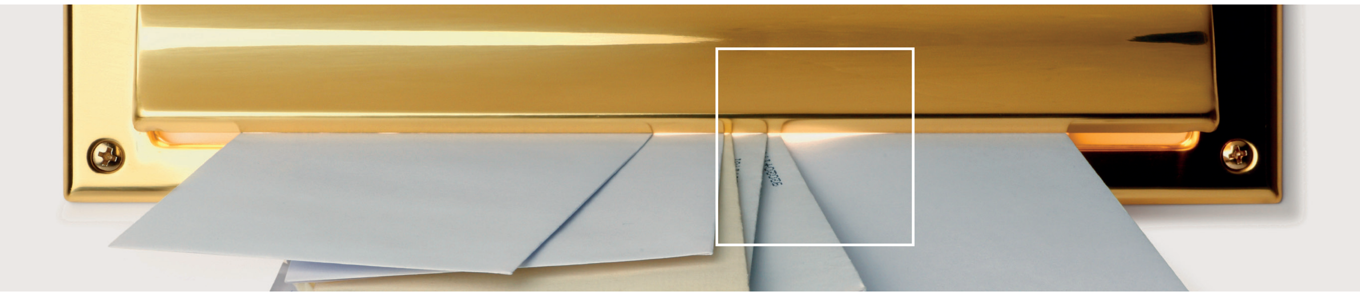
Postal Operators

Reducing Product Portfolio and Rates Complexity



Postal operators are stressing business diversification as the core element of their strategies, in order to increase revenue and the utilization of assets, but at the same time adding complexity to their already complex portfolios and pricing structures. Players addressing portfolio complexity, have the opportunity to dramatically reduce the number of products and rates without impacting their revenue generation.

Context

The plummeting mail business trend is no news in the postal industry, and while operators are defending their core business, they are also seeking profitability by taking advantage of the growing ecommerce and logistics businesses, finding new sources of income in Financial, Retail and Telecom businesses, and expanding their operations outside national frontiers.

In order to land their strategies, operators are expanding their offerings, causing product proliferation to become the new norm. Companies are often finding themselves with overly complex portfolios that limit their ability to deliver focused commercial efforts. See figure 1, which summarizes the detailed benchmark of the sector performed by our Firm in Europe.

Figure 1: European Postal Product Portfolios Benchmarking

International operator portfolios comparison

	A	B	C	D	E	F	G	H	I	J	K
Documents	28	11	13	15	17	16	23	18	12	12	14
Parcel	27	10	9	12	7	8	18		10	18	14
Business Solutions	82	139	76	105	92	89	30	23	39	19	46
Financial Services	30	13	30	13			10	24		11	1
Online Services	14	8	31		13	7	10	15	12	10	7
Philately	9	3	9	8	3		8	4	13		
Additional Services	29	10			15	5	24	16	19	21	6
Special Services[1]	8	2	20	1		5		10		14	
Total	227	196	188	154	147	130	123	110	105	105	88

Source: Postal operators, Arthur D. Little analysis

1. Special services include: Low temperature, Chemical, Telephony, Gourmet and Pet transport

Postal operators fail to address portfolio complexity effectively

It is common to see postal operators with broad and complex portfolios. These situations are the result of six main factors:

- **Diversification**: dropping volumes in core business are forcing operators to search for profit elsewhere, constantly expanding their services, broadening their portfolios and deepening their service lines
- **Inherited historical situations**: being amongst the oldest organizations in the world, and with a culture of continuity, legacy products have a strong presence in their portfolios
- **Regulation and policy**: the "Universal Postal Obligations" drastically reduce the flexibility of operators when dealing with these mail portfolios. Also, the 'close-to-government' nature of many operators force them to maintain products for political reasons
- **Fear of losing income**: companies tend to 'stand still' when it comes to remove products from their shelves instead of fostering alternatives with higher value added services. This is especially true for products which they believe to be 'core' (such as mailing, public notifications, etc.)
- **Specific business agreements**: past and current contracts team up with rigid operations and processes, forcing many players to create "ad hoc" solutions to deal with certain situations, and increasing complexity
- **Inefficient IT operations**: IT is often partly responsible for the complexity. The rigidity of some systems (such as sorting and admissions) often mean that sales organizations have to maintain unnecessarily complex offerings to be able to cover all the market segments they want to serve

Results of product complexity: confusion, complexity and inefficiency

A complex product portfolio makes it more difficult for clients to have a clear view on the added values offered by each product, while at the same time contributing to maintain overlaps among products. Areas with intricate portfolios such as business solutions, direct marketing and postal services often tend to create confusion amongst product developers and commercial salesforces. This confusion diminishes commercial efficiency by creating silo knowledge of the business and multiplying client visits. These hurdles are often surpassed by creating specialized product teams that rarely offer the necessary amount of time to each commercial action.

These specialized teams and commercial duplicities translate into company inefficiencies, which have to be added to those of additional training needs and costs incurred within IT departments. In these areas, exercises such as product maintenance and development become complex and costly

From the strategic point of view, product planning becomes an arduous task when the portfolios are extensive. As incumbents have typically several subsidiaries addressing different businesses and segments, they often lack a product map with clear value proposals, and tools to address each specific situation.

In the end, avoiding product decommissioning exercises mean that the weight of outdated products, those which do not cover the needs of the clients, in search of lower costs and more freely-configurable products, grows over time

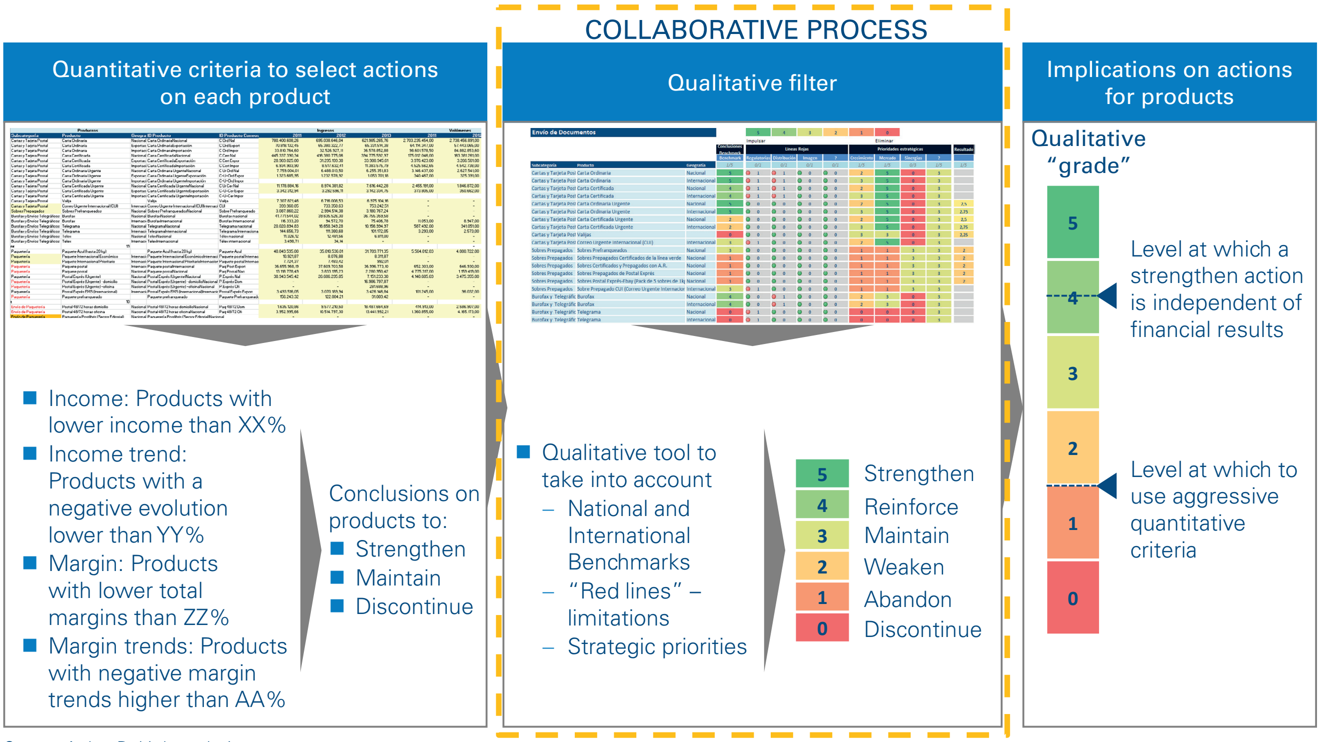
A hollistic, periodical approach is necessary to overcome major hurdles

Defining the right approach for a specific company requires a deep understanding of the market context and the company's ambition. The exercise must be exhaustive and has to take into account internal data such as financial results by product, the company's strategy, the rates and product structures, each product's contribution to the utilization of personnel and networks, and operative constraints and enablers within the company.

Product portfolio complexity reduction can be achieved at three different levels: by simplifying the product structure, by reducing the number of different products and by streamlining the rates structure. In order to develop recommendations at these levels, and taking into account the operator's stage of maturity, different combinations of analyses can be of use:

- **Product Portfolio benchmark**: International comparison to understand markets the company under and over-serves, capture new product trends and help the operator set the strategy ambition.
- **"Red lines" definition**. Understanding of operators' limitations, both operative and regulatory
- **Rate analysis**: by waving the flag of commercial flexibility, operators tend to have overly complex rate structures, in which, for instance all possible combinations of weights, destinations, sizes and delivery times are present
- **Attributes and added values restructuring**: most European operators pack their added value services into full-fledged products enlarging their product lines
- **Rationalization tools**: quantitative tools that take into account all groups of products and all relevant variables (financial performance, cross-sales etc.) in order to manage product complexity are uncommon in postal operators

Figure 2: Example of quantitative and qualitative tool



Source: Arthur D. Little analysis

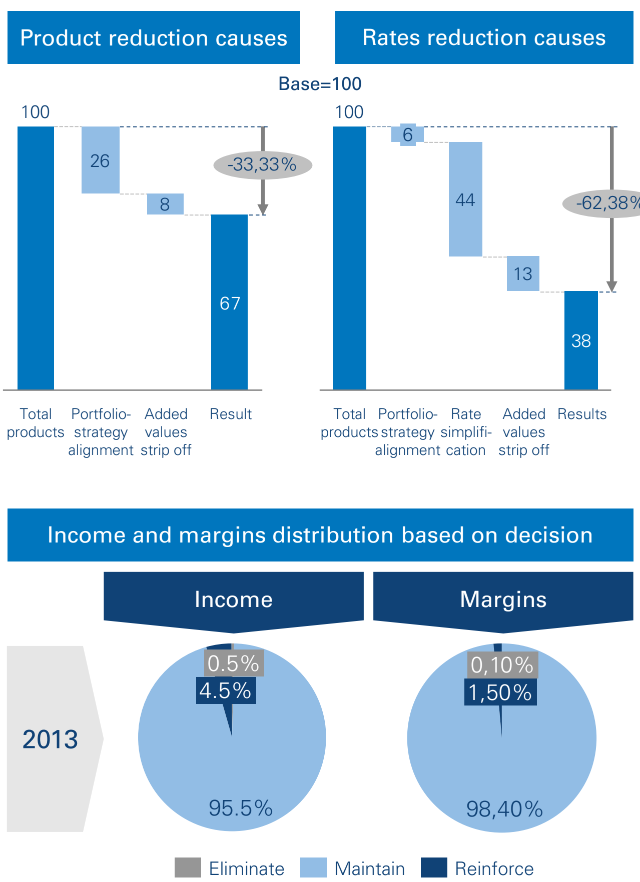
Recent cases have shown that an interactive process is needed with a side-by-side approach to conceive implementable conclusions. Developing a quantitative product rationalization tool within the exercise enables a better understanding of the whole process and fosters a collaborative process towards better and agreed results (see figure 2).

The key elements of this rationalization effort typically consist of:

- **Product portfolio-strategy alignment**: Combined quantitative and qualitative analysis to take into account the income and strategic relevance of each product within the portfolio
- **Rate Simplification**: Lean exercise, eliminating rates with same price and weights with same price increase
- **Added value product strip off**: Separation of added values from product intrinsic values and sold as a complementary value

Our experience indicates (see figure 3) that the portfolio rationalization exercise can generate opportunities to reduce the number of products by 25%-30% and the number of rates by 40%-60%, while at the same time having an impact on revenue and margin reduction below 0,5% and 0,1% respectively, depending on the stage at where the company stands within the exercise. By completing these efforts, postal operators can eliminate products that do not contribute to sales or margins and therefore focus on the more contributive side of the portfolio,

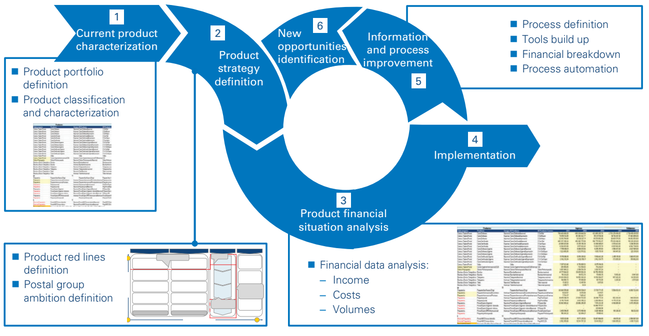
Figure 3: Effects of rationalization efforts and impacts



improving performance on the mid-term without hurting results on the short term.

While product and rate structure analyses can be carried out as a one-time exercise, the review of product volumes and the portfolio-strategy alignment entails a periodical exercise, forcing to incrementally improve information and analysis levels at every cycle turn (see figure 4).

Figure 4: Product streamlining improvement cycle



In summary, the approach and methodology is available and most key players in the Postal arena should review thoroughly their product portfolio and rates structures, in order to avoid unnecessary complexity and better focus their efforts in the increasingly competitive and extremely demanding markets, achieving higher effectiveness in their diversification objectives and creating new windows of opportunities for cost reduction exercises and sales forces effectiveness.

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