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Achieving High Performance in the Post and Parcel Industry

Accenture Research and Insights 2015

Contents

Foreword

The last mile is under attack. In a seismic market shift, we have moved from integrators and postal companies competing for market share, to extensive experimentation and significant venture capital for last-mile delivery start-ups. Ironically, these start-ups are powered by the same technology that is fueling the parcels eCommerce boom—better smartphones connected by faster networks and driven by lower cost cloud platforms. Digital is at their core, which means these players can respond in a way that is inherently nimble, consumer-centric and flexible—aspects that traditional players struggle to maintain. While these resultant new business models are experimental, they can have a dramatic impact in a world of big bang disruption. "Wait and see" is simply not an option.

This situation is fed by fast-changing retail models focused on speed. Retailers such as Google and Amazon[1] are building nearby fulfillment centers. Traditional brick-and-mortar businesses have entered the fray, recognizing that their stores are effective local fulfillment centers. In this way, a network is far less important than effective last mile delivery and retailers are readily embracing the speed and features provided by these new models. Large retailer Macy's, for example, has partnered with Deliv to offer fast, local deliveries from their stores.[2] This demand for speed is also creating shorter, bigger peak periods, where the capacity of existing networks is simply overwhelmed for short, but important time frames. With retailers adapting their shipping models and eCommerce creating significant changes to customer expectations and demands, it is small wonder parcel delivery is under threat.

Traditional players be warned: strategies are being upended. Historically, density has been king as post and parcel players worked to fill their vast networks and grow volumes. Now, flexibility matters—perhaps far more than network size. Non-traditional players can scale their networks up and down rapidly to suit market conditions, shedding excess capacity when they no longer need it and drawing on extra capacity to meet high demand. Such agile competitors can cherry pick where and when they serve, riding the waves of volatility that business-to-consumer parcel volumes dictate.

Digital is the powerhouse. Our analysis shows high performers in the post and parcel industry are taking advantage of digital technologies, such as mobility and analytics, to accelerate the pace of change, enable new competition, inspire new consumer expectations and, perhaps most importantly, drive growth in parcel volumes. Now, more than ever, it is important to not only embrace digital but to be digital. Yet as our new digital performance index and 2015 research shows, being digital is no easy task for post and parcel organizations.

I am excited by the opportunities of these changing times. With the right digital investments and bold moves, our research shows post and parcel organizations can compete effectively in the marketplace. These early successes offer evidence that it is possible for post and parcel organizations to not only navigate the digital transformation necessary for long-term survival, but also to thrive in the new eCommerce-driven marketplace. I look forward to discussing these findings with you in the coming months.

Brody Buhler

Brody Buhler

Global Managing Director
Accenture Post and Parcel

Executive summary

In last year's postal report we identified that high performers maintain three strategic priorities: defending the core business, growing the parcels opportunity, and diversifying selectively across their retail, logistics and delivery networks. They execute these priorities within the context of being a digital organization.[3] In 2015, our top five performers—Singapore Post, bpost, Posten Norge, UPS and Poste Italiane—are employing these successful strategies to place them ahead of the rest.

High performer highlights

Defending the core business

Despite its steady decline, mail is still the largest revenue generator for most post and parcel operators and a critical source of cash for future investment. High performers continue to defend their core business to deliver strong mail profitability. They invest in product innovation to add value and slow mail volume declines.

Investing in the parcels opportunity

High performers show they can grow parcel revenues through capturing market share and smart pricing. They continue to exploit parcel revenues by rigorously focusing on improving the profitability of B2C deliveries, while at the same time stimulating the growth of higher margin B2B deliveries.

Diversifying selectively

High performers are growing their logistics business; eight out of the top 10 post and parcel organizations choose logistics as a core diversification strategy. They also adopt a commercial mind-set and business-oriented culture which tends to be catalyzed by privitization; 60 percent of high performers are privatized, versus only 10 percent of the bottom 10 performers.

Being digital

Digital is clearly a game changer, whatever the industry. Successful digital investments so far are primarily focused on managing costs and improving productivity. Now, the focus needs to turn toward investments that generate revenue. We created the Accenture post and parcel digital performance index to evaluate companies according to their current digital capabilities and identify the gaps required to make digital "business as usual."

Strategic priorities

Our research shows there are three critical areas on which post and parcel organizations should focus to deliver high performance. First, they need to seek out monetization of the digital opportunity, going beyond productivity and cost cutting to profitable digital solutions that drive topline growth. Second, they need to implement strategies that address new retailer and consumer demands while achieving some of the same nimble scalability as the new market entrants to win the battle for the last mile. Finally, they must recognize that eCommerce-driven, cross-border transactions present both an opportunity and a challenge, reducing transaction complexities and investing to deliver an international strategy that addresses market entry, product features and competitive position.

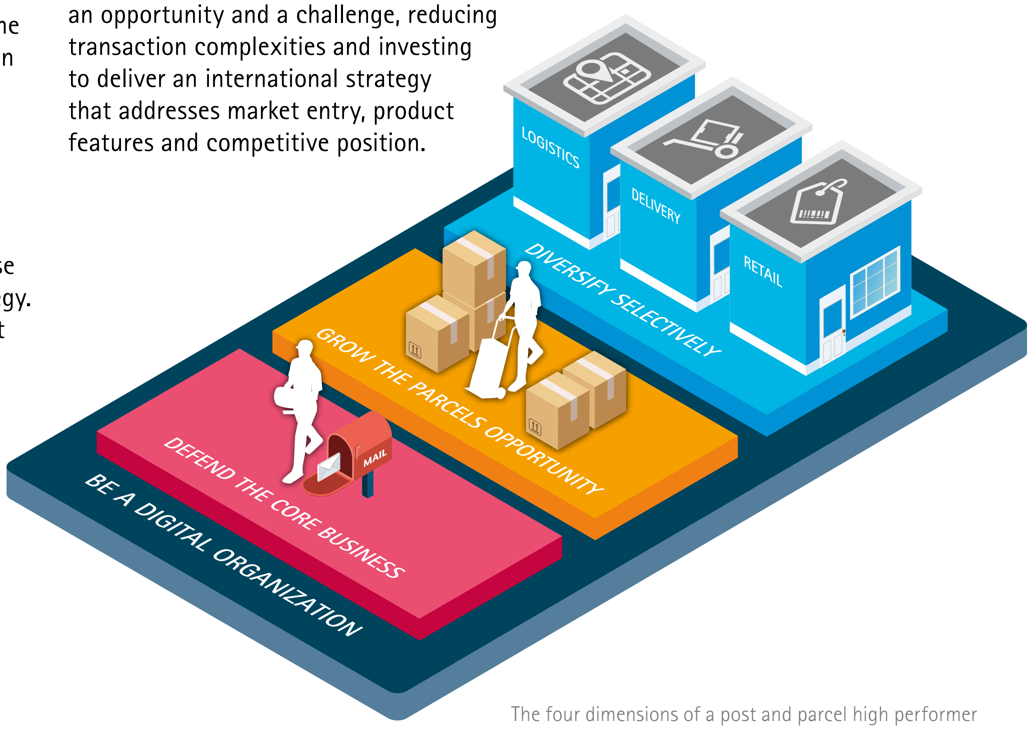
On the horizon

Internet of Things (IoT)

The IoT has the potential to create new sources of revenue—not only by embedding digital technologies within the organization, but also by extending into a broader digital ecosystem of customers, partners and connected products. Post and parcel organizations could use the IoT to create new data-driven businesses and unprecedented improvements in the customer experience.

Drones

As we have seen in the media, over the past 18 months there has been a significant increase in drone experimentation, with rapid progress in applications for autonomous drones (unmanned aerial vehicles) in logistic operations. Irrespective of autonomous drone delivery becoming a reality, drone applications are becoming more mainstream—and could play a key role in other solutions post and parcel companies will need, such as monitoring delivery conditions.



The four dimensions of a post and parcel high performer

State of the industry

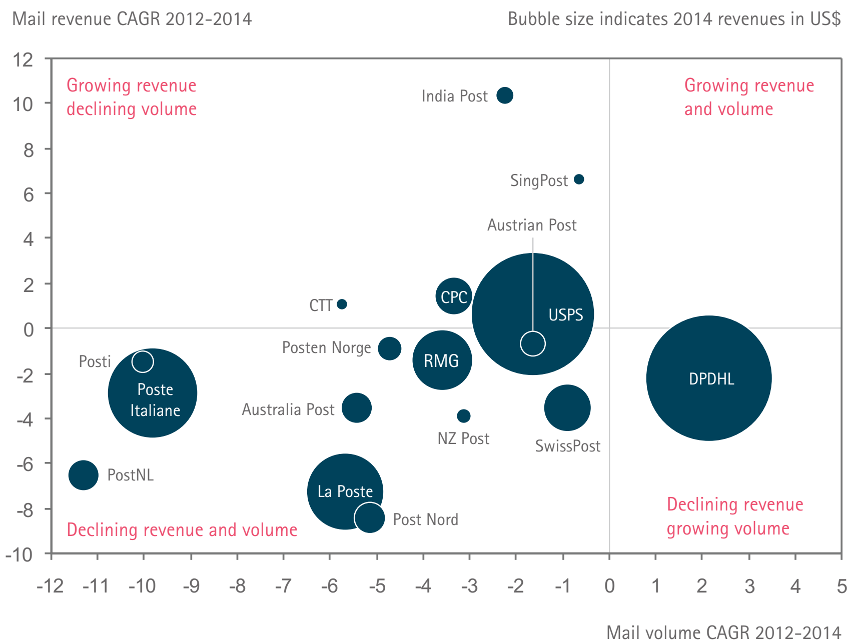
Now in its ninth year, the Accenture in-depth analysis of the post and parcel industry explores the market's latest trends and opportunities.

The following factors are influencing the post and parcel industry:

Mail volume decline is reaching a plateau

From 2013 to 2014 mail volumes declined by a mere 1.6 percent and have declined globally at a compound annual growth rate of negative 2.6 percent since 2010 (Figure 1). All countries are experiencing a decline in transaction mail while direct marketing mail is more stable and growing in some regions. Indeed, postal organizations have effectively maintained or grown mail revenues, primarily through price increases (Figure 2). There are interesting regional differences; some operators such as DPDHL or Swiss Post saw minimal to no declines, while other countries, such as Italy and the Netherlands with Poste Italiane and PostNL respectively, lost mail volumes at troubling rates. Some postal operators have launched regional cross-border mailing products, adding volume from other countries to help create successful, sustainable mail businesses. New entrants are only threatening the traditional players' market share in countries that have historically lower mail service quality. As a result, competitive erosion appears to largely be within each organization's control.

Figure 2. Mail revenue versus mail volume growth: 2012 to 2014

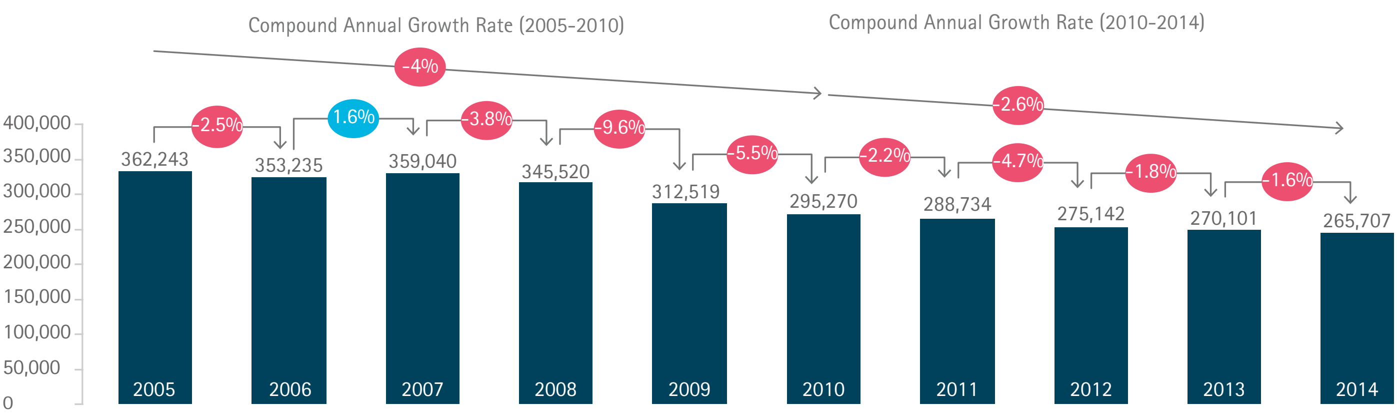


Note: CAGR: Compound Annual Growth Rate

Source: Annual reports; Accenture analysis

Figure 1. Evolution of mail volume (in aggregate)

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



Note: 1. Sample size 19 postal organizations included; 2. Retroactive adjustments based on new volume data were made to the model.

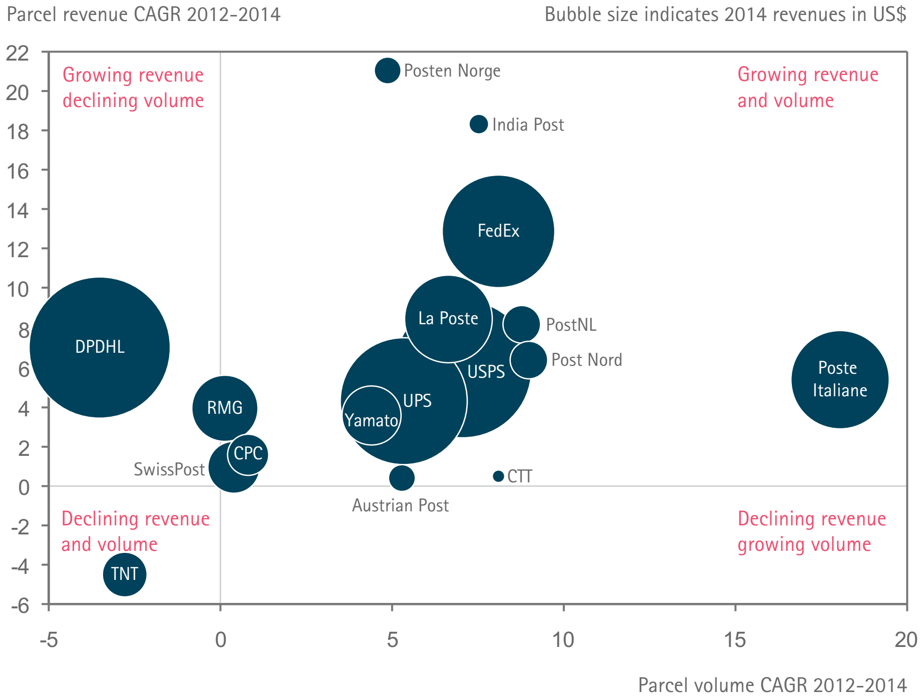
Source: Annual reports, Accenture analysis.

The parcel business is recalibrating

After the drop in revenues and volumes due to the economic downturn in 2009, parcels continue to present a path to sustained revenue growth (Figure 3). From 2013 to 2014, we saw healthy parcel volume growth of 5 percent—slightly slower than the compound annual growth rate since 2009. Meanwhile parcel revenue growth has slowed significantly over the same time period to 4 percent, roughly half the growth seen over the previous few years, as pricing pressures increase. Overall, revenue and volume growth was relatively balanced across organizations, as Figure 4 illustrates, with only two organizations experiencing declining parcel volumes.

The growth story in parcels is clearly driven by eCommerce. A recent worldwide study found that eCommerce sales have experienced double-digit growth in virtually every country.[4] This industry trend is creating substantial change within the parcel delivery market. Overall, parcel yields are declining as parcels are becoming smaller, lighter and travel shorter distances—creating a move from air to ground transportation that appears set to continue. We also see an average lower number of deliveries per stop (as the mix of parcels shifts to B2C) and higher variability in parcel volumes over the course of the year, with more peaks and troughs.

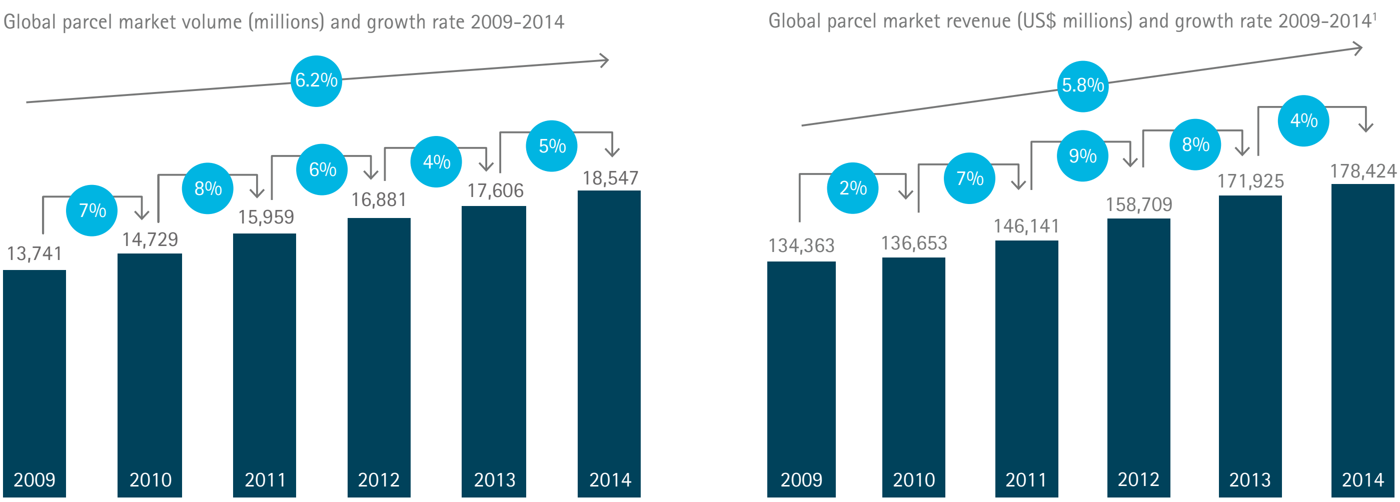
Figure 4. Parcel revenue versus volume growth: 2012 to 2014



Note: 1. CAGR: Compound Annual Growth Rate, Revenue parcel CAGR was calculated in local currency

Source: Annual reports; Accenture analysis

Figure 3. Accelerated growth of parcel revenues



Note: 1. Sample size 16 post and parcel organizations included for the parcel analysis

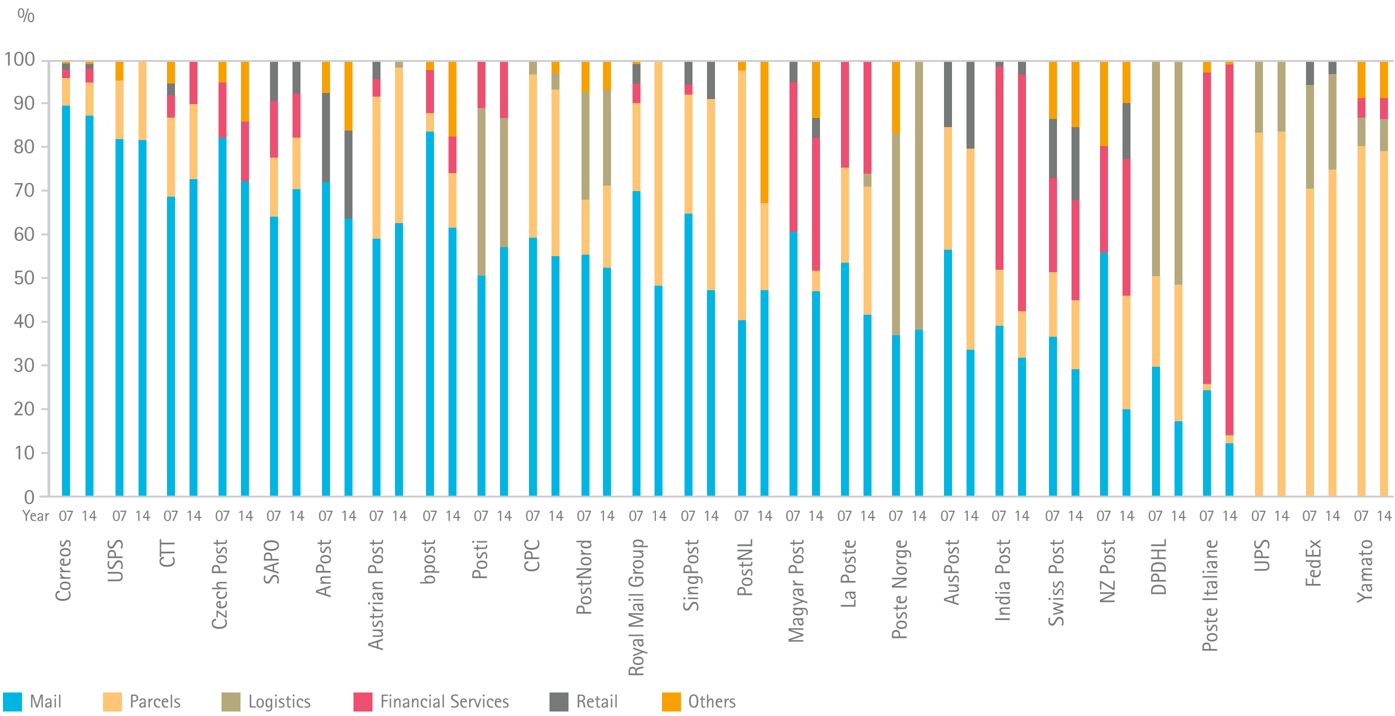
Source: Annual reports; Accenture analysis.

Revenues are in constant 2009 euros to avoid any currency bias

Diversification strategies are no longer optional

According to the 2015 analysis, mail continues to decrease as a percentage of postal revenues. In 2007, mail comprised the majority (55 percent) of total revenues; today, it has slipped below half at 44 percent. As post and parcel organizations evaluate their overall business strategies, they are successfully finding growth and profitability in areas both near and far from their historical, core business. Consistent with previous years, investments (primarily in retail, logistics, banking and insurance) continue to grow as a proportion of total revenues (Figure 5).

Figure 5. Revenue diversification by type of services: 2007 to 2014



Note:
1. Sample size includes 26 post and parcel organizations.
2. The number of categories may differ from one year to the next due to demergers, reorganizations and/or availability of information.
3. If 2014 data was not available, 2013 data was used.

Source: Annual reports; Accenture analysis.

High performer highlights

The 2015 analysis illustrates how three strategic priorities are critical to high performance.

Defend the core business

High performers are driving strong mail profitability

Declining mail volumes mean that postal organizations have long focused on reducing fixed and operational costs, increasing automation and exploiting assets. As the largest revenue source for many of the organizations we studied, mail performance remains critical. Our research shows that high performers are far more successful at driving profitability in their mail business with an average earnings before interest and tax (EBIT) of nearly 11.1 percent—more than five times higher than the average profitability of the bottom 5 performers (Figure 6). In part, these results are due to smart pricing, with several high performers implementing significant price increases, finding success as they test the elasticity of mail. For example, Portugal's CTT has increased the price of a domestic 20g letter from US$0.35 (€0.32) in 2012 to US$0.50 (€0.45)[5] in 2015, an increase of 40 percent.[6]

More importantly, high performers rigorously focus on cost reduction by:

Defining labor strategies that control wages while creating flexibility

High performers are effectively working with their labor unions to redefine the work day and workforce, creating much-needed flexibility. They are also aggressively experimenting with new labor models that create a lower-cost, more easily adjusted labor structure.

Emphasizing efficiency and automation

High performers strive to reduce per piece costs, from processing operations to delivery. They pursue automation opportunities and use analytics to identify inefficiencies. For example, SingPost is achieving world-class automation rates while reducing processing times.[7] bPost, through its Vision 2020 plan, is also driving further operational efficiencies in its sorting plants through investments in automation. bPost is in the process of consolidating 400 local mail offices into 60 mail centers.[8]

Experimenting in the delivery mode

High performers increase the type and number of items that are delivered to curbside boxes, as well as shifting deliveries to more centralized community boxes. For example, Austrian Post Group has successfully achieved significant synergies by delivering small packets using its mail network. This shift increases the number of deliveries per stop without affecting delivery time or efficiency.[9]

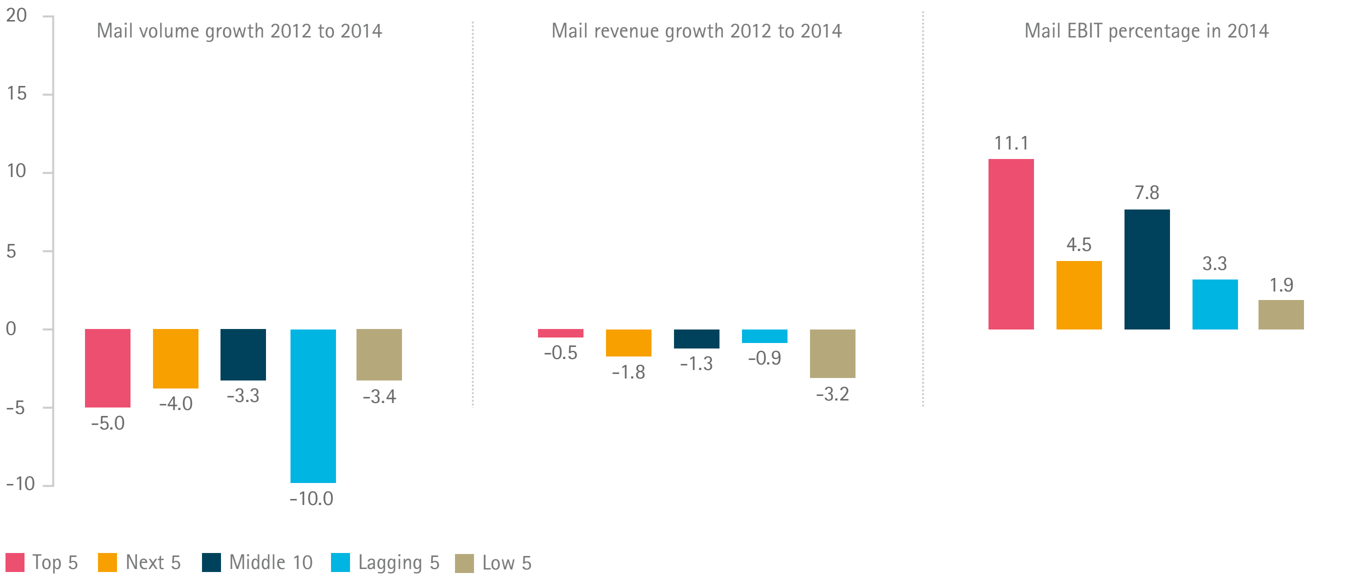
Redefining the universal service obligation (USO)

High performers are aggressively and successfully negotiating with their regulators for a USO that meets the new reality of consistent mail declines and establishes a sustainable foundation for universal service. For example, CTT in Portugal recently obtained amendments to certain parameters, such as the quality and objectives of its universal service, for the period 2015 to 2018, in addition to approval to increase prices above those granted by their regulator.[10]

High performers invest in mail innovation

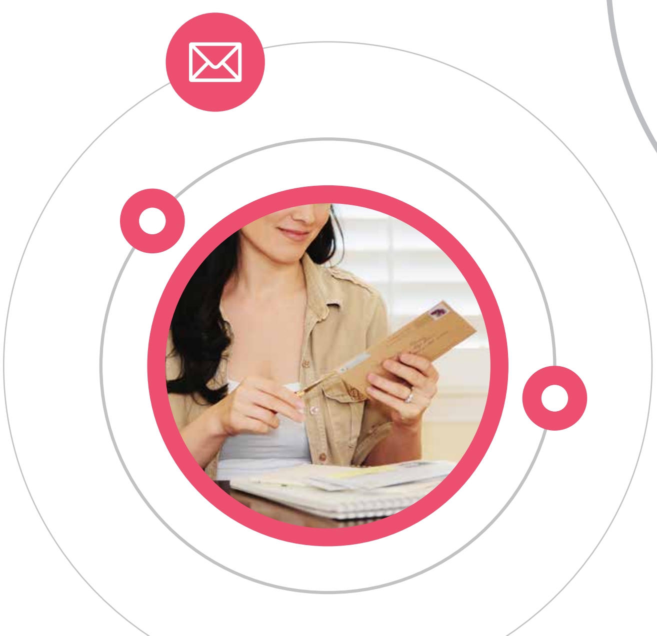
High performers are successfully slowing the decline of mail volumes and actually growing marketing mail volume in some locations through innovative practices. They combine digital with physical to create new marketing solutions that have a measurable return on investment. A good example is the Postgeo solution at Austrian Post Group, designed to help businesses develop targeted advertising mail campaigns online. Postgeo's digital interface complements a physical product to help drive higher returns.[11] Another example is Australia Post's MyPost. The MyPost solution is a platform and mobile app that creates a digital mailbox for consumers while also allowing them to manage their deliveries. The digital mail features in MyPost provide consumers with an electronic version of their mail and offers basic mail management functions such as mail hold, redirection, or archive at discounted prices. MyPost also offers parcel functions—such as preferences, notifications or delivery options—as a single, integrated solution to consumers.[12]

Figure 6. Mail volume growth, revenue growth and earnings before interest and tax (EBIT) by performer group: 2012 to 2014



Note: CAGR: Compound Annual Growth Rate

Source: Accenture analysis



Invest in the parcels opportunity

High performers win the race to revenue by exploiting eCommerce trends

As shown in Figure 7, the top ten performers have achieved significantly better parcel volume and revenue growth than all other groupings. More importantly, a clear correlation emerges between parcel volume and revenue growth—through capturing market share and smart pricing—and high performance.

High performers take full advantage of market changes driven by eCommerce—specifically the following trends:

mCommerce-driven consumer expectations

Today, purchases made on smartphones and tablets represent more than 25 percent of all eCommerce transactions. Shippable mCommerce (online smartphone and tablet purchases, excluding travel and digital goods like apps) is estimated to grow by 46 percent in 2015, reaching more than half of all eCommerce purchases by 2018.[13] mCommerce is changing consumers' expectations of the eCommerce experience. In particular, consumers want the delivery of their mCommerce purchases to be just as digital as the purchase itself, with the ability to manage delivery with the same device. High performers, such as UPS (MyChoice),[14] FedEx (Delivery Manager)[15] and Australia Post (MyPost),[16] offer solutions that enable their customers to easily manage the last mile of their deliveries. While these solutions create an opportunity to capture revenue from consumers, a critical motivation is to drive market share from the growing number of mCommerce purchases.

Cross-border growth

Cross-border eCommerce is growing at nearly twice the rate of domestic eCommerce in most markets.[17] High performers see the opportunity and have invested in cross-border solutions. FedEx, for example, recently purchased Bongo to improve its cross-border capabilities and provide parcel consolidation, total landed cost, and delivery duties paid solutions.[18] Top five high performer, bpost, has established offices in Hong Kong, Beijing and the United States as well as purchasing Landmark Global[19] as part of its strategy to become the portal into the European Union.

New delivery options

Retailers and e-tailers invest heavily in solutions that enable customers to start and complete a transaction across all channels. Research shows that 56 percent of retailers invest in omnichannel solutions that enable ship-to-store. Forty-one percent of consumers consider alternate delivery options important or very important to their buying decision.[20] High performers implement their own delivery alternatives. For example, SingPost has undertaken new locker experiments, investing in the eCommerce value chain to enable a more end-to-end eCommerce solution.[21] Posten Norge has 42 secure electronic parcel lockers (KePol models) located in seven of its largest cities.[22]

High performers drive better B2C margins while stimulating B2B growth

Industry players understand the fundamental challenges created by the surge in B2C eCommerce volumes. While offering significant growth today and for the foreseeable future, B2C packages are much harder to deliver and, as a result, contribute significantly less to the bottom line. Our research shows that this realignment of volume mix away from B2B toward B2C is likely to reach a tipping point in 2020 when B2C volumes may exceed B2B volumes for the first time. Yet the majority of revenue is likely to be generated by B2B parcels over the same time frame (Figure 8).

For parcel companies to manage the margin challenges created by one-to-one consumer deliveries, and postal companies to tackle the specialized requirements of business deliveries, they must both blur the lines of traditional services. High performers are successfully creating new models that deliver better B2C profits while focusing on offerings that stimulate B2B growth:

Premium B2C

High performers successfully experiment with models that drive more revenue from B2C deliveries. Some of these experiments, like bpost's Combo[23] solution, seek to create a new delivery experience that is far more in the consumer's control and combines new, value-added deliveries (such as local products and laundry services) with standard deliveries. Other solutions, like UPS My Choice,[24] offer to accelerate and enhance the delivery experience for a small fee.

One-to-many B2C

High performers invest in solutions that convert a single-parcel B2C delivery into a multi-parcel delivery, creating economics that are more like a traditional B2B delivery. These solutions create consolidation points, such as lockers, pickup locations and alternate access points.

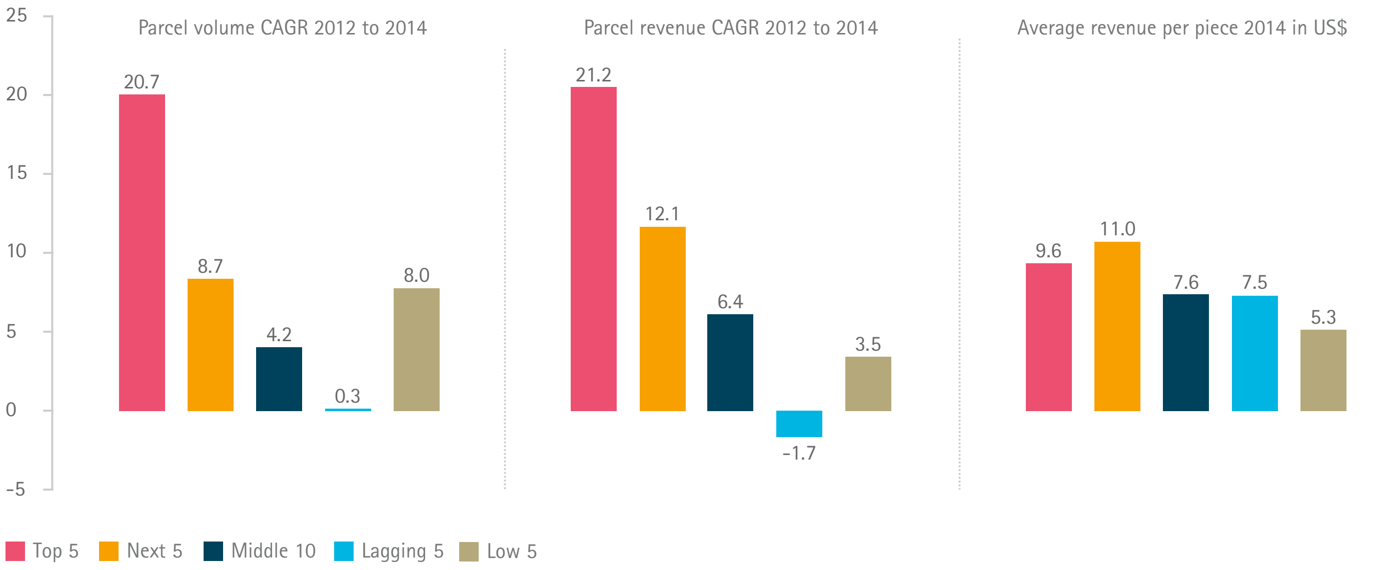
No-frills B2B

High performers offer low-cost, less specialized services to businesses. For example, FedEx announced in June that all of the increases in capital expenditure would go to FedEx Ground, which has grown its revenues by nearly 36 percent from 2012 to 2015, largely as a result of eCommerce and the shift from overnight to ground in B2B.[25] Austrian Post offers premium and standard parcel products specifically targeted to B2B customers; these products offer tracking and delivery in one or two days but without the money-back guarantee and noon delivery of the Express Mail Service (EMS).[26]

Vertical specialization

High performers stimulate growth by developing services to differentiate in vertical markets. These new solutions craft distinct value propositions for different industry segments to attain differentiation in a highly competitive market that attracts market share while also creating expanded margins. For example, UPS Supply Chain Solutions offers special shipping facilities for healthcare and Posten Norge offers frozen storage with the latest technology through its Bring[27] service.

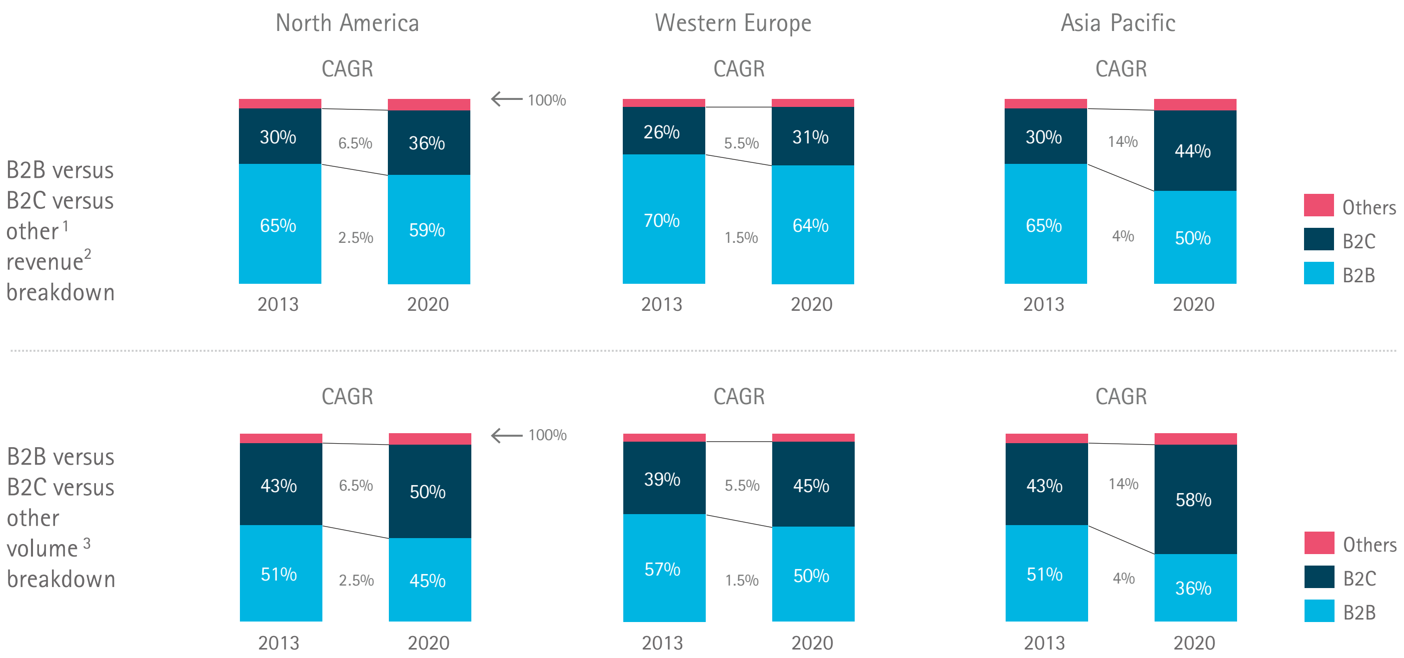
Figure 7. Parcel volume growth, revenue growth and yield by performer group: 2012 to 2014



Note: CAGR: Compound Annual Growth Rate

Source: Accenture analysis

Figure 8. The shift from B2B to B2C: 2013 to 2020 (Forecast)



Note:
1. Others represents Consumer to Consumer and Consumer to Business and Government to Consumer and Government to Business.
2. Revenue breakdown based on US$ value of the market
3. Volume breakdown based on B2C and B2B average yields
4. CAGR: Compound Annual Growth Rate

Source: Accenture analysis and Accenture global parcel modeling tool

Diversify selectively

High performers expand their logistics businesses

Logistics is the clear winner in diversification strategies, with eight out of the top 10 organizations in our study focusing primarily on logistics. While significant investment and revenue still flow from other diversification areas, for the first time it appears that the chosen diversification strategy matters. High performers take advantage of their existing asset base and expand into upstream and downstream services that complement the core transportation and logistics business. This "new normal" in the post and parcel industry creates a more complicated industry value chain than the historic induct, process and deliver approach (Figure 9).

High performers tend to offer solutions further up the supply chain, providing marketplace, payment, fulfillment and warehousing solutions to help meet customer needs and capture a greater share of wallet. For instance, SingPost's vision is to become a regional leader in eCommerce logistics.[28] These logistics solutions include air and sea freight, warehouse and inventory management as well as downstream logistics, such as returns management.[29] FedEx recently bought GENCO, a company specializing in warehouse and distribution center operations and returns management.

High performers play to their strengths, understanding that their skills and culture align well with a logistics business. To scale quickly and acquire unique skills, high performers are acquiring capabilities in the market and then strategically integrating them into their existing networks. For example, bpost has made several acquisitions, such as CityDepot,[30] to obtain deep logistics knowledge for cross-border (customs brokerage, freight) and in-city parcel deliveries.

High performers adopt a commercial mind-set and business-oriented culture

Ten years ago, post and parcel organizations operated in a less competitive landscape using very different models. The growth of parcel volumes and declining opportunities in their historic business areas has created a new market dynamic that requires a different mind-set, culture and speed. Nothing has served as a better catalyst for that transformation than changes in ownership models. Our research shows a strong correlation in the last two years between privatization and high performance. This year, 60 percent of the high performers are privatized, versus only 10 percent of the bottom 10 performers. For example, the most dramatic change in the research ranking status is CTT in Portugal, up 15 places in the ranking largely due to the improved profitability it has achieved since privatization.

Our analysis shows that privatization itself is not essential; rather, it is the mind-set that comes with being a commercially-focused operation which makes a difference. High performers use customer needs and shareholder value as business drivers. Four core characteristics define this culture and approach:

1. Broader decision making

High performers tend to expand into any business that drives profitable growth and is margin accretive. In the case of Poste Italiane, an aggressive diversification strategy into banking, insurance and mobile virtual network operator (MVNO) businesses has resulted in growth and strong performance.

2. A regulator that is focused on sustainability

A regulator does not necessarily make a high performer, but it can be a driver of poor performance. When a regulator restricts operations and the response to structural market changes, postal organizations tend to operate at higher costs or sustain business models that would have otherwise changed naturally through market forces. In short, regulation is less about control, and more about a lack of control for the postal player.

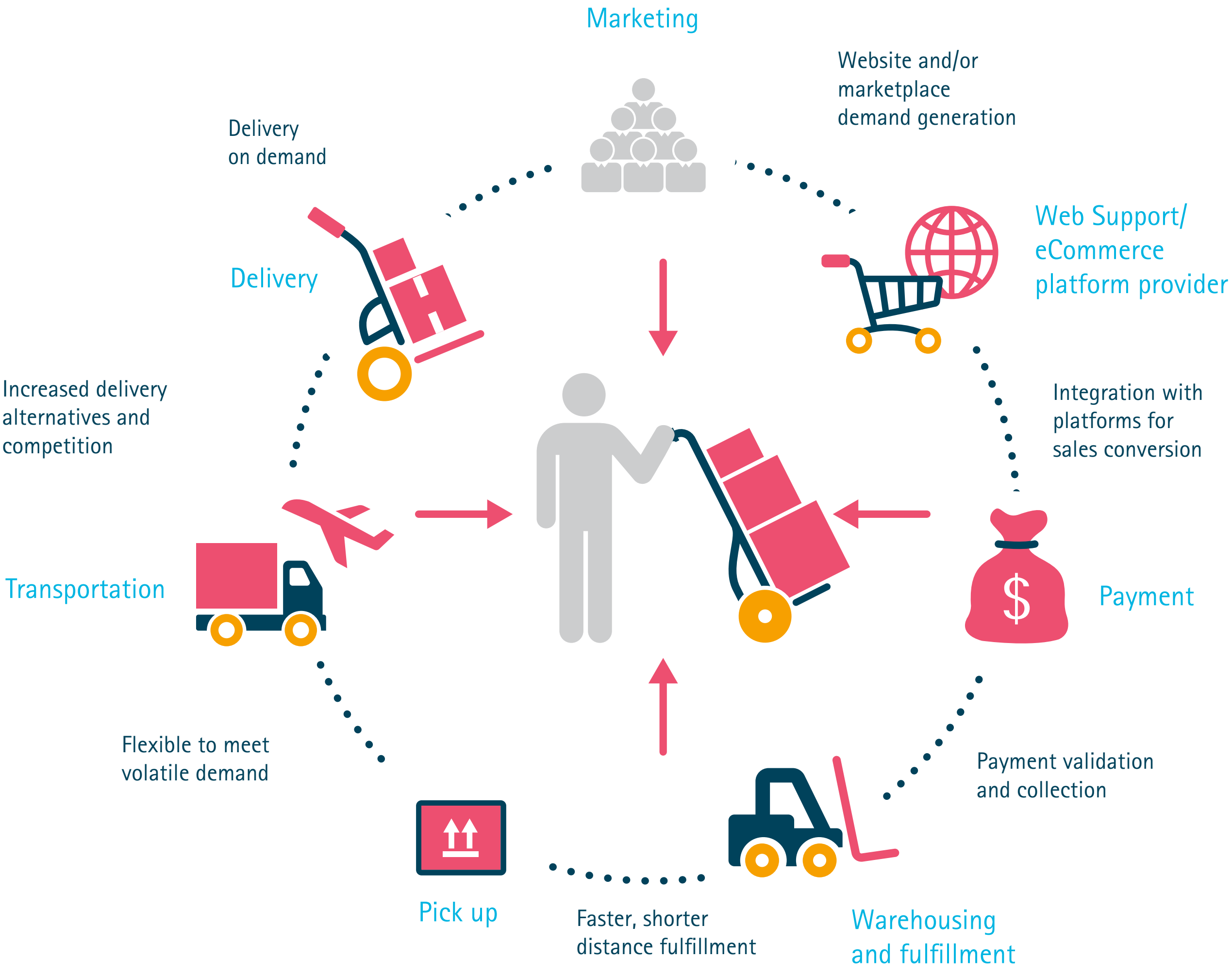
3. Acquisition authority

High performers acquire companies as and when they are needed, based on a clear business case. For example, Australia Post has purchased StarTrack, noted as "part of an A$2 billion investment in Australia Post's national logistics and retail network which will accelerate the creation of a world class parcels network to help drive the digital economy."[31] These acquisitions bring needed skills and capabilities as well as access to growth markets that enable the high performers to grow faster and more profitably.

4. Business unit accountability

High performers manage their businesses as a series of separate companies. For example, FedEx's operating mantra is based on three principles: operate independently, meaning each business is accountable for its own success and profit and loss; compete effectively, by targeting customers with the same brand and customer experience; and manage collaboratively through loyal relationships with its workforce, customers and investors.[32] High performers have found there is substantial value in creating results transparency and forcing each business unit to deliver profitability without cross-subsidization.

Figure 9. Evolution of parcel delivery value chain



Source: Accenture analysis

Being digital

While defending the core, investing in the parcels opportunity, and diversifying selectively matters, taking full advantage of digital is essential to delivering these strategic priorities.

This year, our report quantifies digital readiness and capability using the Accenture post and parcel digital performance index, which demonstrates how digital investments are positioning the companies we study for growth.

The index consists of three major elements—digital strategy, digital servicing and digital enablement. Digital strategy focuses on how well companies are planning for digital, as well as using trends and opportunities created by digital to inform their overall corporate strategy. Digital servicing assesses the ability of organizations to be digital in the core aspects of their value proposition and to launch new digital services in the market. Finally, digital enablement measures how effectively companies are using digital as part of their core processes and operations—making it part of the day-to-day operations and business model (Figure 10).

While all three elements are important, our research revealed that the industry has made the most progress in digital strategy—with a score of 2.44 on a scale of zero to four. While that score is not groundbreaking—more investment and progress are clearly needed—it does show that digital is becoming a key part of board-level conversations (Figure 11). Where post and parcel players are struggling—and where the real work begins—is when those strategies are converted into actions (digital services) and then embedded into the heart of the business (digital enablement). Indeed, to date, most of the successes in these digital categories are attributable to "one-off" cost and efficiency measures.

Being digital prepares an organization for future positioning and growth. As expected, our research could not establish a correlation today between high performance and digital excellence (Figure 12). This is partly due to the industry's immaturity in digital servicing and enablement areas, the elements of our index that would turn strategy into results. In part this missing link is also a lack of clarity in digital strategies around the role digital will play in transforming the rest of the business.

Digital is clearly a game changer, whatever the industry. Over time we expect to see a much stronger correlation between the full range of digital scores and high performance—so while digital investment is currently no forecast of success, it is an essential strategic priority.

Figure 10. Accenture post and parcel digital performance index

Digital strategy

1. Trend
Extent to which the company's strategy reflects "digital" as a relevant industry trend

2. Objective
Extent to which the company's strategic objectives reflect "digital"

Digital servicing

1. Product and solution
Extent to which the company offers intelligent/smart/digitalized products/solutions

2. Service
Extent to which the company offers client-facing Internet-based services

3. Interaction
Extent to which the company offers digital interaction functionalities

4. Sales functionality
Extent to which the company offers client-facing sales/order specific digital functionalities

5. Service functionality
Extent to which the company offers client-facing, service specific digital/online functionalities (for example, delivery tracking, after-delivery services)

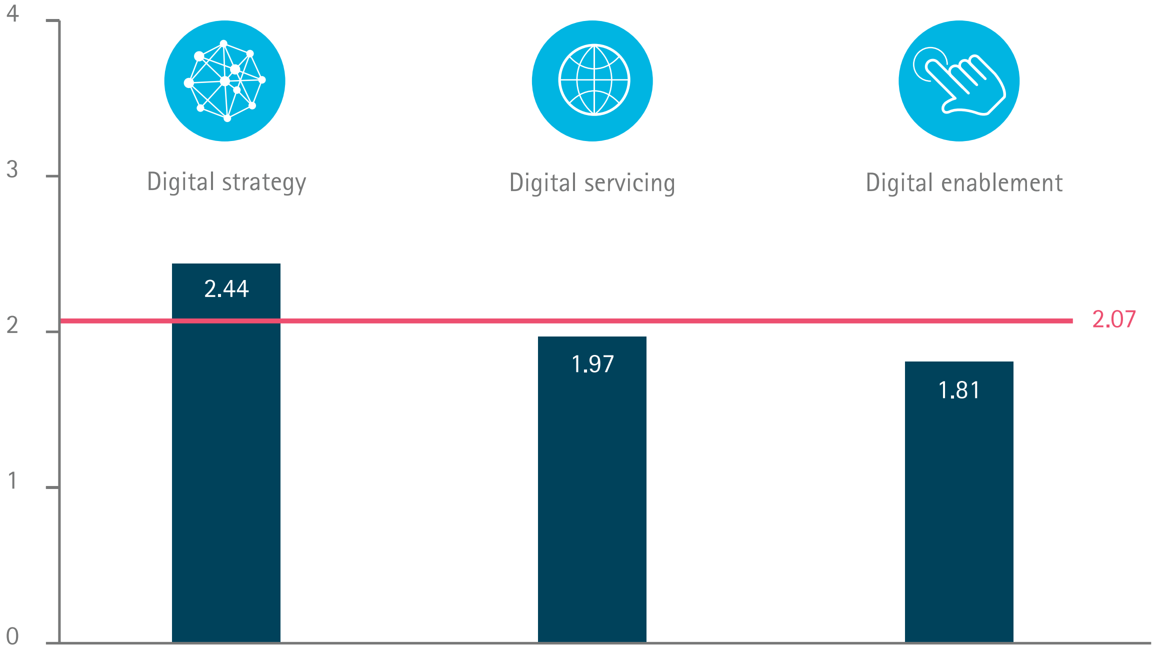
Digital enablement

1. Operations and processes
Extent to which "digital" is referred to in context of the company's internal processes, programs, and initiatives

2. Resources and organization
Extent to which the company leverages digitally powered resources (for example, big data/analytics department, software engineering centers)

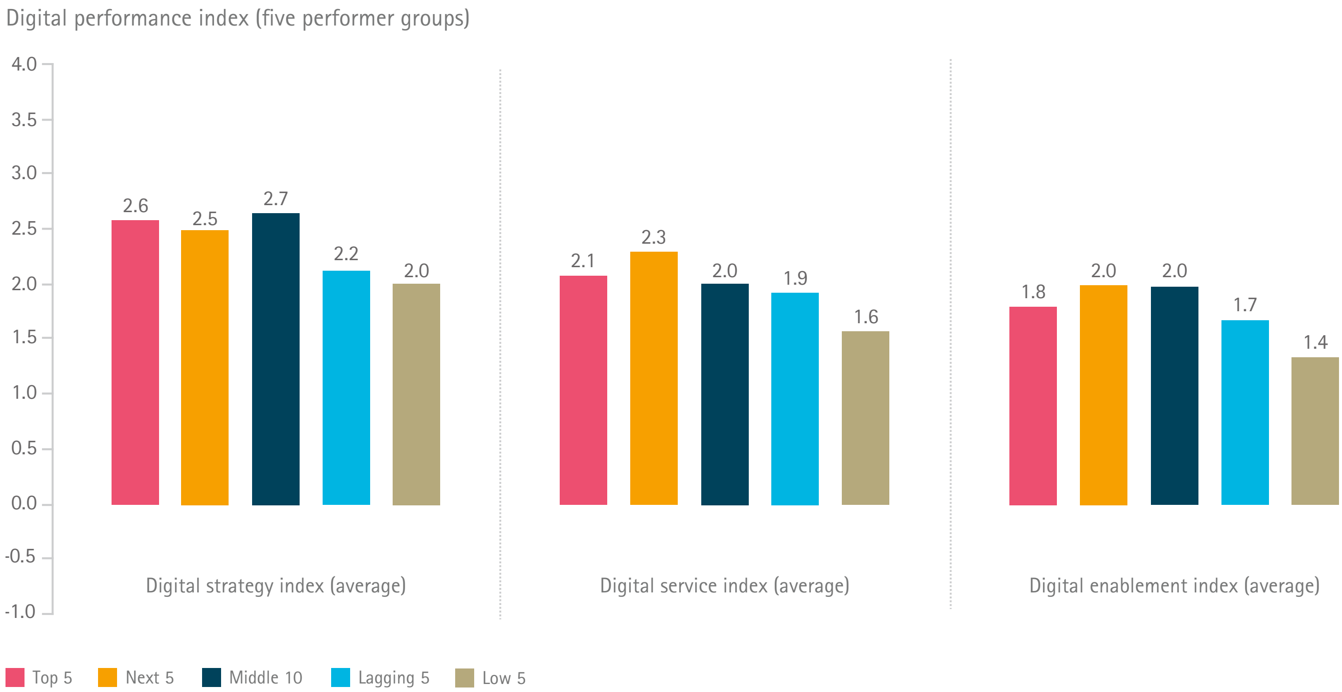
3. Workflow
Extent to which the company applies "digital" to organize and perform its daily operations

Figure 11. Digital performance index rating for the postal and parcel industry



Source: Accenture analysis

Figure 12. Digital performance index by performer group



Source: Accenture analysis

To be a digital organization, post and parcel players could consider:

Delivering for consumers

Consumer expectations are evolving rapidly, and they are playing a far more important role in delivery. In the past, post and parcel organizations could focus exclusively on the shipper. Today, consumers consider delivery to be part of the overall eCommerce experience, meaning retailers and their shippers are inextricably bound—a challenge when Accenture research shows 35 percent of consumers are dissatisfied with the delivery experience. Adding solutions that satisfy consumers' demands for more control over and convenience for their deliveries can address more than 70 percent of the issues.[33] But that is only the beginning. mCommerce accelerates this power shift toward the consumer. Retailers are starting to demand that shipping partners have a clear strategy on engaging and enabling consumers with innovative solutions. The volume of consumer-focused products has grown significantly over the past two years. The next generation of these solutions will need to deliver more.

Digital disruption in advertising mail

Digital presents both a threat to and an opportunity for advertising mail. Mobile advertising now accounts for 73 percent of Facebook's advertising revenue.[34] Location-based advertisements are growing and becoming more targeted, linking content and/or the message to a physical location using NFC, Bluetooth Low Energy (BLE) and a broad range of beacons. Post and parcel organizations have an opportunity to combine their physical products with their digital solutions to create more impressions and a better return on investment. USPS, for example, has launched Real Mail Notification which provides consumers with images of the mail they will receive that day. It can also include links to offers or targeted advertising. The early tests of this digital/physical product have produced a 10-fold increase in response rate, showing the power of these new products.[35] Continued investment in digital/physical products will be the key to turning the threat that these new mobile advertising products present into an opportunity to engage in new ways and through new channels.

The opportunity from data analytics

Digital post and parcel organizations realize that data is their most important asset, and they are investing to capture and use that data. While there are some highly effective analytics-driven solutions in the market, they are few and far between. Digitally savvy organizations in the industry are learning to use the mountains of data they have on the origin and destination of communications and goods to identify patterns or predict behaviors, reinvent customer relationships, better understand business performance, and generate new sources of revenue. DPDHL's new "Resilience 360" product, which uses big data to identify potential supply chain disruptions, is an example of the powerful data these organizations can harness.[36] While critical to the bottom line by maintaining the pace of productivity improvements required for success, data and its associated analytics can provide significant new sources of topline growth.

Recruiting and retaining digitally savvy teams

Turning digital strategies into actions that generate strong business outcomes requires a digitally enabled workforce. As the battle for digital skills grows, post and parcel organizations must not only understand how to attract and retain the right skills, but also establish effective governance structures that enable digital innovation to thrive within large, legacy organizations dominated by operations.

Creating a holistic, high-performing road map

With such a broad business span and lack of tried-and-tested models, it can be difficult to know where to begin to create a digital road map. The three strategic priorities within our high performance framework are a good starting point. Associated with those strategic priorities, Accenture has also identified three broad digital investment areas: driving efficiencies, digitizing delivery, and generating revenue. Now is the time for post and parcel organizations to fully embrace digital and gain value at scale. To do so, they will need to prioritize their digital investments (Figure 13).

Figure 13. The action/outcome digital matrix

Strategic priorities

Our analysis indicates there are some critical areas on which post and parcel organizations should focus to deliver high performance.

Monetization of the digital opportunity

Our post and parcel digital performance index revealed that no organization has monetized digital effectively to date. While nascent digital solutions show promise, more time and investment is required to fully exploit the revenue potential. Solutions that take out cost to improve productivity often are easy to identify and benefit from more concrete business cases—making it simpler to justify and secure the investment. But these measures can only go so far—it is not possible to cost cut the way to sustainability. For future success, investments should be prioritized toward focused experimentation on digital revenue generation. These efforts require new skills and governance models that overcome an "operations first" approach—one that produces digital products designed by what operations can do, not what customers want. As mail volumes continue to decline and last-mile delivery becomes more competitive, having profitable digital solutions that drive topline growth will become even more important—and ultimately, could be the key to becoming, or remaining, a high performer.

Last mile is the next battleground

Our research shows that new market entrants are bold and nimble. Despite owning the original assets, such as the last mile vehicles and the local delivery units or depots, postal players are being challenged by these new organizations, which pair supply and demand effectively. Historically, the barrier to entry into last-mile delivery has been the significant cost of developing a network. Now, new entrants are experimenting by using an entirely different model—an asset-light approach. These new players compete based on scalability, with an ability to add or eliminate capacity seamlessly. Because they are sourcing spare capacity and crowdsourced labor—soliciting contributions via an online channel—their investment is negligible while their cost structure is almost 100 percent variable. Companies such as LaserShip[37] and OnTrac,[38] which use a contractor-based model to deliver the last mile, or Instacart[39] and Deliv,[40] use the shared economy to pair supply with demand and are asset-light. There are other examples around the world, such as GogoVan in Hong Kong,[41] Delhivery in India[42] and InPost in Europe.[43]

As market volatility increases the difference between the average daily volume and peak volumes, new models will become increasingly relevant. This is one of the reasons why UPS acquired asset-light Coyote Logistics, as a means to boost its capacity to address peak periods and to avoid the service shortfall in capacity it suffered during the 2013 holiday season.[44] Post and parcel organizations must seize the opportunity to adapt. Four elements are vital to win the last-mile battle:

1. Cost variability

Traditional post and parcel organizations must rework their cost structures, converting fixed costs to variable costs.

2. Capacity variability

As eCommerce demands change, it will be important to develop the ability to add or eliminate capacity quickly.

3. Technology-driven services

A connected delivery workforce with the tools to support capabilities, such as dynamic routes or real-time instructions, is no longer optional but essential to compete effectively.

4. Experimentation

Perhaps most importantly, traditional organizations must conduct their own last-mile experiments in the market where they can learn from changing demands and behaviors.

Increasing importance of cross-border eCommerce

eCommerce-driven, cross-border transactions present both an opportunity and a challenge. In research Accenture conducted with AliResearch,[45] we found that cross-border B2C eCommerce is expected to grow more than 27 percent annually. More than 75 percent of that growth will be driven by new consumers trying cross-border eCommerce for the first time. Those new consumers expect a seamless experience that is very different from what is on offer today. Issues and complications with the cross-border order and delivery process pose the most significant risk to this new growth area. Creating a simple, easy-to-use cross-border product is key to taking advantage of a new stream of consumers.

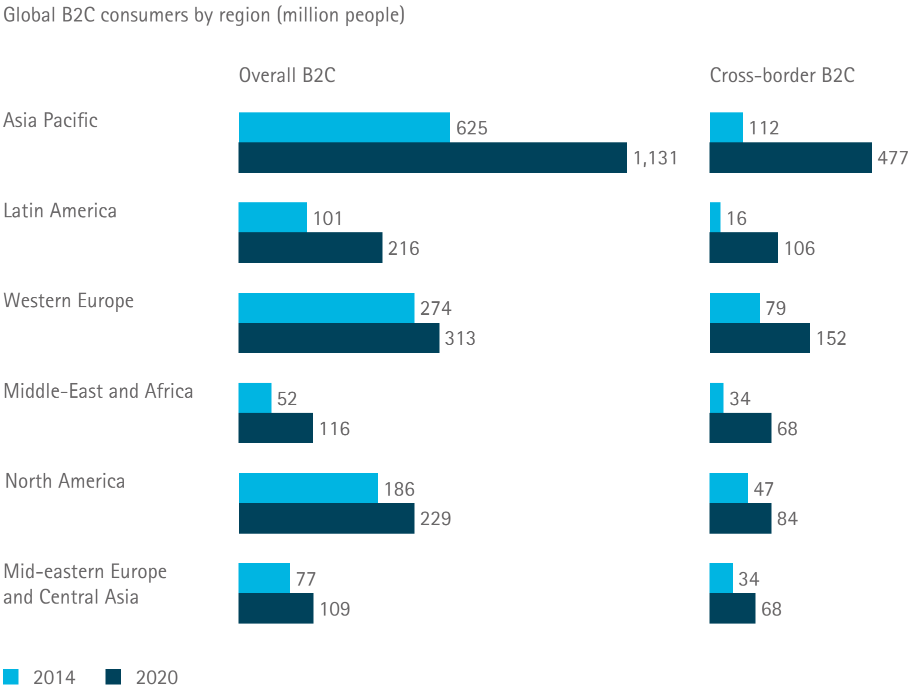
Cross-border activities require new skills, technologies and products that most post and parcel organizations are still developing. New expectations will favor companies that provide a date-certain, expedited process across borders. Gone are the days when deliveries can "stop-the-clock" for time spent in customs. Digitally savvy consumers demand time and cost certainty, making delivery duties paid (DDP) solutions that provide a guaranteed total landed cost and the associated certainty through customs a necessary product in the cross-border portfolio. In contrast with traditional postal cross-border solutions, it is clear why this area needs attention and investment over the next few years.

Some post and parcel companies have already started and are gaining significant market share, busily investing in enabling differentiated solutions in East to West trading and flows. Our research shows the reverse—building capabilities to deliver from West to East—will become far more important in the future, with most of the new cross-border consumers emerging from Asia (see Figure 14). To enable those transactions, new solutions are necessary that focus on reducing complexities—such as local currency payments or tax duties—to make it easy to meet consumer expectations for speed, data security and value.

Our research shows investment in solutions that make cross-border eCommerce look and feel like today's traditional eCommerce are accelerating. For example, the free-shipping phenomenon in domestic shipping is starting to infiltrate cross-border transactions, with several online retailers offering or experimenting with free international shipping. We have also seen investment in technologies that tailor language, currency, price and product availability, by country, with minimal incremental effort. As post and parcel organizations expand the value chain, they are well positioned to create seamless cross-border solutions.

Cross-border packages are usually higher margin products that can significantly boost financial performance. To benefit, post and parcel organizations need an international strategy that addresses market entry, product features and competitive position. They also require technology investments that make integration with eCommerce sites seamless, and enable flexible solutions that address consumers' changing demands. Our research shows that high performers today are already positioning themselves to take full advantage.

Figure 14. Cross-border B2C market by 2020



Source: Accenture Global Cross-border B2C E-Commerce Market - Rise of digital consumers and business globalization

Region	2014 to 2020 new cross-border B2C consumer (millions)	New consumer regional contribution
Asia Pacific	365	54.6%
Latin America	90	13.4%
Western Europe	73	10.9%
Middle-East and Africa	70	10.5%
North America	37	5.5%
Mid-eastern Europe and Central Asia	34	5.1%

Source: Economist Intelligence Unit, Industry Research Report, World Bank and Accenture analysis

On the horizon

Our research identifies trends that have not yet influenced high performance but are likely to have a significant impact in the future. Two technologies to watch are:

Internet of Things (IoT)

As a result of the plummeting cost and proliferation of sensors and readers, increasingly powerful and ubiquitous networks, and rapidly evolving interconnected, intelligent systems, the IoT is a growing opportunity. While not yet a priority for post and parcel organizations, we believe that the IoT could become critical to the industry in the next five years. IoT has the potential to create significant cost saving opportunities as well as new sources of revenue—not only by embedding digital technologies within the organization, but also by extending into a broader digital ecosystem of customers, partners and connected products. Post and parcel organizations could use the IoT to enable productivity improvements, monitor and optimize operations or fleets, create new data-driven businesses and deliver unprecedented improvements in the customer experience.

Reader platform

Few organizations have more vehicles and coverage than post and parcel organizations, making them the perfect platform for mobile readers. With these readers, vehicles could become a traveling platform that captures valuable data from a dispersed sensor network. These readers, for example, could collect data from consumer applied sensors, such as on stolen bikes or lost pets. They could also read commercial or government applied sensors, such as solutions that monitor usage levels of trash receptacles in parks or streets.

Sensor platform

Delivery vehicles could be equipped to carry sensors to capture data. Simple solutions exist, for example, to monitor cellular signal strength. Data collected by these sensors could then be sold to commercial enterprises as well as embedded in consumer-focused apps—including city air pollution levels captured daily at street level throughout a city.

Delivery enhancements

Low-energy sensors using new low-energy network protocols can enable event-based communications, such as texting consumers to notify them of a letter or package as they walk or drive by their community mailbox.

Processing intelligence

Sortation plants and depots can create systems to better manage the entire network through machine-to-machine communication and prompt the micro-management of efficiencies at a daily or even hourly level.

Drones

In the 2014 report, we referenced the potential for drones to disrupt the industry. Over the past 18 months we have seen a significant increase in experimentation, as applications for autonomous drones (unmanned aerial vehicles) in logistic operations have progressed rapidly. For example, in the last year in the United States more than 1,000 Federal Aviation Administration exemptions were granted to commercial organizations to conduct drone experiments,[46] while internationally no fewer than nine delivery organizations—most notably DHL,[47] SF Express[48] and Amazon[49]—are already experimenting with drones to deliver small parcels as part of their operations.

Our research shows that:

- Drone safety and planning capabilities have improved significantly, while flight time and payload capacity have made marginal progress.
- The maturity of flight control and aircraft hardware has progressed, enabling drones to be used in more industrial applications.
- More progress will be needed in collision avoidance, autonomous delivery mechanisms and regulations before drone delivery will be feasible at scale.

While consumer applications are driving awareness and acceptance, the real advances being made in drone capabilities are in commercial uses. As these applications become more mainstream and commonplace, the acceptance of commercial drone usage will increase—with the multirotor drone market estimated to grow at a CAGR of 22 percent and reach more than US$2.2 billion by 2020.[50] And while autonomous drone delivery may not become a reality soon, commercial use outside the delivery industry makes clear that drones can play an important role within the post and parcel space in other ways—such as monitoring delivery efforts, proactively addressing traffic issues or automating the identification of new delivery points.

Research methodology

This report consists of analysis based on publicly available information, content published by postal organizations and Accenture industry knowledge and experience. The list of 30 post and parcel organizations analyzed is detailed below.

As in previous years, we have used a quantitative model to assess financial performance and a qualitative model to determine the drivers of high performance. Our methodology is based on the value of discounted cash flows to shareholders, or economic value added (EVA®) and the total shareholder return (TSR). We measured high performers based on a comparison of metrics across six different elements:

- Greater than expected returns from investments
- Topline revenue growth
- High future value growth
- Continued value creation over industry eras and life cycles
- Reliable and predictable financial performance
- Better positioning and performance relative to peer set

Having determined companies' positioning relative to these elements, we created a scorecard identifying which organizations performed above average within the industry. Comparative analysis was adapted to account for government ownership of the majority of postal organizations.

Once we established the basis for high performance, Accenture used the following terms to describe the rankings of the post and parcel players: top five performers (also known as high performers), next five performers, middle 10 performers, lagging five performers and bottom five performers (also known as low performers).

This year's report has two variations from our previous studies: first, we have shifted the timing of the report to better align with the availability of audited financial statements. Our analysis now focuses on the preceding year and takes into account more recent information. In making this adjustment, and to avoid any data "lag," the 2015 report includes data for most organizations across the last two years (that is, from 2013 and 2014).

Second, the 2015 report introduces a new framework for analysis—the Accenture post and parcel digital performance index. Developed by the Accenture Institute for High Performance, the post and parcel digital performance index provides a mechanism for companies to evaluate their digital readiness against a proven set of criteria. Our team has customized the index for post and parcel companies to create an industry-focused scorecard that not only helps to evaluate digital abilities, but also indicates where investment should be focused. As with the high-performing post and parcel model and scoring, the index used publicly available data and input from Accenture subject matter specialists. In this way, a score has been developed with minimal bias and subjectivity.

For a full overview of the Accenture high performance postal industry process model, please visit www.accenture.com/postal.

Organization	Country
An Post	Ireland
Australia Post	Australia
Austrian Post Group	Austria
bpost	Belgium
Canada Post Corporation (CPC)	Canada
Ceska Posta	Czech Republic
Correios Brasileiros (ECT)	Brazil
Correios de Portugal (CTT)	Portugal
Correos y Telégrafos (Correos)	Spain
Deutsche Post DHL (DPDHL)	Germany
FedEx	United States
Groupe La Poste (La Poste)	France
Gruppo Poste Italiane (Poste Italiane)	Italy
India Post	India
Japan Post	Japan

Organization	Country
Magyar Posta	Hungary
New Zealand Post (NZ Post)	New Zealand
Post Office Limited	United Kingdom
Posten Norge	Norway
Posti Group	Finland
PostNL	The Netherlands
PostNord	Sweden and Denmark
Royal Mail Group (RMG)	United Kingdom
Singapore Post (SingPost)	Singapore
South African Post Office (SAPO)	South Africa
Swiss Post	Switzerland
TNT N.V.	The Netherlands
United States Postal Service (USPS)	United States
UPS	United States
Yamato	Japan

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