. We believe a trend only becomes interesting when its implication is well understood and managed to one's advantage. The following is a high-level description of trend implication management for the top-rated trends.

Globalisation:
While mail is still mostly a domestic business (with international mail small and declining), e-commerce is rapidly internationalising. More importantly, globalisation will mean that decision centres will more and more be located outside of the domestic market. Postal operators need to decide what trade routes are key to them, and build their international sales force, supply chains and partnerships accordingly.

Abundant bandwidth:
Rising connectivity massively increases the communication volume and the way we

Figure 3: Factors driving postal market are not yet fully understood and managed



1. BCG trends survey for IPC of Strategic Working Group members
Note: Understand and managing implication values are calculated based on deviation of average value of all trends.
Source: BCG Trends survey for IPC, n=18 from 15 different operators

communicate. For posts this means that mail is losing communication market share even more quickly than it is being substituted, while on the other hand the rise of e-commerce generates growth in B2C parcels. Both effects will be discussed in depth further in this report.

Economic downturn:
The effect of a new downturn on mail volumes and operator EBIT and implications will be discussed in the sixth chapter. Mail and B2B parcels will be hit, while B2C parcels will be recession proof, as e-commerce may continue to grow against the economic tide.

Rise of Services:
The shift to a services industry has gone on for many years. Posts need to decide whether to run a commodity network managed on low costs and on scale, or to redefine the business model to sell services that have the potential to generate higher profits.

Consumer in control:
Push models need to be transformed to pull models for consumers to be truly in control of their communications. They also want to decide what they want to get, when and through what channel, both for communication and parcels.

Industry consolidation:
The logic and likelihood of new mergers will be discussed in chapter five.

Uneven regulation:
Current regulation is based on past realities; competition, pricing and service regulation needs to be significantly reduced, and is to be based on new realities, as will be discussed in the sixth chapter.

Increasing mobility of people:
With the rise of new mobile communication solutions people are always accessible, wherever they are. This lowers the demand for physical availability and increases people's flexibility, creating new dimensions for working locations, goods and services. This puts further pressure on physical mail and requires all e-commerce solutions to adapt to anytime-anyplace-anywhere-anyhow models, as will be discussed in chapter eight.

Privatisation of government services:
In chapter five we argue for all operators to behave as if they were going to be privatised in the next few years, regardless of the actual imminence of privatisation.

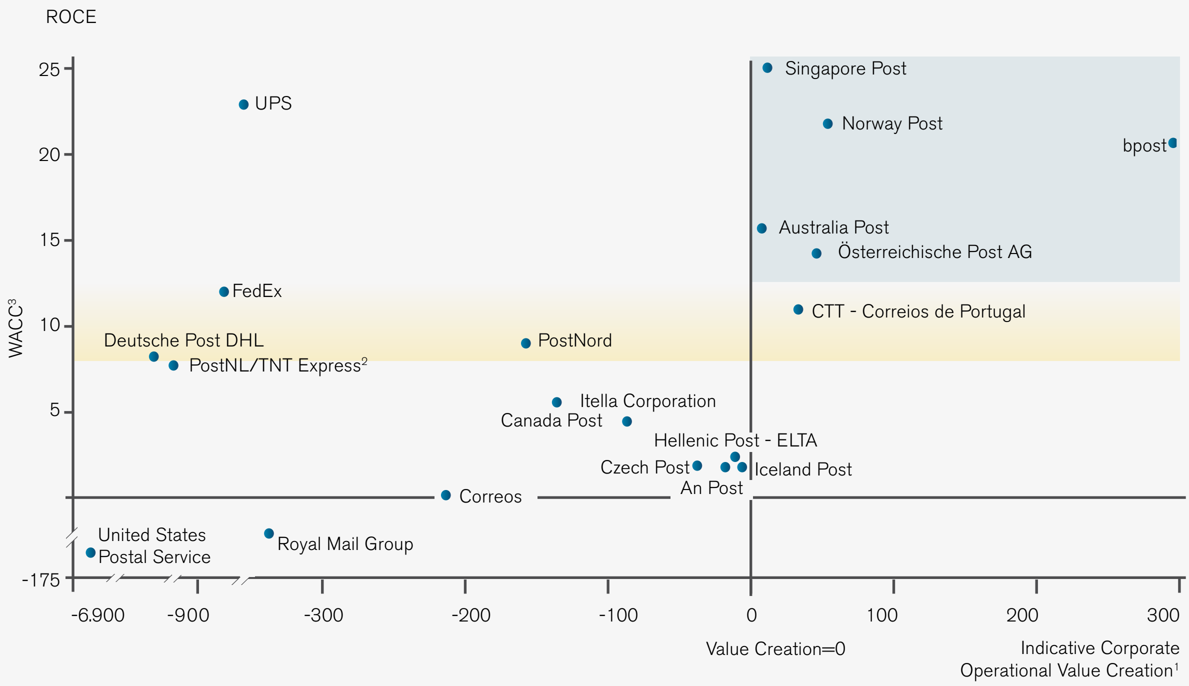
Demographic changes – ageing:
In the short term an aging population could help in adjusting the workforce, as many employees reach their retirement age. Longer term, postal operators probably need to change their labour models to ensure they have enough people to deliver their services. Talent management plans also need to be put in place to attract people with the requisite skills to build and grow the new value propositions. The growing segment of retirees also provides specific market opportunities that posts might step into.

Sustainability:
Sustainability is both the best understood and best managed trend. However its relative importance has dropped from third place in 2010 to twelfth in 2011, which may be attributed to the proactive and structured attention that responding posts have paid to the issue over the past years. Also in harsh economic times sustainability typically becomes less of a priority. There are business case benefits to reducing energy and fuel costs in vehicle and buildings, but will the consumer pay for green postal services?

4 Improve returns & find a new core

4.1 Manage the business as if you were or will soon be privatised

Figure 4: In this hard environment several still manage to create value at good returns



1. Calculated the difference between 2005 EVA and 2010 EVA to calculate indicative value creation
2. Compared 2005 combined EVA with sum of 2010 EVAs
3. Weighted Average Cost of Capital. Assumed to be between 8 and 12 percent for all operators

Note: Both ROCE and WACC are pretax. EVA has been calculated as (ROCE-WACC)*Capital Employed, assuming a pretax WACC of 8%. La Poste, Japan Post, Poste Italiane and Korea Post are exclucded from the analysis as their financial services business units distort the analysis

Source: IPC, BCG analysis

Figure 4 shows that, regardless of the adverse market context, several postal operators have managed to create value and maintain good return on capital employed (ROCE). Others have decreased value and have a low ROCE. Sometimes low population density or the lack of diversification are given as reasons for low returns. We have tried to correlate the ROCE to several macro and business indicators.[4] Parameters such as diversification, number of inhabitants, restrictiveness of labour laws, political stability and internationalisation all had very little correlation with ROCE. If any at all, the only factors that gave a correlation were privatisation and unemployment rate, both of which displayed R^2 scores of between 20% and 25%. Probably what matters most is the freedom and ability to manage the company in these troubled market conditions. A weak labour market may not help as it makes it more difficult to right-size the workforce.

So far very few posts are (partly) privatised, due to concerns about service levels and employment. Currently however the political equation is changing. It has taken many years to put in place some form of competition in the European mail market. The reason is obvious when reviewing the political equitation: jobs would be lost, service standards would change (some would say decrease), while the benefits (price reductions) would go to the larger companies – banks and utilities.

4. ROCE has been calculated by taking the reported EBIT percentage and dividing it by Total assets minus current liabilities (an estimation of capital employed). EVA (Economic Value Added) is calculated as (ROCE minus WACC) times the capital employed, ie EBIT minus capital costs. Both ROCE and WACC are pretax, WACC is assumed to be 8%. Postal operators with large financial services units have been disregarded in this analysis. We do realize that EVA does not fully capture value creation, but use it as an indicator

Now competition is driven by other channels, and mail service standards are not the main consumer (voter) concern anymore. So while some postal operators face bankruptcy, voters may prefer for the private sector to take care of this service before it requires a tax-funded bailout. Obviously privatisation requires a strong plan either as a cash generator or a profitable growth company, with the politicians at a distance. To manage for the best in the current market context, we suggest all operators behave as if they were going to be privatised in the next few years, regardless of the actual imminence of privatisation. However such (intended) privatisation should not divert focus from full transformation to a short term cash focus. Some operators, which are currently in a weak position, may consider temporarily fostering their bonds with the governments to support them during the inevitable transformation.

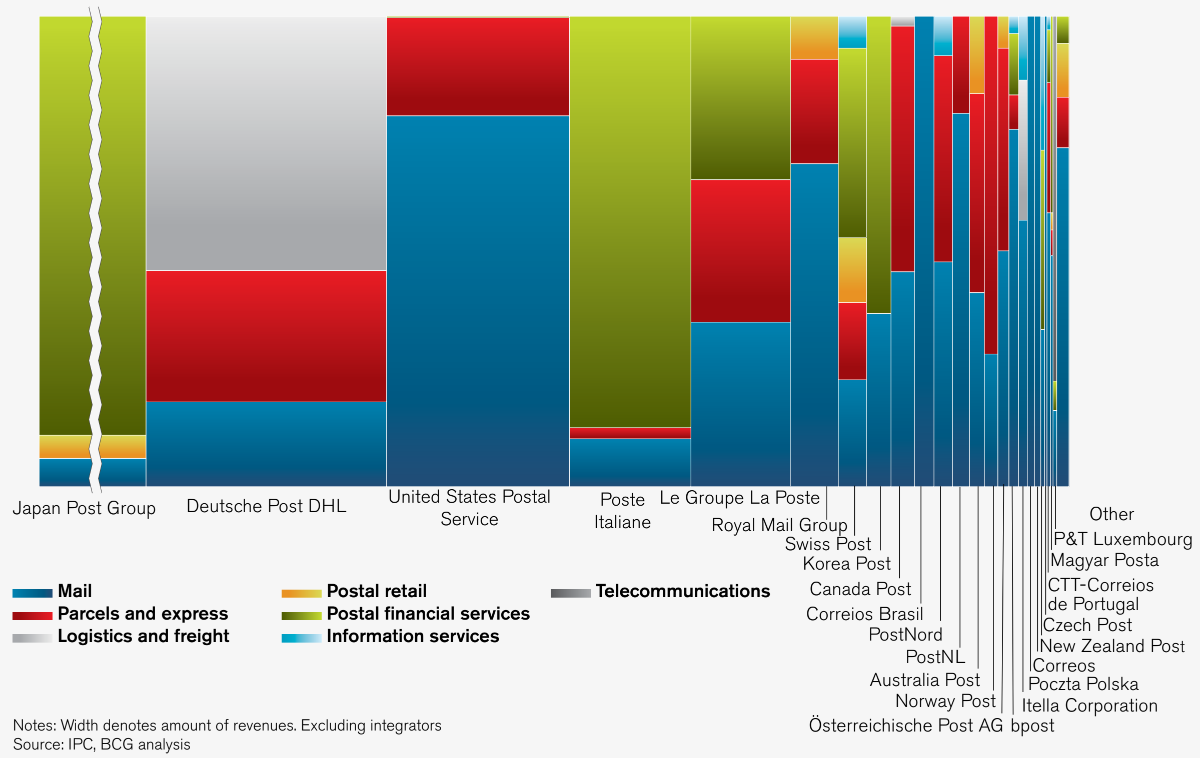
In some markets the pension and/or healthcare liability of posts is a major headache. The drop in the stock market has created a challenge for many pension funds. Shrinking revenues also mean a decreasing basis to (pre) fund an increasing number of longer-living retirees. The hardest hit provide a salutory lesson to other operators on the need to take a conservative approach to pension and healthcare liabilities in a shrinking market, in order to ensure that attention and funds can be focussed on future-oriented transformation.

4.2 Transform from a domestic mail operator into a regional, consumer-centric, marketing and e-tailer service provider

Posts need to choose a new core portfolio, as soon it will not be mail

Figure 5 shows that for seven out of the top ten players mail will not be the main revenue source in 2020. Also as a sector mail will no longer be the core business, as mail revenues will represent 44% of total revenues. Based on past growth in non-mail business, even the total will decline by 16% from €234bn in 2010 to €196bn in 2020 (excluding Japan Post Bank)[5].

Figure 5: Posts need to chose their new core portfolio, as it will not be mail soon
2020 projected portfolio for postal operators



Notes: Width denotes amount of revenues. Excluding integrators
Source: IPC, BCG analysis

5. The projection has been made by extrapolating growth rates of last 3 years until 2020 of the business lines mentioned, based upon the figures the operators provided to IPC. Integrators have been excluded, when they lack a mail business. Japan Post Bank is excluded from the sector total calculations.

Now that physical mail is declining as the core, questions arise over the fundamental nature of the postal sector, and indeed whether it can still be termed as such. This dilemma can be better understood if we consider how much a business currently (not in 2020, as above) represents as part of total sector revenue versus the market share of these businesses revenues in the relevant market:

- Parcels and express: 14% of current revenues, 14% market share[6]
- Advertising: 11% of current revenues, 8% market share in the advertising market[7]
- Communication: 46% of current revenues, 6% market share in the broader communications market[8]
- Logistics: 12% of current revenues, 4% market share[9]
- Financial services: 11% of current revenues, 2% market share in Retail Banking[10]

Operators therefore need to articulate the vision of what their own portfolio will look like in ten years' time. To go beyond the (safe) option of managing mail for cash as a commodity, some of the business options and related challenges are as follows:

- E-tailer backoffice / parcel company – how to build this into the new core business
- Advertising company – how to continue to play an important role
- Overall communications – how catch up to what is happening in the digital world
- Logistics company – in some markets a dominant LTL model can still be built, other models may be already consolidated (freight forwarding) or are hard to scale to profitability (3PL)
- Financial services – in some markets there is still space for a post bank as long as physical transactions are of sufficient volume to be leveraged and the banking landscape is not too consolidated

The first two options seem a good fit for most operators, while the feasibility of the last three depends on local market conditions and current capability set. That is why posts should aim to transform from a domestic mail operator into a regional, consumer-centric, marketing and/or e-retailer service provider. The degree of regionality very much depends on the trade lane mix of the original home market. Operators with a strong financial service position may need to focus these financial services on an e-commerce position or develop their respective e-commerce and financial services businesses into more independent units.

6. US$27bn of revenues (excluding DHL Express and other integrators) out of a US$185bn market. DHL Express is included in the revenue calculation
7. Total IPC mail revenue has been split 20% – 80% in Marketing Mail and Other Mail. Marketing Mail is US$36bn out of US$446 advertising market (Magna)
8. Total IPC mail revenue has been split 20% – 80% in Marketing Mail and Other Mail. Other Mail revenue is US$143bn out of a communications market of US$2.2tn, encompassing Telco, Cable, ISP, Newspapers and Mail
9. US$38bn of revenues out of a US$1.0tn market
10. US$34bn of revenues from Financial Services from Postal Operators (excluding Japan Post Bank) out of an estimated US$1.9tn Retail Banking profit pool

Operators with (large) logistics positions need to make the same trade-off.

Of course building a new business requires substantial investment in terms of time, energy and focus, not to mention money, and operators should therefore look to focus on developing only the one or two businesses in which they feel can win, rather than growing in multiple areas based on incremental synergies. Operators who already have positions in several businesses need to judge whether they can win in all of them, and if not, they would be advised to restructure their portfolio.

Focus on competitive advantage rather than on marginal synergies

Longer term decreasing physical transactions will erode the synergy between financial services and the other activities, and the financial services business will need ever more independence from the mother company. Synergies between other units are also limited. The motivational effect of diversification on the shop floor and the cross-unit use of resources have proven quite limited. It may well come to pass that the aforementioned five business areas will be unbundled in the postal sector, which underscores the importance of focusing on winning in one or two areas rather than managing on synergies and corporate coherence. Building a strong position and spinning it off as a strong market contender once synergies erode, should not be seen as a failure but rather as success. Although the main synergies are between parcels and mail, even these units first need to be managed according to their own very different business requirements before optimising on synergies between them.

4.3 Mail profits should fund new growth, not the other way around

It is an illusion to think that growth in non-mail areas can reduce the need for rigorous restructuring in mail. We argue just the opposite. As mail volume declines and costs do not decline at the same speed, the budget process drives increases in parcel prices. This annual incremental event results in a slow loss of market share for parcels. The opposite approach should be taken: rigorous, proactive restructuring to ensure the mail unit remains profitable, with the resulting cash flow used to finance further restructuring and investments (not cross-subsidising) to improve the quality of the parcel network and build business capabilities. This results in a growing share in B2C and B2B parcels, strengthening the structural competitive advantage of the new core business.

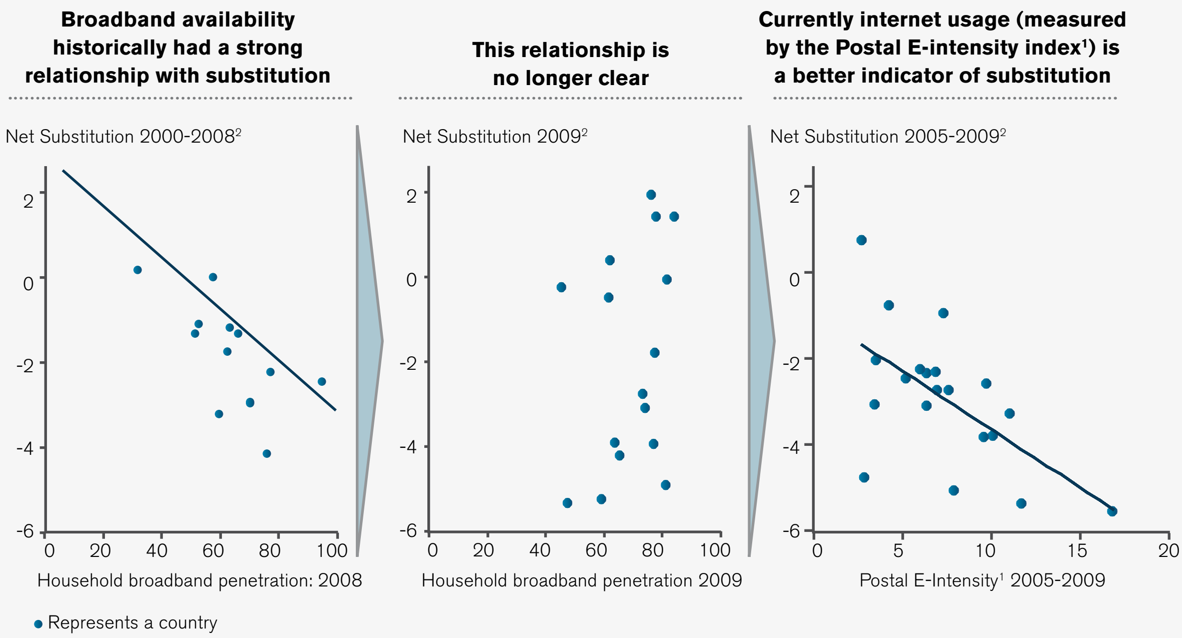
4.4 Synergies between parcel players will drive future mergers

PostNord represents the only merger thus far between classical postal operators (Posten AB and Post Danmark). Several other postal operators are currently investigating their ownership model, which may result in more privatisation, cooperation and/or mergers. For the mail business, however, the complexity costs of a merger are often higher than the potential synergies:e standalone improvement is far more important, and can benefit from privatisation or mixed models such as the (now obsolete) Post Danmark-De Post/La Poste (now bpost)-CVC deal. The main driver for synergies between postal operators lies in the parcel business. In a high-scale business with still many players and increased internationalisation of flows and decision making, we expect the main consolidation drive to come from the parcels market. Posts need to determine their trade lane and partnership strategies with the parcel consolidation endgame in mind and avoid maintaining or building new last mile attacker models if the chance of creating a winning position is unsure.

5 Thrive in the marcoms market

5.1 Continuously take out costs in mail more quickly than the rate at which revenue declines

Figure 6: Internet usage as leading indicator for substitution on a market level



1. The Postal E-intensity index is a metric that measures the internet usage in a country. It is driven by the percentage of retail spend online and the percentage of advertising spend online.
2. After correction of GDP. Volume figures are market volumes, not operator volumes

Source: Euromonitor, Forrester, Magna, UPU, IPC, BCG analysis

Mail substitution accelerated by general increase online usage

When mail volumes decoupled from GDP in 2000 volume changes correlated with broadband penetration. Now that most developed economies have high broadband penetration volume decline is more related to internet usage (Figure 6)[11]. In the forecast model in this chapter we have used market volumes (corrected operator volume for market share loss) and unbundled the impact from GDP and (net) substitution. Specific GDP multipliers are used for every product category.

Substitution is modelled on a multi-operator multi-year regression analysis and experience-based product multipliers have been used as overlay. We have selected the critical substitution drivers from the ‘E-Intensity index’ (as developed by BCG for Google[12]) to predict substitution: unsurprisingly these are online spend and online advertising. If the substitution intensity index (average percentage retail spend and percentage advertising spend) increases by ten percentage points the substitution rate increases by three percentage points.

11. A regression analysis was performed using the following set of countries: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Hungary, Italy, Japan, Luxembourg, Netherlands, Norway, Singapore, South Korea, Spain, Sweden, Switzerland, United Kingdom & USA. If for a specific analysis country data was missing, the point was omitted.
12. The BCG e-Intensity Index is a yardstick of Internet strength and activity across nations. It was developed by BCG and is described in the «Turning Local: From Madrid to Moscow, the Internet is Going Native» report (See Further Reading). In short, the BCG e-Intensity Index analysis compares measures of Internet infrastructure and usage on three dimensions
    - Enablement: how well built is the infrastructure and how available is access?
    - Expenditure: how much money is spent on online retail and online advertising?
    - Engagement: how actively are businesses, government and consumers embracing the Internet?

The penetration of online banking does not correlate with substitution; switching away from paper possibly requires more online experience than just banking online. Neither is e-government visible yet as a driver with a strong correlation. Moreover the effect of some drivers is still not completely understood, such as the substitution effect of social media, although evidence from Finland indicates that it has certainly reduced newspaper consumption and subscriptions. Our modelling can only explain an overall trend (and leave quite a spread across the trend line), and other factors such as e-government, e-banking, secure/closed digital mailboxes need to be taken into account for market-specific forecasts. The best approach would indeed be a market-specific deep dive, interviewing senders and receivers, detailing barriers for conversion and the timeline within which the industry is planning to resolve these barriers.

The model used in this publication is an improved version of that which appeared in the November 2011 IPC-BCG joint paper *Prepare for the worst, hope for the best*. It demonstrates similar results on the aggregate/ cluster level, but works better on an individual level.

A double-dip recession would drastically accelerate mail volume decline

As we have seen in Figure 1, the historical impact of recession on mail volumes has been a sudden dip followed by a decline in the growth rate, resulting from an increase in substitution.

With some countries already in recession there is still much uncertainty over the medium term economic outlook and how deep a double-dip recession would be. We have determined the impact of three simple scenarios[13]:

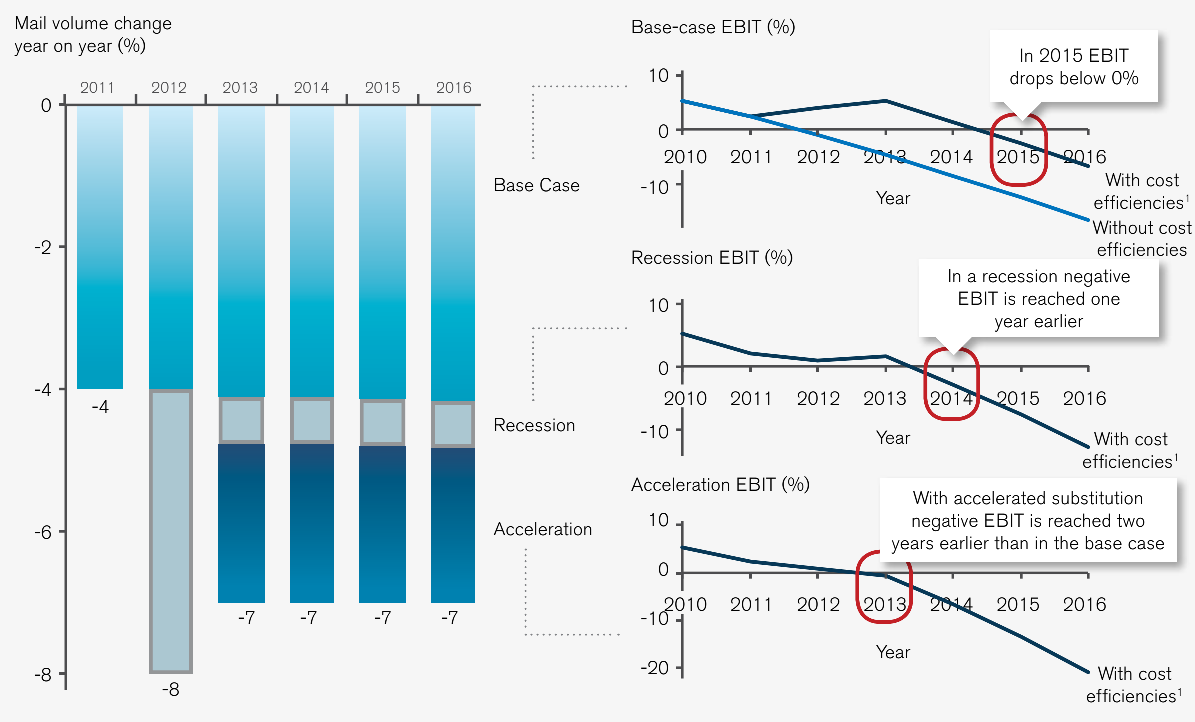
- In the *base case* scenario the world economy enjoys moderate growth and mail volume decline is modelled on internet usage as explained above.
- In the *recession* scenario the world economy goes into recession again for a full calendar year (six percentage points point lower GDP growth than forecast in all countries), which is followed by a period of sustained low growth (1.5 percentage points lower GDP growth than forecast in all countries)[14].
- In the *acceleration* scenario the recession also triggers acceleration in substitution by two percentage points, in line as what we have seen in other recessions.

As we can see in the following charts, a further recession would dramatically increase the rate of mail volume loss and cause serious challenges for an industry that has its organisational genetics grounded in a time where automatic growth took care of any cost problems.

13. - The impact of GDP change and substitution have been unbundled
   - GDP-driven growth is based upon Euromonitor International from International Monetary Fund (IMF), International Financial Statistics and World Economic Outlook/UN/national statistics. Last update on 5 September 2011 and impact is based on product-specific multipliers
   - Substitution is modelled on a multi operator multi-year regression analysis between broadband and volume. Experience-based product multipliers have been used as overlay. Operator product mix is based on publically available operator data collated by IPC
   - The recession is based on lowering IMF growth forecast by 6.2% in 2012 (based on the 2008-09 experience) and ubsequent annual growth of 1.5% for all following years (based on a Japan-style low-growth scenario)
   - In the year after the recession a partial bounce-back of direct mail volumes (30% of the volume that has been lost in the year before) has been included
   - In the accelerated scenario the recession triggers a change in the substitution rate, in which the substitution is two percentage points higher than the base case from 2013 onwards
   - We see the substitution curve as a superposition of many interdependent S-curves for each sender/receiver/product segments, in which all have their own switching barriers. We have not seen many of these segments reach the bottom of their S-curve, and therefore a floor in the substitution has not been modelled.
14. Compared to GDP forecasts as described above

Figure 7: A further recession would absorb efficiency improvement potential and require earlier model changes

Projected impact of recession on volume and EBIT of the mail division of a typical operator



1. 10% point EBIT improvement included from cost effiencies
Source: IPC, International Monetary Fund, Eurostat, EIU, Euromonitor, BCG analysis

A further recession would absorb efficiency improvement potential and require earlier model changes

In figure 7 we show the impact of these three scenarios on the mail division of a typical operator. On the left hand side the projected volume decline shows that the recession has a major impact in the year it hits, but that the impact of the slower growth in the years afterwards is limited compared to accelerated substitution.
The right hand side shows the EBIT(%) projection for the three scenarios[15]. Next to raising prices with inflation, the model also includes a 10% cost efficiency improvement in 2012-2013, based upon:

- procurement efficiencies and other indirect savings;
- improvements in pricing and product development, and
- cost efficiencies through lean, automation and network consolidation.

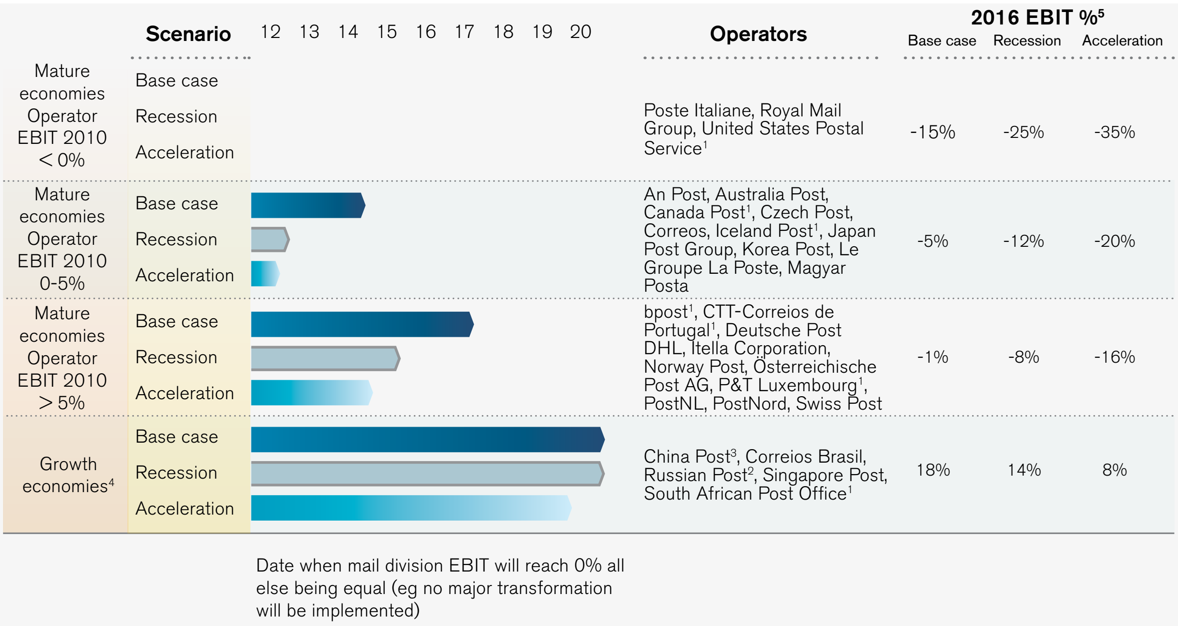
The projection shows that for a typical operator EBIT margin drops below 0% in 2015 in the base case, but in 2013 in the acceleration case.

Clearly posts urgently need to implement dramatic changes, such as (but not restricted to) changes in delivery models (see BCG publication *The postman always brings twice*). Operators should look beyond keeping EBIT margin above 0% and strive to keep EBIT margins well above the cost of capital, in order to fund continuous restructuring and promote new growth opportunities. Including the long lead time to change the service model, this means an even narrower window in which to implement change.

15. Calculations have been based upon operator specific starting EBIT using a split in fixed to variable costs of 70% to 30%, based on a multi-operator scale curve and general experience about the way operators are able to take out costs in line with volume changes without major (service model) restructurings. A 10% EBIT improvement due to efficiency improvements was modeled in over the 2012-2013 period. A real price decrease of 0.5% per year for all years has been taken into account.

Figure 8: Most operators have 0 – 3 years to adapt their mail service model

Projected years to zero EBIT for the mail divisions of operators in different market types



1. Total operator EBIT margin taken instead of mail division EBIT margin (2010)
2. Mail division EBIT margin estimated at 3%
3. Mail division EBIT margin estimated at 5%
4. Forecasted GDP growth 2014 > 4.0%.
5. Average of all countries in the category

Notes: 2010 mail division EBIT margin taken, unless stated otherwise.
Source: IPC, International Monetary Fund, Eurostat, EIU, Euromonitor, BCG analysis

Most operators have 0-3 years to adapt their service model

In Figure 8 we show the time to impact for different operators groups of the three scenarios. ‘Time to impact’ means the year where the mail division EBIT margin drops below 0%. We also show what the EBIT margin for 2016 would look like should no drastic restructuring occur, beyond the 10% efficiency improvement.[16]

In this analysis we have clustered four groups of operators:

- Operators in fast-growing markets, which do not face as acute an issue as other operators, notwithstanding the fact that the recession can also increase the urgency for action for these operators.
- Good performers in well-developed markets. A current high EBIT margin provides some latitude, but would not change the ultimate outcome were no additional measures taken.
- Moderate performers in well-developed markets, for whom another recession would likely lead to a negative EBIT margin in the short term.
- Current underperformers, whose current EBIT margin is already below 0% and for whom even the base case scenario would represent a challenge to return to normal profitability.

Even within these four groups the outcomes differ significantly per operator, driven by GDP forecast, broadband development, current product mix and the starting EBIT. We realise that this analysis cannot be used as a true forecast for individual operators as many local factors must be taken into consideration, such as:

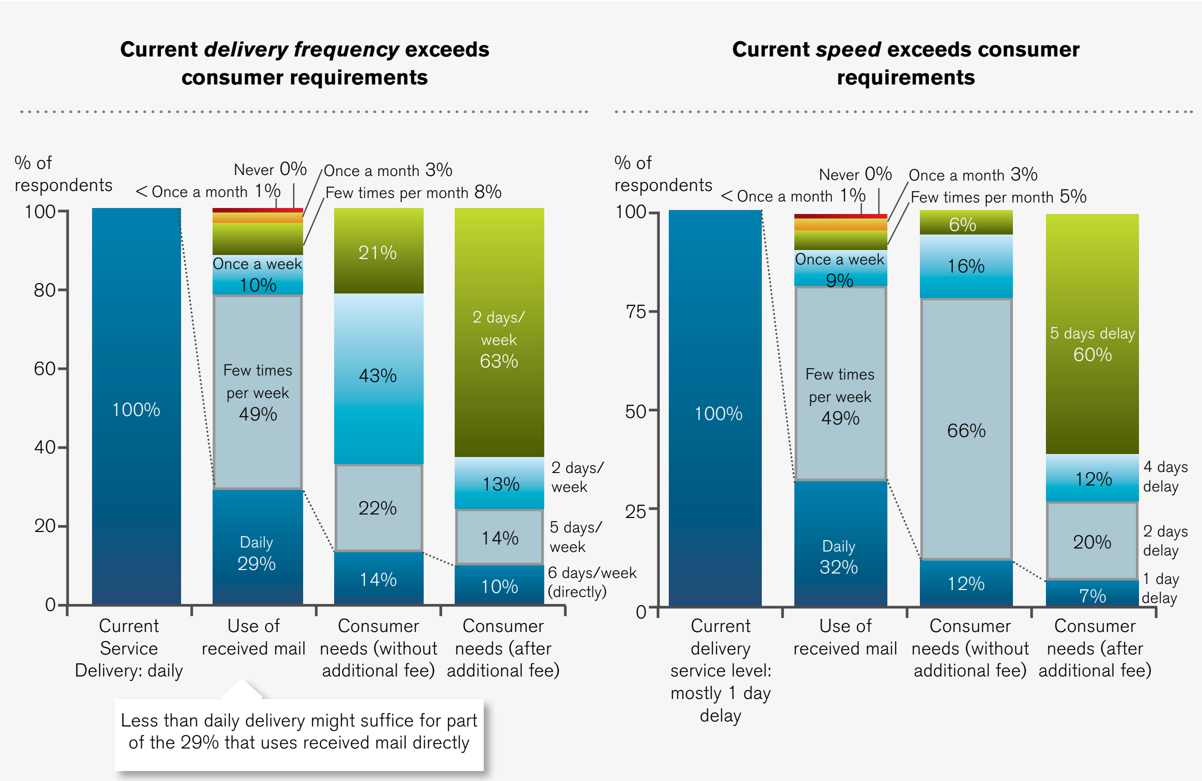
16. Not taking any growth initiatives within the mail division into account

- The impact of broadband on substitution can vary by +/-2% a year depending on factors such as penetration of online banking, e-government, do-not-mail programmes or legislation, availability of high-quality broadband, e-commerce and penetration of smartphones;
- Inflation, one way to reduce debts. The longer-standing products (such as direct mail) may suffer greater impact than lower labour-intensive products such as digital products
- Impact of competition on volume and price and/or margin;
- Price and/or margin differences across products and corresponding impact on EBIT;
- For some countries (like Russia) the impact on volume and EBIT is overly pessimistic as in such economies a large potential still exists to grow the market by improving quality and stimulating new usage of mail;
- Specific price increases beyond (partial) inflation corrections;
- Additional cost efficiency measures, and
- Cost reductions from business model changes that have already been set in motion.

The model does show however that another recession would have a devastating effect for all operators. We strongly suggest that operators complete this analysis for their own business and market and proactively think of and prepare for how to deal with the base and worst-case scenario, and phase implementation should the worst not materialise.

6.2 Transform the legacy mail delivery service model to meet market requirements

Figure 9: Cut costs without cutting customer value



Note: Please view Appendix 2 for methodology and original questions and answers from the consumer survey.
Source: BCG Consumer research November 2010 in Australia, Austria, Canada, France, Germany, Italy, Netherlands, Norway, Sweden, Spain, Switzerland, Russia, USA, UK (n = 14 x 400)

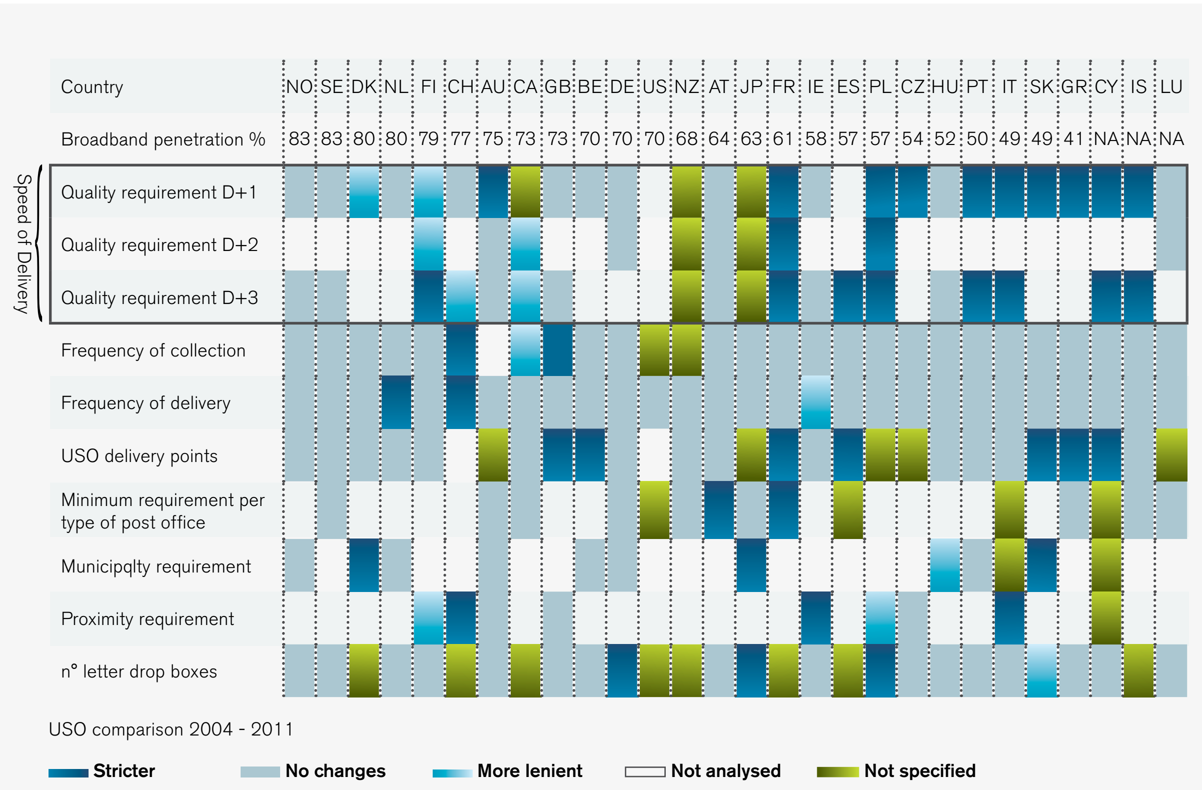
Although current sender and receiver needs might differ, we expect that in the long term senders will adjust their mailings (eg direct mail) to receiver needs. BCG conducted a receiver questionnaire in 14 markets to ascertain underlying service needs. Receivers indicate that current mail service levels exceed their needs on all service parameters. As an example, Figure 9 shows that while 32% of receivers use mail when they receive it, only 7% actually need it every day. When asked for a small premium (to check how important the service is) 68% of receivers prefer twice weekly delivery. Very similar results have been found for other service parameters like speed of delivery and frequency of collection.

The analysis shows that adjusting to receiver needs on the main service parameters would reduce delivery costs by ~30% beyond normal efficiency improvements. Operators need to conduct such studies in more depth and adapt their service models to true market needs. Many ways exist to start to adapt service models. In parallel operators can also work with stakeholders to reform the USO in line with market needs.

Operators in rapid growth markets generally have not yet exploited the full potential of mail services. In order to build and increase penetration of these services they also need to understand the communication needs of their customers and improve relevant quality parameters to grow the business.

6.3 Transform the regulatory context to be allowed to deliver what the market wants

Figure 10: Regulators need to adapt regulation to market needs
Currently they move too slow or contradictory to market needs



Source IPC, BCG analysis

The postal sector is managed precisely on the wrong parameter and it is getting worse

Regulators, stakeholders, postal operator management and even some customers focus on the percentage of mail that is delivered the next day (or the next two days for some larger countries). Focusing process control on a single parameter is very effective, unless customers do not care for this parameter. The industry seems caught in a doom loop keeping this legacy alive. The target design to satisfy market needs at the lowest possible cost is directionally clear: three-day-per week-delivery, two to three days speed, further automation and centralisation of preparation, and adaptation of the labour model. With some exceptions, the USO is not adapting to this market reality. In some instances it is actually moving in the opposite direction. Which reminds one of an old legal adage: the law is a reflection of past culture, not a mechanism to shape a new future.

Migration to a new service model can take various routes and requires intense cross-functional teaming

In some cases the USO is not the barrier to changing the service model. If two-day speed is allowed it is better to change to three-day-per-week delivery rather than to optimise the utilisation of sorting centres that in any case suffer from overcapacity. Some operators have decided not to push for adjustment of the USO and instead have requested more pricing headroom to differentiate prices across various service models. Other options are the multi-channel USO, or regional differentiation.

In Finland Itella has been trying to understand which services consumers want in order to optimally combine physical and digital delivery in a living laboratory experiment. During the trial mail was delivered just twice a week to recipients' mailboxes. On other days mail was delivered to recipients' PO box at the local postal outlet, from where the customer could pick up the mail at any time, notified of new mail deliveries by text message or email. In addition to physical mail delivery, mail items were scanned and delivered to the customer's NetPosti account in an electronic format. Itella has received very positive feedback on the trial and it is continuing its living lab as a permanent development platform for new postal services.

The ideal route will not be the same in every market, reflecting different market and stakeholder contexts. When building the service model transformation roadmap operators need to navigate across all stakeholder perspectives: customers, competitors, shareholders, employees and regulators. If anything requires a cross functional strategy, this is it.

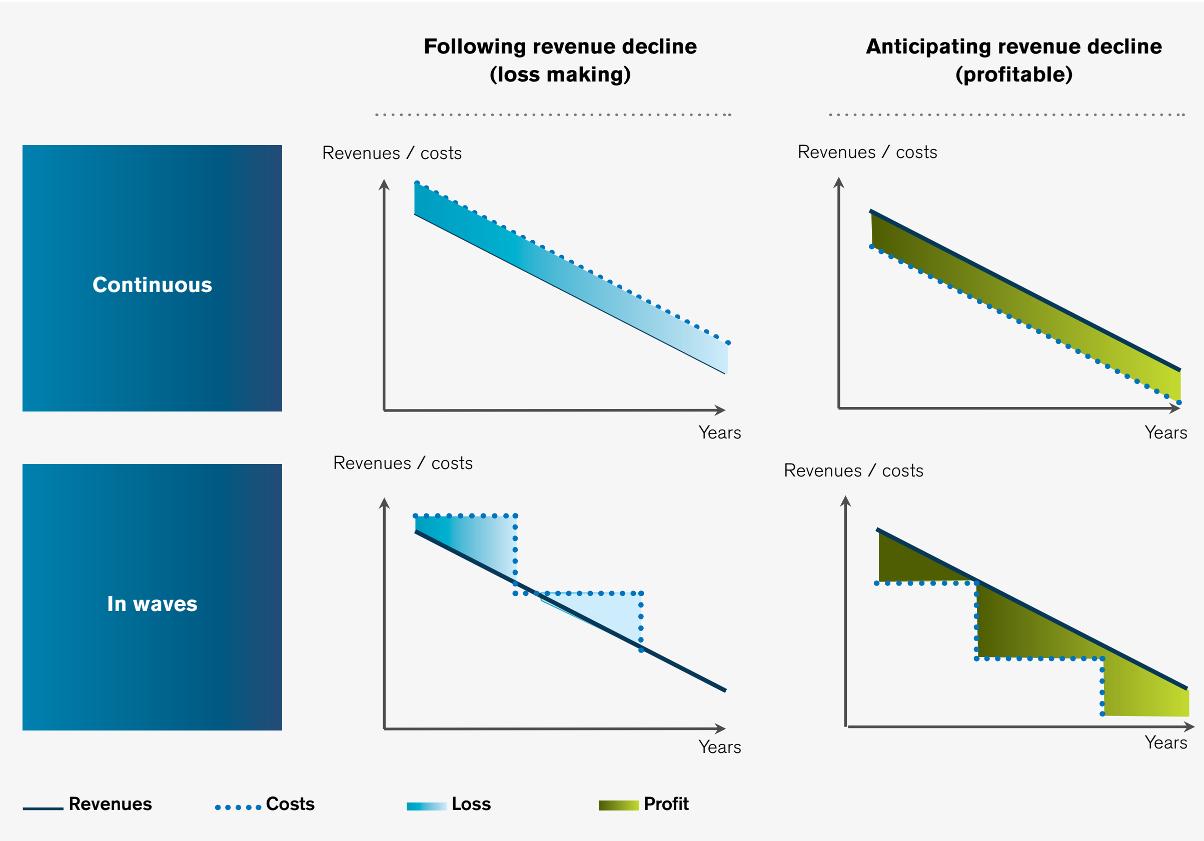
Communicating such roadmaps needs to be done based on market needs, not by asking for bottom-line support

If anything requires proactive marketing support, it is stakeholder management. This goes beyond summarising the company strategy or explaining the impossibility of maintaining the status quo. It is about communicating what market needs are, and how proposed solutions will satisfy those needs. Posts will need a go-to-market strategy for their respective solutions. Some operators have been very successful in communicating about outsourcing their retail operations, by focusing their communication on the positives: more outlets and longer opening times. This provides a lesson to all operators, who should focus messages on the consumer benefits of changing the business model: reliability, better (consumer-managed) targeted mailings, consumer selection of communication channels and time-slotting or redirection of parcel home delivery. Delivering these consumer-empowerment messages lay the strong foundations upon which to build messaging on the type of network and service standards that are required to deliver these market needs. Demonstrating that these solutions work (eg in pilots or specific segments or regions) will further build credibility to negotiate the freedom to provide the solutions that the market demands.

Restructuring the mail division based on anticipating revenue decline may need to shift from continuous restructuring to a wave-based approach

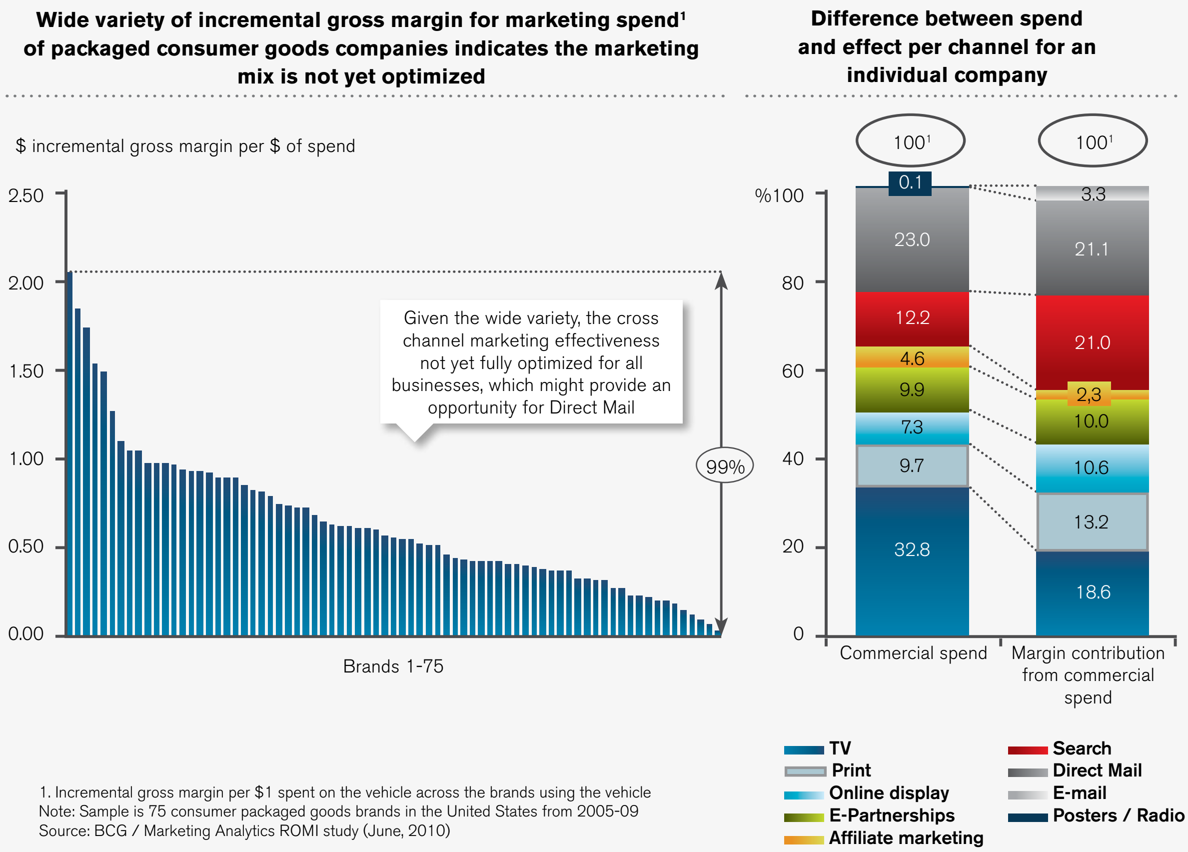
Good stakeholder management should allow operators to choose the best roadmap to restructure the mail business. Figure 11 shows that there are basically four ways to restructure the mail business, based on two critical decisions. Firstly, should cost reductions anticipate or follow revenue decline? Obviously from a profit perspective it needs to be the former. Some operators have been able to convince stakeholders of the need to change well before revenue decline sets in, whereas others have only been able to convince stakeholders to change by showing a loss. Solving this conundrum requires a stakeholder strategy in which communication is built upon a new compelling position. The second question is whether to restructure continuously or in waves. In the past we would have argued for continuous restructuring, as it would be the least intrusive option for customers and employees. However with the accelerated rate of market change we suggest to change in major waves to ensure coherent programme execution. The worst scenario is that presented in the bottom left-hand graph, which implies continuous losses and stakeholder relationships managed on the regular prospect of bankruptcy rather than on a common plan.

Figure 11: Reduce costs anticipating revenue decline



5.4 Change the direct mail business model to sell effectiveness

Figure 12: Posts to adapt revenue model to selling on Return on Marketing Investment (ROMI)



1. Incremental gross margin per $1 spent on the vehicle across the brands using the vehicle
Note: Sample is 75 consumer packaged goods brands in the United States from 2005-09
Source: BCG / Marketing Analytics ROMI study (June, 2010)

Fix the basics

Substitution of transaction mail can hardly be influenced by postal operators. Showing senders the value of physical mail for a certain segment of consumers can delay substitution by only a short while (in one market we estimated by only half a year). The focus therefore must be on marketing mail.

It is a truism to assert that marketing mail can be very effective. Even Google acknowledges that direct mail (DM) is a very effective medium, which they use to sell their online marketing services. Surprisingly, the opportunity has not been fully exploited by all operators: in a recent survey some basic customer needs were found not always to be (fully) met, including

- mail delivery to be managed on day certainty, not on speed;
- full reporting on delivery of the mailing(s);
- full service models for SMEs, and
- dedicated solutions for large clients.

Adapt to a new reality

Direct mail is in transition, becoming a complimentary media to online. Empowered by innovative technology and supported by high-quality data, it acts as the vehicle for delivering enriched and interactive customer experiences that can bring people into the digital space and engage in one-to-one dialogues both offline and online.

The perception and image of direct mail needs to change and evolve from old fashioned to dynamic, from inactive to interactive and from mass to premium targeted. The perception and image of the posts also needs to change and evolve. Posts should be the facilitators of innovative technology and direct mail should be perceived as a marketing medium that links offline to online effectively with measurable results. For this to be achieved, posts will have to become much more than a delivery service.

Change the business model to selling effectiveness
In Figure 12 on the left we see that even some of the large consumer packaged goods companies do not have a full grasp of their Return on Marketing Invested (ROMI) across all channels. However, they are quickly learning how to further optimise ROMI through the line. The effectiveness of direct mail needs to be improved and positioned while marketers are reassessing cross-channel effectiveness. On the right hand graph of Figure 12 provides an example of spend and return per channel, demonstrating the difference between the relative amount of money spent in a channel and the incremental sales from that channel for a particular campaign. Enabling clients to perform detailed response measurements, already the standard in online advertising, is needed to prove the value of direct mail. To adapt to this new standard, response effectiveness of marketing mail also needs to measured and rewarded on marketing return by

- changing the revenue model from pricing per letter to a success fee per transaction;
- offering multi-channel solutions, especially for SMEs;
- offering ROMI tools to compare effectiveness with competing channels;
- focusing solutions and sales efforts where other channels are losing (eg local advertising, where newspaper decline is fast), and
- leveraging customer profiles and address selection to increase conversion rates.

Some operators have already built the organisation and tools to take advantage of this opportunity. Norway Post for example has a marketing consulting firm (BringDialogue) with many of the required value-added services, while bpost is offering a variety of tools for businesses to calculate their ROMI.

6.5 Tap into the Small & Medium Enterprise (SME) profit pool

Another way to look at the service model is across the value chain: some operators have let mail service providers (MSPs) position themselves between the operator and mid-sized, smaller customers, allowing these MSPs to take the attractive SME profit pool. Segmenting SMEs shows some segments provide growth opportunities, as not all mail services have reached full penetration in all SME segments. Targeting such segments usually requires a step up on the go-to–market approach; effective product bundles and an efficient sales approach can reach many more SMEs. Such an approach requires significant effort, and operators need to explicitly choose how to position themselves during the physical, hybrid and subsequent digital era.

- Focus on the last mile: give up on the mid/smaller customers, realising other players will have more services to bundle, increase the degree of work sharing and basically withdraw to the last mile. This will reduce revenues significantly (on top of substitution), but can be profitable and is low risk as relevant capabilities and assets already exist.
- Broaden the service: add value-added services (VAS) across the value chain. Penetrate further into senders by for example adding CRM, mailing and (online) direct marketing services. Possibly do the same for the receiver who is increasingly in need of support for managing administration, personal profiles and passwords. This may double the revenue pool and improve one's structural position in the market, but requires significant new capabilities.
- Maintain the status quo by cooperating with MSPs to design an effective value chain without duplications and geared to serve the new hybrid/digital age.

The internet is well known for supporting new platforms that redistribute the power in the value chain. This is why posts need to take into account the target position in the value chain when building a digital strategy.

6 Embed the new core in the digital economy

With many digital alternatives to mail on the rise, the market for digital services obviously looks very appealing for postal operators. However due to cannibalisation, tricky revenue models and lack of a competitive advantage, so far most postal investments in the digital arena seem to be based on the illusive option value. For most operators the sound direction seems to be to embed the core business (such as e-commerce) into the digital economy, rather than see digital as a target business to win in. This requires connecting platforms with the many players in transaction, marketing, payment, and (e-)commerce services.

Decide whether to build proprietary platforms, or build connectivity into others

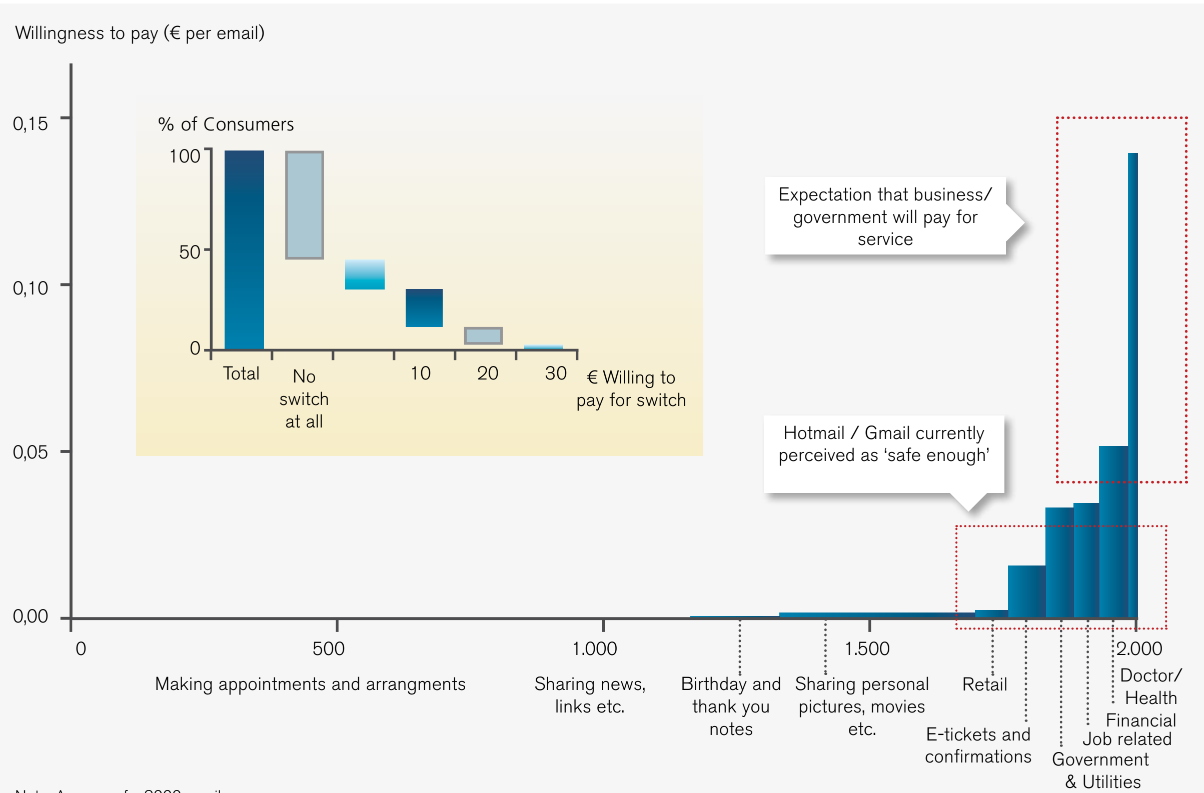
Depending on existing digital position and capabilities versus the evolution of the market, each operator needs to decide if it wants to build its own platforms, or rather to connect to existing oremerging platforms. Depending on the type of platform, a wide range of control structures may emerge, ranging from full ownership to majority/minority/equal part joint venture, or just a commercial relationship.

Focus on real customer needs: security alone may not be enough to launch a digital services platform

Developing any new platform or application requires an outside-in approach. Rather than taking existing capabilities as a starting point, one must begin by identifying unmet customer needs and then find the sweet spot where unmet needs coincide with competitive advantage. The issue of email security follows as an example. In Figure 13 the results of a BCG internal questionnaire in the Netherlands on secure email are shown. Admittedly this was a very small survey and not representative for the general population, and findings may differ in other markets. The results however can provide a starting point for the analysis of one's own market: as with almost all internet services, consumers seem very reluctant to pay for secure email. While they do value higher security for a limited amount of their emails, they expect someone else to pay for this.

At most it could be an attribute for a platform/ application. The survey also showed that the post is not among respondents' top three secure email providers (which are banks, government and telecom providers). The post is only in the second tier, along with Microsoft and Google.

Figure 13: Focus on the real customer needs: security is not the launching platform for digital services



Note: Average of ~2000 emails per year
Source: BCG Questionnaire in The Netherlands (n=66)

Build open platforms using MIT/IPC ten recommendations

The International Post Corporation has partnered with the MIT Center for Digital Business to research the development of viable digital platform businesses. The white paper *A Digital Postal Platform: Definitions and a Roadmap* sets out and elaborates upon ten key recommendations that the MIT suggests postal operators follow in order to take advantage of the opportunities provided by digital business and thrive in a digital business model.

The ten recommendations MIT CDB makes are that postal operators should

1. open platform to third parties, and aid their business models;
2. enumerate functions that can serve as platform foundations, and choose features conferring control;
3. redefine the Universal Service Obligation;
4. use a Visa-type model for organisational structure;
5. articulate the space of platform opportunities for developers and develop demonstration projects;
6. use platform envelopment, seeding and partnerships to solve the chicken-and-egg launch problem;
7. price to drive adoption using two-sided network strategies;
8. re-examine the concept of trust in the digital space, and its differentiation from trust in the physical space;
9. consider the integration of permission-based advertising to raise revenues, and
10. apply platform concepts retrospectively to physical assets.

As the digital communication market matures posts must be willing to pursue digital strategies analogous to but quite different from their physical strategies. Each postal organisation possesses a number of assets – large user populations, dedicated workers, more contact points than most businesses, and even government protected services – which can form the basis of a digital communication platform.

Platforms are not one-off products and require a non-traditional business model in order to create viable commercial activities. Platforms, networks and the ecosystems that arise around them, by their very nature, do not have standard linear supply chains but rather are characterised by multiple cross-dependencies. As a result, the design, governance and execution of platform businesses require a more holistic approach such that the interests of all ecosystem partners are balanced.

Strategic decisions regarding (i) open versus closed, (ii) free versus charged, and (iii) cooperation versus competition will influence the success of the platform in three key areas:

1 market creation,
2 the size and sustainability of the ecosystem, and
3 the ability of the platform to encourage and capture network effects.

In developing digital platforms businesses, postal organisations can take one or more roles – platform sponsor, platform provider or content developer – depending on their technological assets, partnership opportunities and competitive context.

A digital postal platform must articulate underlying multiple functions, offered as core platform competencies, in order that these functions can be recombined to create new business opportunities.

Postal operators can create new revenue streams by
- controlling architectural, legal, and business control points in the platform, and
- implementing two-sided network pricing strategies which drive adoption of the platform and maximise revenues among platform users and eco-system developers.

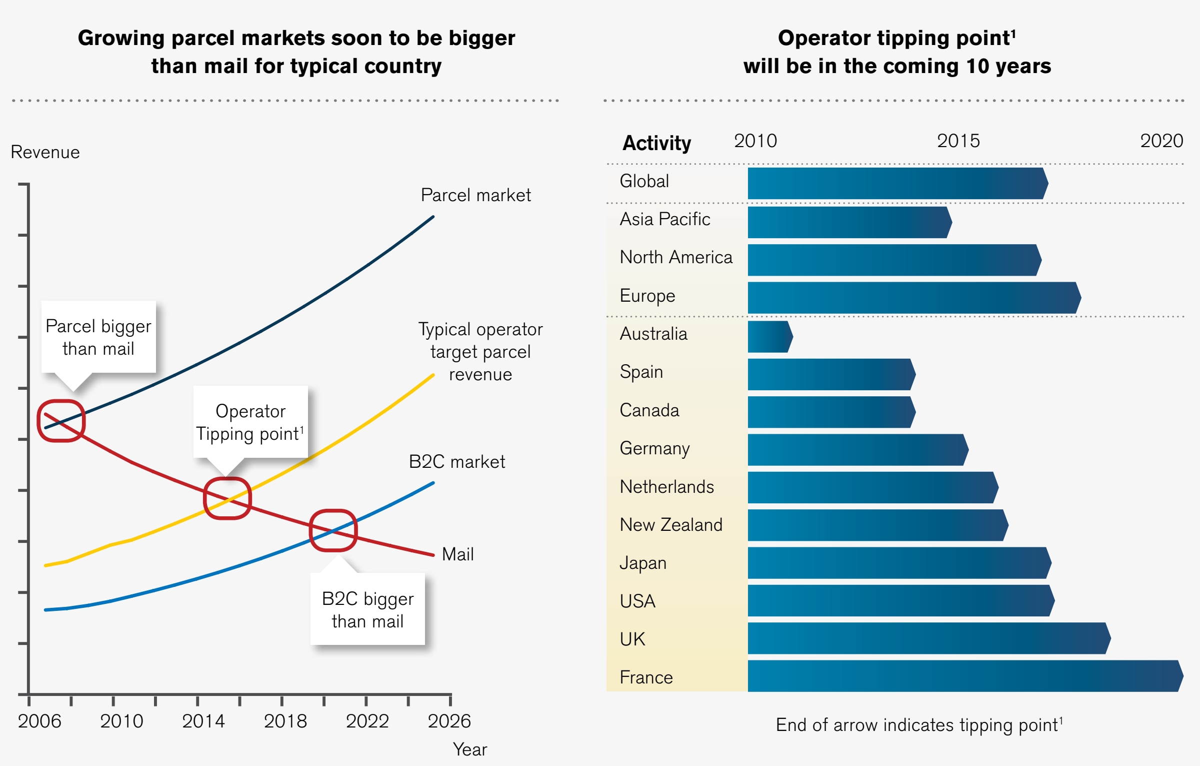
Cooperation is a key driver in order to succeed in capturing the secure digital communication space. Postal organisations can gain critical mass and market power through greater collaboration and sharing of intellectual property and technology.

Creating an intellectual property (IP) holding enterprise (akin to that formed by VISA member banks) allows posts to set standards for postal digital platforms, leverage best-of-breed components and drive wider adoption quickly.

7 Win and grow in e-commerce

7.1 Organise around the new core, focus on business imperatives, not on synergy

Figure 14: Organize now to reach the parcel versus mail tipping point soon



1. Tipping point calculated at point where 70% marketshare of enlarged B2C CEP market + 10% marketshare in B2B CEP market is larger than mail market
Source: IPC, BCG analysis

The parcel market will soon be larger than the mail market

The growing parcel market will soon be larger than the declining mail market. In some markets this point has already been passed: in most others it will happen in the next ten years, if operators were to domestically achieve 70% market share in B2C (with as much revenue from additional services as revenue from plain delivery) and 10% in B2B[17]. If one were to look at the margin contribution, or even valuation, the tipping point could be even earlier, as margins could be higher in the parcel business than in the mail business.

Organisational reform should be focused to drive this tipping point, not vice versa

Arriving at the tipping point is not automatic. It requires focus and tenacity to keep or build strong positions in both B2C and B2B markets. Most operators still treat

17. The cross over points have been modelled using
- parcels 2010 volume data
- CEP data from Transport Intelligence, Orbis, CEP Research, BIEK, Top 100 der Logistik and annual reports was used
- Split between B2B parcels and B2C parcels assumed either 70% - 30% or 80% - 20% based upon Datamonitor data
- Growth rates of the B2B market 2-3% year on year and growth of the B2C market 6% year on year. With the exception of high GDP growth countries, for which higher growth rates have been used.
- Mail volumes 2010 based upon IPC data of operators. Future projection based upon mail volume forecast model. Volume of Mail competitors disregarded
- Corrections into parcel and mail revenues were made for country specific factors:
- We corrected for countries where parcels were reported as general mail: Netherlands, France (Collipost) and Germany (DPD). UK mail data is excluding Parcelforce.
- We corrected when international mail is included in the domestic mail: Netherlands (EMN)
- We reallocated 10% of the remaining mail revenues to parcels as we wanted to correct for the mailbox size parcels (currently included in the mail division) that in the future might be included in the parcel network. The volume of these parcels is driven by e-commerce and hence is treated as such

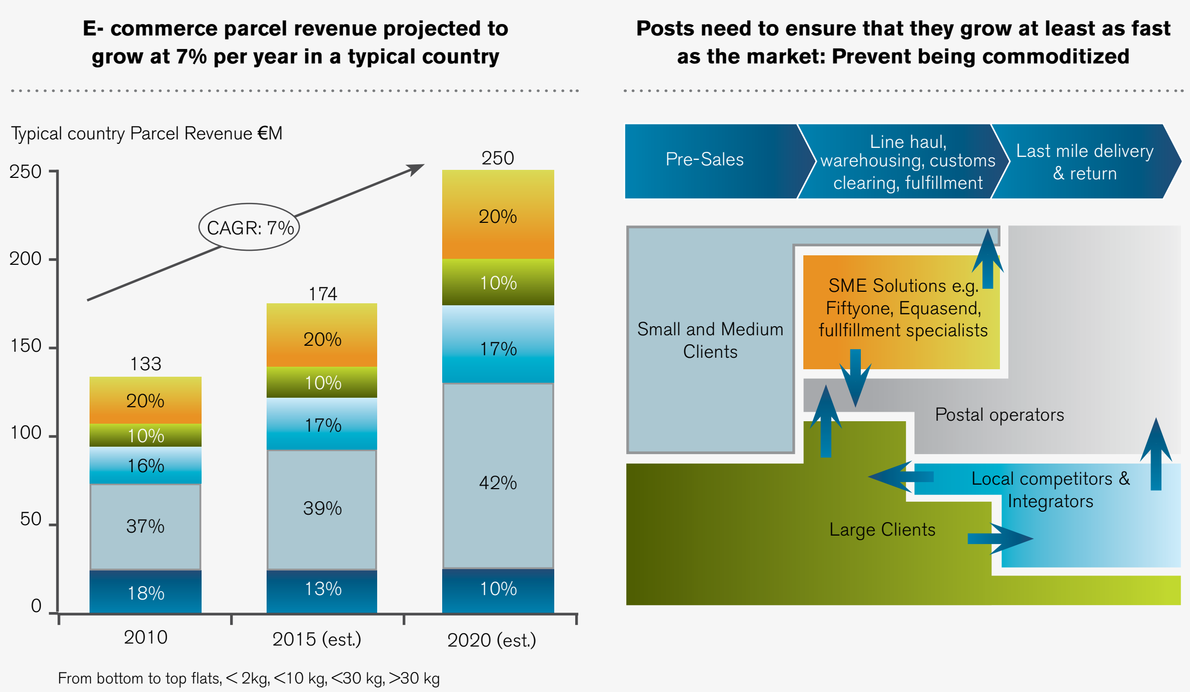
parcels as a by-product in the mail flow. Mail service windows, labour models and network structures dictate the parcel footprint. Given that the growth in parcels needs to be funded by the cash generated in the mail division, the organisational tipping point needs to be forced five to ten years before the portfolio tipping point to ensure the latter will be reached. Therefore, a head of parcels needs to have a full mandate to determine service window, labour models, cost structures and network configuration. Synergies with the mail economics should only come second in the decision process. Operators with subscale share in parcels may need to focus on leveraging the synergy with mail (while the business model is compatible) and partner for the heavier parcels.

7.2 Transform the legacy mail delivery service model to meet market requirements

Retail market transformation will drive e-commerce growth

The total value of the e-commerce market is estimated at €400bn in 2010 (by JP Morgan, Goldman Sachs and Forrester), about half of which is estimated to represent physical-delivery goods, meaning that the current potential e-commerce market open to posts is around €200bn. Still, this only represents an online conversion of 5%. This share varies between less than 1% in India and over 10% in South Korea[18]. Some of this range can be explained by the E-Intensity index developed by BCG[11]. Other factors are the availability

Figure 15: E-commerce: outgrow the market and take key positions



Note: Totals are estimated based on domestic online consumption on domestic and international websites and refer to the domestic part of the transportation. Transportation due to international consumption on domestic websites is excluded. Revenues from special services (insurance, track & trace) are excluded. Totals include delivery, start-of-use returns and in-use returns (e.g. repairs).
Source: Euromonitor, Thuiswinkel.org, XE.com (exchange rates, 27/5), BCG analysis

18. Based upon Euromonitor 2010 figures

of good payment systems and a reliable delivery agent. In some markets the lack of pricing transparency of retailers is said to have contributed to early growth of online shopping. The size of the economy also seems to matter: smaller economies may not be priority markets for pure online players, provide fewer economies of scale for retailers to invest in online propositions, and may have less competition in retail to drive retailers to outcompete their peers in a new channel. For such smaller economies, import and pure online players rolling out their proposition is often the driver for the retailers to move online. Furthermore there is a long list of barriers for consumers to shop online, such as the absence of timeslot delivery. Looking at these macro- and micro-barriers for 'etailisation', we have not found fundamental reasons for a limit to growth. While originally e-commerce was a convenience service for the rich and busy, the end–to-end costs are now lower than retailing and it is rapidly becoming a mainstream channel for the mass market. The resulting growth rates are high in most countries and more importantly there is no reason why conversion will not reach more than 50%. The prospect is therefore a complete transformation of the retail market rather than growth in online spend.

Translating online growth into revenues for delivery of physical goods (market sizing and strategy follow on the next pages) requires some modelling. Figure 15 shows the result for a typical market, eliminating products that are or will become digital themselves, differentiating percentage online growth by category, and differentiating the size and revenue by parcel. Such modelling will support sales target setting and investment planning. We have seen operations planners baffled by the related capacity requirement, but they subsequently found low cost de-bottlenecking could defer high investment needs.

Posts should act now to ensure their relevance in the parcel space

Almost all operators are perfectly positioned to capture much the value of e-commerce growth, as they have a high percentage of current B2C deliveries and an extensive returns network. There are however threats to the incumbents. With companies like Equaship providing superior rates for webshops by combining third party line haul with USPS last mile delivery, and Alibaba and Amazon starting their own delivery, posts run the risk losing (critical) share and/or being commoditised to last mile delivery only.

Also, with international deliveries are on the rise (research published in the *IPC Cross-border e-commerce Report* showed that between 30 and 50% of consumers in Europe who had shopped online had done so across borders), companies are stepping into the gaps in the current networks. The company Fiftyone for example provides an end-to-end solution for international deliveries, which starts by immediately recognising international customers and showing prices and shipping rates in their local currency.

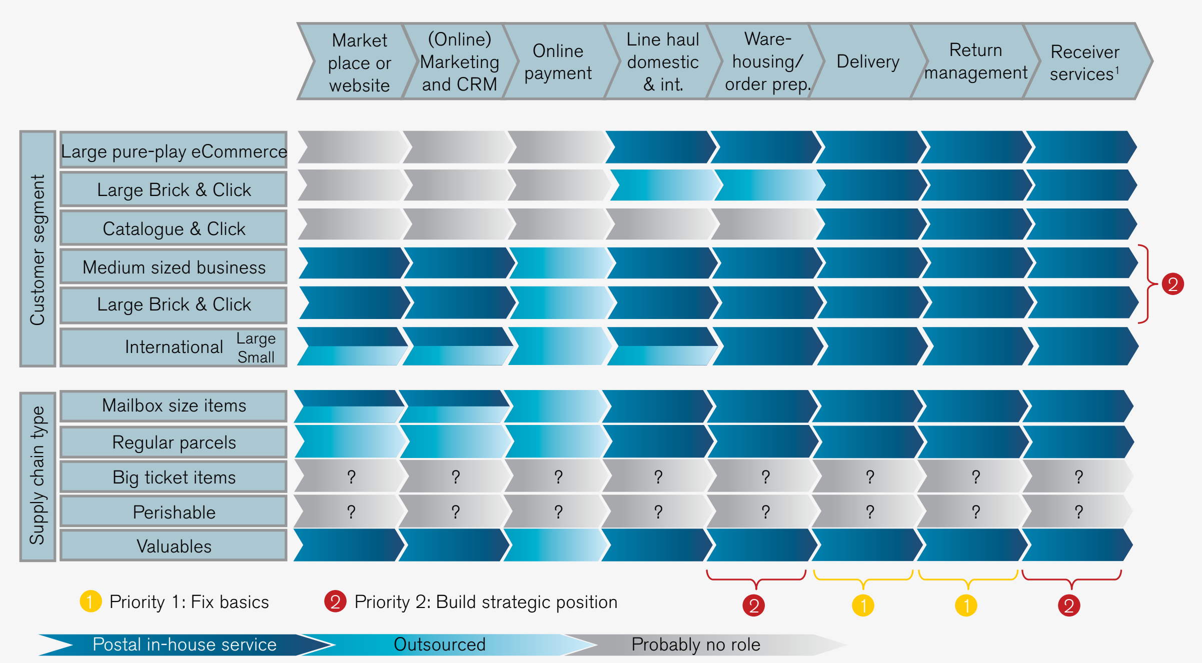
Posts should set their ambitions much higher

Few posts have growth opportunities in their portfolio more attractive than to participate in the transformation of the retail market, and posts should redefine their ambition on this. In an environment of decline it is very easy to be happy to just grow parcel revenues, but this is not enough. It is important to grow at least as fast as the market to avoid losing share in this highly scale-sensitive business. Even better would be to redefine the ambition from 'keeping share in a growing B2C parcel market', to 'actively driving the transformation of the retail market', playing a much broader role across the whole value chain. This requires programmes on three levels:

- Fix the basics such as reliability, ease of use, being the lowest cost provider and end-to-end visibility;
- Take strategic positions in the value chain;
- Find and resolve, jointly with the (multichannel) retailers, barriers for further growth.

7.3 Quickly take control of the control points (fulfilment, IT overlay, consumer connect), to avoid commoditisation in B2C parcels

Figure 16: Quickly decide how and where to play in the E-commerce value chain and claim these positions



1. e.g. delivery location and timing preferences, contact information for delivery notifications and rescheduling, etc.

Posts need to quickly decide how and where to play in the e-commerce value chain and claim critical positions

It is important to understand what positions in the value chain have or will have so much power that they will attract most margin. As discussed, posts run the risk of being commoditised by fulfilment providers that act as consolidators buying parcel volumes at low prices. This would result in revenues at marginal costs and losing contact with profitable and promising customer segments such as SMEs or start-ups. When market share and margin are protected operators can focus on resolving barriers for growth and grow the market. Based on such considerations a roadmap needs to be developed as to what share in which positions (including related services) for which product/customer groups needs to be taken by when. Posts with banking operations may have an opportunity to also take a role in payments. Figure 16 provides a high-level example of a target position in three years. It is not necessarily required to do everything in-house: joint-ventures and linking in other players' services can be more effective than doing everything oneself.

Reduce barriers focused on specific B2C flows

Next to fixing the basics and taking strategic positions, barriers for further growth need to be found and resolved. Market specific consumer research conducted by BCG indicated that consumers say they will buy 60 to 80 percent online if barriers across the search purchase and delivery process are removed. Ideally these barriers are resolved for specific flows together with retail category leaders, rather than resolving generic barriers to make more effective use of resources to drive growth.

Invest in B2C international connectivity, assets and sales force based on main trade flows

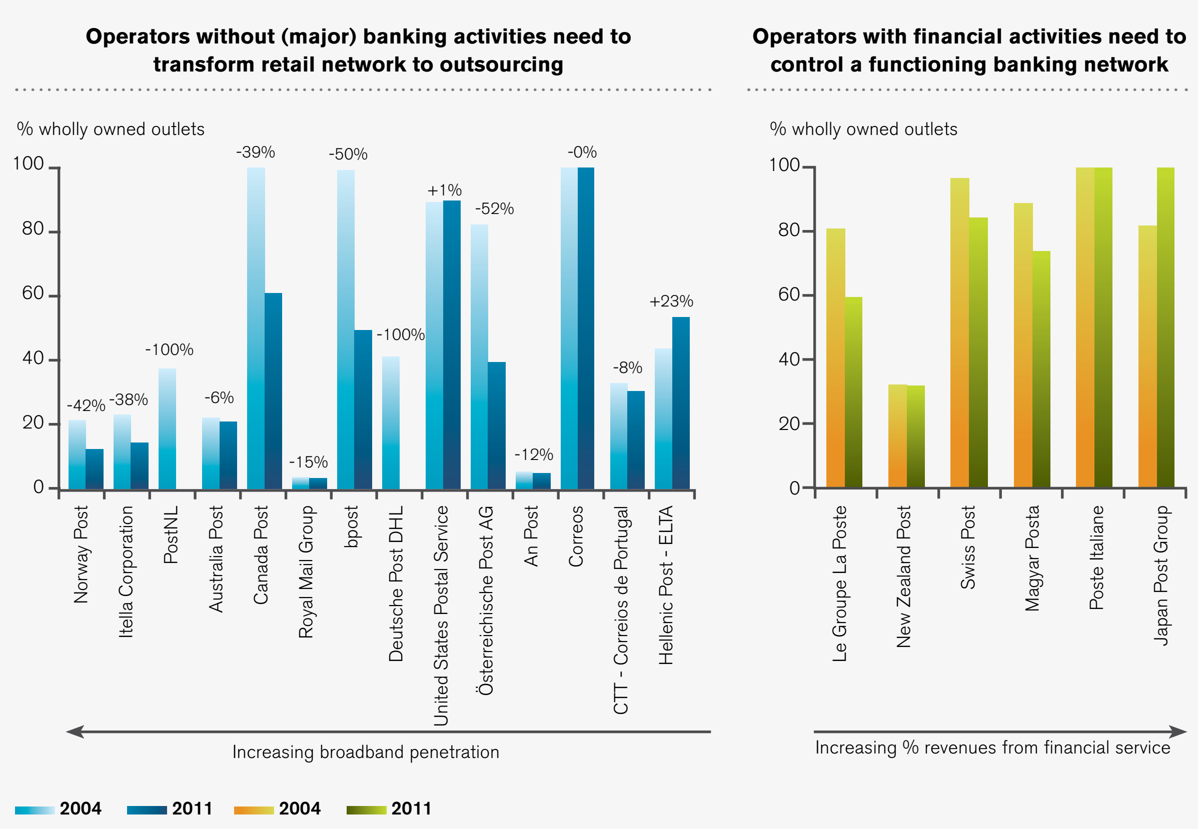
Already around 30% of online shoppers in Europe indicate that they buy goods from foreign websites. More importantly, globalisation will mean that decision centres will be located more and more outside of the domestic market. From 2004 until 2011 the percentage of North American and Western European companies in the Top 500 Global Companies (Fortune) decreased by 11 percentage points, 8.5 percentage points of which were in the last three years. Posts need to decide which trade routes are key to them and build international connectivity, sales force, supply chain and partnerships accordingly.

Appointing a business development manager is not organising for growth

Many operators struggle with how to organise for growth in e-commerce. Critical activities are spread out across various units. Many find it too early to put all revenues and activities related to e-commerce under one new business unit. Some only appoint a business development manager at level CEO minus three or four and hope s/he will get traction. The first approach may not (yet) be necessary, but the latter is not enough. Putting e-commerce fully into the parcel BU (if one already exists) may work, but could underutilise access to SMEs and consumers that other units have. The minimum to get any real traction is to have a solid roadmap and a team of people that is fully dedicated to executing this roadmap (even if they are based in different units), with a strong mandate and a budget. One board member needs to watch over the overall programme and must have the authority to take decisions that allow the team to progress.

7.4 Outsource the post office network to service the B2C parcel business

Figure 17: Transform retail network to support e-commerce or banking activities



Source: IPC, BCG analysis

Manage retail as a service not as a business unit
Several operators show retail as a business unit. However we have not yet found a postal operator with a true, successful retail business, in the sense of selling products to consumers. Most postal retail networks actually work as a service unit for mail, parcels and financial services, and opportunistically sell some retail products. The retail network needs to be transformed to serve the growing parcel business.

Without financial services the retail network needs to be 100% transformed
Without significant revenues from financial services the decline in mail forces posts to speed the transformation of the retail network. Given that hardly any mail transactions in retail outlets are profitable, operators should simplify products and processes for mail so that these services can move online or to a self-service concept.

For parcels, posts should also simplify processes, product offerings and pricing, so people can use a self-service approach. A good physical network is a major competitive advantage for the growing B2C/e-commerce business to serve people who prefer to pick up their parcel, as well as the increasing returns that consumers want to drop off. In some countries retail delivery is 80%, in other markets only 10%, but the availability of such networks is always a vital element in the customer value proposition, especially since the customer wants to be served at any time and in any place.

Many current retail networks however are not suitable to serve these needs, which generally require more outlets with longer opening times, at around half to a third of the current unit costs. Franchising only is not enough; a much deeper integration into low-cost retail operations is required. This implies that the brand will continue without its own branches and the services will not only be provided by third party personnel, but also use this third party's IT systems and internal processes.

Posts with financial services also need to transform their outlets
With mail and physical payment transactions drying up, the old synergy between postal and financial services is dissolving. Service needs, optimal locations and customer segment focus all start to diverge. For operators with a significant financial services operation the same transformation is required to serve parcels, while at the same time a selection of outlets needs to be further developed by to fit their clients' service needs beyond simple transactions.

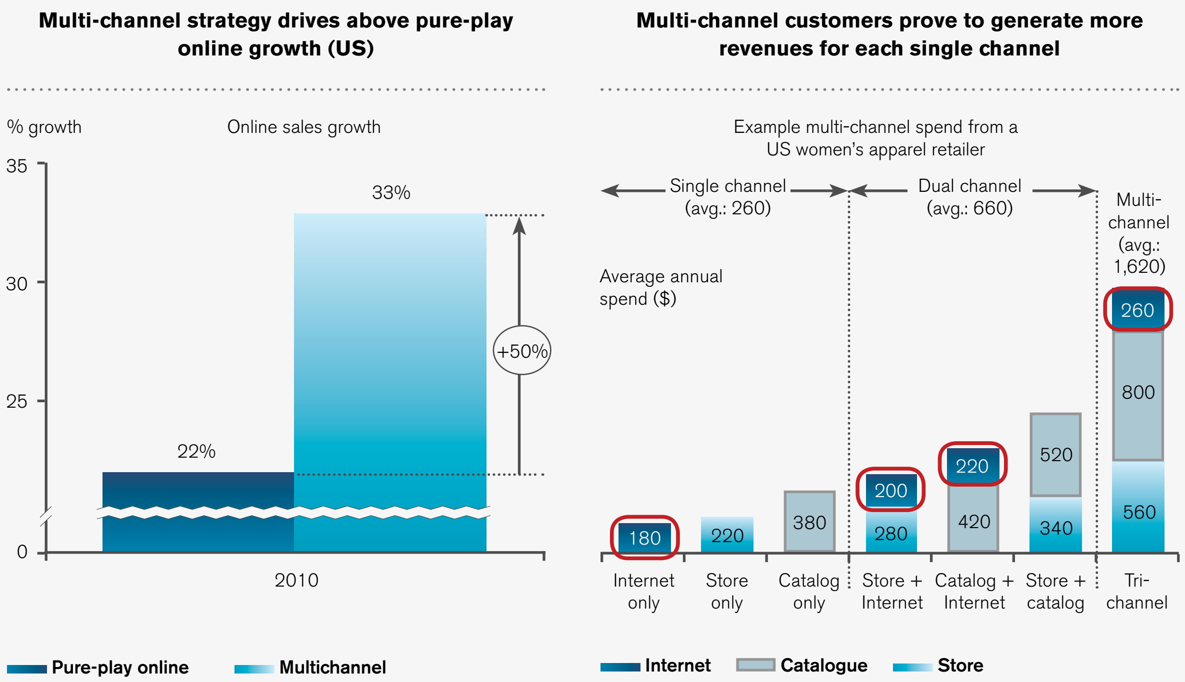
7.5 Offer multi channel supply-chain capabilities and grow B2B parcels

Multi-channel retailing is the winning model for most categories
Multi-channel will be the winning model for retailers. The left hand side of Figure 18 shows that multichannel retailers have grown 50% more quickly than pure-play e-tailers in 2010. The right hand side of the graph shows that customer using multiple channels spend more in all channels they use than those using only a single channel. For some categories the physical channel may not be critical or may only be temporary, however offering multi-channel capabilities will increase the competitive advantage at least during the many years of retail transformation.

Posts should proactively resolve multi-channel supply chain issues
A multi-channel business model adds additional complexity to a retailers supply chain. The retailer might run into questions like the following:

- Do I sell the same SKUs online and offline?
- Do I supply my stores and my online order picking warehouse in the same way?
- How do I handle store-only or online-only SKUs?
- If a product is out of stock in the online warehouse, but in stock in a store, can the item be shipped to the online warehouse? Or directly to the customer from the store?
- Can oversupply from the online warehouse be directly routed to stores? Or does this need to go to central warehouse first?

Figure 18: Support the winning multichannel model



1. Survey amongst 68 US web retailers
Source: Forrester Research; BCG analysis

These and related questions imply that the rise of multichannel retailers provides an opportunity for a logistics player that has both B2B and B2C capabilities. Physical retailers who are going online will appreciate turnkey solutions for such issues. Also pure online players who are adding physical presence will also benefit from support on these issues.

Don't ignore B2B

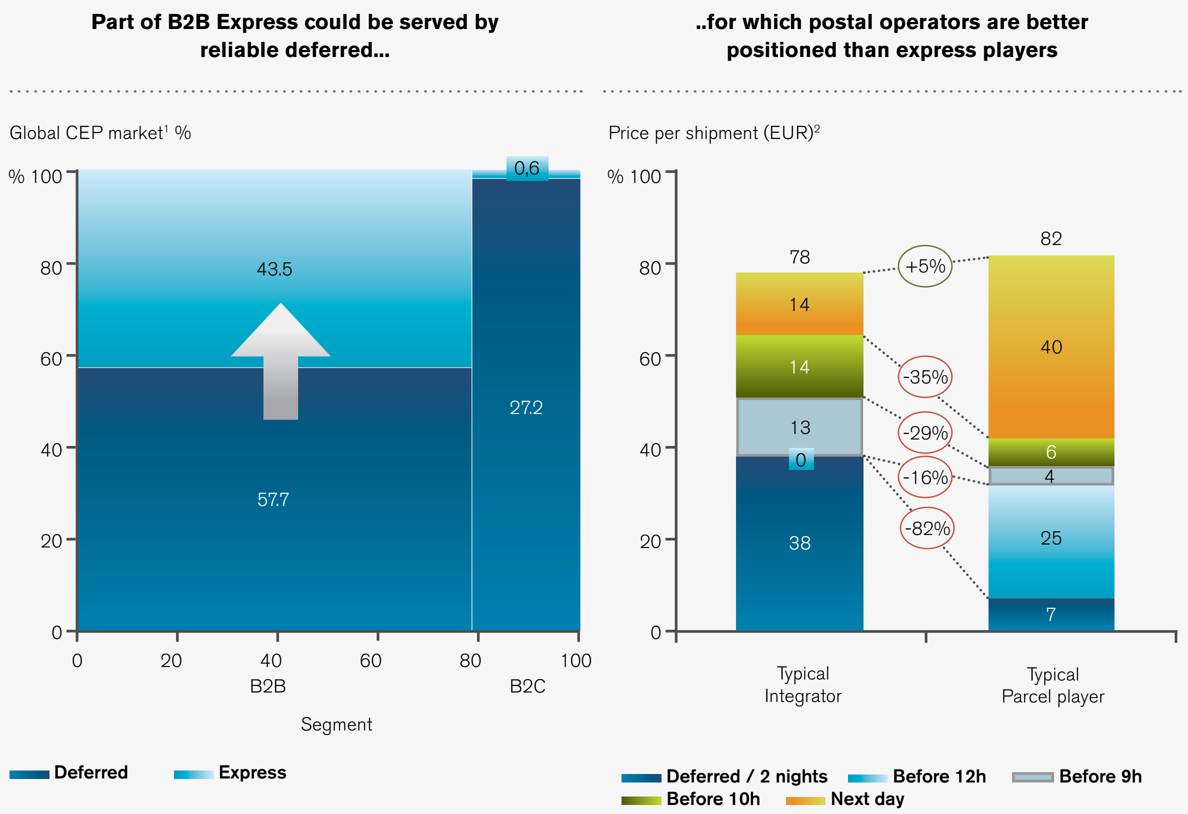
Even if B2C is growing faster (6%) than B2B (3%), on a global scale B2C is still only 20-25% of the total market. However if we add the economy segment of B2B (its share growing to 55% within B2B), the segment of the parcels market addressable by posts is 65% growing at over 4% annually.

Given the bigger size of B2B than B2C, expanding in the B2B segment can provide growth in itself, on top of improving the position to serve multi channel retailers.

Focus on reliability, more important than speed

In the past integrators have done an exceptionally good job in selling fear: they were the only ones who could ship something quickly and reliably. With track & trace technology being commoditised and other players learning how to do proper process control, speed is the only remaining differentiator for simple parcel flows. This will remain relevant for emergency flows, but many ordinary supply-chain flows are migrating to economy service levels, as for these, reliability is more critical than speed. For international flows road and direct in-feed models are further moving integrator flows into the scope of (postal) parcel operators. Another recession will further accelerate this trend. In the right hand side of Figure 18 we see how this plays out in pricing. A parcel operator focusing on low cost is much more competitive for nearly all services. However reliability will be critical for success.

Figure 19: Take share in B2B as reliability is more critical than speed



1. Making use of 2008 €B values
2. Route Munich - Hamburg, all prices including fuel surcharges (3% for postal player and 7% for integrator), excluding VAT for a B2B ad-hoc package of 1.4 kg measuring 20x20x10 cm

Source: Company websites, BCG analysis

Operators to gain share in B2B

Given the size and growth of the addressable segment and the shift in requirements, postal operators cannot ignore the B2B segment. They need to invest in fixing the basics (process control, cost reduction), focus on the needs of a selection of verticals (with requirements closest to B2C), and increase their go-to-market organisation. As we have seen, B2B plays an important role in serving multichannel retailers, and will thus further strengthen the position in the B2C market. If a position in B2B is out of reach, a partnership with the local strongest player may be the best solution.

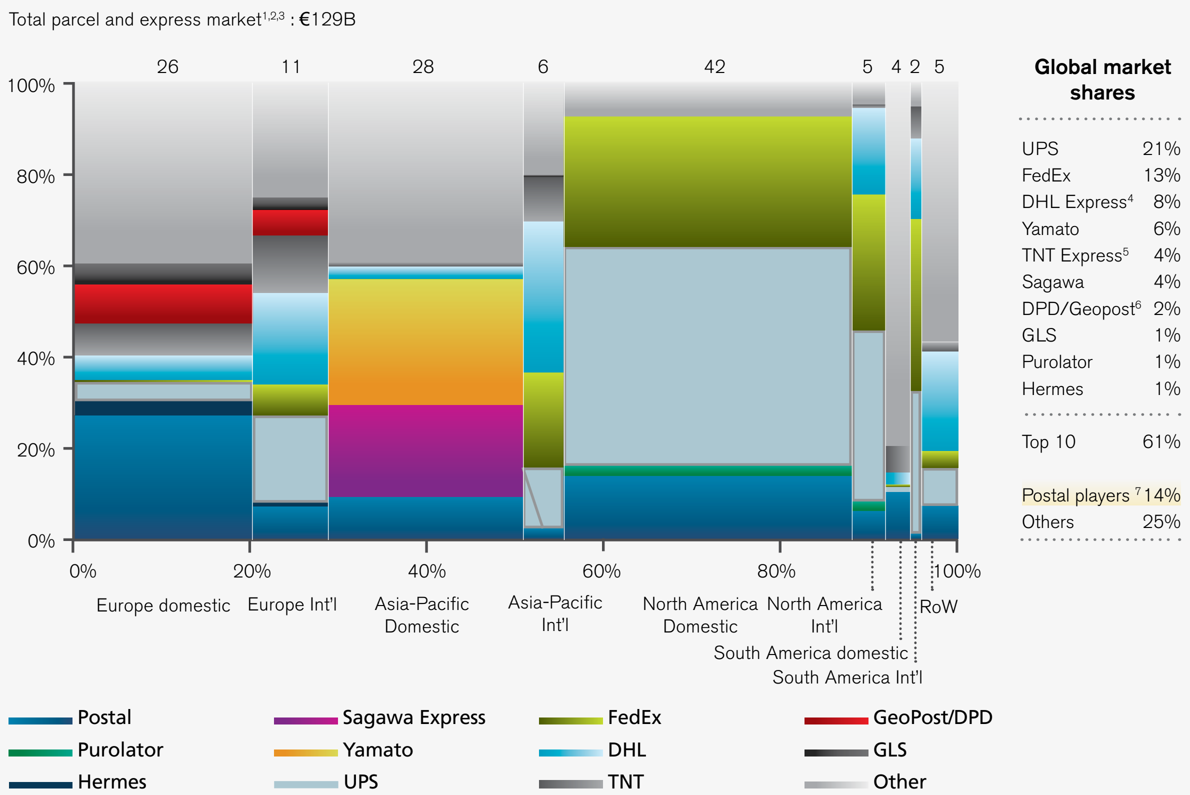
7.6 Improve standards and interoperability to collectively become global market leader in parcels

Collectively posts are the number two and could soon be the number one in the parcels market

The cumulative parcel business market share of postal operators makes the industry the number two player, after UPS, as shown in Figure 20. If posts were to grow their market share in B2B to 10% and keep their share in the faster growing B2C segment, the sector would collectively become the number one player, with 22% market share.[19] The recently announced UPS bid on TNT may make this a bit more challenging, but it should work for focus segments on a regional level.

19. We calculated that the posts currently have a market share of 14% in the CEP market (excluding DHL express). We then stated that posts can achieve a market share of 22% by obtaining a market share of 70% in B2C and 10% in B2B. This calculation is based on the idea that the CEP market is made up of 80% B2B and 20% B2C, resulting in the following calculation: 0,70*20% + 0,1*80% = 22%
If able to achieve this 22% posts would be larger than UPS, the current market leader, who holds 21% market share.

Figure 20: Take the opportunity to lead the CEP market



1. Express and parcels delivery, weight limit up to 31.5kg/parcel, excluding same-day deliveries
2. Use of 2008 values, 2010 market structure.
3. International revenues are outbound only
4. Market share excluding DHL Paket
5. Market share excluding PostNL Pakketen
6. Market share excluding Coliposte 7. Postal players revenues mainly in B2C shipments. Excluding express subsidiaries.
Source: FedEx; UPS; DHL; Transport Intelligence; press search, IPC, BCG research, BCG analysis

Improved standards and cooperation needed

To be able to achieve this market position, postal operators need to significantly take some bold actions:

- Rigorously execute a growth plan for B2C and B2B as described in the previous pages.
- Collectively create service, process, and technology standards to promote best practice, and reduce the (perceived) quality difference with premium express services.
- Collectively reduce international barriers by simplifying processes, improving interoperability, and optimise price levels to increase and facilitate international flows.
- Follow the example from PostNord and merge or create JVs on parcels. In some markets the parcel market is not yet consolidated, and posts would be stronger in joint regional businesses rather than competing with each other in every market.

Overall, parcels offer the sector a great opportunity for a new lease of life, and now is the time for the sector to step up the pace of action. Proven initiatives such as the Kahala Post Group (KPG) and the IPC DirectPoint group (involving bpost, Deutsche Post DHL, Le Groupe La Poste, PostNL and Royal Mail Group) should be built upon by operators across the industry to ensure the sector profits from this unique opportunity.

8 Conclusion: boldly transform

Building a new compelling position requires many fundamental changes at the portfolio level and in each of the businesses. Given market changes, postal operators need to accelerate from evolutionary to revolutionary transformation to accommodate revenue decline from increased substitution, and to seize the window of opportunity in e-commerce. These changes also require fundamental changes in all functions. The sales and marketing approach, including pricing, needs to become much more customer driven.

IT must change its focus from unit cost reduction to supporting business transformation.

Finance needs to ensure everyone has the right information to manage their respective elements of the transformation.

Most importantly, HR needs to manage the migration of the labour force and ensure talent management will provide enough of the right skills to build new, strong positions.

Most of these business and supporting changes have begun in one way or another, but accelerated substitution and closing positions in the most compelling new positions require changing from evolutionary to revolutionary transformation.

Learning from transformation leaders in other sectors we have identified three horizons on which to work:

Fund the journey.
Even with ambitious goals and tight timeframes, changing a business model takes time. Leadership needs to achieve quick wins and build credibility in order to address near-term pressures or invest in longer-term ambitions – or both.

Win in the medium term.
In almost all cases, the business model fundamentally changed in order to move the company to a substantially better place. Therefore, leaders set and achieved enormously ambitious goals in as little as one to three years.

Right structure, team and culture.
Even a grand vision and agenda will fall flat if an organisation's people lack a shared mindset and commitment. It takes the right culture and talent to drive and sustain change.

Next year's *Focus on the Future* report will be dedicated to addressing some of these transformational issues.

Further information

About International Post Corporation

International Post Corporation is a cooperative association of 24 member postal operators in Asia Pacific, Europe and North America. Over the past two decades IPC has provided industry leadership by driving service quality and interoperability, supporting its members to ensure the high performance of international mail services and developing the IT infrastructure required to achieve this. IPC engages in industry research, creates business-critical intelligence, provides a range of platforms for member post CEOs and senior management to exchange best practices and discuss strategy, and gives its members an authoritative, independent and collective voice. IPC also manages the system for incentive-based payments between postal operators. With members delivering some 80% of global postal mail, IPC represents the majority of the world's mail volume.

International Post Corporation

About The Boston Consulting Group

The Boston Consulting Group (BCG) is a global management consulting firm and the world's leading advisor on business strategy.
BCG partners with clients in all sectors and regions to identify their highest-value opportunities, address their most critical challenges, and transform their businesses. BCG's customised approach combines deep insight into the dynamics of companies and markets with close collaboration at all levels of the client organisation. This ensures that our clients achieve sustainable competitive advantage, build more capable organisations, and secure lasting results. BCG supports postal clients on their transformation journey bringing all the industry functional and transformational capabilities.
Founded in 1963, BCG is a private company with 74 offices in 42 countries.

BCG
THE BOSTON CONSULTING GROUP

For more information please contact:

Jane Dyer
Director, Markets and Communication
International Post Corporation
jane.dyer@ipc.be

» www.ipc.be

For more information please contact:

Bas van Heel
Global Postal Practice Manager
The Boston Consulting Group
vanheel.bas@bcg.com

» www.bcg.com

Further reading

Joint IPC and BCG

- Prepare for the worst, hope for the best:
  The impact on the mail sector of a double-dip recession and accelerated substitution
  November 2011

IPC Commissioned

- A Digital Postal Platform: Definitions and a Roadmap
  - MIT White Paper
    January 2012
- Communication trends and the role of mail
  - Report by the Copenhagen Institute for Futures Studies
    December 2009
- Role of Mail 2020
  - Report by the Copenhagen Institute for Futures Studies
    January 2011

IPC

- Consumer Preferences in a Digital World
  May 2012
- IPC Strategic Perspectives on the Postal Industry
  May 2012
- IPC Global Postal Industry Report
  October 2011
- IPC Strategic Perspectives on the Postal Industry
  May 2011
- IPC Strategic Insights – Payments in e-commerce
  February 2011
- IPC Strategic Insights – Harnessing the Value of Digital Media
  July 2010
- IPC Cross-Border E-commerce Report
  May 2010

BCG

- Multichannel 3.0: The Mobile Revolution
  November 2011
- The World's Next E-Commerce Superpower:
  Navigating China's Unique Online-Shopping Ecosystem
  November 2011
- Back to Mesopotamia: The Looming Threat of Debt Restructuring
  September 2011
- Digital Business Models: Moving Beyond Table Stakes
  September 2011
- Risky Business: Value Creation in a Volatile Economy
  September 2011
- Turning Local: From Madrid to Moscow, the Internet is Going Native
  September 2011
- Stop Kicking the Can Down the Road: The Price of Not Addressing the Root Causes of the Crisis
  August 2011
- Making Your Company Inflation Ready
  March 2011
- The Postmen Always Brings Twice: Receiver-driven Transformation of the Mail Business Model
  March 2011

Published by

International Post Corporation (IPC)
& The Boston Consulting Group (BCG)

Printed in Belgium June 2012

www.ipc.be
www.bcg.com

Printed on FSC Certified paper. Design: International Post Corporation Communications dept & www.inextremis.be - Photos: fotolia.com & thinkstockphotos.com