Board Meeting

Coöperatieve Vereniging: International Post Corporation U.A.

7b

Date: 19 November 2010

Time: 08.00 – 11.30

Venue: Brussels, Belgium

Creating Intelligence – Digital Business

Annex 2

Digital Business: Opportunities for Value Creation

International eBox Services

Date: 15 October 2010

Summary

Leading Posts have successfully adapted to significant external change over the last decade, including managing core challenges related to driving productivity and profitability in liberalising, low growth markets. The emerging environment is characterised by slow macro economic growth and significant changes in communication behaviours. Core business efficiency will be critical but not sufficient to maintain Posts' value and financial position. The latter will only be achieved through service diversification.

The letter as the universal and monopoly media for document communication has long since been broken. There are now multiple media choices for delivering document and text communication between senders and receivers who have increasing access to multiple digital infrastructures, applications devices and experience.

Authenticated e-box solutions, which provide secure, low cost, digital transactional mail communication to end-consumers, create a platform for generating new revenues around consumer applications and database management.

While there is limited direct competition to postal authenticated eBox solutions, there is significant competition from indirect competition and established new communication practices and processes.

This creates a number of very significant competitive challenges to eBox developments:

- Digital migration and acceleration of substitution is occurring, making cannibalisation arguments increasingly irrelevant
- Market acceptance will occur given network penetration, increasing familiarity and active incentives from mailers to drive business change
- Success is not guaranteed, but not innovating implicitly accepts major changes to Posts' value, scale and role

New digital services create the basis and political space for potential re-definition of the USO and enables significant cost savings to be made in a postal physical network mirroring the volume and nature of demand.

1. Drivers to Digital Innovation

1.1. A fundamental shift in mailing and communication behaviour has brought the development of digital services in the postal industry to the forefront. Physical mail is being challenged by range of digital channels and media which offer greater access, interactivity and mobility as well as substantial cost benefits and simplified business processes to postal customers.

1.2. Posts have responded by placing greater emphasis on the integration of physical and electronic systems including the development of digital to digital postal services. Postal service innovation in these areas is in its infancy compared to other business areas, with concepts and ideas evolving as Posts explore the market.

1.3. Over the past decade, postal strategy has focussed on achieving optimum operational efficiency. Re-structuring initiatives and investments have raised quality standards in delivery, to an increasing number of delivery points while reducing operational costs to postal operators.

1.4. Innovation in postal technology and human capital re-organisation have successfully mitigated ‘modest’ letter volume declines experienced as a result of electronic substitution, by capitalizing on increased productivity combined with price increases to postal customers. Today however, there is growing acceptance among industry stakeholders that incremental operating restructuring will not be sufficient to manage the challenges of radical volume changes experienced since 2008 (average 5.9% decline in mail volumes excluding CEP among IPC members between 2008-2009).

1.5. There is consensus among IPC members that posts have a role to play in digital to digital communication; a fast changing, fragmented competitive environment where telecommunication technologies and industries are converging and diversifying in order to fill the space of ‘secure digital communication’. Digital markets are still immature and uncertain and although much has been done in developing new services and adopting new technology, monetization strategies are less clear. Most Posts see the retention of a sender-pays model as the most viable pricing strategy but are exploring opportunities around click-through pricing, value pricing and building modular subscription services for consumers.

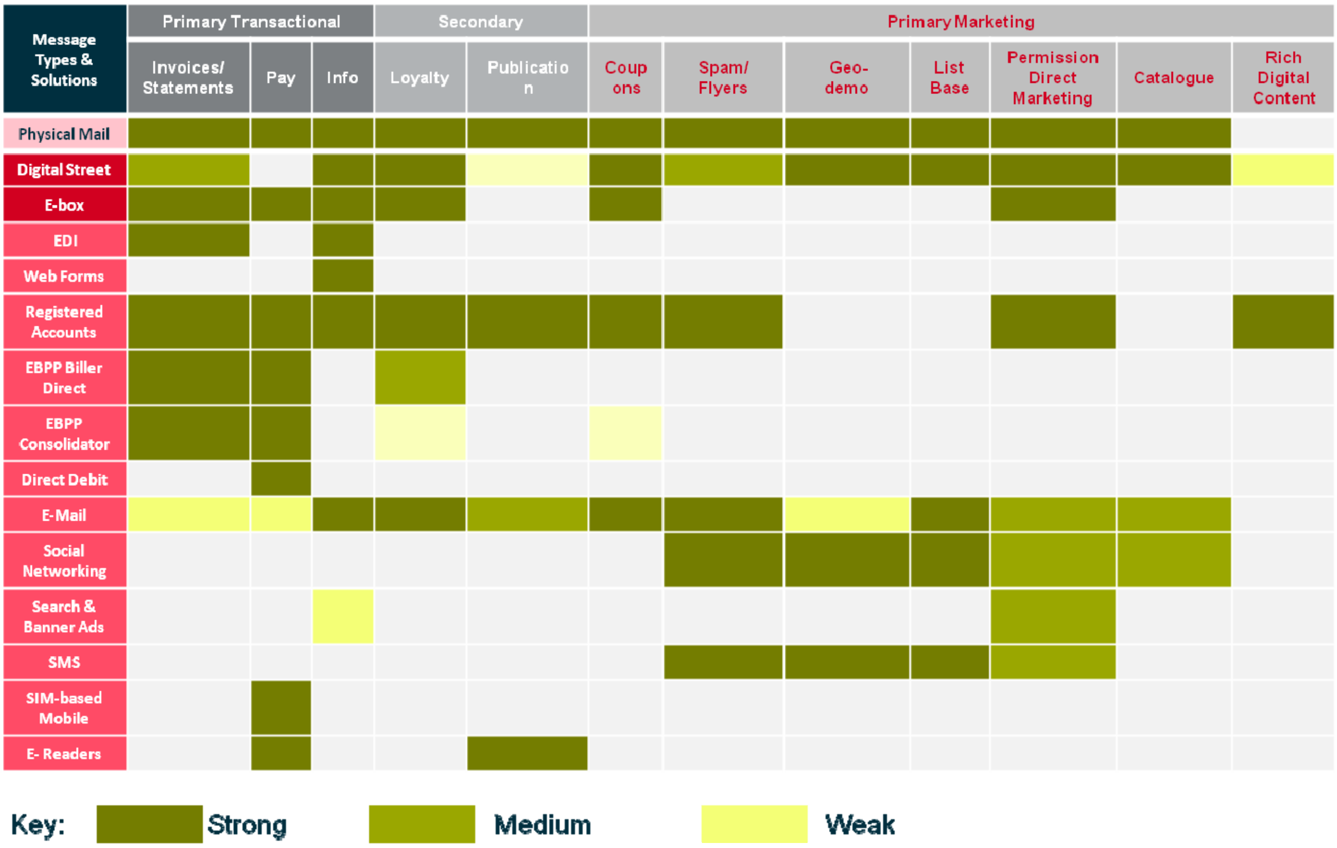
1.6. Innovating in the digital communication space has been adopted primarily as a ‘defensive’ strategy by postal operators with a view of retaining part of revenue which will be lost to digital migration (digital services offering lower revenues but higher margins). Increasingly and more urgently, ppostal operators are now looking to transform their businesses if they are to remain viable in the future.

1.7. Nevertheless, it is accepted that information technologies and communication behaviour among all in society, including governments, business and citizens, will change significantly in the next ten years, whether posts participate or not in the digital world.

2. Fragmented Communication Market and Technologies

2.1. The competitive context for postal products and services is becoming increasingly complex. The range of media choices for creating and exchanging document and text communication is growing exponentially. Transactional communication patterns are changing from a sender-push model to multimedia-pull channels. Senders and receivers have greater access to multiple digital infrastructures, applications, devices and communication experiences.

2.2. There are many competing channels, offering unique service propositions targeted at different types of mail, communication flows and user segments. The role of letters is likely to be very different in the next ten years compared to its broad range of uses today.



2.3. Current initiatives in service diversification in the Letters market have successfully created additional customer value by leveraging key postal brand assets of security, privacy and trust, supported by established efficient delivery networks services. Pertinent service diversifications achieved by the postal industry include:

- Mail room services, document management and outsourcing
- Print services - established hybrid and scanning
- Data management and outsourcing

2.4. The current and future challenge is to harness posts' traditional value in the economy as trusted intermediary and translate this into a credible digital platform. Success is not guaranteed but the decision not to innovate in the digital space implicitly accepts major changes to Posts' value, scale and role.

3. Postal Positioning in the Digital Space

3.1. Posts are exploring the development and integration of Electronic to Electronic (E2E) services in their portfolio. The integration of physical and electronic channels could create a new universal service platform where posts retain the role of intermediary and facilitator in communications and commerce.

3.2. Posts can build this market positioning based on existing customer relations but it is critical to obtain stakeholder credibility in the digital space. Few posts have been able to directly translate their trusted brand attributes onto the internet. Acquisitions, partnerships, subsidiaries and joint ventures are a way of developing competences and the brand values required to create a new portfolio of services.

3.3. Posts have begun work on converting their stand-alone, application-specific technology into integrated technology infrastructures capable of supporting a range of functions, activities and services. Now, the challenge is to bring to market relevant services and monetise these platforms in order to deliver the required returns on investment and a sustainable business model for Posts in the future.

3.4. New digital services enable significant cost savings to be made in a postal physical network, mirroring the volume and nature of demand thereby creating the basis and political space for potential re-definition of the current Universal Service Obligations.

3.5. The impact of digital postal services on the physical network needs to be managed in tandem with the yet unclear adoption patterns of postal digital services. Concerns relating to acceleration in mail substitution, margins levels and sustainability, stranded infrastructure, ability to manage changes to headcounts, labour contractual mix, conditions and work process remain to be addressed.

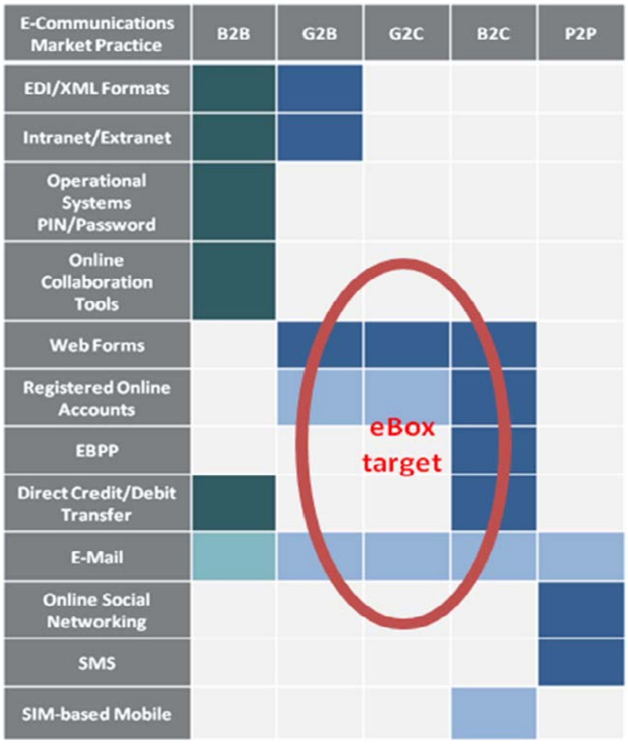
4. Value Propositions and Business Drivers

4.1. To succeed in the digital space, posts need to differentiate postal service offerings, with clear and compelling value propositions to both senders and receivers.

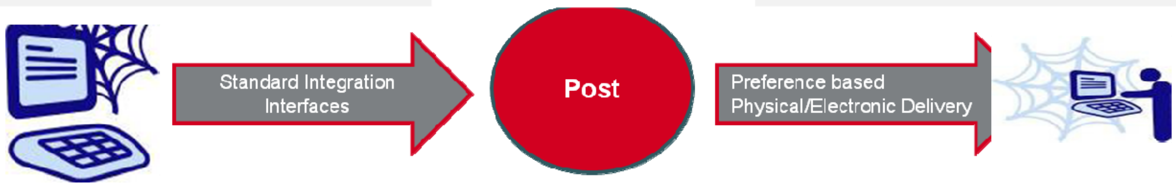
4.2. Business models and business cases remain unclear in terms of returns in the short and medium term. Experience shows that digital services will grow slowly at first, therefore posts and their stakeholders must accept realistic prospects for investment and return based on practical assessments of the time needed to achieve market penetration and adoption. Postal stakeholders will need to focus on long term value creation and operational sustainability over short-term gain.

4.3. Secure digital business-to-business information exchange and integration are already established based on EDI technologies and systems. Governments and business are looking to extend these digital information flows to citizens and consumers.

4.4. Broadly, eBox concepts are positioned as the essential platform in <u>secure digital transactional mail communication to end-consumers</u>. The technical infra-structure enables senders to manage multimedia message distribution and meets receivers' needs for a centralised space for the management and archive of transactional communication in the digital space.



Perception of Opportunity	Post	Post Vision
▪ Consumer moving to multimedia ▪ Spam Mail ▪ Use of employer's email ▪ Mail boxes inside web services are scattered & fragmented, with security & privacy worries (no Trusted Third Party) ▪ User unfriendliness	Create digital mail infrastructure	▪ All 'personal business' mail to **one digital mailbox** (bills, bank account statements, salary slips, tax correspondence, health care related lab results etc) ▪ Pulled permission based direct mail ▪ **Integration to various web services**



Value to Government and Citizens: Security via Trusted-Third Party

4.5. As e-Government policies and services mature, government agencies, certain professions (Health, Legal etc.) and national organisations such as lottery services will require intermediary services offering secure digital delivery to individuals. The authentication procedures linked to eBox registration provide viable certified personal digital identities which can be used to access multiple online applications, increasingly run in shared cloud infrastructures. Harnessing the need for proving identity in the digital space may provide new yet to be quantified revenue streams for postal companies.

4.6. As indicated by the experience of pioneering posts in eBox services (Posten Norden, Canada Post and Poste Italiane for example), the degree of government sponsorship is a key driver in the speed of market adoption and changes in behavior among businesses and consumers.

Value to Postal Customers: Cost-effective and flexible business processes

4.7. Businesses are seeking the lowest total transaction cost, while simultaneously improving transaction cycle times (e.g. E-billing discounts) and integrating messaging within CRM systems. The growth of the transpromo letter and hyperlinked invoice is testimony to this convergence.

4.8. Postal eBox services created around consumer-centered applications and database management solutions provide a platform for generating new revenues streams from business senders.

4.9. Increasingly, the analytical capacity within eBox solutions is leading service providers to look at how eBox could be used to support permission based direct marketing applications.

Value to Consumers: Security, Simplification, Convenience

4.10. Consumers' perceptions of value will rest on content availability, additional convenience, higher levels of security and privacy, and control over when and how they can receive information.

4.11. Simplicity in connectivity and registration as well as the ease of integration with existing ways of communicating in the digital world are key factors driving take-up by consumers.

4.12. The ability to aggregate and archive personal documents in a secure digital space is a driver for adoption as seen in highly digitized countries but this service has yet to be monetized. Receivers are currently unwilling to pay for memory-space on the internet. Security and identity-related concerns may alter this dynamic in the future.

5. Development of eBox Models

5.1. Three business models are emerging for postal eBoxes:

a) A closed system for authenticated electronic communication among verified registered users. Registration to the electronic mail box is based on proprietary authentication processes or acceptance of other sources of digital identities. It requires rigorous identification of senders and receivers, often including face-to-face authentication at postal counters.
This is the dominant model to date aimed at the secure transmission of transactional messages and archive management services. Value-added services (eg: payment services, uploading of documents) can be built on top of the network of identified users and provide additional revenue streams. Marketing communication is not currently envisaged in this model.

b) An open system based on providing identity and security over existing internet infrastructures. Senders and receivers are provided with individual digital certificates which allow access to a modular range of services, including electronic presentation of physical mail and secure e-mail delivery. Users pay a fee for the electronic authenticated certificate (which includes a digital signature) as well as charges based on usage.

c) Digital street address models are based on digitising mail to create an electronic mirror of physical mail addresses. This closed digital channel, separate from e-mail, identifies individuals by their link to a physical address. Authentication processes are not based on qualified signature standards.
Digital street address offers a way into electronic direct marketing and could open up new revenue streams for posts based on click-through pricing models. It has potential to facilitate hyper-local marketing (a digital marketing message sent to every resident in the local restaurant's catchment area, for example).

Zumbox is currently the leading software solution based on these principles.

5.2. To-date, developments in postal eBox services are targeted to domestic markets, with customer acquisition strategies focussed on major high volume transactional senders and government to citizen communication. Some services have been developed for niche segments of society such as expatriates. All authenticated eBoxes are based on a 'sender-pays' model, with basic services currently offered free to receivers.

5.3. At this early stage in market development, there is no common business model for migrating the post into the digital space and posts are at different stages in the development. Market maturity and e-government strategy are key factors in shaping compelling consumer drivers. Receiver adoption and regular use of the service is key to the long term success of eBox services. There is currently, no indication of which model will become the common industry norm.

6. eBox Development among IPC members

6.1. Posts are investing significantly in the development and marketing of eBox services. These services are still at the very earliest stages of market development and are seen as highly sensitive and competitive areas. There has been thus far very limited sharing of strategies, technology, know-how and successes between posts.

6.2. Currently, nine IPC members offer eBox services, with wide variations in terms of target users, market approaches and service offerings. These are documented in detail in 'IPC eBox Market Developments' available on www.ipc.be.

- The Nordic countries entered the transactional postal electronic services market at the end of 1990s and as the market matured, have achieved gradual growth in terms of users. eBoks offered by Post Denmark is the most successful example in signing up 30% of the population. This level of service penetration has accelerated growth and acceptance among the Danish population, leveraging network effects as the number of senders and receivers using the service increase. The success of eBoks is closely linked to the use of an existing and widely accepted digital identity (personal banking identity) and the strong e-Government policies introduced in Denmark.
- Five IPC members have launched eBox services in the past two years, three of which launched their service in 2010.
- Other posts are at different stages in developing their plans in this area.

IPC Member	eBox Services Status	Comments
An Post	Planning	• Reviewing e-Citizen concepts
Australia Post		
Canada Post	Established	• Extended EBPP offer • Online authentication

International Post Corporation

Correos		
CTT Correios de Portugal	Established	
Cyprus Post		
bpost	Established	• Services offered within Certipost business
Deutsche Post DHL	Introduced	• Authenticated users • eBox model • Face to face
Hellenic Post ELTA		
Iceland Post		
Itella	Established	• Authenticated users • eBox model • Uses bank identity
Groupe La Poste	Introducing	• Digiposte service launching Fall 2010
Magyar Posta		
New Zealand Post	Planning	• Exploring around the concept of digital street address
Norway Post	Planning	• Exploring authenticated closed systems based on multiple identification options
Österreichische Post	Introduced	• Acquisition-led • Initial focus around registered mail
Poste Italiane	Established	• Authenticated users • eBox model – Multi services • Face to face
P & T Luxembourg	Planning	• Exploring around eBox
Posten Norden	Established	• Authenticated users • eBox model • Uses bank identity
Royal Mail Group		• Exploring authenticated user model linked to digital letter box
Swiss Post	Established	• Suite of identity and secure services

TNT	Established	• Electronic presentation to receivers bank site for invoices only EBPP
USPS	Planning	• Reviewing digital street address concepts

Authenticated eBox services are also offered by non-IPC members such as Israel Post - Ipost

7. Consultation Process

7.1. Having identified eBox services as potential area for international postal innovation and collaboration (Expert Meeting – June 28 2010) and to further explore the potential of developing interconnectivity between the different models of e-Box services among its members, IPC undertook a detailed consultation process in order to assess value and need. The following activities were undertaken:

July – August 2010: Benchmarking postal eBox and Secure Identity developments

7.2. This information collection exercise was conducted in conjunction with Adrian King from Strategia and involved individual interviews with experts in digital services among ten IPC members.

September 2010: Establishing a framework for evaluating the value to Posts, customers and end-consumers in facilitating international eBox and secure identity services

7.3. This framework was reviewed and approved by participating Posts. The analysis included a range of roles for IPC in bringing value to members in this area.

24 September 2010: Digital Services Workshop

7.4. This one day workshop centred around reaching consensus on the value of establishing international e-Box and Secure Identity services and the different roles for IPC in supporting members achieve these goals.

7.5. These additional activities requested by the IPC Board were funded from a central budget ‘Innovating for Profit’.

8. Future eBox Business Drivers

8.1. Interviews conducted in the context of preparing this business case review indicate that a key value in market adoption is a focus on receiver functionality and services. As technology development and adoption accelerates, the competitive context for eBoxes will continue to evolve. Directly comparable services to postal eBoxes are very limited, but there are significant developments around the target functionality. Competing developments tend to be software not service based.

8.2. As Posts continue to invest in, experiment in and bring to market eBox solutions, eight important market development and commercial considerations need to be addressed at an industry level:

- Is there a demand for integrated physical/electronic communication services and how big is the opportunity?
- Will the current non-integrated communication services be sufficient to meet market demand?
- What type of eBox model is likely to win market share and drive revenues?

- What are the core aspects of the value proposition which will drive adoption?
- What are the critical technical, marketing and political sponsorship factors which will drive adoption?
- How can existing digital adoptees be converted from new competitive digital solutions to postal digital solutions?
- How to future proof concepts against significant technology change?
    - Embedded security/authentication in existing applications
    - New digital paradigm of social media and smart phones
- Digital identification in cloud computing environments
- What are the opportunities to create international linkages between different domestic systems?
    - Business value
    - Acceptable business process and technical standards
    - Infrastructure services
    - Emergence of UPU dot.post

9. Outcomes from Consultation Process

9.1. In its capacity as intelligence provider to the postal industry, IPC published in October 2010, a series of documents relating to Digital Services, which are available to all members at www.ipc.be

- Developments in Postal Digital Services: A Review of Business Innovation in e-Services
- IPC e-Box Concepts and Market Developments
- IPC e-Identity Concepts and Market Developments
- Value of International e-Services and Potential Roles for IPC

10. Need and Value of International Interconnectivity

10.1. IPC members that participated in the consultation process agreed that in these early stages of market development for postal eBoxes, the market focus is primarily domestic.

10.2. No specific customer or consumer value propositions for international services in eBox were identified. At this time, there is no requirement for implementing a connecting infrastructure between current postal e-Box models.

10.3. Nevertheless, the need for urgent and intensive cooperation in this highly competitive market was recognised. Several IPC members, having made significant investments in upfront technological development costs, are looking to gain from this investment by selling their eBox solutions to other postal operators.

10.4. Developing an understanding of the commercial opportunities created through interconnection would add-value to individual members' initiatives. Defining the principles of how to achieve technical and legal interconnection of different eBox services is perceived by members as a valid and cost-effective product development exercise.

10.5. The need for an industry-wide consumer-value proposition linked to eBox services was identified as this would support the adoption of eBox services on a domestic basis.

11. Key requirements from IPC members

11.1. IPC is required to work as a catalyst and facilitator to address the varying needs within the membership. Requirements identified by IPC participants centre on research and sharing of market intelligence both internal and external to the postal industry:

- Leveraging strategies, learning, experience and technology from within the postal industry
- Understanding the competitive technological context in which eBox services will develop in the future
- Share learning related to re-structuring the physical postal networks as digital services expand

11.2. The following four specific areas for support and information were identified:

- Facilitating the development of an industry-wide consumer value proposition for eBox services
- Understanding the international legal framework regarding electronic communication / permission marketing
- Understanding and benchmarking the external competitive context both in terms of communication platforms used by consumers and the adoption and growth of future technologies
- Understanding the position and credibility of the postal brand in the digital world

12. Future Activities for IPC in 2011- 2012

12.1. In response to the member needs identified in the consultation process, IPC will continue its information support with regard to digital services in general, as well as with a specific focus on the development of electronic services linked to eBox services.

12.2. Specifically, the following activities identified as priorities align with IPC current role and strategy for delivering value to members by sharing postal knowledge and as such these have been integrated in the IPC 2011 Business Plan:

- 1 SEF on Electronic Products in March 2011
- 1 Strategic Insight publication in 2011
- Further development of a dedicated section 'Digital Electronic Services' under the Market Intelligence at the IPC web-centre (www.ipc.be) as a platform for information sharing and collaboration.

12.3. To meet the more specific needs for information and collaboration in the area of Digital Electronic Services, IPC proposes to identify in conjunction with members, specialist partners or contractors able to provide the required expertise. This collaborative work will benefit the postal industry as a whole as well as raise its profile as a digital player. IPC members will gain as these external costs will be shared and not replicated.

12.4. Specific activities which IPC will undertake in 2011 include:

- Continued collaboration with The Massachusetts Institute of Technology (MIT) Center for Digital Business, investigating and understanding the wider development of technology and digital platforms across different industries.
- Research in the consumer value proposition and the market potential for international communication flows targeted by postal eBox services. This includes reporting on market metrics such as commercialisation strategies and pricing sales strategies.
- A detailed study of the technical aspects of the eBox solutions currently being developed and implemented in order to assess the opportunities for sharing solutions across countries.
- A study of potential international regulatory and legal issues when it comes to international exchange of digital mail.

13. Resources required from IPC

13.1. IPC will identify interested members to participate in a Steering Committee for Digital Services. This committee will provide expertise and direction to IPC as its activities unfold during 2011.

- IPC will leverage the contacts and experts within member organisations thereby ensuring non-duplication and effective use of resources.
- IPC will report on its activities in Digital Electronic Services twice a year to the IPC Board.
- IPC will continue to build a collaborative and effective relationship with the UPU in this area.

14. Budget

14.1. The investment required to support these activities in the area of Digital Business Development is already covered in the Innovating for Profit budget in 2011.

15. Risks of not taking action

15.1. As illustrated in this document, postal operators have committed significant investment to the addition of Electronic to Electronic (E2E) transactional services in their service portfolio. To date, a wide range of value propositions and technological platforms have been developed and brought to market. Services have been shaped to address the needs of postal customers, within the context of domestic communication frameworks and regulatory environments. Without a broader coherent industry-wide positioning, the future success of these innovations may be limited. Governments, businesses and consumers needs and expectations for seamless secure digital communication are likely to grow and the postal industry will be required to respond in order to remain relevant to the communication needs of tomorrow.