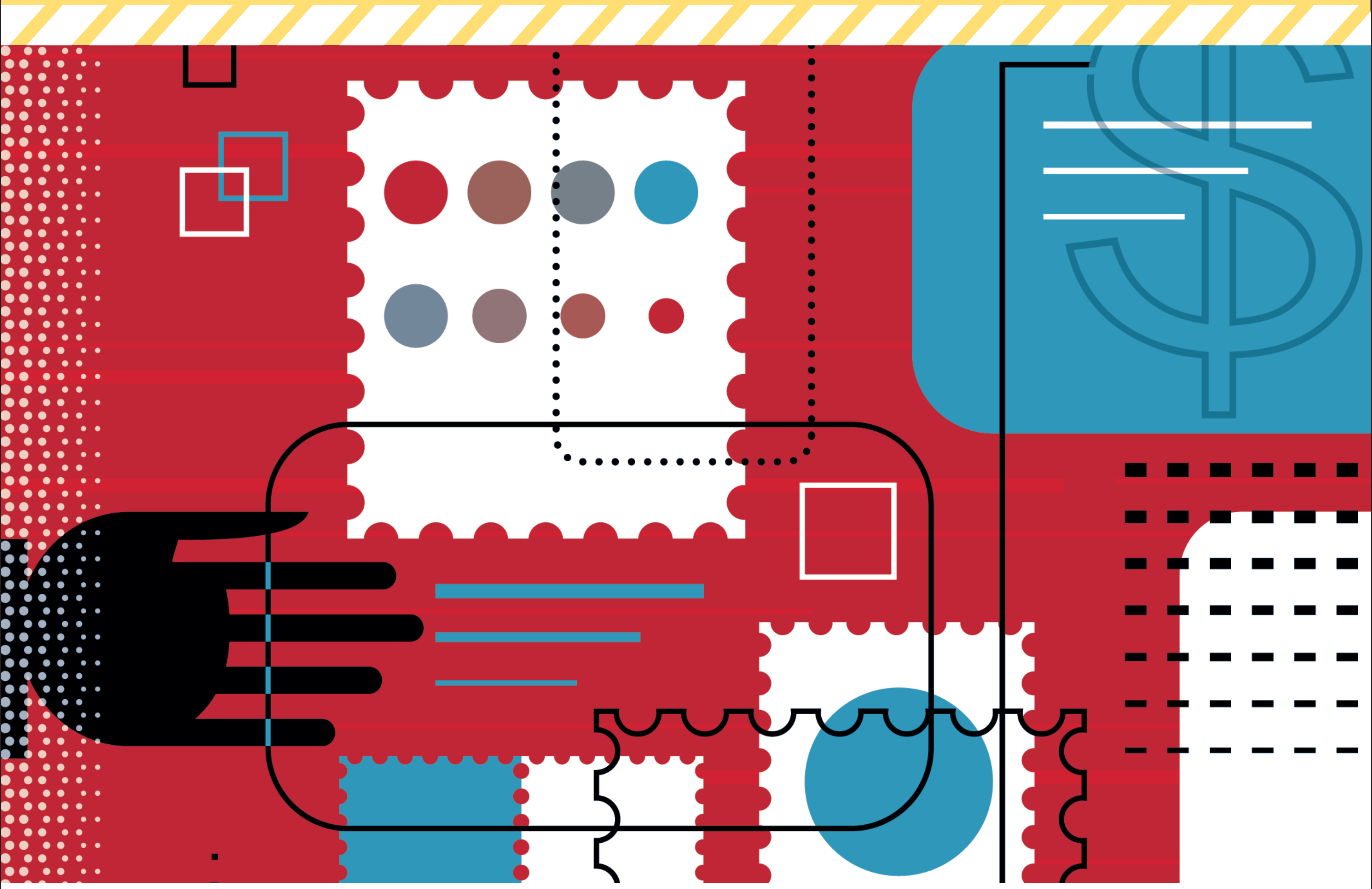
VOLUME 1

PUSHING THE ENVELOPE

Achieving high performance in a competitive postal environment



www.postalproject.com

accenture
High performance. Delivered.

MRI
Montgomery Research

PREFACE

Welcome to the first volume of *Pushing the Envelope: Achieving High Performance in a Competitive Postal Environment.* This edition provides postal leaders with a single resource where they can find top-level thinking, new solutions, and the latest trends to cope with today's business challenges.

The changes occurring in the postal industry today are monumental. As we undertook this effort and initiated detailed conversations with postal executives around the world, they all described similar challenges. Whether grappling with declining mail volumes or redefining their business models in an era of deregulation, posts seeking to outperform the competition understand that they must define and execute bold strategies if they are to survive and thrive. Our first chapter is dedicated to describing the postal business environment and the challenges that posts are under to compete and achieve high performance in this difficult setting.

Our conversations with postal executives also told of significant successes. Visionary postal executives are transforming their organizations and this first volume of *Pushing the Envelope* is designed to tell their story, in their own words. With case studies from posts around the world, *Pushing the Envelope* highlights innovative solutions that are producing real results. In addition to case studies, this edition incorporates thought leading white papers drawn from industry and subject matter experts.

The bulk of *Pushing the Envelope* focuses on these success stories and we have sought to include topics broad enough to be of interest to any executive within your organization. From building a high performance work force to optimizing the postal supply chain – whether interested in creating stronger customer loyalty, focusing finance operations on performance, or simply understanding what innovative products or services your competitors have launched – *Pushing the Envelope* contains content that we believe will be of interest to you. This publication is also accompanied with an interactive Web site, www.postalproject.com, which allows you to search for content, contact authors, or order reprints of articles of interest.

I am confident you will find this collection of articles engaging and thought provoking. On behalf of the Accenture global postal practice, I wish you continued success in pushing the envelope at your own organizations. May this volume serve as a guide for your efforts toward high performance.

Sylvain Bacon
Accenture's Global Postal Practice

KEYNOTE

Achieving High Performance in a Competitive Postal Environment

Sylvain Bacon and Michael S. Coughlin

As the forces of liberalization, competition, and technological substitution continue their inevitable march across the landscape of the postal marketplace, postal organizations around the world have found themselves under enormous pressure to change the way they do business. The old model – the government monopoly insulated from market forces, providing run-of-the-mill service quality at rising prices – does not work anymore. Customers, competitors, and governments are no longer content to live with the status quo.

The last decade has brought significant change to the world's posts. The coming decade promises even more dramatic developments. It seems certain that new roles will be defined, new business models will evolve, new relationships will be formed, and new regulatory schemes will emerge. Visionary postal leaders already have begun to formulate and execute bold strategies in their effort to drive high performance in the face of swelling competition.

SYLVAIN BACON leads Accenture's global postal practice. He is also client partner at USPS where Accenture is the preferred portfolio partner in mail operations, sales and marketing, finance, and human resources. Prior to his USPS assignment in 1994, he spent three years assisting Canada Post. He specializes in supply chain management, customer relationship management, and enterprise resource planning transformation.

MICHAEL S. COUGHLIN is the global postal value architect for Accenture. Prior to joining Accenture, he spent 32 years with the United States Postal Service, serving as chief financial officer, chief operating officer, deputy postmaster general, and a member of the USPS Board of Governors. Mr. Coughlin frequently speaks at or chairs postal conferences worldwide.

THE CHALLENGE

For decades, the world's posts, with their government-backed monopolies, have enjoyed the benefits of growing volumes as population, households, and business activity grew and economies expanded. That volume growth and the associated revenues helped support the large, fixed-cost networks of mail and retail facilities necessary to provide universal mail service.

However, with the explosion of new communications technologies and rising customer demands for new options, mail volume has begun to decline, particularly in the industrialized countries. At the same time, there has been a strong move in parts of the world to restrict and even eliminate the reserved service, the monopoly held on the carriage of letters. Some already have lost their monopolies; members of the European Union are in the midst of a gradual phase-out of the reserved service, scheduled to end in 2009. With these challenges, postal administrations find themselves faced with a true paradox: How do they continue to provide affordable universal service in the face of a continuing and inevitable decline in traditional volume and revenue sources, while maintaining large networks with growing costs?"

Regulators also have become more aggressive in their efforts to bring the benefits of competition to domestic mail markets. New operators have been licensed and offered access to existing operator networks for a fee. At the same time, the regulators are demanding higher performances from the exisiting universal service provider and withholding price increase authority when quality standards are not met.

Some posts responded quickly and aggressively to the changing conditions. They adopted new business models, made new acquisitions and, for the first time, initiated cross-border competition for existing mail traffic. A new order began emerging. The historic tradition of cooperation between national postal operators has moved to co-opetition in some cases, and to open competition in others. The effects of aggressive international remailers leveraging irrational terminal dues charges has also fostered competition.

Postal operators have begun to accept the fact that the volume decline is not a temporary phenomenon. The convenience, speed, and lower costs of emerging communications technologies signal real change in the way people and businesses communicate. One can see the evidence in the level of penetration of the Internet into both business and households.

In confronting the challenges, the posts often carry a number of competitive disadvantages into the battle. The universal service requirement – to serve everyone, everywhere in the country – and the large, fixed-cost networks necessary to support this, are seen as a competitive burden. Products and services offered are sometimes outdated. Most posts have unionized workforces with a history of militant resistance to change, and an internal culture that comes with a monopolistic rather than competitive environment. Finally, the posts often are subject to political restrictions on change such as relocation or reduction in the numbers of facilities, or reductions in employment.

Admittedly, the posts also bring considerable competitive advantage into the fray. Those large networks also are a key asset to the incumbent operator. A competitor must either build its own or get access at a reasonable cost to the existing network. At least for now, the posts also retain some monopoly rights on letter mail. Brand equity also is a huge factor for most posts, and many still have a very large base of loyal customers. All of these assets are important sources of leverage for the post.

Essentially, postal and political leadership has wrestled with a number of key questions as they prepare for high performance in this new and very competitive environment in the postal market, including how to:

- Maintain affordable universal service;
- Sustain and/or convert high fixed-cost net works to flexible assets;
- Leverage existing retail networks for busi ness benefit;
- Determine methods and sources for gener ating new revenues;
- Prepare the workforce for the realities of the new competitive order;
- Determine where and on what basis to compete;

Domestic Letter Volume	**425 billion pieces** – down 2.5% (11 billion pieces) from **2001** 28 industrialized **countries** generate **81% of all volume**
International Letter Volume	**6.7 billion pieces** – down 9% (600 million pieces) from **2001** 28 industrialized **countries** generate **72% of traffic**
Parcels	**4.5 billion** pieces
Post Offices	**660,000** offices
Employment	**5.2 million** people
Revenues	**$240 billion** estimated

FIGURE 1 The World Postal Network, 2002
Source: UPU International Bureau

• Satisfy the rising expectations of customers; and
• Deal with regulators who carry significant authority, but sometimes little accountability.

THE RANGE OF RESPONSE

Some posts recognized early on that a traditional and incremental approach to performance improvement and business results would be insufficient to meet the challenges. To survive and prosper in the future they had to transform themselves. Transformation took on many different forms, but the fundamental elements centered on three areas: business model, strategies to compete, and choosing the venue in which to compete.

650 million estimated Internet users in **2002**
750-950 million users in **2004**
20 countries account for **90% of users** – same countries generate **75% of mail volume**
Worldwide **B2B Internet revenues** estimated at **$1.4 trillion** in **2003**
84 million European Internet **banking users** estimated by **2007**

FIGURE 2 Internet Penetration
Source: NUA Internet Surveys, www.nua.ie

New Business Models

New business models began to emerge as early as 1970 when the United States adopted its Postal Reorganization Act, a version of the corporate/commercial model. In the ensuing years, posts began to separate from telecoms and new postal models were adopted. Today there are three basic models with a wide variety of individual variations.

The most aggressive approach to the competitive environment has been the private sector model, with almost unlimited commercial freedom to act. The Netherlands, Singapore, Argentina, and Germany are the prominent examples. Others were formed as limited liability stock companies, and the government remains the sole stockholder. These posts all retain the obligation to provide universal service and have a limited degree of regulation, and most still have some reserved traffic. Most, but not all, have managed to generate profits, and several have aggressively pursued diversification through acquisition. In the private sector model, however, one of the larger sources of shareholder value, if not the primary source, remains basic mail services.

Most remaining posts in industrialized countries operate under a corporate/commercial model, with government ownership and varying degrees of regulation. Posts in countries like Canada, Japan, or Great Britain operate on this model. By and large, these organizations have very substantial commercial freedom to operate but maintain the obligation to provide universal service with a monopoly on letters. They have the obligation to provide universal service with a monopoly on letters. The degree of financial success achieved with this model varies. In some cases, there has been strong leadership and strategic focus. In others, there have been frequent changes in leadership, some poor strategic choices, and less financial success.

The third model is that of the traditional government department. These exist primarily in smaller countries and those that are less developed such as Aruba, Cuba, or Ethiopia.

There is an interesting development on the horizon that might become a fourth model. A few mid-sized and smaller posts have looked to outsource the operation of their posts to either private operators or to other, larger postal administrations, while others are actively seeking alliance and possible merger with other posts. It is too early to make firm judgments about the success of such moves.

Strategies to Compete

The choice of business model and governance structure is important. So too are the strategies that form the basis for successful competition. Over the last 10 years, four broad strategies for improved performance have emerged in response to the environment. Many of the initiatives highlighted in this book are part of the first two strategies for competition.

Optimization – maximizing the efficiency and effectiveness of existing mail processes, systems, and networks. These initiatives have included the automation of mail handling, the application of new technology to existing processes, outsourcing of noncore functions, worksharing, public-private partnerships, and investment in new human performance systems.

Innovation – the introduction of new products and services designed to respond to the needs of a demanding market. Posts have moved to capitalize on new communications technologies, offering a host of e-services. They also have launched efforts to leverage existing retail networks by providing products and services not previously available, with the goal of retaining existing customers and driving new revenues.

Diversification – entering new lines of business, primarily through acquisition of existing entities. A number of posts have added expanded parcel and express services to their offerings, as well as logistics and financial services.

Globalization – expanding and altering business opportunities beyond local borders. These initiatives include the establishment of a cross-border presence and operations, as well as alliances and partnerships set up to expand revenues and improve service quality.

Measuring Success

While it is relatively easy to define success in most private businesses (profit and loss, return on invested capital, return on assets, shareholder value, etc.), success in a postal organization is not always so clear-cut. For the public postal operator – the universal service provider – there is a public service factor in play that frequently is not accounted for in gauging success. Just ask the regulator charged with authorizing price increases, or looking at service quality or the level of compliance with universal service obligations. Or ask the politician who needs to respond to constituents unhappy with postage prices, service quality, or the location of a retail unit.

The fundamental success measure will, in the end, be the marketplace and how it responds to the offerings of the post. Therefore, economic measures will continue to dominate the picture of success. Nevertheless, the public service issues will not fade away, certainly as long as a monopoly and a universal service obligation exists. Accenture has invested significant effort over the last two years looking at measures of high performance and value in the public sector, and has found it is possible to couple traditional economic indicators of success with real measures of public sector value.

The fundamental success measure will, in the end, be the marketplace and how it responds to the offerings of the post.

PUSHING THE ENVELOPE

What follows in this publication is a story of success, of a mature industry, rooted in monopoly thinking and a governmental culture, confronted with a technological and competitive revolution that threatened its very existence. Visionary leadership responded to the challenge and undertook real efforts at transformation and the achievement of high performance in this competitive environment. A good many have been "pushing the envelope."

Through its global postal practice, which is committed to teaming with clients to deliver innovation to help them achieve high performance, Accenture has had a close-up view of many of the developments and initiatives described in this book. It is that experience that led us to develop the Public Sector Value Model for posts, which is outlined herein.

This story is told through the eyes of postal practitioners around the world. There are high-level strategic views of the postal industry, what has happened, and what is likely to occur in the future. There are interviews with key leaders and practitioners on some of the critical factors in successful transformation. There are solution offerings from major postal suppliers and partners with deep knowledge and experience in the postal industry. It includes the point of view of the regulator and the thinking of perhaps the most important player of all, the customer. Finally, it highlights some of the very successful initiatives undertaken by individual posts in their journey to high performance.

The story is far from complete. There are issues not addressed, postal initiatives not highlighted, and major players in the industry whose views are not reflected. Perhaps we can capture them in a follow-on effort. What is here showcases some of the best efforts that have been achieved as well as thought-provoking pieces on what might be. We hope you find this useful.

Universal Service Facilitates Access to Information

The sustainable development of efficient and accessible postal services is an important part of the solution necessary to bridge the worldwide digital and information divide that currently exists.

Thomas E. Leavey

As a specialized agency of the United Nations, the Universal Postal Union believes that the modernization of the world's postal systems is essential to increase citizens' participation in the knowledge society, as well as their chances of fully benefiting from it. The UPU plays a leadership role in promoting the continued revitalization of postal services. Developing social, cultural, and commercial communication between people through the efficient operation of the postal service is at the heart of its mission.

Posts play an important role in breaking the communication barriers between people – in the physical and electronic worlds. Bound by an obligation to provide universal service at affordable prices, posts facilitate access to the knowledge society in those places where others cannot.

AN IMPORTANT COMMUNICATION LINK

Posts are major players in the global paper-based communication industry, with postal services forming the largest physical distribution network in the world. Annually, they process and deliver more than 430 billion pieces of domestic and international mail.

Therefore, dramatic changes in the communication marketplace have had some impact on posts. Global domestic and international mail volumes have been decreasing and are expected to continue to do so, even though some regions of the world are recording encouraging increases in domestic mail volumes as a result of economic stability and service quality improvements. Despite the rapid growth of electronic communication services, however, the existence of a physical communication infrastructure, as provided by postal services, remains an essential element in the exchange of information in both developed and developing countries.

In some areas of developing countries, the postal service is the only communication link that serves the entire population. Business and commerce also depend upon, and benefit from, physical communication. The UPU and other studies indicate that the physical communication network will remain a viable alternative and a reliable means of exchanging information for a long time to come.

Substantive and sustainable development in the information society of the 21st century cannot be conceived and achieved on a worldwide basis without integrating all existing and future communication infrastructures and services, including postal and other physical communication services. Postal services are not part of a sunset industry, but rather will continue to play a significant role in the world's economy and information society for years to come.

FACING THE REVOLUTION

When the Internet revolution took root in the early 1990s, many detractors predicted the demise of the postal service. It was felt that email and the Internet would replace traditional paper-based communication rendering posts irrelevant. This narrow vision failed to take into account the possibilities the new information society offered to posts, and their contribution to its development.

In its 2,000-year history, the postal service has reinvented itself time and time again to respond to economic and social changes, and meet customers' needs. And it is doing it again.

In both industrialized and developing countries, posts are taking advantage of information and communication technologies to expand the range of services they offer to customers, recognizing that diversification is an effective antidote to falling into obsolescence. Indeed, posts can leverage their tremendous assets, including experience, infrastructure, global reach and customer goodwill and reputation, to become worthy and valuable players in today's virtual revolution.

Since the mid-1990s, posts around the world have harnessed the power of the Internet to develop innovative services to anticipate

THOMAS E. LEAVEY has been director general of the International Bureau of the Universal Postal Union, a specialized agency of the United Nations responsible for postal services, since January 1995. Mr. Leavey is responsible for providing leadership in responding to the significant challenges the UPU and its 190 member countries face, including the increasing liberalization of postal services, new advances in technology, and the need to adopt more customer-oriented commercial strategies. He has a Ph.D. from Princeton University.

Competitive Challenges: The New Postal World

A decade or so ago, few worried about the future of the post offices. Today, the changes that began in the 1970s and 1980s have mushroomed into a frenzy of privatization, partnerships, alliances, mergers, and acquisitions.

Georges Clermont

Postal reform started in the United States in the 1970s with the creation of the USPS as an independent agency. This was soon followed in Australia and Canada. Cynics would say that these moves were a way for the governments to get rid of a problem. In Australia and Canada especially, the posts were hotbeds of militant trade unionism and a source of embarrassment because of poor service and huge deficits.

In Europe, governments were slower to move in the postal area, having first reformed the telecommunications industry. Postal evolution was slower, but, one can argue, that one event precipitated the changes.

In 1990, five postal operators formed a joint venture with the Australian courier company TNT. This caused a trauma in the postal world. First, because public service providers were getting in bed with private operators, and second, because through this venture, the joint venture posts were indirectly going to be operating outside their home country. For a variety of reasons, the joint venture didn't last.

At roughly the same time, the Dutch government talked about privatizing the post and lifting the monopoly; no one took them seriously. Yet, despite the skeptics, TPG and Deutsche Post have been successfully privatized and a number of governments have announced their intention to follow suit. The last years have witnessed a number of new partnerships between postal operators and logistic providers while there have also been a number of outright takeovers or mergers by and between postal operators and other parties. Most of that activity has taken place or originated in Europe.

SURVIVING THIS COMPETITIVE ENVIRONMENT

Postal services are one of the last vestiges of the good old days. Few institutions still trigger such emotional reactions. Raise the basic rate by a fraction of the inflation rate and there is an outcry, even though those most vocal will accept a double-digit increase in the price of oranges as long as it is accompanied by an explanation such as too much or too little rain in the growing region. Move the location of a post office counter by 500 meters and the local MP is inundated with complaints. Franchise a money-losing operation, where hours are limited and service is bad, to the local store, and the trade unions manage to have the population at your doorstep. Yet consumers are using postal services less and less. For example, one great irony is that campaigns to stop closures of post offices are not orchestrated by physical mail, but by email and public advertising.

It has been said that before too long, there would be three postal operators left in Europe. The statement sounds provocative, but give or take a few years, it may very well happen. Many nonaligned postal operators have publicly admitted that it was going to be difficult, if not impossible, to make it alone. Privatized or commercially free postal operators will need to grow their core businesses outside their home territory if they are to generate the returns that will attract investors and allow them to go forward with the capital investments that are required to run an efficient operation.

But growing core business is not an easy task and postal operators face a number of external challenges, the principals being globalization, substitution, liberalization, and regulation. These challenges make that effort even more difficult. This article will address the latter three.

Substitution

What has happened to cause the disappearing mail market in the last decade?

According to UPU statistics, the total volume of domestic mail in the decade ending in 2000 went from 385 billion pieces to 430. Volumes of international mail did not rise appreciably which may very well be due to a mix of increased substitution to new technologies, primarily in the business segment, and competition from firms that handle outbound mail in countries where it is permissible (these

GEORGES CLERMONT was appointed president and chief executive officer of the International Post Corporation (IPC) in Brussels in October 1999. Prior to his appointment, he served as president and chief executive officer of Canada Post Corporation until January 1999, having first joined Canada Post Corporation as a senior executive in 1983. Clermont studied law at the Universite de Montreal and is a member of the Quebec Bar.

It has been suggested that no more than 10 percent to 15 percent of domestic postal markets will become available to full competition. This, in itself, might be sufficient justification for the maintenance of some form of regulation.

volumes are not reported to the UPU as mail and the phenomenon will increase with the liberalization of outbound mail in Europe, which became effective in 2003).

While total mail volumes in the industrialized countries have, at best, remained flat over the last few years, most postal operators are experiencing a shift from first-class mail (the term is here used generically since each postal operator defines its various services differently) to less expensive, and less profitable, classes of services. Blaming the change on substitution is perhaps too easy; the economy has much to do with mail volumes, especially mail used as an advertising medium. And all advertising media have suffered from the economic downturn.

Pitney Bowes Incorporated, whose good fortunes are principally tied to physical mail, has undertaken a major exercise to look at displacement, intending to separate myth from reality. Results should be published in the spring or early summer of 2004.

But no one can ignore the developments in technology. And postal operators, recognizing this as a major challenge, have all factored technology's advances in their longer-term plans. It is interesting to analyze the various methods used by posts to address the encroachments of technology.

The fear of substitution drove many postal operators to jump on the e-bandwagon and start new business units that were mandated to generate compensating revenues. Most surprising, in looking at the plans behind these ventures, is the apparent absence of the realization that these business units were typically launched in fields that would attract a large number of players. The ingrained belief that posts were the trusted third party, and had been for centuries, was not sufficient to keep other service providers at bay and competition was fierce in these markets.

Overall, postal electronic services are growing, but they have not proven to be revenue generators, especially for the posts where growth has been slowest. Postal operators, who apparently forgot that technology is not an end in itself, but rather a means to better serve customers and become internally more efficient, are back to focusing on their core business. But core business has materially changed over the last decade or so; letter mail now represents a smaller proportion of overall activities and revenues for most postal operators. Logistics, express services, and integrated service offerings are becoming the norm.

Liberalization and Regulation

Liberalization has taken the postal world by storm.

The speed at which liberalization should occur is a matter of discussion. In Europe, some don't think it's happening fast enough, while others favor evolution rather than revolution. Considering the huge investments that citizens have made in postal infrastructures, it would perhaps be foolish to eliminate protections overnight and, like all transitions, an orderly one is preferable.

The European Commission's 1997 Postal Directive was the first major step towards liberalization in Europe. The objective was to open the postal market to competition in a gradual and controlled way, whilst simultaneously safeguarding the basic principles of the universal service provision and ensuring improvements in the quality of service. The directive was updated in 2002 with new dates as targets for complete liberalization.

Once the trend is well established in Europe, it will likely spread to other parts of the world. In theory, liberalization should result in a totally free market where the best vie amongst themselves to capture the highest market share in an environment that is free from regulation, albeit subject to the laws of the land. The fact is that, while liberalizing the marketplace, governments have instituted an often too-complex regime of regulation to ensure that the former monopolists amend their ways. One might think that, over time, regulation will become redundant; however, regulation is an industry in itself and it is unlikely that it will disappear in the foreseeable future.

It has been suggested that no more than 10 percent to 15 percent of domestic postal markets will become available to full competition. This, in itself, might be sufficient justification for the maintenance of some form of regulation. Regulation is not bad per se, provided it is judicious, realistic, and carried out in a way that balances the interests of the public who act as both consumers of postal services and investors of the postal system. It so happens that in most cases, citizens have provided the funds to operate and modernize the postal system. If regulation does nothing better than annihilate that investment, one might wonder what purpose it has served. Europe has experienced excessive and destructive regulation in some countries, constructive and enlightened in others. Lessons need to be learned quickly before irreparable harm is done to an essential element of our society.

THE UNIVERSAL SERVICE OBLIGATION

There was a time when posts were the primary means of communicating. Governments felt it was their duty to protect and ensure that this was made easy and cheap. Postal operators were given a monopoly but, in return, had to meet certain commitments. Though they varied over time, they can be summarized as servicing the whole country without undue discrimination between regions at a uniform price.

Today, the definition of what constitutes universal service varies from country to country. The Canada Post Corporation is expected to deliver basic, customary postal services with no further definition of what that means. It was argued that delivering to group or community boxes, clustered at the entrance of a new subdivision, was not meeting that definition. The courts decided otherwise. In contrast, the Irish regulator decided that delivery to the garden gate was not in conformity with a proper understanding of the universal service obligation.

Within the European Union, the Postal Directive sets the guidelines for a European Universal Service Obligation, but it does not detail specific requirements. The directive mandates that member states have to ensure the guarantee of the USO to everybody under the same conditions. But European implementation of the USO also differs from country to country. For example, in Germany, the number of post offices is clearly defined (e.g., within no more than 2,000 meters in cities of more than 4,000 inhabitants) and the number of letterboxes is also clearly defined (no more than one kilometer between boxes). Or Denmark, which has the highest level of end-to-end measurement with 97 percent J+1 for priority mail and 97 percent J+3 for all other mail. Some member states, such as Germany and France, further try to define the USO. Their respective postal Acts add additional requirements, such as the distribution of newspapers.

The real question still remains. What is the right balance of services with costs, and what does the public expect?

Universal service should be looked at as a responsibility designed to meet the needs of the public at a reasonable cost. It should correspond and be adjusted to the needs of the day, not those of times gone by. It needs to recognize the societal requirements in which it is applied. For example, in locations where the mail delivered is mostly commercial, should the need for everyday delivery and the quality of service (all factors that dictate the cost of the service) not be left to what the large mailer is willing to pay? Where Internet penetration is high, should the obligation be the same as where Internet usage is still the exception?

If Europe is to be a level playing field, should the USO be defined continentwide? It is accepted that there should be certain uniformity between countries. But because societal requirements are different, it is preferable that each government set the parameters that will meet the needs of its constituents.

The financing of the universal service obligation is also a contentious issue. Contentions exist between governments, postal operators, and the public when addressing the issue for domestic postal operations. In most countries, governments have been loath to help the operators, arguing that they must maintain the duty of universal service. True, it is the government's responsibility to ensure that all citizens are served and served well, but emotions or political expediency should not be the guiding principles.

But there is also contention between postal operators when the issue arises between continents. Generally, it is accepted that postal operators are better off financing their own operations, thus keeping governments at bay. But why should users of competitive services subsidize the needs of a particular segment of society, let alone if that segment is in a different country? Some governments may include in the USO some services that others might not (e.g., newspapers delivery, financial services). If the financing of the obligation is done through the state, can it not be said that this is a disguised form of state aid? How can this be called a level playing field?

CONCLUSION

Globalization has created large, economic areas (European Union – EU, North American Free Trade Act – NAFTA), within which the rules governing commercial activities have been streamlined and made more uniform. Certain commodities (steel, agricultural products) are commercialized by an even further-reaching set of governance instituted by the World Trade Organization. If the postal industry is to reach some state of globalization, it will have to shed its historical approach to serving the users. It will have to be seen as another commercially driven industry, serving customers, shareholders and other stakeholders on a business basis, not on a mythical folklore of yesteryears.

customers' communication needs. These include electronic stamps, electronic bill presentation and payment services, secure email, and trusted third-party certification.

Postal entities have a long experience of developing or taking advantage of new technologies to improve, even expand, existing services, as well as to strengthen the distribution networks they manage day to day. Bar codes, track and trace technology, delivery performance monitoring systems, and hybrid mail (converting electronic files into printable matter) are a few such entities.

The challenge for posts today is to effectively merge the possibilities of cyberspace with their physical distribution capabilities, and the possibilities are endless.

MEETING THE CHALLENGES

For all the speed and convenience they offer, the ICTs are by no means without challenges. For businesses and governments making a foray into cyberspace, ensuring access, trust and security, privacy, and the effective distribution of goods have quickly become key issues. Posts are uniquely positioned to meet each one of these challenges.

Access to Information

While the Internet has become a widely used tool, it remains a mystery to a majority of the world's population. Statistics show that there are more than 500 million Internet users worldwide, but 80 percent of them are in developed countries.

The network of close to 700,000 postal outlets that exists worldwide provides a natural opportunity for helping people access the Internet, as well as other communication technologies. That is why posts are often seen as attractive partners in the provision of e-government and e-business services because of their reach and the trust they have established with their customers.

Some postal administrations are already facilitating this access by drawing customers to Internet kiosks in their outlets, and partnering with other communication firms to offer convenient products and services.

This is the case for many posts from industrialized countries, but the ability to facilitate access to the information society is particularly valuable for posts in developing countries. As such, the UPU has been working hard to facilitate the development of several projects between progressive and developing posts. France's La Poste, for example, agreed to finance the installation of cyber kiosks in two post offices in Burkina Faso. Using satellite and wireless technologies to access the Web, the cyber kiosks give citizens access to a variety of information and social services, including education and government, that enable them to improve their lives and reduce poverty. People can also send photo emails or use interactive technology to carry on a conversation with someone they can see on a screen at another cyber kiosk. The success of the cyber kiosks is such that the national postal service, backed by the government and several financing organizations, is now pursuing a project to bring them to 40 of its 73 post offices in the country. Neighboring countries are also following the initiative with great interest.

In Bhutan, there are only 2,500 Internet accounts. Postal runners are still required to physically carry letters for days over high, snow-bound mountain passes to remote communities. In this context, the UPU and the International Telecommunication Union are assisting the national postal service of Bhutan in launching a service to send letters electronically to remote areas and to exploit its 110 post offices as public facilities for email and Internet access. With e-post, every household will be given a unique e-post address – an email address that contains the postal address in code form. This will enable all citizens to walk into any post office and send an e-post letter to another post office, where the message will be printed and delivered to the local e-post address. This project has the potential to prepare Bhutan for a Himalayan leap across the digital divide, as e-post will put in place an infrastructure that can be used as a platform for e-business, e-government, and web hosting. Bhutan Post foresees e-post helping to link government outposts, enabling farmers to obtain relevant information on agricultural matters and improving access to health services.

Other postal administrations, such as Sweden and India, have also given their citizens personal email addresses, or have invited them to obtain one through their post offices.

As traffic on the information highway becomes heavier, people expect to deal with a trusted party that will protect the sanctity of their messages and their right to privacy.

Trust and Security

As traffic on the information highway becomes heavier, people expect to deal with a trusted party that will protect the sanctity of their messages and their right to privacy.

For years, people have trusted the postal service and its employees to securely and confidentially deliver information to the four corners of the world. In fulfilling their obligation to provide universal postal service, posts have a reputation as neutral third parties. Regulations on employees' conduct as well as legal guarantees, enhance customer confidence and trust. Posts will continue to honor that role through innovative and secure services and products. The electronic postmarks used by several progressive posts, for example, protect the integrity of electronic data through the use of auditable time stamps, digital signatures, and hash codes. These postmarks allow third parties to verify the authenticity of electronic content and provide evidence to support nonrepudiation of electronic transactions (see Figure 1).

In support of this initiative, the UPU has developed a global standard for electronic postmarks with the assistance of postal administrations that have them, including Belgium, Canada, France, Italy, Portugal, and the United States. The UPU and posts are working with major software manufacturers such as Microsoft Office, Adobe Acrobat, and Sun StarOffice to incorporate the standard in their applications and create a standardized interface for individuals and businesses that want to apply trusted digital signatures to electronic documents and transactions.

Privacy

In accordance with the "consumer choice" policies some postal administrations have adopted for direct or advertising mail delivered physically, they propose to electronically deliver such mail to customers who only specifically request targeted information. This practice, supported by state-of-the-art security features and a guarantee that distribution lists will not be shared with other parties, reduces the number of unsolicited messages a consumer might otherwise receive in an information age where privacy can quickly be compromised.

FIGURE 1 Electronic postmarks such as this one developed by Portugal protect the integrity of electronic data.

Distribution Logistics

E-commerce offers an unprecedented level of convenience. But beyond an attractive retail Web site and secure online transactions, businesses must be able to rely on a delivery infrastructure that is efficient, dependable, and fast. Posts offer an extensive network of processing and delivery facilities to meet that need, and international mail agreements mean that packages and documents can be delivered to any destination in the world using a range of cost-effective products.

> **... Beyond an attractive retail Web site and secure online transactions, businesses must be able to rely on a delivery infrastructure that is efficient, dependable, and fast.**

AN IMPORTANT LEARNING CENTER

The UPU recognizes that its strength, and that of its members, comes from a collaborative and shared approach. The agency watches its members' progress closely in developing or adapting information and communication technologies, and looks at how notions can be transferred to other countries for the benefit of their domestic and international customers. Progress, knowledge, and expertise are shared regularly with all members through various forums, including the Universal Postal Congress, which is held every five years. In fact, the role posts can and must play in the new information society will be an important element of the World Postal Strategy that the UPU's 190 member countries will adopt at the Bucharest Congress in September 2004. This means that posts will devote particular attention to how they can contribute positively to ICT access for everyone, using ICTs as a tool for economic and social development, and increasing confidence and security in the use of new technologies.

As the most extensive means of communication available to people, the post has always served as an important learning center – a place where people can confidently deal with postal officials' advice for the most effective ways of connecting with loved ones, business, government, and others.

In conclusion, the postal service plays an active and important role in the information society by facilitating access to knowledge and communication technologies and furthering their appreciation.

Worksharing: The Essence of Liberalization

Posts around the world are hearing a wake-up call. The dynamics that drive postal businesses are changing big-time, and the days of a post's statutory monopoly over mail are rapidly passing.

Dr. Gene Del Polito

Today, posts find themselves in the kind of competitive environment no one would have anticipated just one decade ago. Besides the onslaught of electronic communication alternatives, posts now find themselves locked in mortal combat for market shares that are being lost to private sector express and package services competitors. Even a post's counter business is no longer sacrosanct. Just ask the customers who are much more willing to buy retail services at establishments such as the UPS Store, Parcel Plus, and others rather than at post office counters.

The days of being able to take your customers' business for granted are long gone. Financial institutions are moving quickly to non-postal, electronic alternatives; periodical publishers are testing the viability of electronic distribution; and advertisers and marketers are dedicating increasing shares of their business development budgets to media other than mail.

There are significant changes affecting the world's postal regulatory scene as well. By the end of the decade, the European Union will require member states to relinquish their statutory monopolies over the carriage of letter mail, and to open their postal networks for competitive access. The UK's postal regulatory board, the Postal Service Commission (Postcomm), already has directed Royal Mail to open its network to its competition and already has begun doing so. The EU's competition regulator also has taken steps to compel others to speed up the postal deregulation process. Some EU parliamentarians are taking various steps to level the playing field between state-run and private postal and courier service providers by way of laws that control the imposition of value-added taxes and customs' duties and procedures.

The irony is that while several posts have taken the process of deregulation seriously, legislative and regulatory transformation alone has proven insufficient to ensure a post's long-term viability. Postal executives around the world can be heard asking: "How can I increase the market appeal of my mail products to win and keep the loyalty of direct marketers and other businesses?" Experience suggests that when posts are left to their own devices, they have a hard time discerning a ready answer. Many posts continue to persist in the belief that if they simply tell the market the kinds of services they offer, businesses will beat a path to their door. Many fail to grasp that in today's environment the question they need to ask is not, "Here's what I have, what do you want to buy?" but rather, "What do you need, and may I build it for you?"

THE RIGHT ACCIDENT

While no post is perfect, the US Postal Service (USPS) has benefited from a historical accident that more closely links marketplace interests with the development of postal products and services. It's called worksharing. Simply put, worksharing is nothing more than the substitution of lower-cost, private sector resources for more expensive resources that would be provided by a post. Some call it outsourcing, but either way, it's the same. Find someone who can do the job for less, and compensate him for his labors with a share of the avoided costs.

In a sense, worksharing can be thought of as nothing more than affording customers competitive postal network access. Since many posts now (or soon will) have to contemplate giving its competitors network access, logic would dictate they're asking why they shouldn't provide customers with a similar opportunity.

A SUCCESSFUL CATALYST

Worksharing within the American postal market has been a phenomenal success. It has provided businesses with a method for diminishing the impact of postal rate increases. It has created incentives for mail-using businesses to prepare and present mail that is more efficient for the US Postal Service to handle. And it has also provided the kind of economic stimulus that has fostered a direct-mail marketing sector that is the envy of posts around the world. Indeed, without worksharing, the USPS that exists today would have fis-

DR. GENE DEL POLITO has served as the president of the Association for Postal Commerce for the past 20 years. Dr. Del Polito is highly regarded as an effective advocate on behalf of those who use mail for business communication and commerce. He has received several awards, and is often sought as a speaker at postal conferences.

For worksharing to succeed, the discounts a post is willing to provide must exceed the cost the mailer must expend on worksharing. When the shared savings are insufficient, worksharing doesn't occur.

cally collapsed long ago under the burden of an infrastructure that is one of world's most labor-intensive and costly.

Worksharing in the US takes many forms. American mailers have proven their adeptness at mail presorting, mail bar coding, delivery point sequencing, palletizing, and drop shipping (transporting) mail for destination entry. While the many forms of worksharing have added a certain complexity to postal rate structures, it has allowed the Postal Service to avoid the tremendous costs associated with the need to build more mail processing facilities and with the need to expand the postal workforce to more than a million persons nationwide. Without worksharing, it has been noted, mail-processing costs within the US would have increased by some 22 percent.

The US Postal Rate Commission has noted that even though the US maintains one of the most stringent letter-mail monopolies, it enjoys "the most liberalized postal market in the industrialized world" because worksharing has put much of mail's value chain into the hands of mailers and other third-party service providers. "Work-sharing discounts," it said, "proved to be a catalyst for increasing volumes." Indeed, the advent of parcel drop shipping opportunities has transformed the USPS' nearly moribund parcel delivery service into an attractive, cost-efficient, competitive alternative to services offered by the private sector lions of the parcel delivery business.

RATEMAKING IS THE KEY

So, if posts are to plan on network access becoming a way of life, where should they begin? First it's important to understand that when it comes to mail, customers usually start with a consideration of postal rates. While they also are concerned about quality of service, universal service, and the like, if the prices charged for the services received do not compare favorably with other methods of communicating and transacting business, mail will come up short. How postal rates are derived should be central to any post's transformational considerations.

In the United States, postal ratemaking begins with a determination of costs at what is called a subclass level, i.e., a grouping of mail that receives the same service level and has similar operational and market-demand characteristics. These costs then are marked up using statute-imposed criteria to derive a subclass's base rate. From there, discounts are provided off the base rate to reflect costs that a post forgoes through mailer worksharing (e.g., presorting, bar coding, drop shipping, and more). In the US, this has become commonly known as top-down ratemaking, e.g., determining costs over an aggregate of mail, marking it up to derive a price, and discounting down to reflect worksharing savings.

NEW RATEMAKING PROCESS NEEDED

For many years, this process of ratemaking worked satisfactorily. In the early years, worksharing was minimal and the operational and market-demand characteristics of mail within a subclass were similar. Over the years, however, US mailer worksharing has grown significantly, as has the complexity of determining the full measure of avoided costs. In addition, the operational and market-demand characteristics within many subclasses have become differentiated. A subclass that formerly could be classified as homogeneous, now is considerably heterogeneous. In many respects, the homogeneity of some US mail subclasses is nothing more than a regulatory fiction that has resulted in a rate structure that serves neither the best interests of the Postal Service nor its customers.

For worksharing to succeed, the discounts a post is willing to provide must exceed the cost the mailer must expend on worksharing. When the shared savings are insufficient, worksharing doesn't occur. The incentives that flow from rate design must engender economically rational mailer behavior. Consequently, it would be more sensible to base ratemaking on an accurate determination of the costs of resources consumed to provide service at various levels (or access points) within a postal network.

For instance, within the American class called standard mail (advertising mail), several network access points can be discerned. Mail can be entered at multiple origins as well as destination facilities. Origin-entered mail will require considerably more in the way of processing and transportation than mail entered close to the destination point. Similarly, mailer presorting and bar coding can facilitate the handling and processing of mail. Consequently, if a mailer chooses to forgo postal mail processing services, transports the mail to the destination delivery unit, and prepares the mail in a manner that requires nothing more than delivery service, the rate paid should be based on the mail's actual delivery costs, and not on the costs of all the other services that were foregone.

BOTTOM-UP APPROACH

Under such an approach, rather than using a pricing scheme based on discounting down, a post would base its rates on the costs associated with some nuclear level of mail service, such as street delivery. Rates for services requiring a greater expenditure of resources then would be surcharged to fully recover resource costs. This "bottom-up" approach to postal costing and ratemaking would redirect incentives to help ensure that cost attributions are accurate and complete, and appropriately motivate desired worksharing outcomes. Thus, the task of the post (or a third-party regulator) would be to make sure that rates charged at each level of network access (to customers or competitors) are sufficient to yield a reasonable profit.

This framework of ratemaking provides other benefits as well. For instance, very few posts have completely deregulated. Some still exercise de facto, if not de jure, control over mail services, and many still are subject to some level of third-party regulatory oversight. Such oversight demands that postal costs be easily discerned. A system based on a determination of the cost of resources actually consumed to provide service at various levels of the postal network would facilitate not only an accurate review of the costs that underlie rates, it also could provide a more rational scheme upon which to determine the quality of services provided.

Bottom-up costing provides posts, customers, and postal workers one additional benefit as well. The decision to encourage or engage in worksharing only makes sense if the savings make good economic sense. When a post can provide some essential service at a lower cost than the mailer, the decision to forgo worksharing and let the post provide the service, is the right call. On the other hand, when the private sector can provide some services at much lower cost, encouraging worksharing is the right course.

Knowing the true cost of services provided at various levels of network access is essential employee organization as well. For instance, if a union knows that because of the way it has structured its contract with management, it cannot possibly offer some service more cost-efficiently than the private sector, it must face up to the reality that its relationship with the post (e.g., compensation levels, work rules, grievance practices) must be re-explored. With certain changes, postal employees may find they can offer services much more cost efficiently than other sources.

WORKSHARING AND LIBERALIZATION

Many posts define service quality in terms of days-to-deliver. Some take great pride in delivering their prime class of letter mail within 48 hours. This sounds great, but it may be less meaningful in the case of smaller nation-states. In such circumstances, the idea of worksharing may seem ludicrous.

But what do you do when your task is to service areas that must take in the territorial expansiveness of countries such as Russia

Posts are complex enterprises. To operate cost-efficiently, they must be competently managed with a thorough knowledge of every part of the network's functioning, including an understanding of its operational performance as well as its costs.

or China or the topographical diversity of a Greece or Indonesia? And will deliver-within-48 hours continue to serve as an adequate benchmark when postal services consolidate within a larger governmental framework? Could what is achievable today in Germany be equally achievable if the service area encompassed Switzerland, Austria, Lichtenstein, and Poland? Could what is achievable today in Denmark be equally achievable if the postal service area were to include Sweden and Finland? Under such a scenario, worksharing could begin to make sense.

CONCLUSION

Posts are complex enterprises. To operate cost-efficiently, they must be competently managed with a thorough knowledge of every part of the network's functioning, including an understanding of its operational performance as well as its costs. A bottom-up approach to ratemaking could provide the requisite framework for a post's investments in informational technology to yield a means for internal performance management as well as value-added, market-based tools (such as mail tracking and tracing).

The idea of providing customers alternative points of network access may seem frightening. How, after all, can a post sustain its costly infrastructure if customers are bypassing key elements of a network upon which an institution's overall costs are based? To put it simply, if the expectation is that a nation's postal system should serve as a primary source of employment regardless of the costs, its chance of surviving in a competitive environment is nil. On the other hand, if postal policy makers recognize that human and capital resources must be flexibly scaled to match actual marketplace needs, then a resource cost-based approach to ratemaking can facilitate an environment in which customers', as well as competitors', postal network access becomes a more comfortable way of life.

weblink

For
MRI use
only.

Postal Services: A Reform Momentum

The future for the post industry promises to be more challenging than ever before. Postal administrations will soon have to deal with market requirements, competition, and most importantly, customer satisfaction.

Luís Nazaré

Twenty years ago, very few market analysts could predict that the postal service industry would one day be struck by a transforming wave. Its stiff impact on the business economic and regulation policies is about to change the old easygoing attitude.

The postal sector – as it was then called – was traditionally seen as a doomed business, a nonprofit-generating, labor-intensive market subject to tight and inefficient universal service constraints. No technological breakthroughs were foreseen, no attractiveness for market liberalization was truly anticipated, no medium-range regulatory action was deemed necessary apart from quality of service enforcement over the incumbent's shoulder.

In the last 15 years, the postal market has grown up. In all OECD (Organisation for Economic Co-operation and Development) countries, the privatization thrust of the utilities sectors, formerly dominated by state-owned companies (telecommunications, power supply, water and waste disposal, public transportation), led to a reform momentum of the postal services toward a future open market. In Europe, a roadmap to full liberalization began to be drawn in the early '90s, under the command of the European Commission and the growing pressure of private market players who were eager to enter or widen their narrow scopes of postal-related businesses. A package of legislation was then adopted to grant market access to private players, in a gradual approach, so as to give time to the old and heavy PTTs (Post, Telegraph, and Telephone – the European name for the formerly state-owned monopolies in the communications sector) to restructure and prepare themselves for the new ages.

In June 2002, the European Council adopted a final schedule for full liberalization. If the path remains unchanged, by January 2009 all postal services shall be open to competition. The future for the postal industry promises to be more challenging than ever before. In response to these strokes, classic postal administrations are giving way to corporations of different types. "Regulatory reform, internal restructuring and increased use of technology are transforming postal services from government agencies into commercial businesses with ambitious operational goals," reckons Thomas Leavey, president of the Universal Postal Union, the legacy UN organization. Indeed, there is no doubt that the liberalization process undertaken in most OECD countries will eventually result in increased competition for traditional postal products and deep restructuring of ex-monopolies.

PUBLIC INTEREST VS. OPENNESS

One of the key issues involving postal services is how to match public interest with market openness. Traditionally, European legislation considers universal service a basic set of postal services of good quality available to everyone for a uniform, affordable price. An incumbent, formerly PTT, is designated to provide certain mandatory services, against the exclusive right to provide "reserved" profit-making services and possibly subsidize the nonprofitable ones. EU and national regulators' main concern has always been not to bring the universal service concept under pressure while opening the gateways to full liberalization.

For these reasons, the two major challenges for European regulation are: finding the right balance between profitable and nonprofitable market segments within the universal service obligation, and clearing the obstacles that hamper competition. Unquestionably, this is a tough job to perform. How do you "develop a process of a gradual and controlled market open to competition within the postal sector, while giving the Member States means to ensure that the provision of universal service is guaranteed in a lasting basis," as the European Commission aspires?

First, as one can easily verify, the legal segmentation embedded in the European legislation has little in common with the one used by the industry, which makes figures harder to confront. Second, given the fact that universal

LUÍS NAZARÉ is a professor of business strategy at the Instituto Superior de Economia e Gestão in Lisbon, Portugal, and partner in Gestíssimo Consulting. Mr. Nazaré previously served as chairman of the Instituto das Comunicações de Portugal, the national communications regulatory agency, as well as economic adviser to the prime minister. He has a Masters of Business Administration from the Instituto Superior de Economia e Gestão – Universidade Técnica de Lisboa.

service is described in a rather broad manner under the European directives, how high should the mandatory service provision be kept, bearing in mind that significant alternatives to classic mail have been developed in the last decade? Third, there is an ongoing, inconclusive, theoretical struggle between the defenders of service competition and those of network competition. What's the optimal approach?

WEIGHTY MARKET REQUIREMENTS

Weight is no longer a sound segmentation criterion. Neither are the rough, old distinctions between letters and parcels or printed and nonprinted mail. In fact, mail arrives in a variety of forms: letters, direct mail, newspapers and magazines, unaddressed correspondence, and volumes. Each of these communication and transactional forms includes consumer and business elements, as well as profitable and non-profitable operations. Therefore, legal borders based on weights and tariffs seem inappropriate, although they may represent a sound protection shield for the incumbents against early, aggressive competition in the reserved segments.

> *New players claim that the array of mandatory services can be narrowed significantly with open market mechanisms, since a growing number of services could be offered at an affordable price.*

For the sake of political consensus within the European Council, and the place occupied by services of general economic interest in the shared values of the Union, which is supposed to foster social and territorial cohesion, the new directives (June 2002) came to reflect a prudent weight-price access regime to the "reserved" area. "Price limits for the services capable of being reserved [i.e., national regulators can rule in a more aggressive manner than the general principle], of respectively three in 2003 and 2.5 times in 2006 the public tariff for an item of correspondence in the first weight step of the fastest standard category [generally D+1], are appropriate in combination with 100-gram [before 2006] and 50-gram [before 2009] weight limits," the European Council concluded non-unanimously. Experience has proven that, once a defined timetable is set up, no surprises are to be expected. This will certainly be the legal framework for the present decade and market players should be better prepared for it, even though some countries may adopt – or have already adopted, like the Netherlands, Germany, the United Kingdom, and Sweden – swifter liberalization paths.

If a function-based segmentation were to be applied to the postal services, a few surprises would emerge. Contact mail – written communication between two parties in a particular, non-replicable relationship – represents a significant portion of business mail under 100 grams. Transaction mail – written communication as an element of the economic playground – also comprises a majority of correspondence lighter than 100 grams. Both fall under the reserved services category. There is a case for whether this restriction is fair. New entrants and express mail carriers claim that weight is meaningless; all that should count is the value-added service to the customer. In fact, they appear to be ready to enter the business market as soon as it is open to competition. Some of them have developed sound experience curbs in the collection and delivery phases and, therefore, are willing to challenge the incumbents on quality and value-for-the-money bases.

The advertising market – both addressed and unaddressed mail – is also a good target for the attackers. Entry barriers seem insignificant, provided that the service complies with customers' demanding criteria. Given the high-delivery density of this segment, the trend is towards differentiation based on quality of service. Performance will be measured by the accuracy and efficiency of the deliveries; upstream (databases) and downstream logistics (links to e-marketplaces and call centers) may prove to be crucial.

HIGHER PRICES, 'UNATTRACTIVE' SERVICES

In view of the expected market developments and modifications in the value chain, it is a good time to reflect on the universal service obligations. New players claim that the array of mandatory services can be narrowed significantly with open market mechanisms, since a growing number of services could be offered at an affordable price. Hence, there should be no reason to believe that a reserved category of services is required to counterbalance the universal service. In other words, the industry will keep on pushing the 'reserved' area of the incumbent, trying to get in, while supporting a 'minimum universal service' concept, limited to those services the market does not provide of its own will. Not surprisingly, incumbent operators are beginning to introduce a new theme in their strategic agendas – they are questioning how long it will be considered as public interest that mail be collected and delivered every working day, in the whole territory, with no delays. Where is the socially optimal service level? It's an appealing subject, for we all know that any reduction of service (lower delivery frequency, longer delivery time) allows for lower costs, but does not necessarily imply lower prices.

Meanwhile, the reserved services are under attack. Many ask the question, "Why should the incumbents keep their monopoly on certain postal services, namely correspondence under 100 grams, 'postboxes' (collection boxes from which only the incumbent can extract mail), and stamps? Why couldn't the European timetable be accelerated, in the interest of all players? Why don't all players – incumbents and newcomers – focus on real business?" The trick

Measuring Value Creation

Accenture developed the Public Sector Value Model for Posts as a tool to measure value creation and evaluate tradeoffs between public outcomes and economic value creation – often competing agendas.

Mark Younger and Michael S. Coughlin

For many years, the public sector has struggled to define and measure success; that is, the creation of value. Unlike the more straightforward economic goals of private sector organizations, public agencies – with missions like health care, revenue collection, or agricultural programs – find it difficult to measure the value created by their efforts against the funds they have expended. Recognizing that a more rigorous approach was required if agencies were to achieve the higher levels of performance demanded, Accenture launched an effort to create an analytical model that would measure public outcomes, as defined by an agency's mission, against the cost-effectiveness of the agency. The result was the Accenture Public Sector Value Model (PSV).

This model was developed in 2003 by a group of Accenture executives from the global government practice. Leading academics from Harvard's Kennedy School of Government, the London School of Economics, and Strathclyde University reviewed the model. Essentially, the model hypothesizes that a public organization creates sustained value for citizens if it delivers favorable outcomes at increased levels of cost-effectiveness.

Postal organizations present a slightly different challenge. Along with a number of one-time regulated entities such as public utilities, they not only have a public side to their mission – that is, the provision of universal service with all of its variations – but also a private shareholder interest that demands the creation of economic value. There is a natural tension that exists between efforts to better achieve the desired public outcomes (service quality, accessibility, affordability, and responsiveness) and those that generate favorable financial returns to postal shareholders. Hence, the development of the Public Sector Value Model for Posts.

This hybrid model measures both the public and the economic value created by the post, while providing an analytical framework to evaluate the impact of various alternative actions (value levers) on current and future results. The model achieves the value assessment through the construction of public and economic outcome scores, which can be plotted on a matrix (see Figure 1). Posts can then evaluate movement year to year to determine whether the organization is creating or destroying value over time.

To describe it simply, the model looks at two drivers of value in the postal sector: public outcomes, as drawn from the organization's mission and universal service obligation; and economic outcomes as measured by economic value added (EVA). By improving the measured result in one or the other driver, a post creates value. Sometimes one driver is improved at the expense of another; a conscious trade-off between two fundamental sources of increased value. When both drivers decline, there is a clear destruction of value. The worth of the model is the explicit measure of both drivers and the informed choices between alternative courses of action it enables.

PUBLIC OUTCOMES

In the postal sector, the measurement of public outcomes varies widely from one post to another. Most industrialized posts have some measure of mail delivery time. Beyond that, few look closely and regularly at other desired public outcomes, such as affordability, accessibility, or responsiveness. Yet, when you look at the universal service obligation of individual posts, the definition of that obligation often speaks of these or related types of outcomes. Accenture has identified six common public outcomes that measure the public value created by a postal operator. They generally reflect the agency mission, the universal service obligation and the expectations that citizens have with respect to postal services. Figure 2 summarizes these six outcomes.

MARK YOUNGER is a London-based partner in the Accenture Government Operating group. Mr. Younger, who is currently leading the company's Public Sector Value initiative, has extensive experience leading and delivering large-scale, complex consulting, outsourcing, and IT projects in both the public and the private sector.

MICHAEL S. COUGHLIN is the global postal value architect for Accenture. Prior to joining Accenture, he spent 32 years with the United States Postal Service, serving as chief financial officer, chief operating officer, deputy postmaster general, and a member of the USPS Board of Governors. Mr. Coughlin frequently speaks at or chairs postal conferences worldwide.

Metrics around these public outcomes often do not exist today. However, it is only when objective, simple, and cost-effective measures of outcomes exist, that programs to drive performance improvement can truly be effective. The value-creating programs are those that will drive measured results higher for one or more of the outcomes.

A simple but illustrative example might include efforts to measure customer responsiveness using service inquiries. Common customer relationship management tools could be used to track service requests by customers and then categorize the requests by criticality. Standard response times for levels of criticality could then be established and measured. With the metric in place, the sales and service workforce could be aligned to handle the more critical issues, while lower-cost options (call centers, Internet-based technologies) could be leveraged to address less critical inquiries.

$$\text{EVA} = \text{Net Operating Profit After Taxes} - (\text{Invested Capital} * \text{Weighted Average Cost of Capital})$$

FIGURE 3 Economic Value-Added Calculation

A hybrid organization, such as a post, can achieve high performance when it delivers high public value while maximizing the economic benefit for its shareholders.

As posts put metrics in place, where they are now nonexistent, program initiatives can be consciously focused on specific public outcomes to maximize value and move to a higher level of performance.

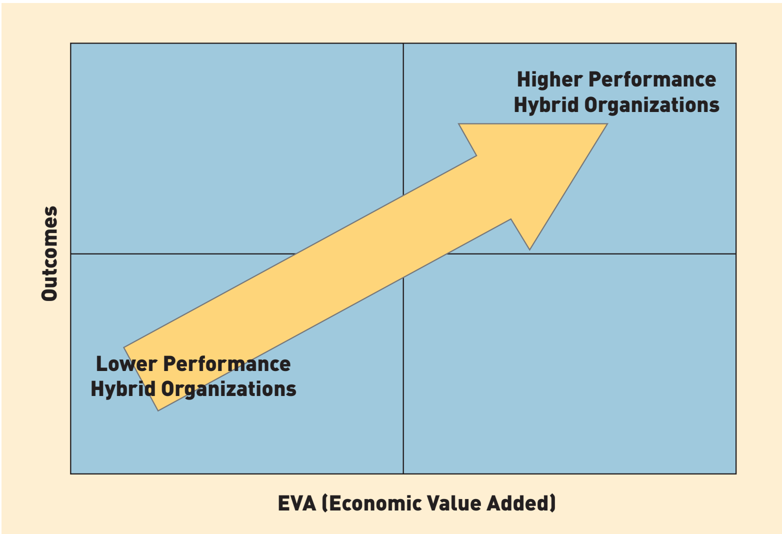


FIGURE 1 The Accenture Public Sector Value Model for Posts

EVALUATING ECONOMIC OUTCOMES

The Public Sector Value Model for Posts reflects shareholder interests and value through economic value added (EVA), a measure of real economic value and the effective utilization of capital. EVA is defined as the net operating profit after taxes minus an appropriate charge for the opportunity cost of all capital invested in the enterprise (see Figure 3). Essentially, it is an estimate of the amount by which earnings exceed or fall short of the required return that shareholders and lenders could get by investing the same amount of capital in other businesses of similar risk.

To evaluate the shareholder mandate, EVA is further analyzed through the two components of the Accenture shareholder value analysis (SVA) – revenue growth and spread (return on invested capital minus the weighted average cost of capital). This analysis identifies value levers; actions, programs, or initiatives that are designed to increase economic value, allowing posts to make educated choices about tradeoffs. A hybrid organization, such as a post, can achieve high performance when it delivers high public value while maximizing the economic benefit for its shareholders.

The components of the SVA are further decomposed into their essential elements to find the drivers of value. For example, revenue growth is broken down between organic growth and expansion through merger and acquisition. Some of the basic value levers of revenue growth include pricing, product design and mix, and sales promotion actions. The analysis allows evaluation of the impact of each of the specific levers on revenue growth and possible tradeoffs on future actions.

The second component of this analysis is spread; a function of the return on invested capital minus the weighted average cost of capital. The return on invested capital is driven by operating margin and capital efficiency. Value levers within return on invested capital include all actions that can improve operating margin or the efficiency of the capital employed. Productivity improvement, cost reduction programs, and efforts to leverage existing networks and capital equipment are among the drivers that could help create value through improved operating margins.

Weighted average cost of capital is a function of the cost of capital on the one hand, while it is also impacted by the amount of capital employed. Efforts to influence either the rate paid or the

(1) Maintain affordable pricing	It is important for postal services provided by state-owned operators to be affordable to all citizens.
(2) Maximize quality of service	Citizens expect reliability and speed of their deliveries, as well as frequent service. This outcome applies particularly to businesses, some of them depending heavily on the quality of the postal service.
(3) Maximize accessibility	This outcome addresses accessibility to the general public through a convenient and dense network of post offices or service points.
(4) Minimize inequality between users	This outcome measures differences between user groups of pricing, quality of service, accessibility, responsiveness to citizens, and provision of other public services, particularly between the rural and the urban population.
(5) Maximize responsiveness to citizens	More and more citizens are becoming customers of public services who expect to be treated as such by government agencies. This outcome is taken directly from the private sector and encompasses all actions related to customer satisfaction, such as speed of response and easiness of relationship between the citizens and the operator, particularly when dealing with complaints.
(6) Maximize availability of other public services (i.e., government services provisions, banking in non-banked areas)	Given the usual geographic extent of the post office network, postal operators should make other government services more available to the public. Posts also should complement private services (i.e., banking services) in areas that do not enjoy high levels of these services.

FIGURE 2 Postal Outcomes for the Public Sector Value Model for Posts

amount of capital used will positively affect value created for shareholders.

The shareholder value analysis of the key drivers of revenue growth and spread will help the post assess the levers that will have the greatest impact on net operating profit after taxes, and therefore EVA. It will also enable the evaluation of actions intended to improve value creation of public outcomes while understanding the corresponding impact on EVA.

CONCLUSION

We believe that the Public Sector Value Model for Posts will allow postal operators to see the forest for the trees – to understand the enterprisewide impact of the large number of individual alternatives for action. It will help executives analyze performance based on the value created for the public and the desired outcomes, as well as the value created for shareholders. Significant performance improvements are likely to follow the analysis when the right value levers are pulled for each dimension. The model also provides posts with a performance measurement tool that can be used to demonstrate progress in economic and public value creation to their principal stakeholders and raise performance to new heights. Finally, it can be used to identify strategic initiatives and their possible impact on outcomes and EVA.

The PSV Model for Posts can also assist postal regulators in analyzing the markets they oversee and the likely impact of regulations they might use. In this sense, the model can serve as a mediation tool for discussions between regulators and operators.

In summary, the Public Sector Value Model for Posts is a powerful tool to define and then deliver high performance. With the universal service obligation still in place, economic value and public value should be kept in appropriate balance. This model allows posts to identify and then implement those value levers that will generate both social and economic value simultaneously.

The PSV Model (patent pending) is the property of Accenture LLP.

Evolutionary Revolution

Creating high-performance capabilities and long-term value in the postal industry depends on optimizing the efficiency and performance of its human capital asset.

Kathy L. Battistoni and Karen Braeckmans

Accenture's work within the public sector has led to a number of important hypotheses about the characteristics of high-performance organizations in government. Many of these characteristics underscore the importance of the workforce: a focus on core capabilities, the capacity to change, commitment to the growth and development of employees, and courageous leadership.[1] When one turns specifically to postal organizations, however, the criticality of the workforce does not take long to establish. The workforce is, quite literally, the number-one asset of all posts worldwide, representing 70-80 percent of the total operating expenses of most postal organizations. Clearly, creating high-performance capabilities and long-term value in the postal industry depends on optimizing the efficiency and performance of its human capital asset.

Let us be clear – postal organizations worldwide are comprised of millions of dedicated employees who seek to excel personally and professionally. Yet postal executives do face some unique challenges when it comes to implementing workforce initiatives as part of a high-performance strategy. Or, perhaps it would be more accurate to say that while no single workforce challenge faced by postal executives is unique, the sum of the individual challenges may appear to be a daunting obstacle. Those challenges include: disparities in education, background, and language; labor-management disputes; regulatory constraints; and a monopolistic mindset to the culture that often resists even inspired attempts at change.

In the face of these challenges, postal organizations must forge a distinctive path when creating workforce strategies. Call it "evolutionary revolution." The approach is transformational, but is built more on phased release strategies that have become standard in the implementation of large and complex business solutions. Creating a high-performance workforce involves harnessing energy that builds gradually over time through a series of evolutionary initiatives and phased approaches.

THE VISION

Workforce change and enablement are on the critical path for every postal organization. Accenture's own research, for example, has identified the attraction and retention of top talent as one of the top three internal concerns among postal executives today. A variety of other regulatory investigations has also underscored the centrality of workforce issues. In the US, for example, a 2003 General Accounting Office report on performance and accountability in the United States Postal Service (USPS) named "strategies to address human capital issues" as one of the five planks of its overall transformation plan.

With so many immediate or short-term issues to deal with – budgetary, regulatory, and union concerns – what does it mean to "address" workforce issues in a way that makes long-term cultural change and high performance possible? One prerequisite is to better define a vision for what a high-performance postal workforce would look like, and the competencies or capabilities vital to personal and organizational success. We believe five capabilities in particular are employee characteristics in a high-performance postal organization:

Adaptable and Agile – Postal organizations will have difficulty thriving in the face of a changing technological and competitive environment unless they can influence the workforce to become increasingly adaptable and agile. Such a program is definitely a long-term prospect. As part of a long-term change program, a high-performance postal organization must begin to

KATHY L. BATTISTONI is a partner in Accenture's Human Performance Global service line specializing in HR and learning transformation, operations, and change management. She has 10 years with Accenture and 11 years prior experience as a human resources and training practitioner. Ms. Battistoni's clients include large government entities (US and non-US) and global commercial enterprises.

KAREN BRAECKMANS is the client partner responsible for all Accenture projects with the Belgian Post Group. Ms. Braeckmans is responsible for the development of the Human Performance service line in Government in Atlantic and Europe as well as across industries in Belgium.

break the connection held by the culture that change is equivalent to loss of security. One immediate need is to address the rather rigid rules that make it difficult to redeploy employees in the face of changing conditions. Without change in that area, posts will continue to battle against deeply structural impediments to building an adaptive culture. Postal organizations could also establish incentives for contributions from the workforce related to operational and process improvements. Labor groups could be charged with idea generation, or made part of labor-management teams with the express mission to brainstorm and innovate.

Technologically Savvy – Leading organizations in all industries have long known the importance of technology. As with the change and adaptability point, the union-based culture of a typical postal organization has traditionally been extremely wary of technology change. Yet many technological innovations in the postal service, already in place or on the horizon, are actually tools that can help employees do their jobs better and position them and their organizations for a better tomorrow. For example, our Accenture Technology Labs researchers have developed an innovative prototype for package delivery, called the Wearable Services Platform, that equips users with wearable computers. Using this prototype, a delivery driver speaks into a transmitter and makes the call via a monitored home-based server. If the customers are not at home, they can alert the driver via mobile phone, offering alternative delivery suggestions. These kinds of technology-based solutions are going to become increasingly important to the success of posts worldwide; postal organizations need to make sure, however, that their workers can and will use them.

Learning Oriented – An adaptable culture is one that is always learning. Posts that invest in training and career development help the organizations as well as the people who work for them. Presumptions about job security may not hold forever, and so training becomes ever more important. For example, as noted in the report *European Postal Services and Social Responsibilities*, few jobs are guaranteed for life because of changes in the European economy in the face of global competition. Thus, "the more individuals are equipped with a broad range of modern skills, the easier it is to transfer to new and growing sections of the economy."[2] New techniques and tools for e-learning promise to make training opportunities available to more postal employees, even those who are dispersed or primarily mobile. For example, Accenture's work with learning management systems and e-learning programs at postal organizations has demonstrated that such systems can not only reduce administrative, operations, and maintenance costs, but also reduce time in training and increase time to competence. Learning management systems can provide the means to identify skill gaps, measure training effectiveness, develop individual training plans, and enable collaboration to enhance employee performance.

Customer-Centric – Developing a customer-centric culture in postal organizations is vital to success. Advanced processes and technology-based solutions for customer relationship management (CRM) are certainly part of the answer. Yet the deeper cultural change that must occur for postal workforces to become truly customer-centric is a longer-term proposition that includes specific learning/training initiatives, as well as organizational change programs. Employees at all levels must understand the competitive pressures that make better customer service an absolute imperative for posts. New techniques for sourcing, career advancement, and staffing also play an important role. Customer-facing roles must be staffed by people who are highly competent in that area. Although that would be obvious in the private sector, it is too rarely the case with government agencies. In the public sector, customer-facing positions are often awarded to employees on the basis of seniority rather than aptitude or ability.

An adaptable culture is one that is always learning.

Highly Motivated – Motivation is perhaps the most vexing area when it comes to the postal workforce. The global postal industry is often comprised of people with contracts for life, which limits postal organizations' opportunities to bring about change. The existence of a union culture also places multiple constraints on the way people are managed and rewarded. Increased employee involvement is one approach being tried at many posts. The European report notes the fact that the more employees are consulted and involved, the more they work toward achieving organizational goals as a team.[3]

Retooling employee incentives is another important strategy. According to the 2003 Report of the President's Commission on the United States Postal Service, successful management of a postal workforce requires more than fixing problems and controlling costs. "Building an incentive-based culture up and down the ranks is key to elevating the Postal Service to a new standard of performance."

AN EVOLUTIONARY CHANGE PROGRAM

With these five characteristics established, what can postal executives do to plan for the long-term journey toward these high-performance capabilities?

Develop a Competency Model

A comprehensive workforce competency model is the first vital step in maximizing the value of the workforce asset. Armed with a good competency model, postal organizations can see which capabilities they have in their people and in their locations, as well as how best to develop additional capabilities. The model can thus be the basis for determining the level of investment an organization has in its workforce, the current value of the experience and knowledge of the workforce (measured as an intangible asset), and the investment needed to move the workforce toward a new set of competencies. A competency model is also important in identifying the particular capabilities likely to be important in the future, given changing markets and technology. In order to build an organization oriented toward the market and the customer, postal organizations need to focus on building those workforce competencies, and also determining how skills can be refreshed and updated.

Human Capital Capabilities						
Leadership	Workforce Proficiency	Workforce Performance	Employee Engagement	Workforce Adaptability	Human Capital Efficiency	Talent Management
Human Capital Processes						
Competency Management	Career Development	Performance Appraisal	Succession Planning/ Leadership Development	Recruiting	Workforce Planning	Workplace Design
Rewards and Recognition	Employee Relations	Human Capital Strategy	Learning Management	Knowledge Management	Human Capital Infrastructure	

FIGURE 1 Primary Components of Accenture's Human Capital Development Framework

Based on our work with postal clients, we have developed a structured way to confirm that competency development is based on business needs and is related to current competency gaps. Ideally this seven-step approach would be applied to the entire workforce. At a minimum it should be applied to an organization's most critical workforce – those employees whose performance is most directly linked with business value. The seven steps are:

1. Develop or confirm organization vision, goals, and strategies;
2. Define the competency catalog needed to achieve the vision, goals, and strategies;
3. Develop role profiles (future competency requirements on each level/role, based on the catalog);
4. Assess current competency profile of each employee (current level, based on the catalog);
5. Perform gap analysis (gaps between desired and current profiles);
6. Implement competency development actions; and
7. Evaluate the results and the process.

Develop a Building Plan

Based on the gap analysis, postal organizations can then build programs around key knowledge and skills. Important elements or vehicles to consider in a successful competency-building and development program are:

- Internal and external training;
- Mentoring programs;
- Business and/or process simulation;
- Role-playing;
- Job rotation;
- Integrated performance support (technology-based support for specific tasks); and
- Special projects or assignments.

Regular performance and competency reviews are also important means of further consolidating and enhancing the competency-building and development effort.

Transform HR Services

HR transformation is also key to the high-performance postal organization, since the HR function often feels the pressure caused by cost constraints, increased competition, and initiatives aimed at greater workforce productivity. Transforming the HR function involves five important integrated initiatives:

1. Enhancing employees' understanding of the organization's strategy, as well as their specific role in executing it;
2. Boosting the overall skill level of the workforce;
3. Improving the impact of HR and learning on overall business results;
4. Exploring opportunities to outsource the administrative aspects of HR; and
5. Enhancing the leadership, business, and management skills of HR professionals.

Advanced technology-based solutions are also vital. At Canada Post, for example, an enterprisewide implementation of mySAP.com served as a catalyst for organizational change and also helped the post realize cost savings. From a management point of view, the new system is providing more accurate, complete, and timely information about labor cost and attendance. Over time, as these types of HR systems are linked to the competency model we've already outlined, postal organizations can begin to develop the capability to monitor, in real time, the overall competency and performance of its human capital asset.

Develop Realistic Resizing Plans

No discussion of workforce issues in the postal industry would be complete without a mention of rightsizing. This has been one of the more vexing issues for posts, which must balance unionized workforces against competitive pressures. Yet through managed attrition programs and careful planning, postal organizations can begin to realize major cost savings and efficiency improvements. Although most postal organizations have struggled with workforce sizing, some success strategies stand out:

- Changes were made over a period of several years, making the process less painful;
- The downsizing was not tactical or short term, but part of long-term visions and strategies from top management;

- Careful management of the change process;
- Processes for management and unions to work closely together; and
- Organizational incentives.

Guiding Investments in Human Capital

Recent surveys reveal that although executives firmly believe that people are the most important asset, most executives are at a loss to prove that investments in people lead to improved business results. In interviews with senior HR executives, CFOs, and financial analysts, we found two recurring themes regarding human capital measurement. First, measures need to be meaningful from an operational perspective. That is, managers want measures that reflect the way organizations create value.

Second, measures need to be useful from an investment perspective. Executives want to know where they should be investing for the future – both in terms of the kinds of skills employees will need to achieve the organization's longer-run strategies, and in terms of the kind of human resources capabilities the organization will need to acquire, develop, and retain employees with those skills.

A comprehensive workforce competency model is the first vital step in maximizing the value of the workforce asset.

One innovative approach for estimating the effectiveness of an organization's human capital management processes is the Accenture Human Capital Development Framework. The framework has been developed based on extensive research, demonstrating the link between effective execution of these processes and superior business results (see Figure 1).

The framework uses distinct levels of measurement to arrive at an assessment of an organization's human capital practices. Unlike other approaches to evaluating HR organizations or assessing the return on human capital, the human capital process focuses explicitly on the maturity of an organization's human capital development processes.

Once data is collected, an assessment is generated that represents – in numbers, graphs, and against benchmarks – an organization's ability to use human capital to generate business results. Each attribute in the model is scored to represent maturity. These assessments lead to recommendations that can help an organization focus management attention and action on human capital processes that can, in turn, drive improvements.

Develop and Sustain Leadership Programs

Although we have restricted the workforce performance discussion here primarily to the labor workforce of postal organizations, identifying competency models for management is also critical. One overlapping competency area between labor and management is in leadership education. Too often, organizations mistake management and supervisory training for leadership training. Being able to manage people is a vital aspect to career growth in any organization, but existing management must also be on the lookout for the young and gifted with the greatest leadership potential. It is from these ranks that postal services can bring together a number of elements previously mentioned – adaptability, innovation, and transformation – and begin to groom people with those traits and skills who can be forces for change. The Motiv8 program at Deutsche Post is one innovative approach to linking leadership competencies to evaluation and development activities. Deutsche Post identified eight core competencies in rating executives. Each executive receives annual performance reviews from their employees, allowing ready assessment of performance and the attainment of objectives for each of the eight competencies. These reviews will have an impact on promotions.

CONCLUSION: ESTABLISHING TRUST

This last point about management and union cooperation underscores one important theme that runs throughout all these insights into the characteristics of high-performance postal organizations – trust. Transformational workforce change will be severely hampered in an atmosphere lacking trust. Unfortunately, due to decades of an often-adversarial relationship between labor and management, trust is often in short supply in postal organizations. What can be done? Postal leaders must learn to communicate clearly, consistently, and honestly about the challenges ahead for management and labor. Executives must provide clear reasons behind any proposed changes; they must not only push communication out, but also provide the means for these changes to be owned and received by the workforce. They must seek and facilitate not only two-way dialogue, but also two-way interaction. Finally, leaders must also demonstrate their willingness to share both the pain and the potential gain of any change initiative.

One should not necessarily expect enthusiastic endorsement of change; that would be contrary to human nature. But even grudging acceptance, and the willingness to begin the journey, is a first step in the right direction; the first step in the evolutionary revolution of workforce change. High-performance postal organizations will be those who have the will and the patience for the longer journey. They will know how to work one phase at a time, celebrating the accomplishments of each phase.

ENDNOTES

1 "A Value Model for the Public Sector," by Vivienne Jupp and Mark P. Younger, Accenture, February 2004 (http://www.accenture.com/xd/xd.asp?it=enweb&xd=ideas\outlook\1_2004\hp_gov.xml)

2 "European Postal Services and Postal Responsibilities," p. 26 (http://www.csreurope.org/uploadstore/cms/docs/CSRE_pub_Post-english.pdf)

3 "European Postal Services and Postal Responsibilities," p.31 (http://www.csreurope.org/uploadstore/cms/docs/CSRE_pub_Post-english.pdf)

Leadership and Cultural Change

Effective leadership is required to overcome cultural hurdles, effectively communicate the need for change, and create a better, stronger organization for the future.

Lynn Connors LaFiandra and Ghislaine deGive

The leaders of the world's postal services bear the burden of the challenges facing the postal industry. For the fortunate few who have seized the opportunity of acting before being forced to by economic exigencies, and the followers who are now acting under pressure, the keys to effective change are many: transforming the culture of the organization, changing people's mindset, keeping a focus on implementation, getting an executive team in place quickly, changing middle management, finding a governmental sponsor, and redesigning jobs. Leaders have identified these imperatives through anecdotes. We'll explore these concepts as well as what defines a leader.

This article, a distillation of interviews with CEOs and selected industry experts, documents what is common and has been effective in the chief executives' approach as they steer postal services to corporatization and, perhaps ultimately, to privatization. The interviews covered the challenges facing posts, key actions in response, the most effective behaviors, and the winning mindsets that CEOs considered essential to their success.

Even though interviewees were at different stages of transformation and in diverse countries with dramatically different union relationships and governmental support, there were strong consistencies and commonalities among the leaders' actions and recommendations. The major difference was between companies who changed their organization when it was profitable versus others that were either booking losses or facing an ominous future when change was being introduced. This difference in status conferred greater degrees of freedom and financial leverage in executing change.

LYNN CONNORS LAFIANDRA, Ph.D., is a senior manager in Accenture's Research group and has been with Accenture for eight years. She specializes in government and B2B research, including market and competitive analysis. Prior to working for Accenture, Lynn spent four years working for the US Department of Defense.

GHISLAINE DEGIVE, Ph.D., formerly with Accenture, specializes in primary research with an emphasis in global senior executive and thought leadership. Prior to joining Accenture, she was director of satisfaction research at Ernst & Young and held a post at McKinsey. Ms. deGive resides in London and is currently working as a freelance research director.

CHALLENGES FACING CEOS

While the challenges facing CEOs include social, economic, and political issues, they are well summarized by one CEO as "positioning this postal business for future success in an environment in which there are fewer envelopes being processed and delivered."

You Have to Change the Culture

All leaders commented that the culture of their organization was a major block to changing the company.

"There is no question that it is the fundamental barrier to implementing change. New business disciplines that are required have to be learned and often people have to change how they think about their jobs and their outputs. There seems to be some resistance to this sort of change. Commercial behavior is seen as distasteful or counter to principles of public service."

The task of changing culture would not be achieved over a short period of time. How an organization goes about addressing the need for change and the methods by which it seeks to implement change, are crucial. But in all cases, "a rather long timeframe can be expected, measuring many years." Moreover, as another CEO summarized, culture change is not accomplished by one set of programs aimed at culture. Rather, it is, "a holistic change, each and every part, every nut and bolt in the company is touched...it is about everything."

Win People's Minds

Every CEO stressed that one of the early and continuing tasks of the CEO was to spearhead and direct a comprehensive communications program that reached all employees, their families, the commercial environment and the political arena. The message to be delivered was that employees and managers have to change the way they think about the business. From a monopoly environment based on breaking even, they would have to recognize that they were operating in a world with competition and the possibility of financial demise unless each person in the organization assumed responsibility for growth. "We provided information to people about the business and about the markets and about the margins, so that people right though the organization understand what is going on and what is driving and delivering our profitability."

This core message was delivered by CEOs in numerous ways, including public broadcasting, companywide meetings, management memos, and floor conversations. While the message was one of dramatic change, the technique adopted tended to be analytical and supported with facts, arguments, figures, and occasionally disaster stories, all of which have the goal of "pushing responsibility right through the floor."

Each and every CEO talked of the need to be honest, to reveal the danger, and "tell it like it is." The message either suggested or explicitly stated that that the only way to survive was through dramatic changes. The opportunity for evolution had passed; revolutionary changes were needed. "The key lesson for any management in a company that is wondering about change – face the brutal facts. Be honest to yourself and really paint a picture as to what is likely to happen. Don't make it nicer, don't think this will blow over; face the facts."

The need to get the right executive team is pivotal to making things happen and is considered the first or second priority by CEOs.

On the positive side, some CEOs use this message as the promise of better things and more job fulfillment, responsibility and security for the company. This was an important advantage for one of the first postal services to shift. They had the facility to back up this claim with an adjustment to people's reward packages, such that productive performance was rewarded with higher salaries that recognized the effort.

Get Your House in Order

All CEOs interviewed advise that a change program needs to focus on the implementation of the strategy, not its creation. At the core of implementation are robust financial and accounting systems and an IT platform which provide a clear picture of the costs that drive the business and also serve as an unequivocal and non-emotional metric of how managers are performing. In addition, CEOs recommend that operational project management procedures be put in place.

The rationale for this emphasis is that without such processes and systems, neither attitudes nor behaviors will shift. Moreover, without these procedures, employees and managers cannot see what is happening in the business and how it compares to competition, and as a result cannot evaluate their own performance. "If you don't know what is actually happening in your business in terms of measuring what is happening financially, you are nowhere. You are second-guessing how well you are doing. So establishing what your performance is through proper cost-control mechanisms, IT [and] financial structures is key."

Once systems and procedures are in place, the CEOs have by and large focused their attention on improvements in operations rather than expansion of revenues. Several commented on the reduction in costs that were achieved or being targeted by increased automation, replacement of outdated processing facilities, and other moves to improve efficiency.

Sort Out Your Team

The need to get the right executive team is pivotal to making things happen and is considered the first or second priority by CEOs. "Get your management team in place ASAP, because you have no time to waste." CEOs who participated in this research all inherited many members of their teams, but hired just as many external experts. These experts were chosen because of skills that would be relevant in the new postal services such as banking, telecommunications, and retail, and/or because of experience with large change programs. "I surround myself with top-class executives who had proven their abilities in different companies. They complement what I am good at." While the number and mix of individuals varies, CEOs agree on the value of the team.

The old consensus style management has disappeared, replaced by deep responsibility and accountability. "I think together we make a good strong service team. Now, to make that work, you must listen to the guy. That's what I do." A common procedure is for executives to be placed in charge of change projects that are frequently reviewed.

Use Middle Management as Your Lynchpins for Change

All the CEOs recommend using middle management as a keystone in moving the company. Changes to middle management include redundancies, increasing levels of employees, and job redesign. In all companies, middle managers have changed faster than the workforce itself. The relationship between middle management and the CEO is close and allows the CEO to convey the change message. While none of the CEOs discounted the importance of having pockets of consensus inside the company, all agree that middle managers had to be converts. In one company over 600 new mangers were hired. The CEO reports, "If only two-thirds see a new view of the company, that will promote new vision. If half or two-thirds of them speak my language and give my message, I will be well served."

Enlist the Sponsorship of a Government Patron

For the posts interviewed, the relationship with government ranges from the starkly adversarial to the predominantly supportive. However, for each CEO the specter of antagonism was real and had to be addressed. While not all had undertaken this venture early, those who did clearly found their change program easier.

A defining characteristic of the leaders is that they all use multiple leadership styles with a predominant use of a human relations approach, where the leader seeks to instill trust and, with that, loyalty and commitment.

The result was that all acknowledge that unless handled, government relationships would be a major blockage.

For TPG, an early and effective mover, government support was an early thrust and much time was spent searching for a supporter of the strategic move to corporatization. In New Zealand, identification and cultivation of someone of like mind in the government became a core activity of the second five years of the change program.

Focus on Job Design Over Recruitment

Consistent with the focus on implementation, CEOs believe that job redesign is more relevant and useful than forward-looking recruitment. In some cases, job design means reversing previous programs while elsewhere it means enhancing jobs and creating more levels of responsibility. "It depends on the time scale you take. I consider that to succeed, I have got four to five years. In that timeframe, forward-looking recruitment cannot fundamentally help."

In one country, the CEO recognized that the shift to part-time workers, once thought to be an intelligent accommodation of changing life patterns, actually was counterproductive because it disengaged employees and relieved them of responsibility. Equally however, in another country, a CEO believed that to match the mores in the country, part-time work could well be extremely useful. A consistent theme with CEOs is that jobs be structured so that employees' involvement and responsibility is enhanced.

Methods of fulfilling this objective include rotations to different parts of the business, training in business techniques and accounting to provide a better understanding of the levers of control. Whatever changes are recommended, CEOs all believe that the metrics for measuring employee performance be clearly and explicitly articulated. Employees should be able to understand the consequences of their actions in terms of the costs of running the business. People should focus on what makes this business run and tie that to performance.

WHAT DEFINES THE LEADER?

When asked to rate eight different skills, CEOs understandably put leadership at the top of the list, well above entrepreneurship, conflict resolution, and peer skills. However, in various ways, they all pointed out that the job of the leader was a lonely one. Several advise, "Be true to yourself."

Another admonition is that there will not be much credit. The CEO runs his job so that the people in the service think that they are making the difference. "You should not have this job because you believe you are going to be fantastic and you are going to come out well. It's a tough job, which you do because you want to serve the company. I know 100,000 other jobs which are easier and much better paid than this one."

This emphasis on the loneliness of the job is underlined by the fact that tied for third place, among rated leadership skills, are introspection and conflict resolution. The latter is directly concerned with the integration of different points of view and the diplomatic handling of opposing parties, while the former is concerned with whether the CEO actually knows his or her own strengths and weaknesses and can realistically assess his or her impact versus that of others.

The second most valued skill was information processing. CEOs talk of their need to be able to take in massive amounts of information without losing sight of their objectives. They emphasize that the only way to do this is by having a good strong executive team and to delegate responsibility to its members.

A defining characteristic of the leaders is that they all use multiple leadership styles with a predominant use of a human relations approach, where the leader seeks to instill trust and, with that, loyalty and commitment. In place of the old command and control model, CEOs become a coach with the executive team and a minister of information with the entire company. In dealing with the rank and file, and with unions, some CEOs become a judge. They will establish a formal process for discussion and negotiations in which they do not participate so as to keep distance between those who have to negotiate the deals. This allows the CEO to become an arbiter at some future time. Finally, CEOs have to act as role models, "We actually do what we say we are going to do."

WHAT DOES IT ALL MEAN?

Postal leaders are faced with possibly the most challenging time in postal history. In an industry that looks nothing like it did 30 years ago, and an organization mindset that is not accustomed to change, let alone fast-paced change, postal leaders have their work cut out for them. Moving toward a more privatized organization after years of monopolistic comfort can seem daunting and nearly impossible. Communicating the need for change and to become more competitive, when competition is an unfamiliar word, often requires some persuasion and proof on the part of the leader.

The postal senior executives we interviewed know the importance and impact of good leadership, particularly when significant transformation is required. A good leader in this context is able to embrace the imperatives in front of them, overcome cultural hurdles, effectively communicate the need to change, build a supportive team, and in the end create a better, stronger organization for future success. Leadership sets the direction for the organization and must steer the organization toward that goal.

Governance and Board Structures

Elmar Toime joined Royal Mail Group as executive deputy chairman in 2003 and has groupwide responsibilities across Royal Mail and Post Office Ltd. Prior to joining Royal Mail, Mr. Toime was chief executive of New Zealand Post for almost 10 years and is credited with leading that post through its transformation into one of the top-rated postal services in the world.

This interview was conducted by Caroline Jacobs. Ms. Jacobs has been with Accenture's Research team for five years and specializes in public sector research. She has conducted a variety of studies in various government sectors, including a survey of postal CEOs about marketplace and organizational challenges and a concept test for a new online postal offering.

In this interview, Elmar Toime, executive deputy chairman of Royal Mail, tells of the critical element in initiating and leading change at the UK's postal organization.

Pushing the Envelope (PTE): *Could you begin by giving your view on what governance means and why it is important for postal organizations?*

Elmar Toime (ET): I've actually come to the point of view that a good definition of civilization, after plumbing, is governance. This is always talked about for effective work in the corporate sector, but I hear very little discussion about it in the postal sector. And by governance, I mean the disciplines companies put in place to ensure that shareholder interests are protected.

In our western model, we vest that governance in a board of directors. One of the most important issues is establishing the right board to start with, in terms of its size, the skills of the directors, the experiences that they bring to bear, and the quality of their thinking. The board also has to be clear about what reserve powers it will keep for itself in terms of running the company and how and what it will delegate to management. The board has to create the framework to ensure that the proper strategic, commercial, and business protection considerations are made. It must also carefully choose the top management team to which it will entrust the day-to-day running of the business.

It is my view that a state-owned postal company is no different. It ought to have those same disciplines and the same strict approach to governance that any plc would be expected to have. This is quite a difficult thing for governments as postal shareholders to achieve, as governments have two simultaneous requirements of their postal businesses. One is to fulfill public policy expectations (universal social obligation, national post office network, etc.), but at the same time for the post to act as a commercial entity; a company that will pay its own way and make money. There is often confusion between commercial and public policy priorities and, in setting up a governance structure and a board of directors, the shareholder sometimes only pays lip service to one or other of those objectives.

PTE: *In Royal Mail's case, where did the main impetus come from for the changes to its governance structure and leadership?*

ET: Within about a year of Royal Mail being established as a plc, the government realized that the business had run into trouble. This manifested itself in a number of ways: lack of strategic direction, poor financial performance, productivity and efficiency gains not being made, and the harsh regulatory environment that was emerging. The government, as Royal Mail's shareholder, recognized that the business was going to have to behave differently as a corporation, but also realized that the business was in trouble and needed to be turned around.

The key question was whether there was a flaw in the governance model, meaning that the ownership model needed rethinking, or whether this was a turnaround task in a plc. Remember, the government could not allow the business to fail. Neither did it want to re-incorporate the company as another government department. It had all sorts of political pressures that would inhibit it from looking at other ownership models. The government needed to decide whether the business could achieve the necessary changes with the particular governance model it had and still have faith in the business pulling itself together. Therefore it was a classic corporate turnaround situation.

PTE: *How did the government decide upon its strategy of re-engineering the leadership of Royal Mail, and what were the key differences it wanted to achieve?*

ET: The recognition of the need for change coincided with the end of the term of the incumbent chairman. The government needed to appoint a new chairman, so it knew it needed to refresh the leadership. Then the question was how to make the transition from the leadership and governance structure that it had (it already had a board of directors) to something new.

In my view, the fact that the government appointed Allan Leighton, a prominent UK businessperson, as chairman, signaled that the government wanted a strong commercial focus and a major turnaround in the business. On selecting a strong commercial chairman, the government decided to entrust the turnaround to a commercial board of directors. It wanted to achieve a change in emphasis from planning and strategy to implementation and execution. It wanted action!

PTE: *What real changes were made to the board of Royal Mail?*

ET: The government was careful to appoint external nonexecutive directors that had the commercial, business, and people skills to make the change happen. It wanted a leadership team that was experienced in the industry, but also experienced in leading change. It actually implemented a fairly classical corporate structure, but the changes made a real statement that it wanted fresh leadership throughout the business.

Royal Mail needed to have a change program that showed empathy with the nature of the workforce. The workforce had lost a lot of confidence in the top leadership and this needed to be restored. The board also needed leaders that had empathy with Royal Mail's historic place in the country as a trusted service provider and leaders that could think through the myriad of issues and problems, and select the few changes that were really going to make a difference.

There's no doubt that they have created an impressive board. But it has to be – this isn't like turning around just any company; it's turning around a company where there has been a huge historical investment of public trust. So it had to do things in a highly visible and sensitive manner. But the main concern was that the new leadership had a clear vision for change and the authority and energy to implement that change.

PTE: *What is the role of the board of directors in the new structure at Royal Mail?*

ET: From my experience in New Zealand Post and now at Royal Mail, I see that leadership from the level of the board and the chairman is critical to success. You can put a management team in place that has the business ideas and can put together the strategy, but the management team always functions in an environment created by the board. The field of operations, the arena, the scope for the vision, and directions are created by the board. So, while management is able to conceive of the tough actions needed and conceive the turnaround programs, those ideas have to be backed by a competent board. The board must scrutinize those ideas in context, based on their own experience and judge whether the risks are worth taking. The board must test management and ensure that management's ambitions are appropriate, and that the quality of thinking is sound. At the end of the day, the postal model of government ownership actually dictates that accountability rests with the board. Management is accountable to the board, not directly to the shareholder.

PTE: *Could you explain how the apparent four-headed leadership model came about and how well this model works in practice? (Allan Leighton as chairman of the holding Co; Elmar Toime as executive deputy chairman; Adam Crozier as chief executive of Royal Mail and David Mills as chief executive of Post Offices Ltd.)*

ET: Firstly, the sheer size of the organization means that you really need to have a good number of senior people. The depth and quality of management is very important. The next factor was the structure and shape of the organization – with its two main streams of business (post offices and mail). There are chief executives to head up the reform in each of those parts of the business and I was recruited with somewhat of a roving brief across the whole organization because of my experience in the industry and my background with a successful postal business.

The structure is clear, because we each have direct reporting lines into the business which are clearly defined. This means that we each have accountability for different parts of the business, and the final analysis, as executive directors of the holding company, we have shared responsibilities. The various parts of the business reporting to us are interdependent and need to work together towards the shared overall goals.

Allan Leighton is chairman of the holdings board, the supreme governance body. As such, he acts as a focal point for the board's requirements, decisions, and delegations as they are transmitted to management. In addition, Allan has particular strengths in relation to communications and interacting with people, so he plays an important role in that way. Most importantly, the chairman is the principle point of contact with the shareholder.

You can put a management team in place that has the business ideas and can put together the strategy, but the management team always functions in an environment created by the board.

So, there is a very clear division of responsibilities. But what is more important is our absolute unanimity on what we have to achieve in the business, in terms of the three-year renewal plan: to achieve a better working environment for our employees, achieve quality of service standards, and generate cash. The whole leadership team is targeted against the same goals and there is every incentive for us to work towards achieving those goals.

The only real challenge we face in having this particular leadership structure is that we are questioned about the duality of any accountabilities and have to explain how it works. To address this, we just make sure that our communications are consistent, which we do quite well. But other than that, it is a very conventional business model.

PTE: *How has the new governance structure helped Royal Mail implement the necessary changes? Could the turnaround have been achieved without it?*

ET: The change allows you to be bold in new thinking. Putting a new board in place and bringing in some new executives means people are already expecting to hear some very bold and determined ideas, and may be in a better mind frame to accept and believe in those ideas. It is quite difficult for an incumbent leadership to achieve that acceptance once a business has been in deep trouble. The reason some businesses – not speaking of Royal Mail necessarily – might have been in trouble could have in fact been failures of the governance models, rather than the failures of individuals.

In my view, there is not enough discussion in the postal world about the importance of governance structures. If governments want their postal business to become commercial, to be bold, to be risk-taking, to bring its people along with it, to not alienate the public, to remember its history of public service, then governments have got to think carefully about how to achieve this and who they are going to entrust the governance to, in terms of the board. Then they have to leave the board to decide the detail of the structure and of the strategies.

PTE: *How easy has it been to implement the new governance structure and gain acceptance among key stakeholders?*

ET: Certainly in structural terms, I think it has been relatively easy and direct because the structure is simple. Getting buy-in is the process that we are going through now. Employees and middle managers were pretty disillusioned with the business. They could not see the link between their day-to-day activities and the difficulties the business was in financially and strategically. Consequently there was a loss of trust between staff and the leadership. Restoring that trust in an environment that does require quite dramatic change, does create stresses and challenges for the organization.

So the leadership team determined a number of critical success factors. Firstly, we believe in the importance of having an enjoyable working environment and we want to create that. We spend a lot of time talking about this and a lot of time encouraging and helping our front-line managers to create that sort of environment in the business. Another factor is good communication and clarity about simple strategies that will deliver the business turnaround, creating money, service, and satisfaction at the end of three years. The strategic intention is clear and communications have had a fresh focus. The other key factor is consistency and insistence that we actually do what we say we are going to do. This is a signal to front-line staff that they can rely on the direction being set, that it is the best we can do for the business and that we will follow it through.

When putting together the plan of action and the governance structure, it is very important that all the stakeholder needs were addressed. And the board structure maps very well to the different stakeholder groups. For example, the chairman is there to interact with the shareholder representatives, the appointment of a board-level human resources director was critical to address the needs of our people (and the interaction with employees and the unions was another dimension of structural change). In terms of addressing the public and the media, the two CEOs, David Mills and Adam Crozier, are charged with keeping those groups informed. And for customers, each of the members of the executive board has sponsorship of one or more of Royal Mail's largest customers.

The strategic intention is clear and communications have had a fresh focus. The other key factor is consistency and insistence that we actually do what we say we are going to do.

PTE: *Will this be the right model for the Royal Mail in the future, or is it only appropriate for achieving the transformation?*

ET: I think this structure can work for the turnaround, and I think it can work for achieving the stable situation. What will change will be the goals that we want to achieve. We need to consider what will be the next goal, what happens beyond the renewal plan? The thinking on that is being done by the current leadership structure. As that thinking emerges, so will the answers as to whether this will be the right structure for the future or not. The future structure will depend on how the business evolves. For the moment, we have to achieve what is in front of us right now.

Q & A

Transforming Japan Post

Yoshiaki Honpo has served as senior vice president for Japan Post since April 2003. Prior to joining Japan Post, Mr. Honpo served the Ministry of Land, Infrastructure and Transport (MLIT) as deputy director general, Civil Aviation Bureau; as deputy director general, Maritime Bureau and Ports and Harbors Bureau. Mr. Honpo graduated from Tokyo Institute of Technology.

At the World Postal Business Forum in Brussels in October 2003, Masaharu Ikuta, the president of Japan Post, spoke about the biggest reform in Japanese postal services in 132 years. Until 2000, the postal operation was a part of Ministry of Posts and Telecommunications (MPT). Due to the reform in central government, the postal services agency was established as a separate agency under the Ministry of Public Management, Home Affairs, Post and Telecommunication in January 2001. On April 1, 2003, Japan Post was established as a public corporation wholly owned by the government.

The goals of Japan Post are to be managed in accordance with the best private-sector management styles; to be managed independently and flexibly with responsibility for profit and losses; to provide the three postal services of mail, savings, and life insurance; and, to uphold their requirement to provide universal service. Japan Post has an aggressive mid-term business plan (2003 – 2007) to achieve significant companywide organizational reform.

Pushing the Envelope has followed up Mr. Ikuta's presentation by interviewing Yoshiaki Honpo, a senior vice president of Japan Post, who shared with us more specifics on the strategies they have employed to transform the way they do business.

INAUGURATION OF JAPAN POST

Pushing the Envelope (PTE): *Japan Post became a public corporation in April 2003, with the new slogan of "Straightforward Service." This is a very historic turning point in the 130 years of the Japanese postal service history. Tell me about this momentous event.*

Yoshiaki Honpo (YH): For the inauguration of Japan Post, President Ikuta (who came from Mitsui O.S.K. Lines), and other individuals from both the public and private sectors, assumed leadership positions at Japan Post. This was the starting point of our transformation; that is, the concept of business management was introduced to Japan Post. By changing the way we think, from a bureaucratic perspective to a business perspective, we are proactively seeking new value creation in terms of service delivery.

PTE: *Does this mean that Japan Post has changed from a corporate governance viewpoint?*

YH: We have defined clearly in our management vision that customers, governments, and employees are the stakeholders of Japan Post. This clear definition is very important for us to make our management policy sound and reliable, answering the fundamental question, for whom and what Japan Post runs its business.

PTE: *I know that one of the first duties of a new management team is to develop the middle-term management plan and to announce the action plan. What is the hardest task for you in developing this post business plan?*

YH: It was very hard for us to create a feasible and practical plan for a short time, in which Japan Post set a management goal to achieve accumulated funds of 500 billion or more yen within four years.

PTE: *With all the change surrounding Japan Post, how are you approaching labor unions?*

YH: We were able to share with the union members a sense of urgency for the future of our postal business. Also our new management is working to build steady relationships with the unions in the early stage, in order to gain union understanding and acceptance of the middle-term management plan.

NEW PRODUCTS AND SERVICES

PTE: *Japan Post has launched several new services and products one after another, especially in the postal business area.*

YH: We have started EXPACK500, one-coin (500 yen) distribution service anywhere in Japan. Since the launch of the service in October 2003, it has been favorably accepted by customers. Its popularity was proven in the market, where a private delivery company launched a similar product right away.

PTE: *Your positive alliance strategy with the private sector is noteworthy. I understand that early on, Japan Post made an alliance with a convenience store, specifically to set up a post within a store.*

YH: Yes, that is true. In this situation, a post is set up in a convenience store where a customer can drop their mail. What we're trying to do is drive postal presence into the convenience store network. We are also discussing the idea of bringing convenience store services into the post office network as well.

PTE: *For this second situation you mention, what specific services do you envision Japan Post providing?*

YH: We expect to be able to meet specific service needs in a certain area – for example, if there is not a bookstore in a particular geographical area, the post office can offer book or magazine distribution service as one of the convenience store services.

With the management concept of 'every man for his own trade,' we, as a postal business, have to collect and build know-how and experiences as a logistics outsourcer. I believe this initiative may be the foundation for expanding our business in the middle and long term in Asia and globally.

PTE: *I understand that Japan Post is looking at alliances with private distribution companies (currently 19 companies) to respond to corporate customers' needs of total logistics service outsourcing.*

YH: With the management concept of 'every man for his own trade,' we, as a postal business, have to collect and build know-how and experiences as a logistics outsourcer. I believe this initiative may be the foundation for expanding our business in the middle and long term in Asia and globally.

PRODUCTIVITY IMPROVEMENT AND COST REDUCTION

PTE: *I understand that Japan Post has introduced Toyota's famous KANBAN and KAIZEN systems into your post business.*

YH: Yes, Seven Samurai (consultants) from Toyota are working for Koshigaya Post Office to teach us Toyota systems, in order to improve postal-operation productivity. Currently we have implemented the Japan Post System (JPS) into 13 model offices. In and after 2004, JPS will be rolled out nationwide.

PTE: *How beneficial is JPS?*

YH: Already, Koshigaya Post Office has achieved 20 percent of productivity improvement. Other model offices are improving their productivity incrementally: 5 percent, 10 percent, and 15 percent.

PTE: *What is the essence of Toyota's system?*

YH: Its main methodology is to focus on quantification and visualization. Thus, we can discuss improvement opportunities objectively, getting out of any fixed ideas. And we are continuing it persistently and earnestly.

PTE: *What do you expect from JPS, once it is rolled out nationwide?*

YH: I expect JPS to be a successful tool to improve employee awareness and transformation of Japan Post culture, as well as improving actual productivity.

CLOSING THOUGHTS

PTE: *The current business environment for posts continues to be challenging due to competition with private companies, spread of electronic services, and the discussion of privatization of the post business by the government. What do you think will be needed in the coming years to weather these challenges?*

YH: Regardless what management stylew Japan Post takes, I believe that what must be done for these four years (implementation of the action plan) is the same. Through accomplishment of the action plan, I expect the management vision of Japan Post to lead us to a win-win-win relationship between customers, governments, and employees.

Managing Union Relations

To achieve the degree of transformation necessary for future success, postal management and unions will have to embrace change and find new ways to work together.

Lynn Connors LaFiandra and Antonia Bloembergen

Union relations can make or break a postal transformation effort. As posts in developed countries face such pressures as automation, globalization, rising costs, competition, and privatization, they are confronting inevitable change. Because postal organizations are large, dispersed, and tradition-bound entities, the challenges of managing enterprisewide change should not be underestimated. Labor-related costs comprise the largest expense for posts, and the need to reduce them is urgent. Union relations play a pivotal role in making this change happen. To understand how postal organizations are managing these relationships in the face of relatively dramatic change, we spoke with senior postal executives in several countries about union relations, the challenges associated with them, and how they are handling them.

COMMONALITIES ACROSS BORDERS

The posts we studied face comparable business and stakeholder pressures. They share the public service obligation to provide universal mail delivery, and have a monopoly on the carriage of letters. The reality for all posts is that this part of the business is shrinking steadily; therefore, costs need to be cut and new sources of revenue need to be developed. With labor as the largest cost, postal management must grapple with workforce reductions if they are serious about transforming their organizations.

In addition to the business pressures mentioned above, postal services operate in the public eye, with high visibility, governmental oversight, and intense scrutiny. They deal with a complex array of stakeholders: legislators, civil service agencies, and advisory committees – large and influential customers. Several executives we spoke with mentioned the pervasiveness of posts in the fabric of society and their presence in every village and town. Needless to say, the closing of post offices is always controversial.

WHY CAN'T A PUBLIC COMPANY BE MORE LIKE A PRIVATE COMPANY?

Country Context Sets the Stage

For each post undergoing transformation, there are idiosyncratic factors that shape not only the choices available to them, but also how they go about meeting their objectives. Business models are in flux, with some posts still publicly owned and managed, while others are in stages of privatization, quasi-public; still others have divided into multiple business units or have incorporated. These differences may limit the strategic options they can pursue, such as worksharing with customers, outsourcing, diversification, or business alliances.

Political and regulatory circumstances also vary from country to country, shaping the history of labor relations in general, civil service traditions, and the degree of centralized control. Climates of deregulation or re-regulation are often linked to the party in power. Moreover, laws prohibiting strikes by public sector workers (such as those in the US), alter the collective bargaining parameters. No matter the national environment in which they operate, or the transitional stage, each post will need to enlist the unions in the change process.

LYNN CONNORS LAFIANDRA, PH. D., is a senior manager in Accenture's Research group and has been with Accenture for eight years. She specializes in government and B2B research, including market and competitive analysis. Prior to working for Accenture, Lynn spent four years working for the US Department of Defense.

ANTONIA BLOEMBERGEN, formerly with Accenture, trained as an interdisciplinary social sciences survey researcher, and has 20 years' experience in B2B and B2C market research. She specializes in international and cross-industry research involving new business models, evolving industries, organizational change, and new technology adoption.

Laying the Groundwork

Wherever a post is on the public-to-private spectrum, the transformation challenges can be daunting. Several of our leaders sounded beleaguered as they described the multiple stakeholders, distinct unions for each craft, management associations, oversight bodies, and demanding customers they have to deal with. As one study participant said, "We operate in every state, and every congressman has an opinion about the post office." Creating a shared sense of urgency is a common goal; however, "in a monopoly, a burning platform is difficult to construct."

Whether or not leaders have been union members, and whether they have spent their careers in the post or in other sectors, unanimity exists on key challenges. The large and dispersed workforce, the ingrained work culture, and the tradition of lifetime postal employment in most countries, all contribute to a sense of glacial change. Salaries, benefits, and pensions result in high fixed costs. In some countries, the work environments were described as being blighted by threats, harassment, and bullying, creating an unproductive work environment that is less open to change. Unions are viewed as part of the problem and at the same time, as part of the solution.

We asked our executives about their strategies for managing labor relations through the period of change. Most described new ways of doing business, "moving away from the old, top-down militaristic style" of interacting with different levels and far-flung locations. One commented, "We're trying to empower the locals [to] move from a process business to a people business." Decision-making will become more collaborative; one leader said he strives to "involve the union as much and as early as possible."

Communicate, Communicate, Communicate

A new emphasis on communications is at the core of each strategy for building and strengthening relations with postal unions, including speed, frequency, and contents. Openness and honesty are cornerstones: "Tell the truth – do not surprise them." In order to instill a commitment to change programs, it is important to "communicate at multiple levels." During the anthrax scares in the US, postal leadership held daily briefings with union representatives. Easy access to management and continuous communication are the goals senior leaders are striving for. One manager schedules regular lunch meetings with union counterparts with no set agenda. Another stated that union leaders "know they can call me anytime." "Postal leaders should not assume that union members understand management motives"; they need to explain that "controlling costs is for the benefit of all, not just management."

Do the Math

Size of the workforce casts a shadow over almost all of the western posts, as labor-related fixed costs account for as much as 75 – 80 percent of total costs in some cases. Striving to follow private sector best practices, posts must increase productivity, and be profitable, while at the same time reducing the size of their labor forces. This is just as true in the USPS, with close to 800,000 employees, and in France, with the highest ratio of postal employees to population, as it is for smaller countries with far fewer employees.

Large-scale organizational change is never easy; it raises the choice between a revolutionary approach or an evolutionary one. In New Zealand the original workforce resizing, over 10 years ago, was hefty, with one-third of employees laid off. In comparison to posts just starting their transition, the timing in New Zealand may have been easier, as other restructuring was under way in the country. Over the last two years, 90,000 employees left the USPS through attrition, but only 30,000 of them were replaced, resulting in a net reduction of 60,000. While this is indeed a large number, it is not generally believed to be sufficient to make a significant dent in the cost equation at the USPS.

Pulling the Oars in Unison

Are postal managers and unions natural adversaries or potential partners? Some of the comments we heard from managers reflect both antagonism and conciliation. Managers would like unions to join them in planning for the long term, not just the short term. But management also acknowledges that unions are not an easy sell on management ideas and can be harsh at times. "Unions get aggressive and personal; it's expected of them, but we need to let it roll off our backs." If indeed "the average worker believes what the union tells them"; then good relations with unions are twice as important during a transformation period. Acknowledging the essence of a good partnership, one executive said, "The union needs information to participate."

Postal executives from posts just beginning their transformations were more likely to say that union relations were not very good. Other post employees that have already undergone some change said labor relations were fairly good, or much better than they used to be. More than one of our study participants spoke of a partnership approach, as in "you can't do it to people, you have to do it with people."

Although postal unions do not usually have a formal role in postal governance, executives believe they have made strides to engage people in the change process. Plans, budgets, and month-

Although postal unions do not usually have a formal role in postal governance, executives believe they have made strides to engage people in the change process. Plans, budgets, and monthly results are shared with unions or with relevant committees.

ly results are shared with unions or with relevant committees. Also shared are figures on operational performance against set targets. One executive cited the need to build business understanding on the part of the unions, and to develop a set of common objectives. Another said management needed to be clear about their business imperatives.

When asked about the role of interpersonal relationships with the union in regard to managing relations, most felt they were important – "Like any relationship, they are absolutely critical." On the other hand, one person revealed mixed feelings, saying, "I try not to make them important, but they are important." Others take a moderate stance on interpersonal relationships, saying they are "important, but a delicate balance; you can be too close," or "important but do not overdo it." Another pointed out that, "Information flow is more important than having a beer." Also mentioned were the notions that where there is trust, agreements can be reached more quickly, and that friendships can help. One concluded, "In a partnership, both sides understand the value of the relationship."

LEARNING FROM EXPERIENCE

What Worked Well

Many of the successes described by our sample of postal executives build on the theme of open, fair, honest, and direct communications. Early union involvement in planning and decisions has improved relations. One participant advised "constant communications," to provide opportunities for union input, and to try to address concerns. In New Zealand and in the US, consultative committees have addressed issues as diverse as job grading, setting goals for mail handling, ergonomics, health, and measuring progress. More recently, such joint committees have dealt with terrorism, bomb threats, and lethal substances.

Other communications methods have been used to reach all levels of workers. In the US, television broadcasts reached all employees to explain aspects of the change program. In another program, employees with error-free delivery records were celebrated in award ceremonies to which their families were invited. In the UK, feedback is solicited in a monthly employee survey under the theme, "Have Your Say."

What Did Not Work So Well

Depending on the country and its phase of change, different things were mentioned as being less successful. In the UK, the fact that it took 17 years of discussion before a decision was made to reduce mail service to a single daily delivery was described as unnecessarily slow. The Phantom Share Program, designed to reward workers in the future when profits are achieved, was announced without prior consultation with unions – a serious omission.

Other comments about lack of success related to the slow pace of change. An executive from a country viewed as a leader in postal transformation, assessed cultural change in his organization as not being as far along as it should be. In particular, he felt it was not customer-centric enough. Another respondent gave his personal view that his entire country was not willing to think about the future, least of all the post!

In the US, one executive cited congressional hearings on postal matters as taking up so much time that important decisions had to be delayed. In addition, the Quality of Work Life program did not achieve hoped-for success, due to loose management and vague goals. Certainly postal leaders can learn from each others' experience.

In the end it comes down to communication. When asked specifically about lessons learned, one executive said, "Be very clear about what you are doing and why – directly engage with people." Also concerned with communication was the comment, "Don't hold back on the bad news; get input and modify what you can, if possible." The key is avoiding conflict, strikes, and stalemates."If you go to war with the unions, then your chance of implementing change is limited."

WHITHER THE MAIL MOMENT?

Few will argue that the volume of traditional mail will continue its gradual decline in the future. Evolving communications technologies have been eroding personal use of the mail for a long time and now the high-margin business transactions are moving in that direction as well. The mail moment, that brief flutter of anticipation upon opening a mailbox, may be disappearing, as well.

Love them or hate them, however, postal unions will not go away; and the pressure for efficient postal processes and right-sized work forces will only intensify. In order to achieve the degree of transformation necessary for success in the future, postal management and the unions will have to embrace change, share the pain, and find new ways to work together.

That, in turn, will require inspired leadership from management and unions alike. "Both management and union leaders have to sell change from the top down."

An Integrated Approach to Business Transformation

Strong leadership and a performance-based culture have transformed Australia Post into one of the world's top-performing posts.

David H. Barker

Since the early 1990s, there has been a transformation in customer service, in business processes, and in workforce culture at Australia Post. From a traditional bureaucratic postal organization with an uninspiring product range, indifferent service, and marginal financial results, Australia Post is now achieving high levels of performance across the spectrum of business indicators.

Some organizations can perform well in specific areas or have exceptional results in a particular year. A true, high-performance organization is one that achieves excellent results across the full range of key measures and not only sustains those results over a long period, but continues to improve.

Australia Post's performance over the last decade measures up strongly against such tests as:

- Service performance rising steadily to a record 96.5 percent in 2002/2003 for standard letters and 99.9 percent for express;
- Standard letter price-freezing for 11 years through to 2003 (and with ongoing reductions in bulk mail prices); and
- Labor productivity running at double the Australian industry average over the decade.

Despite the challenges of deregulation, competition, and substitution, the post has achieved a succession of record profits reaching AUD$462 million in 2002/2003 with a healthy return on revenue of 11.6 percent and a return on assets of 14 percent.

HIGH PERFORMANCE DRIVERS

The above figures demonstrate that good results in one area have not been at the expense of another; profitability has grown sharply yet customers have also shared in the benefits through substantial price restraint.

Arguably, when Australia Post's performance is analyzed, the most important catalyst of this business transformation was the substantially strengthened focus on commercial objectives following corporatization in 1989.

In the 1980s, despite some areas of improvement, Australia Post remained plagued by industrial problems, poor service, resistance to change, and low profitability. Corporatization in 1989 created a sea change in the business:

- Focusing management objectives and facilitating profit center-based measurement and management;
- Injecting new, private sector management skills at senior management and board levels; and
- Creating greater recognition of the need for customer-focused products and services, enhanced operational efficiency, and a performance-based culture.

CUSTOMER-FOCUSED SERVICES

In the late 1980s, the Australia Post retail network recorded a yearly loss of about $170 million (at today's prices). Today, it is the country's largest physical retail network with a profit of $130 million.

Driving this change was the realization that a major transformation of the retail business was necessary for its commercial viability and survival. This change has been achieved through:

- Replacement of traditional post offices with convenient, customer-focused post shops;
- Extensive product and service diversification ranging from expanded agency banking and bill payment to stationery, telephony products, and office equipment. In the year ending 2003, Australia Post collected more than $73 billion of payments on behalf of 511 bill payment partners. The organization also provided banking services – both personal and business – on behalf of 76 financial institutions;
- Restructuring of and refreshing of the counter sales staff's skills which enables greater flexibility and improved service;
- Establishing a business center network to serve small- to medium-sized business customers; and
- Supplementing counter service with entry into substitute markets (e.g., Internet bill presentment and payment through Postbillpay).

DAVID H. BARKER is group executive officer and a member of Australia Post's executive committee. He has held senior positions in Australia Post since 1982. Over the last decade, as head of human resources, he led all major union negotiations and has been closely involved in the transformation of the organization.

There has been a parallel emphasis on ensuring that the core letters business delivers on its service promise. As mentioned earlier, this has been achieved in terms of both service performance (on-time delivery) and value (price restraint and business discounts). The imperative of reliable high-quality service has also been reinforced in line management objectives, employee communication, and bonuses – in the last enterprise (collective) agreement, staff received two such bonuses for meeting service targets.

The commitment to customers through the retail network, price restraint, and service reliability has been the underlying factor in the emergence of Australia Post as one Australia's most valued growth potential in parcels, but it is a highly competitive market.

Since 1996, the post has embarked on a series of a major operational network and technological changes, notably:

- The $510 million Future Post program that introduced bar coding, multi-line optical character recognition, video coding, and established new highly automated letter processing centers;
- Subsequent introduction of state-of-the-art, flat mail optical character recognition equipment; and
- Undertaking of a $125 million restructuring of the parcels business, including highly automated, dedicated parcels facilities.

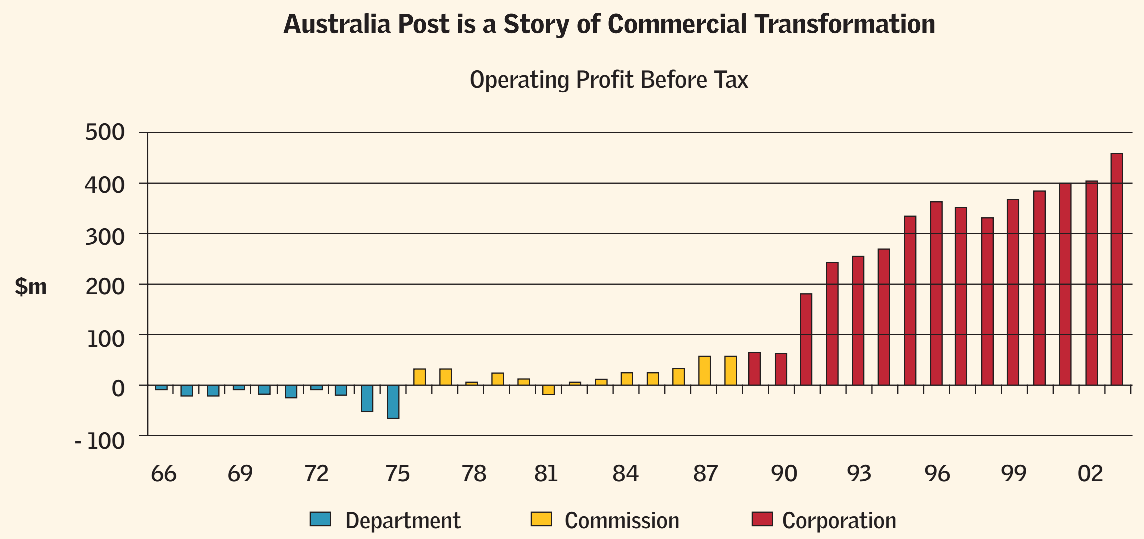


FIGURE 1 Australia Post Operating Profit Before Tax

and trusted brands. In 2002, Australia Post ranked first among the 100 largest Australian companies in the Good Reputation Index. Australia Post also rated second in a similar index in 2003 and was named "most trusted" corporation in a separate poll.

This market and brand strength has provided a platform for the effective launch of new products and services aimed at defending the core business and extending into complementary areas. These areas have recently included an expansion of Web-enhanced logistics, and acquisition (through a further joint venture with Qantas) of Startrack Express – a major Australian express distribution company.

OPERATIONAL EFFICIENCY

Restructuring and new counter technology has enabled the retail network to achieve substantial efficiency gains over the last decade. However, efficiency improvement has been of even greater significance in the letters and parcels businesses. The objective has been to keep prices low while sustaining business reliability given that there are limited growth opportunities in letters and there is the prospect of actual volume decline; there is also the

A PERFORMANCE CULTURE

In the final analysis, successful product development, customer service, and technological change are all dependent on the capability and commitment of the people in the organization. During the last decade, Australia Post has developed a committed, performance-focused culture through encouraging employee involvement and by recognizing and rewarding achievement. Specifically, this has been achieved through:

- Providing direction and purpose;
- Harnessing and developing employee capability;
- Encouraging and recognizing improved performance; and
- Providing long-term leadership.

BUILDING DIRECTION

There has been a heavy focus on employee communication and involvement with constant reinforcement about the need for customer focus – and about competition, service performance, profitability, and productivity.

Australia Post has also invested considerable efforts into educating and involving the unions – ensuring that unions understand that employee interests are inextricably linked to long-term business success. This cooperative approach has paid considerable dividends with:

- Industrial disputation falling from 866 days lost per thousand employees in 1986 to 10 days per thousand today – a third of the average level for Australian industry; and
- Successful implementation of major business changes, even though they have impacted significantly on the nature and the number of jobs.

Each cultural and workforce change has been approached as a natural progression building on the preceding change.

BUILDING CAPABILITY

The higher the quality service result that is sought, or, the greater the pace of change and innovation aimed for, the greater the importance of a highly skilled and committed workforce.

Australia Post has endeavored to unlock and build employee capability in several ways:

- Having a strong focus on equal opportunity – recognizing that high performance means utilizing the skills of all elements of the workforce. In Australia Post's case, this comprises people from more than 120 countries;
- Expanding the representation of women in management – from four women in executive positions in 1992 to currently 38, or 20 percent of all executive positions, including Australia Post's board, which is one-third women;
- As the largest employer of Aboriginal Australians, encouraging indigenous employment by committing to employees' skill development and advancement;
- Recognizing that capability is more than just having technical skills – wide-ranging programs have been implemented toward enhancing participative skills, quality management, and process improvement; and
- Placing a particular focus on developing and sustaining future leadership capabilities through an integrated succession planning and leadership development program.

REWARDING HIGH PERFORMANCE

The objective has been to create an environment that encourages people to constantly perform at their best.

A primary organizational initiative has been the encouragement of teamwork in order to enable greater involvement, task ownership, and accountability for results. This has occurred through natural, small teams in areas such as retail, design of functionally based teams in mail processing, and encouragement of an end-to-end process team culture in transport and logistics.

It has also involved establishing performance standards, measuring the results, and rewarding the achievement of outcomes. Since 1992, an important pillar of Australia Post's performance culture has been a sequence of five productivity-related enterprise (or collective) agreements between management and the unions. Under these agreements, employees have seen their wages grow by 49 percent (compared to consumer price increases of 33 percent).

These agreements have also shaped culture and values, facilitated productivity growth and major change, and reinforced the link between business performance and employee rewards. In addition, over $3,000 in special bonuses has been paid to employees for improvements in quality, service performance, productivity, attendance, and overall business results.

LEADERSHIP FOR THE FUTURE

The fourth and final principle of maximizing performance has been to ensure that there is sustained commitment and focus from all levels in the organization.

This requires leadership that provides consistency of purpose rather than a stop-go approach. Each cultural and workforce change has been approached as a natural progression building on the preceding change.

Finally, Australia Post has been able to internally leverage the brand and build internal pride and commitment in core values such as trust, integrity, and reliability.

It may be a case of success breeding further success, but Australia Post employees have enormous pride in the organization and what it stands for. This pride and commitment provides a great foundation for the organization to face the future and to achieve further performance improvement – recognizing that pursuit of high performance is a journey, rather than a destination that can actually be reached.

Transforming the HR Function in an Era of Change

New research from Accenture offers insights into how economic and competitive factors are reshaping the role and influence of the human resource function.

Edward W. Jensen and Jakob H. Kraglund

The strategic value of the workforce has never been greater – especially evident as the slowing economy has caused increased scrutiny of human resource costs and demands for higher workforce productivity.

This fact is born out by the Accenture High-Performance Workforce Study, which found that four of the five top strategic priorities for participating organizations are directly related to the workforce: attracting and retaining skilled staff; improving workforce performance; changing leadership and management behaviors; and changing organizational culture and employee attitudes.

The survey further revealed that 74 percent of executives – regardless of country, industry, or title – see "people issues" as more important to a company's success today than a year ago, while only 6 percent indicated they are less important. Accompanying the rise in the workforce's importance has been increased emphasis on the value of the HR function, especially among senior executives.

For instance, more than one-half (52 percent) of the executives surveyed reported that the HR function is "very critical" to executing their company's strategy, and an additional 37 percent said it is "quite critical." Furthermore, nearly one-third (30 percent) of all respondents said the HR function makes a "very significant" value contribution to the overall organization, and just under one-third (28 percent) of all respondents feel that HR is one of their three most important functions.

A further analysis of the survey results reveals that the view of the HR function is more positive among senior executives – especially chief executive officers and chief operating officers – than among HR executives themselves:

- 70 percent of CEOs, compared with 54 percent of HR executives, said that the HR function is "very critical" to executing corporate strategy.
- 39 percent of CEOs and 40 percent of COOs, versus 23 percent of HR executives, believe that the HR function makes a very significant value contribution to the overall organization.
- 56 percent of CEOs and 31 percent of COOs, compared with 26 percent of HR executives, feel that human resources is one of their company's three most important functions.

These results clearly demonstrate that CEOs expect their HR departments to take a lead role in addressing their company's most strategic issues, something that the HR function is in an excellent position to do.

Yet, despite – and quite possibly because of – the importance they place on the HR function, senior executives are underwhelmed by how their respective HR organizations are performing. Just 4 percent of CEOs and 14 percent of COOs said they are "very satisfied" with the progress they've made on their key HR initiatives, and only 4 percent of CEOs and 10 percent of COOs are "very satisfied" with the overall performance of their HR organizations.

HUMAN RESOURCES' RESPONSE

Clearly, HR executives have considerable work to do in order to fulfill senior executives' expectations and increase their function's value contribution to the overall company. Based on our research and experience, we believe HR executives can help their cause greatly by focusing on five areas that are critical to the success of not only their company, but also their own function.

1. Enhance employees' understanding of company strategy and their role in executing it. Having all members of a team rowing in the same direction is key to making progress. Yet, participants in our survey indicated that a large percentage of their employees neither know their company's overall strategy nor fully

EDWARD W. JENSEN is a partner in Accenture's Human Performance organization, where he leads Accenture's Human Resources Transformation practice, with significant breadth of experience in a number of industries. Mr. Jensen collaborates with clients on HR strategy, major culture change programs, and all aspects of talent management.

JAKOB H. KRAGLUND is a country managing director for Accenture in Denmark. Mr. Kraglund collaborates with clients on consulting, technology, and outsourcing engagements. Among other experiences, Mr. Kraglund has been involved in development of HR strategies, implementation of HR systems, and outsourcing of HR processes.

understand how their jobs contribute to the company's ability to achieve its strategic priorities. In fact, only 12 percent of respondents reported that more than 75 percent of their workforce fully understands the company's strategic priorities, and just 17 percent said more than 75 percent of their employees understand the connection between their jobs and corporate strategy execution.

HR executives can address these shortcomings by not only ensuring that their own function and programs are aligned with corporate strategy, but also by helping employees across the organization understand the strategy and how their jobs relate to it. Innovative companies have accomplished this in various ways, including:

- Developing and articulating explicit links between the organization's overall objectives and the capabilities that employees need in order to take actions that help the company achieve those objectives.
- Conducting formal strategy-education programs for people identified as potential leaders, and regular meetings and town hall gatherings for all employees in which overarching business issues are discussed and how employees relate to them.
- Devising key performance indicators that link various elements of employee performance to the organization's ultimate goals.
- Basing employees' compensation not only on their ability to achieve individual and team goals, but also on how well their individual behavior aligns with the organization's mission, vision, and values.

2. Boost the overall skill level of the workforce, especially those functions that add the most direct value to the organization. The results of our survey indicate that there is a serious skills shortage in many organizations. Just 15 percent of survey respondents reported that all three of their most strategically important functions perform better than the rest of their industry. Furthermore, some 29 percent of respondents indicated that one or more of their most valuable functions performs worse than others in their industry. And, overall, just one-fourth of respondents said that more than 75 percent of their employees have the skills necessary to execute their jobs at an industry-leading level.

To help improve the skill level of their company's workforce, HR must equip employees with the tools and resources needed to maximize each individual's proficiency, knowledge base, and contribution to the organization. This includes redefining HR's service-delivery model to meet the needs of internal customers in the most cost-effective way while maintaining high-quality service; and providing employees with a comprehensive suite of learning, productivity, and performance-support tools.

For instance, a new HR service delivery model being used by a number of leading companies comprises self-service tools such as an intranet (or employee portal) and an interactive voice response (IVR) phone system (both of which are supported by core HR, payroll, and benefits systems), as well as a call center staffed by HR generalists and case workers. Routine or simple requests, such as address changes or benefits inquiry, are handled directly by the employees through the portal or IVR system. More complex, but still routine, requests are dealt with by a representative in the call center. In cases where employees need an interpretation of a specific policy or procedure, advice or counsel on a particular practice or subject matter expertise, they would be directed to a case manager who would personally handle the request.

From a skills-development standpoint, several organizations are pioneering the use of new technologies and innovative practices to dramatically increase the effectiveness of their training and development activities. These organizations have migrated from providing ad hoc training programs to a comprehensive learning environment that is tied explicitly to overall corporate objectives. Such an environment typically features a blend of several types of learning programs that, in combination, offer employees a best-of-breed approach to addressing skills gaps quickly and at the point of need. Critical elements of these programs often include e-learning, performance simulation, workspace portals, collaboration tools, and knowledge management applications.

3. Improve the impact of HR and learning initiatives on overall business results. Although HR initiatives are expected to produce business results, many companies have no way of evaluating the effectiveness of their HR efforts. Almost 40 percent of companies in our survey "never" or "rarely" measure the impact of their HR initiatives on employee retention, productivity, and customer satisfaction; almost half "rarely" or "never" measure the impact on quality; nearly 60 percent rarely or never measure the impact on employee satisfaction; and just under 70 percent don't measure the impact on innovation.

If HR is to boost its value contribution, and that of the organization's entire workforce, it must first understand the business results of its efforts. Without a consistent and rigorous measurement program, such understanding will be impossible to garner. One approach to measurement, that a few innovative companies are using, is the Human Capital Development Framework developed by a team of researchers led by Accenture's Institute for High Performance Business. The Accenture framework enables an organization to diagnose its strengths and weaknesses in key human capital practices, and then prioritize investments and track performance. It features four distinct levels of measurement that help companies assess their human capital practices and determine the benefits they receive from investments in people.

Business unit results consist of organizational performance measurements (e.g., traditional financial measures such as economic value added (EVA), revenue growth, market shares, and stock performance).

Key performance drivers directly contribute to business unit and/or enterprise results; they are the intermediate organizational outcomes (e.g., productivity, quality, innovativeness, and customer satisfaction) often captured on a balanced scorecard.

Human capital capabilities are the most immediate and visible (though not always measured) people-related qualities for achieving critical business outcomes. Their influence is felt through key performance drivers.

Human capital foundation consists of granular measures of human capital enablers, resources and operations. The levers and programs that can enable an organization to understand and address its human performance shortcomings reside for the most part in this fourth tier.
Using measures such as these, HR executives can more accurately determine which HR and learning programs work and to what degree, and more strongly justify future human performance investments.

4. Consider outsourcing administrative HR activities. In these trying economic times, the mantra of leadership in almost every organization is "Increase productivity and performance while reducing overall costs." This is especially true for functions considered "overhead" – sales, marketing, administration, human resources, and the like.

One of the ways companies are meeting this challenge in the HR function is outsourcing. Of the respondents in Accenture's survey of 200 executives who have outsourced, more than one-half (57 percent) outsource some HR activities and 71 percent outsource some training and development.

Accenture's research also discovered that companies are generally pleased with the results of their outsourcing initiative. Those who outsource some aspect of human resources are more likely to be satisfied or very satisfied with the performance of their HR function than both those who outsource non-HR activities (but not HR activities) and those who outsource nothing. This satisfaction is rooted in the fact that these companies are simultaneously lowering the costs of providing services to employees and boosting service quality. Furthermore, by using outside organizations to handle transactional and administrative tasks, HR professionals are finding they have more time to tend to the strategic needs of their companies.

Because of the success of these arrangements, many of these organizations are considering outsourcing more. And increasingly, they are looking to a single provider that can deliver an integrated approach to their HR activities – one that encompasses the entire employee lifecycle, from recruiting and performance management to learning, rewards, and exit.

5. Enhance the leadership, business, and management skills of senior HR professionals themselves. There is immense pressure on HR leaders to rise above their historical emphasis on the intricacies of HR policy and administration and bring a strategic business focus to human resources. But in many organizations, the HR function too often is seen as a group that lacks such a strategic perspective. According to a recent survey of HR professionals by the Society for Human Resource Management (SHRM), about half of the respondents said their HR unit focuses on strategic business issues only "sometimes" (34 percent) or "once in a while" (16 percent). Furthermore, the same survey revealed that more than 40 percent of respondents' HR units are not involved at the outset of major strategic company decisions on a regular basis.

At a more basic level, many HR professionals could benefit from a stronger educational base in the area of leadership, business, and management skills. In the same SHRM survey, just under half of the respondents have no more than a bachelor's degree. In fact, almost 20 percent have only a high school diploma.

With the pressure to improve all aspects of workforce performance increasing every day, this situation must change. More specifically, HR executives must improve their own skills – as well as those of their function's people – that are not part of the traditional HR "tool kit," such as project management, strategic planning and general business acumen. They also must gain an intimate understanding of workforce performance and capabilities – and where and how these can be improved to help the organization respond and adapt to changing business conditions.

How? For starters, HR executives must be included in all training programs offered to other executives in the organization. This will ensure that they are getting the same access to critical knowledge and information as are their counterparts in sales, operations, finance, and marketing, and will help HR executives understand how they and their function fit in the "big picture."

HR leaders also must revise the job descriptions and qualifications for other key positions in the HR organization to include requirements for responsibilities and skills not traditionally found in the HR organization. They must also make a concerted effort to hire new people with these skills and commit to a rigorous training program to help existing staff members develop them. An important part of that training is ensuring that rising stars in the HR function get ample opportunity to interact with other functions in their day-to-day activities – not just when there are layoffs or questions about benefits administration – to break them out of the HR silo and increase their exposure to broader business and operational issues throughout the company.

Taking these steps can help HR executives transform their organization from a traditionally passive group that only responds to requests, to one that can lend a unique perspective on strategic business issues, and facilitate and expedite organizational change.

CONCLUSION

There's no doubt that these are difficult times for companies everywhere, and that HR executives in many organizations are in the hot seat. On the positive side however, is an unprecedented opportunity for HR leaders to step up and lead major change within their companies.

Rising to the challenge will require new approaches to not only how the HR function interacts with and supports the rest of the workforce, but also how it runs its own operations. We've found that the most effective HR organizations today are those that: 1) focus their efforts on initiatives and workforces that have the greatest potential to help the company achieve its business objectives; and 2) leverage emerging tools and practices to improve not only the efficiency of the HR function itself, but also the skills and knowledge of the function's people.

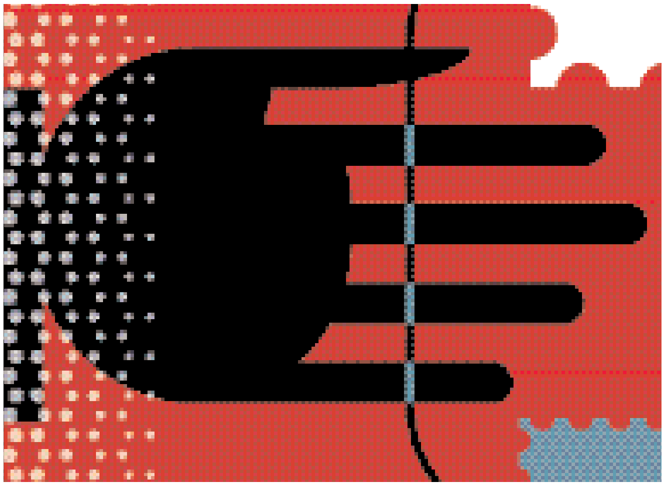
The mandate for HR executives to be a key strategic contributor has never been stronger. As our research shows, CEOs clearly understand that having a superior HR function is no longer a luxury, but a competitive necessity.

CASE STUDY

Enabling Human Resource Process Excellence

Faced with rising pressures and the desire to make its workforce a competitive advantage, Canada Post set out to transform its human resource function.

Constance Hudak and Claudia Thompson



Canada Post Corporation is a key player in the country's communications industry. Each business day, Canada Post and its subsidiaries deliver nearly 37 million pieces of mail, serving more than 31 million Canadians and over 1 million companies and public institutions. Canada Post is ranked 39th among Canadian businesses in terms of revenue and is the country's seventh-largest employer. The Conference Board of Canada reports that Canada Post's expenditures in wages and purchases of goods and services support at least an additional 30,000 jobs in Canada's economy. ("The Impact of Canada Post on Canada's Economy," November 2000.) For Canada Post to achieve its strategic vision amidst the pressures of globalization, deregulation, and increased competition, its 70,000 employees need to be a competitive advantage. Employees cannot work effectively to generate customer value, however, when business processes are inadequate, not integrated, and poorly enabled with technology.

Canada Post recognized the need to align all three of these components – people, process, and technology, with its strategic vision. As a result, the corporation launched the Business Transformation Program, which has become part of the fabric of Canada Post. The human resources (HR) function, previously viewed as a transactional entity, was to be transformed into a world-class, HR process-focused organization. The HR transformation work at Canada Post has focused on integrating HR processes across organizational entities, including fulfill, to maximize efficiency and provide value-added services to every employee. New technology and innovative tools from SAP have enabled employees to execute these improved HR processes with greater efficiency and capabilities. Further, implementing employee self-service (ESS) has created the stepping stone for reducing transactional demands on the HR workforce, enabling more time for strategic HR work.

DRIVERS FOR CHANGE

Leading up to the new millennium, Canada Post was facing several issues hindering customer and employee satisfaction and the sustainable achievement of its goal to be a leading postal administration. A complex and inflexible collection of hundreds of loosely connected lega-

CONSTANCE HUDAK is the general manager, human resources process, Business Transformation Program for Canada Post. Prior to her Business Transformation assignment, she was the general manager, employee relations, where she developed and applied all corporate policies and processes for recruitment, staffing, employee appraisal, compensation, benefits, recognition, and health and safety. Ms. Hudak has held several senior positions within Canada Post and the federal government of Canada.

CLAUDIA THOMPSON is a senior manager with Accenture's Government Market Unit. She has 13 years of management consulting experience and has held management roles on several large process-design and system-implementation projects for both federal government departments and Crown agencies.

cy systems and inefficient business processes had developed at Canada Post over several years. This environment reduced the organization's ability to adapt quickly in an increasingly competitive industry. Within HR, several key legacy applications operating independently did not allow for efficient information processing, nor did they facilitate realigned end-to-end processes.

SOLUTION DELIVERED

As part of the overall Canada Post Business Transformation Program, Accenture professionals from its Global Business Solutions and the Government Operating Group are working with Canada Post employees to redesign and integrate the company's core business processes, including order to cash;

FIGURE 1 Canada Post Strategic Vision

As a result, Canada Post was unable to leverage the full potential of its workforce.

In January 2000, Canada Post selected Accenture as its implementation partner to support the Business Transformation Program. The Business Transformation Program at Canada Post is process driven, with technology as an enabler and people as a critical factor. This program utilized an enterprisewide implementation of the mySAP.com solution as a catalyst to transform the corporation. The program has changed the work of nearly 12,000 employees, streamlined core business processes, and combined more than 70 disconnected databases into a single information resource.

customer relationship management; financial management and controlling; sourcing management; event management; and HR.

With respect to the HR transformation, Canada Post has successfully implemented the mySAP human resources suite of functionality for its entire workforce, including personnel administration; organizational management; net payroll; time management; employee self-service; benefits administration; and environmental health and safety. Canada Post's commitment to business process and organizational realignment has allowed it to harness the value of the best practices for the mySAP HR offering. Hundreds of HR activities were streamlined

ENABLING HUMAN RESOURCE PROCESS EXCELLENCE

to support the standardization of end-to-end HR processes. Key process performance indicators have been implemented to measure HR process performance and to attain ongoing process excellence. This process-based focus is not only the hallmark of the HR transformation initiative at Canada Post, but it has also become part of the culture of continuous change at Canada Post.

In conjunction with this focus on technology and process change, an organizational realignment initiative was implemented to better align both HR and operational resources. The new organizational framework identified the best fit of roles and responsibilities among various human resources (and HR-like) functions and placed greater focus on process efficiency rather than organizational structure. The tactical aspects of managing human resources are no longer just a corporate HR responsibility. This realignment of HR staff allows HR professionals to have greater focus on HR strategy and program enhancements and ensures HR transactional and administrative processes are executed efficiently by the relevant HR generalists. The hire-to-retire lifecycle and transactional data are now largely handled by all line management as integrated operational processes, improving productivity not only in the HR department but also on the plant floor. For example, mobile devices enable operational requirements while integrating with SAP time management. Employee self-service provides employees with independent, real-time access to their personal information.

Canada Post's desire to transform its business and energize its employees required a significant investment in business and organization change. As a result, Canada Post will reap the ongoing benefits of world-class HR business processes: superior employee performance, ownership, and retention.

Canada Post's desire to transform its business and energize its employees required a significant investment in business and organization change. As a result, Canada Post will reap the ongoing benefits of world-class HR business processes: superior employee performance, ownership, and retention.

RESULTS ACHIEVED

As a result of this program, Canada Post will achieve an annual benefit stream that will enable it to provide better service, explore new business opportunities, and streamline costs. Some sample benefits include:

- Employees provided with real-time access to their personal information;
- Trained HR knowledge workers better aligned to service employees;
- Clear accountability and ownership of processes for identified HR process managers;
- Increased focus by HR professionals on HR strategy and programs execution;
- More reliable, timely, and accessible labor costs and attendance information;
- Better analytical tools to plan for future workforce demands;
- Improved customer satisfaction; and
- Improved employee satisfaction.

This project was designed to support Canada Post's strategic priorities. The project team identified the most important opportunity areas and developed a plan to address key issues pertaining to each of them. A process-oriented approach was used to maintain design integrity, while a phased implementation strategy was used to minimize risk and strike a balance between short-term and long-term benefits. Given the size of this project, sound change management techniques have been applied throughout the journey to facilitate the adoption of the new way of doing business and to ensure a trouble-free operation.

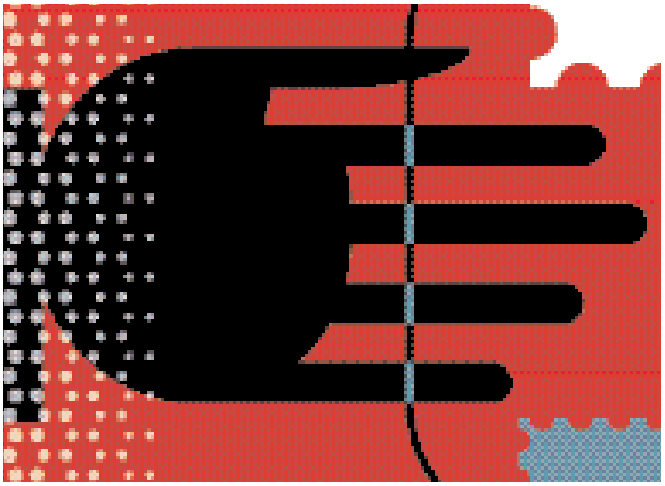
This is one of the largest SAP implementations worldwide and is considered a benchmark in terms of complexity, depth, and breadth of the solution provided.

CASE STUDY

Strengthening Competence Through ‘motiv8’

The development of high-potential employees has become a priority for globally active companies. Deutsche Post has taken an innovative approach to improving workforce performance.

Ralf Dürrwang



At a time of fast growth, increasing internationalization, and rising management requirements, the development of high-potential employees is a priority in internationally active companies. Deutsche Post World Net’s response to this trend is the “motiv8” program, which was designed to support motivation, performance measurement, and employee development.

motiv8 is not only an important management tool, but also a positive example of advancing integration of acquisitions of Deutsche Post World Net. The change processes require the comprehensive development of the group’s services and leadership culture. Until recently, differing performance evaluations have prevented the creation of a standardized evaluation of the capabilities of employees within Deutsche Post World Net. motiv8 will now make it possible for Deutsche Post World Net to identify and promote high-potential employees worldwide and employ them in accordance with their particular capabilities.

THE SOLUTION - motiv8

In October 2002, a project group within Deutsche Post’s value-creation program STAR, composed of HR representatives from the individual corporate divisions, started developing practice- and demand-oriented concepts and tools for performance evaluation. Target ideas were identified through discussions with internationally renowned benchmarking partners such as DaimlerChrysler, Siemens, and Johnson & Johnson; and, through numerous interviews with line managers.

The new system, motiv8, combines performance orientation and employee motivation within the group.

Core elements of motiv8 are:

- One set of competencies valid worldwide and throughout the entire group;
- One groupwide standard for performance evaluation;
- Panel discussions to evaluate and promote high-potential candidates; and
- Focused management development based on the needs of the group.

In annual review sessions with their employees, each executive receives feedback on his or her performance and competence. With this new program, target attainment and performance evaluations are integrated more strongly. Performance and potentials as well as actions will now be discussed in a panel conference in order to help planning promotion to key positions and to oversee individual development monitoring.

Targeted individual development offers, which are oriented toward the group’s requirements, form a key

RALF DÜRRWANG has studied law at the universities of Mannheim and Freiburg. After his studies, he began as an official in charge in the headquarters of Deutsche Post in Bonn before he became the head of the training branch in Frankfurt in 1999. Since 2001, Mr. Dürrwang rejoined headquarters as the department head for personnel marketing, and became the department head for executive development in July 2002.

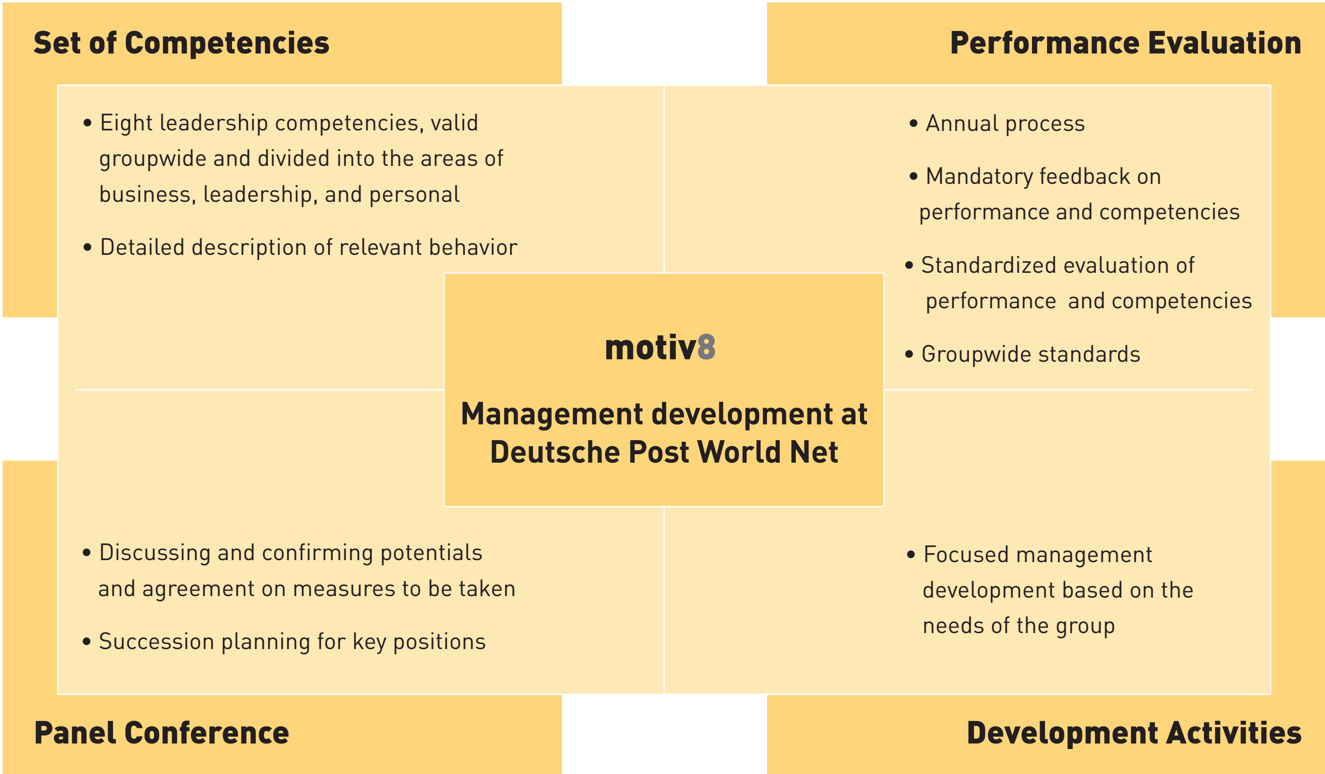


FIGURE 1 The key elements of the motiv8 program at Deutsche Post World Net.

element of motiv8. These include, among others, project work and the possibility of horizontal career paths.

motiv8 is currently in the stage of implementation starting with performance evaluation for 2003 and target setting for 2004. The panel conferences will then take place in the second quarter. The executives have been familiarized with the new processes through introductory training programs.

A MODEL BENEFITING EVERYONE

motiv8 offers a number of advantages both for the individual executives and for Deutsche Post World Net as a whole. It provides employees with a fair evaluation in their respective performance environment, professional career development, and honest feedback on their performance.

The Group Deutsche Post World Net profits from the implementation of the companywide system for executive development as well, through an increase in enterprise value thanks to internal development that ensures the availability of high-potential employees for the company, and cost savings thanks to the elimination of a multitude of evaluation processes and instruments.

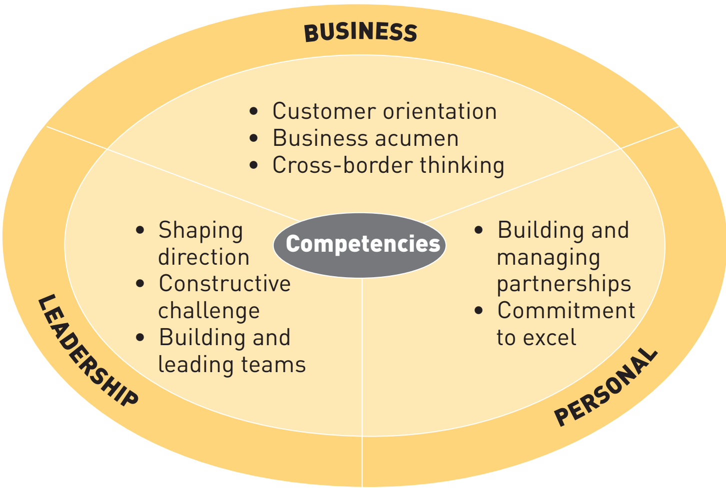


FIGURE 2 This represents the eight core competencies that Deutsche Post World Net will use to rate executives.

In the next steps, motiv8 is planned to be extended to include nonexecutive staff.

High-Performance Supply Chains Through E-Learning

Companies with well-trained, knowledgeable employees operate more efficiently, seize market opportunities more readily, and weather economic downturns more effectively.

Michael G. Mikurak and David Y. Smith

The same innovative factors that define world-class supply chain management – rapid development and integration of new operating models; collaborative use of new technologies; dynamic, technology-supported business processes; and an obsessive focus on customers – also put huge demands on the supply chain workforce. As a result, a full understanding of the interrelationships among functions (e.g., product design and procurement) has become as important as the mastery of increasingly specialized, functional knowledge. Moreover, human-level interrelationships occur with greater frequency across geographically disbursed organizations, such as posts.

Fortunately, or unfortunately, all that collaboration means unprecedented quantities of information. To leverage advanced, collaborative technologies or supply chain event-management applications, staff members must be able to analyze, assess, and respond to the data they receive. Even now, people are behind the frameworks, context, and insights that drive smart operational decisions.

Companies whose workforces have the right skills, knowledge, and experience still must deal with turnover; from scheduled, career rotations and normal attrition, to cycles of layoffs and rehiring. All organizations must ensure the following:

1. Their most valuable operational knowledge doesn't leave when employees walk out the door.
2. They are able to bring new employees up to speed quickly.
3. Training and education are delivered consistently, no matter where people are located geographically.

In addition to employee turnover, there is also information turnover. In today's business climate, knowledge becomes obsolete rapidly, so organizations are under continuous pressure to refresh their employees' skills and training.

ENHANCING KNOWLEDGE

Not surprisingly, technology is a major contributor to the knowledge-management challenge, furthering the tremendous increase in the quantity and portability of data. However, technology is also a major part of the solution. To significantly improve the performance of their workforces, more and more companies are relying on Web-based delivery of knowledge and training material – e-learning. However, organizations that believe e-learning is merely an online version of the traditional classroom are missing an opportunity to build and equip a world-class workforce.

E-learning adds the ability to quickly build skills and expertise through multiple channels and personalized curricula. E-learning also has the potential to help companies and individuals build and sustain new capabilities that foster higher levels of business performance. That means key supply chain skills can be made available to a wider audience, in a shorter time, with fewer disruptions, and at reduced cost. These skills make it possible for companies to:

- Identify and implement new sources of competitive advantage;
- Transition people, skills, and knowledge more rapidly to capture new market opportunities;
- Shorten product design to development times;
- Develop more effective operations; and
- Anticipate change and respond accordingly.

Although e-learning's mission is to help create a workforce that continuously develops and applies knowledge, skills, and capabilities, it's too narrow to position e-learning simply as anytime/anywhere access to courses and methods. E-learning actually is about creating intra- and inter-enterprise communities of people who collectively (and continuously) learn, share, and

MICHAEL G. MIKURAK is a partner in the Accenture Supply Chain Management practice and is based in its Tampa-St. Petersburg office. He has over 25 years of experience in industry and consulting, specializing in supply chain strategy, materials management, distribution operations, logistics information and systems planning, and implementation. Mr. Mikurak has over 20 pending patents in the area of B2B supply chain management and supplier collaboration.

DAVID Y. SMITH is a partner with Accenture's Global Human Performance Service line. He specializes in designing and developing human performance strategies and solutions, and is a founding member of Accenture's global learning/knowledge management and performance simulation practice.

apply knowledge. It is a variety of Web-enabled interactions linked together to build knowledge, skills, and organizational capabilities, including:

- **Knowledge systems:** Providing tools and repositories to store and access employee expertise and experience in support of continuous improvement and innovation.
- **Industry and supply chain resources:** Leveraging supply chain and industry experts, standards, benchmarks, and best practices to improve business performance.
- **Collaboration and communication:** Applying tools that allow knowledge workers to collaborate with peers and business leaders to share experience and knowledge.
- **Virtual coaches:** Enhancing the availability of job guidance – as part of a formal performance-improvement initiative or to support informal, regularly occurring improvement needs.

EMBEDDED E-LEARNING

More often than not, management determines what employees should learn, and when and where they should learn it. However, the more e-learning is embedded within an organization, the more learning-program control needs to reside with employees. A primary reason is that a learning hierarchy simply cannot adapt to a world where 80 percent of a knowledge worker's skills become obsolete within five years.

Consider how profoundly the entire procurement process has changed in less than five years with Internet usage and the availability of new tools, such as electronic catalogs, e-markets, and online auctions. This effect has made basic tasks, such as placing orders with suppliers, largely automated through e-procurement software – not manually completed by a procurement staff. Also, the role of the procurement professional might encompass strategic sourcing, supplier evaluation, and auctioneering and negotiation management. The new essence of procurement (and procurement training) is applying best-in-class sourcing and procurement techniques, refining decision-making and relationship skills, and developing technological processes. Procurement-focused knowledge that has not kept pace with these changes is obsolete.

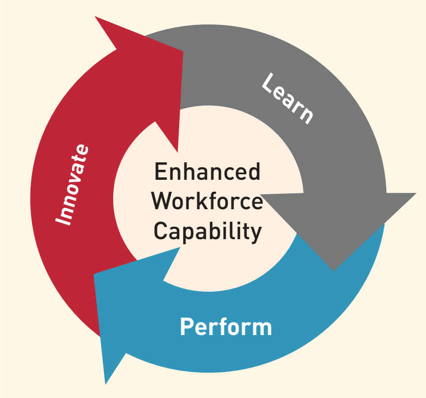


FIGURE 1 Workforce Performance Cycle

Yet, traditional training is inconvenient, expensive to update, and costly to deliver. In contrast, a well-designed e-learning approach can deliver new content quickly and at lower costs. Furthermore, e-learning can foster knowledge acquisition and collaboration outside of a formal training environment, through tools that can capture and disseminate new sourcing agreements and metrics, or expert networks that facilitate innovation and development of best practices.

Obviously, procurement is just one area where faster, more comprehensive, and non-traditional approaches to knowledge acquisition have become essential. Other key areas include: materials management, logistics, supply chain planning, line management, and sales and marketing. Whether addressing the needs of new, entry-level employees by building a basic knowledge and awareness of supply chain processes, terminology, concepts, and methodologies; or through supporting more seasoned employees by identifying improvement areas, applying best practices, and measuring results anytime, anywhere – access to training, information, and a community of experts can powerfully influence both individual and organizational performance. When it comes to knowledge enhancement, management's most important role is providing their employees with a rich, multidimensional learning environment, and clear performance expectations.

A good way to develop this environment is with a simple e-learning framework focused on identifying the right people, requirements, success measures, and learning resources. By applying the workforce performance cycle, individuals, teams, and organizations progress through a continuous, concurrent loop of learning, performance, and innovation (Figure 1).

Learn

Successful e-learning approaches integrate strategy, process, organization, and technology. An example is performance simulation – placing individuals in an environment that emulates the workplace and challenges them to make decisions to support the strategic objectives of their business. Using multimedia user interfaces and best-of-breed tools, employees are exposed to important, new learning approaches, such as goal-based learning, learning by doing, and failure-based learning. They are also privy to war stories from senior executives and can receive individualized feedback from artificial-intelligence coaches.

Research shows that people learn more readily with performance simulation. In a typical lecture environment, attendees may retain as little as five percent of the information imparted. People who read do only slightly better, retaining an average of 10 percent. Computer-based training, however, typically gleans retention rates as high as 20 percent, while learning by doing – simulation – produces retention rates of up to 75 percent. The result is that people perform more effectively, particularly when complex skills are involved (proficiencies that are difficult to acquire through traditional training). In addition, performance simulations can foster collaboration – perhaps the most essential component of the 21st century business model.

Perform

E-learning is not just about learning. For employees to apply what they've learned, they must also have access to performance support. That means accessing the tools, resources, and relevant knowledge that help day-to-day tasks get done quickly and correctly. In an e-learning environment, performance support is immediate and specific – users have click access to whatever they need to accomplish the task at hand.

There are numerous Web-available, performance-support tools to assist supply chain practitioners in the field. They provide a range of capabilities, from simply organizing and prioritizing available content, such as benchmark data, business plans, or supplier scorecards, to facilitating direct interaction with content experts. For example:

- Personalized, Web-based employee portals give workers point-of-need access to the information they require most. By integrating with knowledge management and Web-content-management systems, portals can be tailored to provide content and context to collaborations inside and outside the company.
- Advanced search engines not only locate specific pieces of information and people, but also rate the appropriateness of these resources in addressing a particular need.
- Virtual coaches and intelligent tutors provide individualized guidance as part of a formal performance-improvement effort or to support day-to-day activities.
- Online labs and collaborative workshops let employees hone their skills in a team environment led by instructors and other experts.

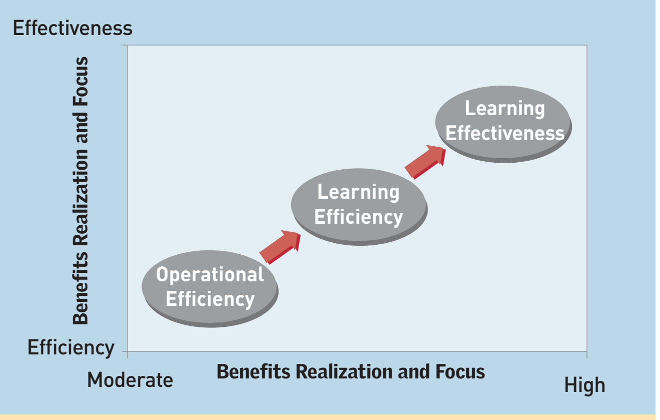


FIGURE 2 Accenture's learning, value-realization model

Innovate

Most companies with world-class supply chains have created a sort of biosphere, in which innovation is encouraged and nourished. In such an environment, formal mechanisms exist for creating, manipulating, transforming, sharing, and leveraging knowledge. Sophisticated approaches also have been developed for optimizing knowledge generated outside the organization – from customers, vendors, professional services firms, business partners, and suppliers.

A good illustration is enterprise portals, which provide shared organizational desktops that deliver personalized, relevant information, and foster collaboration by linking businesses, customers, suppliers, and employees to a common knowledge base and to each other. The result is a community of users with a wealth of ideas and a common, innovation-grounded goal.

Technology's innovation potential has not been lost on supply chain application vendors. For example, many of the newer e-sourcing applications not only facilitate access and connectivity, but also provide sourcing-knowledge repositories. Such sourcing repositories provide excellent fuel for innovation, as well as a means of continuously measuring and forecasting results.

MOVING AHEAD WITH E-LEARNING

To date, most e-learning solutions have focused on IT content and customer service. However, with supply chain operations constituting as much as 70 percent of a company's costs, the potential value of e-learning-based performance improvements is huge. As shown in Figure 2, companies can clarify their strategies by positioning e-learning as a sequence of contexts:

- Operational efficiency is realized by making learning development/delivery architectures, design methods, content management systems, virtual classrooms, and tools available across the enterprise. Developing the appropriate infrastructure is fundamental to the success of any e-learning program.
- Learning efficiency is the product of high-quality content design, development, and delivery methods. These efficiencies can be gained through implementing process and delivery standards, digitizing content, and/or engaging a service provider to help manage the learning platform.
- Learning effectiveness is realized when the organization moves beyond individual learning situations to capability development. Transformational learning approaches help the workforce to achieve higher levels of performance in less time, thereby increasing the company's agility.

Not surprisingly, few companies have reached the learning-effectiveness pinnacle. One exception is Dell, which for years has been committed to employee-driven, Internet-based training. General Electric also has enacted e-learning programs, online mentoring, intranets, trading partner portals, and other innovative tools to create an e-culture that supports accelerated change and innovation. To quote former General Electric CEO, Jack Welch, "Our only strategic, competitive advantage is the intellectual assets of our people."

The human-performance investments made by these and other companies have been publicized less than their business strategies, operational models, and processes. And compared to Six Sigma initiatives or lean-manufacturing techniques, they certainly have not been so widely implemented. However, a low profile does not obscure two important implications. First, it may help explain why companies like Dell and GE continue to set the standard for supply chain innovation and excellence. And second, it tells us that huge opportunities for knowledge- and human-performance-enabled competitive advantage have yet to be tapped by most companies today.

Improving Customer Relationships

Today, posts are looking to improve their customer relationships in the face of decreasing mail volumes and increased competition.

Craig Cornelius and Paul Crook

For most if not all companies, improved business performance depends largely on how a company develops, sustains, and grows its relationships with customers. In fact, Accenture research shows that customer relationship management (CRM) issues are the biggest concerns of most organizations, including postal agencies.

When asked to choose the three external factors that pose the greatest marketplace challenges in the 21st century, nearly two-thirds (64 percent) of postal chief executives cited "change in customer requirements/expectations." More than half of them (57 percent) identified "changes in the nature/level of competition" and "changing technology/impact of the Internet" as significant marketplace challenges.

Postal CEOs also told us that the greatest internal management challenges they face are "competing for talent and retaining talent" (57 percent), "increasing operational efficiency/effectiveness" (50 percent), and "increasing customer satisfaction/retention" (43 percent).

Clearly, postal CEOs are concerned about their relationships with their customers in the face of changing competition and new technology channels. But what exactly does it mean to be a high-performance postal organization with respect to customer relationship management?

Let's begin by defining the fundamental building blocks of CRM (see Figure 1).

CRM begins with customer insight – understanding your customers' needs and segmenting customers according to these needs. With this insight, you develop customer offerings by designing and organizing products and services around customer needs and intentions.

Customer interactions has four components, three of which are design, and one is execution:

1. Design/organize the channels through which you interact with your different customers or segments of customers based upon their needs;
2. Determine which products/services are best delivered through different channels (i.e., not all products/services are conducive to all channels);
3. Calculate the cost to serve different customers or segments of customers through different channels, and then design to achieve a reasonable level of service versus cost of service balance; and
4. Execute interactions with customers such that you provide consistency across all interaction channels.

Customer insight, offerings, and interactions must be supported by a foundation of strong organization performance – the people and structures in the company must be skilled and organized to execute these CRM capabilities effectively.

And finally, the ability for a post to truly organize and deliver on a customer's intentions or expectations requires internal and external collaboration, and the establishment, management, and coordination of internal and external networks.

At Accenture, we have helped a number of postal organizations design and implement CRM programs. Through our research, we have identified several CRM characteristics of high-performance postal organizations (See Figure 2).

CUSTOMER SEGMENTATION

The first CRM challenge faced by many postal businesses is simply identifying the customer. Certainly the postal business is concerned about the individuals to whom they deliver the mail every day, but without the senders of mail, they would have nothing to deliver and no income to support their infrastructure.

Often identifying the mail sender is more complicated than it seems. There are a variety

CRAIG CORNELIUS is the partner responsible for Accenture's work in the marketing, finance, and HR portfolios at the US Postal Service. Previously, he led Accenture's US Government CRM Service Line.

PAUL CROOK is Accenture's lead partner for Government CRM and Customer Contact Transformation for Atlantic and Europe. He has years of international experience within Accenture's Communications, Media, and High-Tech Market Unit and is using this experience to assist government clients .

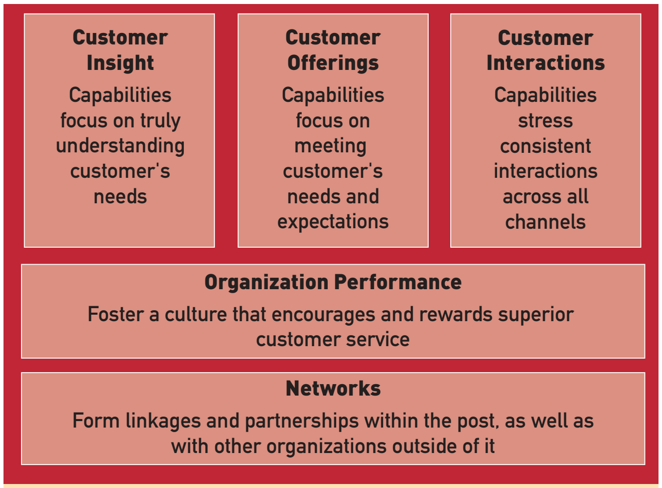


FIGURE 1 The Building Blocks of CRM

of organizations involved with the preparation and distribution of mail pieces (see Figure 3). Far too often, the post knows only the organization that actually presented the mail at a postal facility and has little visibility back to the true owner of the mail. To be successful, postal organizations must know all the organizations involved in this work stream and have clear visibility back to the key decision makers who chose the mail channel for their communication needs and are ultimately measuring the return on what they have invested in mail-channel services.

High-performance posts recognize the significant differences between channel partners and customers, and they provide their employees with processes and tools that enable them to manage both customer and partner relationships.

Distinguishing customers from service providers, however, is just the first step. High-performance posts have a customer segmentation strategy that recognizes the needs of an individual who mails 10 – 20 pieces of personal and business correspondence each month vary dramatically from the financial services institution sending millions of statements and customer offers during the same period. The value these customers bring to the post varies dramatically as well, and customer treatment strategies must take this into account. Even similarly sized companies in the same industry may have dramatically different postal needs. These customers may send similar mail volumes, but their contribution to the post's profitability may be significantly different. Leading postal organizations segment customers not only by revenue, but by business needs and by the lifetime value of their relationship with the post.

By identifying discrete customer segments and their unique characteristics, postal organizations can respond with segment-specific marketing, sales, and service strategies. By optimizing its mix of products and services, and identifying the most effective and efficient channels for serving those customer segments, postal organizations create the potential to achieve greater customer satisfaction and higher sales volumes, while reducing the cost to serve these customers.

CUSTOMER UNDERSTANDING

It is not enough to understand what the customer buys, but critical to understand why the customer buys and how those products and services are used to achieve the customer's strategic objectives. The most effective postal organizations understand each customer's business.

They understand the strategic role the mail channel plays in the customer's own CRM strategy. Is the customer in a high-growth phase and using mail products to attract new customers and promote product trials? Is mail delivery the key mechanism used by the customer for fulfilling orders or providing customer service? Are mail services used primarily to build customer loyalty and retention?

With this understanding, the postal organization can align its offerings according to the customer's intentions, thus making the offer much more compelling and business relevant.

Many postal organizations have customer data scattered throughout the organization with little or no capability for gaining a complete view of the customer and all of their business transactions. The postal business must lay the foundation for insight by developing a comprehensive customer data model and integrating the variety of customer data sources, including information shared with mailing partners, into one source. With a single view of the customer, postal organizations can better understand their customers' values and behaviors.

PRODUCT AND SERVICE INNOVATION

New technologies are constantly raising customer expectations and demands for innovation from the postal sector. For example, customers want more transparency in the mail stream. They want access to rich data on the precise location of their mail as it moves throughout the postal network. To accommodate these customer demands, postal businesses are making mail products more intelligent – embedding bar codes and other indicia that can be passively scanned as mail is processed to provide real-time information on where each mail piece comes from, where it is headed, what it contains, and where it is currently located.

Intelligent mail can provide huge advantages for postal customers:

- By accurately forecasting cash flow from incoming remittance mail, they can improve their cash management capabilities and get higher returns from their financial assets;
- By tracking delivery of direct mail offers, they can predict their customers' responses more precisely and staff their sales and service functions more appropriately, resulting in higher resource utilization;
- By predicting merchandise returns to the warehouse, they can improve their inventory management, restock their merchandise, and make it available for resale more efficiently; and
- By knowing the source and destination of each mail piece, mail senders and recipients have more confidence in the security of the mail.

High-performance posts have also found ways to link their

CRM Building Blocks	Characteristics of High-Performance Posts
Customer Insight	Customer Segmentation Customer Understanding
Customer Offerings	Product and Service Innovation
Customer Interactions	Channel Integration Brand Leverage
Organization Performance	Customer-Centric Culture
Networks	Industry Collaboration

FIGURE 2 CRM characteristics of high-performance postal organizations that are directly aligned with CRM fundamental building blocks.

traditional mail services with modern technologies, effectively helping customers move seamlessly from the click stream to the mail stream by introducing hybrid mail products and providing customers with the ability to print postage and mailing labels electronically.

With the immense growth in electronic mail, customers have seen a corresponding increase in viral marketing as consumers forward information on new products and offers to others in their personal and business communities. Postal customers, looking to leverage viral marketing concepts and techniques with their traditional mail services, are demanding new products and are looking to their postal organizations for innovative solutions to these challenges.

CHANNEL INTEGRATION

Customers have a variety of points where they interact with postal organizations, creating a significant challenge to capture and provide consistent customer information and service at each of these touch points:

- Retail;
- Direct sales/service;
- Phone sales/customer service (inbound/outbound);
- Web/email/chat;
- Mail order;
- Delivery carrier;
- Bulk mail entry center; and
- Events.

In most postal organizations, the customer's experience varies tremendously across these interaction channels. Customers who have a positive experience with their sales representative may encounter a surly customer service representative at the bulk mail entry center. Or, customers who have a positive experience with the call center may be completely frustrated by their experience at the retail counter. In far too many cases, the same customer inquiry results in completely different responses based on the channel selected.

To outperform the competition, postal businesses must have a clear vision of the customer experience they want to deliver, and must understand how to deliver this experience consistently regardless of the customer's interaction channel. They need to have a clear understanding of their cost to serve through each channel and actively direct customers to choose the most economical channel appropriate for the customer's segment and intentions. Thus, high-volume profitable customers with complex needs often have a dedicated sales and service team to work the internal network on their behalf, while low-volume customers with predictable needs and simple problems are directed to customer interaction centers or to self-service mechanisms such as kiosks, interactive voice response technologies, or Internet solutions.

The key to success is striking the right balance between the value of the transaction and the cost of performing the transaction, so that customers are neither over-served nor under-served. Customers often resist self-service approaches unless those approaches consistently provide similar or better accuracy, convenience, and reliability as agent-assisted transactions at the retail counter, call center, or sales office.

High-performance posts have found that seamless service must be delivered not only across the channels under the post's direct control, but also across their channel partners in order to ensure a positive customer experience throughout the entire mailer value chain.

BRAND LEVERAGE

Because posts send a company representative to visit each customer on a daily basis, postal businesses have a unique relationship with their customers. Many customers have a very high regard for their letter carrier and the postal organization benefits from the positive brand attributes associated with these relationships. Customers who encounter a friendly, local, trustworthy, and reliable letter carrier on a daily basis tend to consider the organization to be friendly, local, trustworthy, and reliable as well.

Due to their ubiquity and saturation in the marketplace, brand awareness for postal organizations is extremely high. Most postal organizations enjoy a level of customer awareness and trust that is envied by private sector organizations.

Small towns have a special reliance on local post offices for essential services. For example, in the United Kingdom, village post offices are seen as an essential part of the community. They are typically combined with the village shop that offers the only retail services, as rural independent stores all but disappeared with the inexorable rise of the supermarket. Some petrol retailers now offer a competing service via local garages but these are still fewer in number and more dispersed.

The post office and local postal carriers are seen as key members of the community and typically feel a strong sense of responsibility toward the more vulnerable customers such as senior citizens. The UK post office is still considered a realistic option for offering the physical channel for a wide range of services at a local level, benefiting from trust and convenience.

Financial services are seen as an obvious candidate for post-office-based distribution with the closure of many thousands of local retail bank branches following the introduction of telephone- and Internet-based services. Many British citizens still remember their first savings account at the local post office. In the UK, post offices were the main channels for the distribution of government-

- **Mail Owner:** The company for whom the mailing was created
- **Mailer:** The company responsible for producing addressed mail pieces
- **Transporter:** The company responsible for physically shipping the mailing
- **Consolidator:** The company that collects and consolidates multiple mailings into a single mailing to achieve discounts

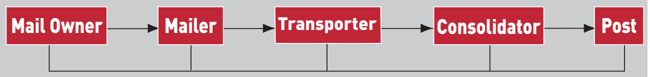


FIGURE 3 Mailer Value Chain

sponsored financial services such as national savings accounts and premium bonds.

Another innovative approach that posts are taking is to transform the role and performance of their retail network. For example, Poste Italiane is taking an innovative approach to leveraging their retail network to include the selling of nontraditional postal items. Other posts, such as Belgian Post, have a retail transformation strategy of turning their retail counter into a customer-centered channel through an end-to-end solution that integrates and automates all activities carried out at post office counters.

High-performance postal organizations leverage the strengths of their brand and their unique market capabilities. They use their delivery workforce's daily touch point with customers as a tool for gathering competitive intelligence and they zealously safeguard the established customer trust. Many organizations have also experimented with leveraging their trusted third-party status in the world of e-commerce.

CUSTOMER-CENTRIC CULTURE

In today's environment of increasing deregulation and competition, posts must focus on improving their end-to-end customer experience in order to remain a viable alternative for their customer's business.

Many postal organizations define good service as short transit time from mail induction to delivery. In order to ensure these efficient transit times, they institute a variety of rules and regulations focused on driving operational efficiency. These rules create overwhelming complexity and frustration for postal customers and may cause them to look for a customer communication channel that is easier to use.

While customers certainly expect efficient delivery of their mailings, they often have other expectations in their definition of good service. Progressive postal businesses work with each customer segment to understand these expectations. They identify the gaps between those expectations, and the experience they provide, and establish programs to close those gaps. Every employee who interacts with the customer is trained and empowered to deliver a positive customer experience. Customer satisfaction metrics are a key component of each employee's performance measurement and compensation, including senior postal executives, who must set the example and tone for a customer-centric culture.

The United States Postal Service is working on enhancing its customer-centric culture by improving the tools available to the Business Service Network (BSN), the customer service workforce that is critical to the satisfaction and retention of large volume customers, and that also provides the essential link between these customers and postal operations. The BSN worked closely with internal stakeholders, as well as external customers to ensure that a new solution would meet the requirements of all parties involved. The result of this collaboration is a sophisticated new CRM solution that supports high-performance customer service delivery and encourages a customer-centric atmosphere.

INDUSTRY COLLABORATION

Success in the mailing industry requires a high degree of collaboration between mail owners, mail service providers, and postal organizations. High performers establish a variety of mechanisms that allow them to collaborate with customers and partners.

Some of these networks, such as the Mailing Industry Task Force in the US or PostWatch in the UK, focus primarily on strategic, executive-level collaboration, and guidance. They allow the posts to meet with their partners and customers to understand their competitive position and work to improve the industry.

Other networks, such as the work groups in the Universal Postal Union, define business and technical standards for mailings. These groups are especially important for members of the European Union, as their customers continue to demand greater ease and flexibility with cross-border mailings.

In addition to participating in work groups and industry councils, posts collaborate through their alliances and partnerships. Some postal organizations outsource components of their retail and delivery networks or customer contact centers and must ensure close coordination with their outsourcing partners to deliver a consistent customer experience.

It is also critical for posts to leverage their internal networks. For example, many posts have organizations which provide a single "face to the customer" by leveraging various internal organizations and assets of the post to serve their customers.

CONCLUSION

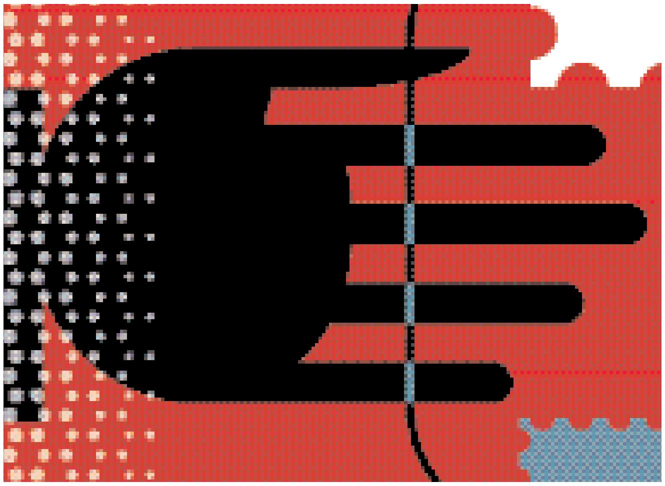
For most commercial organizations, customer relationship management principles and programs took shape in the 1990s. Many postal organizations began focusing on CRM initiatives at the start of the 21st century. Great progress has been made by many organizations in a short period of time, although no single organization has yet achieved world-class status in each of the CRM characteristics outlined in this paper. By using these characteristics as a blueprint for their continuous improvement activities, these organizations are learning to execute at a higher level of performance and are on their way to earning distinction as high-performance postal organizations in the area of customer relationship management.

CASE STUDY

Enhanced Customer Service Turns CRM Vision Into Reality

This case study explores how the US Postal Service is turning its CRM vision into reality by first focusing on improving its customer service delivery for major mailers.

Robin E. Ware and John R. Wargo



In an era of declining mail volumes, changing customer needs, rising costs, and increased competition, the US Postal Service continuously seeks ways to keep customers "in the mail." The USPS recognized the need to create a holistic, integrated view of postal customers and use this information to coordinate customer service across multiple channels. To define the path toward one view of the customer, the USPS embarked on developing a customer relationship management strategy and roadmap.

The USPS approached its CRM strategy in phases, with the initial focus on improving customer interactions. Programs such as sales and service integration and enhanced customer self service capabilities are aimed at providing a more efficient and effective means of managing customer interactions and the gathering/sharing of customer insights. The second phase of the USPS CRM strategy is focused on customer insight and marketing integration. Key CRM initiatives such as implementing a universal customer ID, a customer data warehouse, and customer analytics will help the USPS use insights to personalize communications with customers. The expected outcomes of the CRM program include increased customer satisfaction and loyalty, revenue retention and growth, and improved operational effectiveness and collaboration.

The USPS began the journey of turning its CRM vision into reality by focusing on the customer service workforce that is critical to the satisfaction and retention of customers, and which also provides the essential link between customers and postal operations.

THE FIRST STEP: REVOLUTIONIZING THE BUSINESS SERVICE NETWORK

The Business Service Network (BSN) provides the largest and most complex customers of the USPS with one place to call for their service questions, requests, and issues. The BSN also engages in two-way communication with these customers regarding USPS products and services and ways in which it can improve the relationship with that customer. Through quality customer service, the BSN helps retain the business of 14,000 customers, who account for $37.8 billion dollars, or 54 percent of USPS annual revenue. With its strong commitment to customer service, the BSN was eager to lead the way in turning the USPS CRM vision into reality.

In considering how to improve the BSN's CRM capabilities, the USPS looked at the existing challenges facing the organization. From a technology perspective, the USPS traditionally used six separate legacy systems to facilitate the sales and service process. Because these

ROBIN E. WARE is the manager for Business Service Network Integration at the US Postal Service. She has held several executive positions in customer service and sales and has developed several technology solutions for postal operations during her 25 years of service.

JOHN R. WARGO is the VP for Service and Market Development at the US Postal Service. In his 32 years, he also served as VP of Strategic Marketing and VP of Customer Relations. Mr. Wargo serves as a leader of the National Postal Forum, the Postal Customer Councils, and the Mailers Technical Advisory Committee.

systems were not integrated, it was difficult for the Postal Service to generate an overall view of customers across all interactions. Similarly, because the technology did not enable high levels of collaboration between the BSN and customer support team members, resolving complex issues involved manual, time-consuming processes. Complicating matters was the fact that the BSN's legacy software application did not provide an easy way for users to extract service-request information or analyze data related to recurring issues and potential root causes.

The USPS saw the opportunity to leverage new technology to enable the BSN to be more productive and professional. The USPS also saw the opportunity to create a solution that would not only benefit internal employees, but would provide value for external customers as well.

THE SOLUTION

To lead the way in developing CRM capabilities at the USPS, the BSN set out to design, build, and deploy a new customer service program that would serve as the foundation for an integrated sales and service solution. The BSN worked closely with internal audiences (from marketing and operations), as well as external customers (through the National Postal Policy Council) to ensure that a new solution would meet the requirements of all parties involved. The result of this collaboration is the Integrated Business Service Network (iBSN), a sophisticated new CRM solution that supports high-performance customer service delivery.

The new Web-based system, which leverages a leading commercial off-the-shelf software package, provides a single repository of service information for those customers served by the BSN. Key features of iBSN include service request management, activity/workload management, customer satisfaction surveys, and management reporting. Because iBSN provides up-to-date service information and visibility into existing service trends, the BSN has a greater ability to respond quickly to customer requests, generate valuable root-cause reports, and make better, faster decisions. The benefits extend to external customers as well, who have access to BSN eService, an always-available Web-based channel for entering and monitoring service requests, updating account information, and providing feedback through satisfaction surveys.

iBSN has been deployed to 500 customer service representatives, several hundred customer support team members and sales, and a growing number of external customers. iBSN was demonstrated as the National Postal Forum in 2003, where it received praise from both customers and postal executives alike.

RESULTS ACHIEVED

Through a compelling vision, strong executive support, customer and USPS participation, and a relentless focus on results, the BSN successfully designed, developed, and deployed a new CRM capability in only six months. The BSN has already recognized positive results in two key areas:

Increased Customer Satisfaction

iBSN expands customer access to postal services and allows customers to do business when, where, and how they prefer. It provides greater insight into the service request resolution process, enables the delivery of online customer satisfaction surveys, and eliminates transcription and interpretation errors. Customer adoption of the new service is strong and rising every day. In a few short months, customers are using the self-service channel for approximately 24 percent of their service requests, and customer satisfaction scores have risen across the board since the inception of iBSN.

> **"BSN eService is one of the most important tools, and certainly the most powerful, I use in interactions with the USPS – what a view to the postal world! I can see activity going on in Chicago, Alaska, and North Carolina, literally from the four corners of the country – regardless of where I happen to be on any given day!"**
>
> **– Peter Glenn, VP, Bank of America.**

Improved Operational Efficiency

iBSN reduces the BSN's cost to serve via customer self-service, automatic assignment of service requests, faster internal communication of issue status, and enhanced reporting capabilities. iBSN allows the BSN to serve more customers, more quickly, without needing to increase complement. Already, the BSN is seeing close to a 20 percent increase in productivity as service request resolution times have decreased substantially since the rollout of iBSN. Most impressive is that this was achieved in a year when service request volume increased 25 percent and the workforce was reduced 20 percent.

iBSN not only provides significant benefit for the BSN and the customers it serves, but also provides a platform for growth of CRM capabilities at the USPS. Already, iBSN is providing customer insight capabilities and will be enhanced to support sales and service integration, analytics, and expanded service options for new customer segments. All of these programs will be supported by a single integrated application, thereby reducing ongoing application maintenance costs and skill requirements.

> **"iBSN is the first phase of customer relationship management – a strategy that will provide the USPS with a consistent, in-depth, single view of our business customers, allowing us to be more responsive to their needs."**
>
> **– Anita Bizzotto, USPS Chief Marketing Officer**

iBSN has established a strong model for future programs to follow. The work of the BSN, however, is far from over. With sights set high, the BSN continues to focus on being a high-performance customer care organization. With a strong CRM technology solution in place, the BSN is now working to realign and retool its organization, people, and processes to build an even stronger BSN for the future.

The Customer Care Workforce: Driving Profitable Interactions

To realize significant bottom-line improvements, organizations must focus on developing those workforce segments that add the most value to the enterprise.

Patrick Mosher and Eric P. Gist

Over the past decade, organizations have accepted two truisms. First, improving the performance of their people improves the performance of their business. Second, superior customer relationship management capabilities are key to building customer loyalty and enhancing revenue streams. These ideas rarely overlapped. But today, this is changing. Organizations now recognize that improving the performance of their customer care workforce plays a critical role in creating more profitable customer relationships.

To realize significant bottom-line improvements when deploying resources to develop their people, companies must focus on those workforce segments that add the most value to the enterprise. Some workforces – for instance, those responsible for significant revenues or cost – are more critical to business performance than others. Investing in improving their performance is more likely to return immediate bottom-line benefits.

The importance of a particular workforce segment differs across industry and workforce sectors and is influenced by time of year or geography. For example, a postal customer care agent responsible for handling delivery inquiries will experience a higher call volume during the time of year when mail volume is up. Or, a post that launches a new product or service targeted to a specific consumer segment will receive more calls from customers of that type.

A well-informed customer care worker will handle these information and service requests quickly, enhancing the caller's perception of the product's quality and the value of the post's service. A well-informed, well-trained worker will steer callers toward additional services or product upgrades designed for their particular needs, not only providing a more satisfactory customer solution, but also extending the revenue produced from these customer relationships over time.

So, why are organizations so slow to boost the performance of their customer care workers? One reason is the traditional focus of CRM investments. Over the past decade, many companies focused their CRM budgets on automating sales force operations and adding new customer channels rather than on maximizing the performance of their customer representatives.

These efforts produced significant savings and improved customer satisfaction, but ironically, they also may have reduced the opportunities for competitive advantage. The widespread availability of software applications that allowed companies to know their customers better created a level CRM playing field. Indeed, the leading CRM applications that once differentiated company A from company B a few years ago are now commonplace.

RECASTING THE CUSTOMER CARE WORKFORCE

Organizations are now recognizing that their customer care employees do, in fact, make up a critical workforce and that they must re-engineer workforce performance alongside customer care processes and systems.

Consider this: Every second a customer care representative spends talking with customers or potential customers is another opportunity to build the post's brand or increase the post's share of the customer's wallet. In fact, these two specific opportunities to create economic value for the organization are what make customer care workers critical to an organization.

If the workforce is ill-equipped or unmotivated, this opportunity quickly disappears, making the brand vulnerable to ever-higher customer expectations for fast service and knowledgeable responses. Although it is not typically featured in their job descriptions, customer care workers are actually frontline brand managers. Delivering consistent messages and accurate information to customers will impact their perception of service quality. A broad market

PATRICK MOSHER is an associate partner in Accenture's Human Performance practice and specializes in large-scale organization change in large enterprises. Mr. Mosher has over 15 years of experience in designing, developing, and deploying innovative organization structures and performance support solutions.

ERIC P. GIST is a partner in Accenture's customer relationship management practices and is an expert in deploying large-scale integrated customer solutions. Mr. Gist has more than 18 years of experience in optimizing salesforce performance and operations, and integrating sales and marketing processes.

reputation as an organization that delivers superior service helps differentiate the post and increase the value of its brand.

In addition to exposing their brands during customer calls, organizations often miss significant revenue-generating opportunities when agents fail to make connections between the customer's call and an organization's products and services. Even small improvements in the performance of customer care workers can result in greater operating efficiencies and additional revenue. This is especially true among interaction-intensive businesses that depend on cross-selling, up-selling, and constant customer vigilance to drive their products and services in the marketplace.

For these organizations, customer care workers are just as important as the direct sales force. And while simple transactions should continue to drive toward low-cost self-service channels, an organization should route its best customers to its best representatives – those representatives trained to cross-sell, up-sell, and act strategically.

Companies that depend heavily on customer interactions are among the first to see their customer care workforces as more than just costly overhead. And they are now looking for ways to develop the revenue-generating potential of those same workforces. With the right tools and training, customer care representatives can identify, develop, and capture revenue opportunities during every customer interaction. For example, Accenture projects that improved training programs, which utilize new e-learning approaches to improve sales and service skills, have the potential to boost sales revenue by an average of 30 percent, while at the same time, reducing training costs by 10 percent. This projection is supported by Accenture research, which shows that improved customer relationship capabilities can generate up to $40 million in new revenue for billion-dollar organizations.

IMPROVING JOB PERFORMANCE

Innovative organizations are making workforce performance a strategic imperative for customer care, treating issues such as learning, organizational design, and scheduling as critical factors in optimizing the quality and the financial performance of customer interactions. The types of questions these organizations continually ask themselves include: "What is the impact of hiring the right employees, better enabling the workforce, and sustaining an improved level of performance?" and, "What is the most appropriate way to staff and operate the customer care centers to deliver effective customer interactions?"

A telecommunications company, for example, asked these questions before setting out to transform its customer-facing network operations. It wanted to improve customer service and build new, competitive skills in its workforce. Once the company had assessed its customer-facing workforce in light of these goals, it designed a solution with two thrusts: new deployment centers focused on improving the customer experience, and a skilled field service and customer care workforce to help launch new products. This initiative has produced business results in three areas:

Improved Customer Experience

- Improved customer transaction scores by 10 to 15 percent; and
- Increased first-time completions by 50 to 100 percent.

Improved Operational Effectiveness

- Increased quality by 20 to 30 percent;
- Increased productivity by 10 to 15 percent; and
- Reduced turnover by 20 to 40 percent.

Increased Capacity to Change

- Reduced cycle time to train by 20 to 25 percent;
- Decreased time to proficiency by 20 to 75 percent;
- Increased knowledge application by 30 to 60 percent;
- Increased organizationwide consistency by 30 to 50 percent; and
- Increased employee satisfaction by 10 to 50 percent.

Executives in any industry who are interested in transforming their customer care operations need to incorporate an increased focus on people issues into their CRM strategies at every stage of the employment lifecycle.

There are many tools available for improving workforce performance, including process improvement, performance feedback, e-learning, knowledge management, and mobile applications. Every organization will need to configure a solutions package for the particular performance needs targeted for improvement. But any solution should address the following core areas: building core skills, continuously improving performance, and retaining top performers over time.

BUILDING CORE SKILLS

Organizations must focus attention and resources on helping their employees develop the right sales and service skills. Making sure these critical workers develop and maintain the right skills requires more than simply implementing a new course of training. It means:

- **Conducting learning needs analysis:** Several needs analysis tools are currently available. They provide a holistic view of existing customer care capabilities and enable companies to identify specific learning goals that are aligned to customer care objectives and the overall business strategy.
- **Designing the curriculum and developing specific courses:** Again, several tools are available to help organizations create the appropriate curriculum for various learning environments. These tools allow companies to make optimal use of resources to deliver training via traditional classroom methods, computer-based training, e-learning technologies, or performance simulation.
- **Managing the learning process:** Content architectures, such as those provided by Docent, and new training channels through Web-based portals, allow organizations to administer their learning programs effectively and efficiently.

In addition to helping customer care workers better serve their customers, these techniques can deliver cost-saving benefits. Streamlining course content can lead to substantial savings for new hires. E-learning solutions decrease instructor time and cost, as

Outbound Call Center As Is		
Total number of seats		5,000
Yearly turnover		90%
No. of new agents attending training each year		4,500
No. of hours spent in training*		180
Cost per person (function of agent salary)**	$	3,600
Instructor cost***	$	162,000
Total training costs	$	16,362,000

*BenchmarkPortal, Inc. 2001 reports average of 124.6
**Loaded salary cost of $20 per hour
***Based on an annual salary of $40,000 per year and a student-to-instructor ratio of 20:1
****BenchmarkPortal, Inc. 2001

Outbound Call Center-To-Be		
Total number of seats		5,000
Yearly turnover		90%
No. of new agents attending training each year		4,500
No. of hours spent in training		120
Cost per person (function of agent salary)		2,400
Instructor cost	$	121,500
Total training costs	$	10,921,500
Decrease in yearly training costs	$	**5,440,500**

Revenue Uplift		
Additional agent hours gained		270,000
Average proficiency of a new agent		30%
Average sales per hour ****		4.79
Value per sale ****	$	78.82
Yearly value generated	$	30,581,400

FIGURE 1 E-learning solutions can have considerable economic impact.

well as increase instructor-to-student ratios. These benefits translate into greater organizational efficiency and additional revenue.

Figure 1 illustrates the potential impact of an e-learning solution on a 5,000-seat call center. In that example, a new e-learning program helps customer care representatives develop the skills they need more cost-effectively than with traditional training methods. The new program reduced training time and costs by 33 percent and time-to-proficiency by 50 percent. With additional hours to perform their jobs, customer care agents are able to generate $30 million in additional revenue. For this company, the return on their e-learning investment is more than 600 percent.

CONTINUOUSLY IMPROVING PERFORMANCE

To maintain competitive advantage in the customer care arena, organizations must also focus on continuously improving the performance of their workforces. Customer care organizations must not only evaluate the performance of their workers, but also create programs to improve workforce performance. Examples of continuous improvement solutions include:

- **Portals and knowledge management:** Ensuring that the customer contact workers have full access to the information they need, when they need it;
- **Coaching:** Comprehensive, one-on-one coaching and feedback processes create performance improvement opportunities through call monitoring systems; and
- **Just-in-time learning:** Programs that build the skills customer care workers need, also when and where they need to learn them.

RETAINING TOP PERFORMERS

With turnover rates in some customer contact centers approaching 200 percent each year, an organization's workforce performance improvement program must include an executable plan to retain its best employees. When employees leave, or take on different roles in an organization, the time and money spent training them is lost. In addition, the time it takes to recruit, hire, and train replacement workers will cut into revenues that fully trained employees would generate.

The potential value of solutions that improve employee retention is significant. A number of factors influence an employee's decision to stay.

- Rewards and incentives;
- Supervisor performance;
- Career opportunities;
- Assimilation activities that make workers feel part of a larger team;
- Organizational culture; and
- Quality and quantity of training activities.

To ensure that customer care workers remain with the organizations, these organizations must implement programs that address factors most relevant to their workforce. A workforce diagnostic can quickly identify reasons for leaving.

CUSTOMER CARE + WORKFORCE CARE = REVENUE

To recap, although not always considered an organization's most important workforce, customer care workers can drive significant revenue and cost savings to an organization's bottom line – particularly if the organization relies on heavy customer interaction to deliver goods/services and maintain relationships. Today, businesses are transforming the performance of their customer care workforces to tap into this recent hidden value. To accomplish this, organizations need to focus on integrating people-related issues into their CRM strategies at every stage of the customer care employment lifecycle. When organizations devote the same level of care to their workers as they do to the customers they serve, the result can be significantly increased revenues, cost savings, and even greater customer satisfaction.

Transforming Customer Contact

Posts must realign customer treatment in accordance with customer profitability by undertaking major changes in customer relationship management strategies.

Robert E. Wollan and Paul F. Nunes

The important trends that defined business in the '90s – globalization, deregulation, and extraordinary technological progress – made the decade's countless customer-facing programs both a way for organizations to show they cared about customers, and a strategic and operating imperative.

Now businesses, including posts, face new challenges. Executives are caught between heightened pressure to increase revenue and reduce costs on the one hand, and increased customer demand for new and enhanced products and services on the other. This situation reveals the inherent contradictions in the blueprints for customer interaction used by many companies today.

Many organizations rely on outdated and unfocused customer strategies, investment options, and operating models. Executives have only a vague picture of their customers' revenue potential and an even vaguer understanding of the true cost of serving them. Infrastructure and service costs are increasing faster than company revenues. Although executives understand the scope and complexity of what they need to change, they can't effectively put new strategies in place to drive significant, sustainable benefits.

These are not minor challenges that can be handled with a series of small, tactical programs and draconian belt-tightening. Posts need to rethink their basic assumptions about how customer interactions are designed, funded, and managed. In a world where operational dollars will remain scarce, a more profitable approach to getting and serving customers requires comprehensive strategies that both reduce the cost of service delivery and improve the value of customer interactions. Simply put, posts must align how much they spend on servicing customers with how much revenue these interactions generate.

RISKY BUSINESS

The economic downturn of the past few years cut deeply into many customer care programs, causing companies to scale down or put new customer relationship management investments on the back burner. As the economy rebounds and budgets begin to loosen up, managers will be tempted to resume spending according to old CRM models. A brief review of these outmoded plans and strategies demonstrates why this would be highly risky.

Flawed Interaction Strategies

Over the past decade, many organizations aspired to provide each and every customer with the highest possible level of direct and personal service. Today, many still do. However, that vision hasn't yet been realized. Ideally, perhaps, each customer may be a market of one. Realistically, not all markets, or customers, are created equally. Although customers are even more demanding today than they were 10 years ago, organizations simply can't afford to conduct every customer transaction without regard for whether the cost of service aligns with the value of the customer and the transaction. (Nor would they necessarily be rewarded if they could. In general, organizations earn less credit from customers for a positive interaction than they are penalized for a bad one.)

Inflexible Investment Options

In the boom years of the '90s, companies spent large sums to build contact centers and interaction infrastructures. These investments now leave them saddled with high fixed costs and excess capacity. As a result, many can now only watch as margins shrink when revenues fall or customers defect, unable to shed these assets and costs without compromising service levels. This burden includes not only direct costs (labor, facilities) that are easily accountable, but

ROBERT E. WOLLAN is a partner in Accenture's customer relationship management practice and leads the company's global customer contact transformation practice. Mr. Wollan specializes in large-scale transformational sales and customer service initiatives, and has worked extensively in a variety of industries.

PAUL F. NUNES is a senior research fellow at the Accenture Institute for Strategic Change and is an associate partner in the Accenture strategy and business architecture practice. Mr. Nunes' research focuses on the impact of advancing technology on business strategy, including work on the changing nature of channels and market forms, and the challenges of profitable customer interaction through IT-enabled processes.

also indirect costs (support, technology) that fly under the accounting radar and can't be easily located or contained. Over time, these expanding costs steadily erode the financial return from profitable customer interactions. Additionally, slowing investment in customer capital (customer segmentation, relationship building, target marketing, etc.) reduces the impact of CRM capability, stifling existing programs, or limiting the capacity of companies to drive transformational change.

An increase in profits, however, seems unlikely with so many basing their CRM approach on two common misconceptions about customer interaction. One is that they can easily calculate the cost of customer service. In reality, most are measuring only direct charges, understating the true cost of service, and forcing decisions to be made without facts. The other misconception is that all customers are created equal. The reality is that investment and operational dollars are scarce and will remain so. Organizations must align what they spend with their most profitable customers.

The reality is that investment and operational dollars are scarce and will remain so. Organizations must align what they spend with their most profitable customers.

One Mexican mobile-phone operator learned this lesson the hard way, paying a stiff price for its failure to differentiate profitable customers from money-losers. Locked in battle with other providers for market share, the company was paying roughly $1,000 apiece for new customers. Its monthly profit per customer was around $35. However, with phone users jumping to the latest, low-cost provider every 17 months, the company lost more than $400 on the average customer during that time.

It would appear that some companies are too caught up in the myth of delighting their customers to notice this kind of gross misalignment. DataMonitor reports that only one-third of firms expect their call centers to generate a profit, and just one-quarter expect them to even generate revenues. Forrester finds that only 42 percent of companies even consider selling something during a service call.

Suboptimal Delivery Models

Finally, traditional delivery models for CRM no longer provide sustainable solutions for satisfying customer and market expectations. Organizations actually have institutionalized the costs of their CRM investments without institutionalizing their benefits. While some organizations have optimized performance in specific areas, organizational silos prevent most from optimizing across functions, in particular by integrating marketing and customer service. These organizational boundaries drive many of the costs associated with CRM investments, such as maintenance, staffing, and training – costs that continue to expand.

For example, customer-contact agents, whether in-house or outsourced, typically are not integrated with other business functions, which limits their efficiency. In the economics of customer interaction, literally every second counts. For a typical company spending $500 million annually on customer interaction, shaving one second off the average length of a customer call can save $10 million each year – savings that can be refocused on target-customer segments or new customer campaigns.

A tactical response to these issues will deliver only tactical results. Significant gains are rare. Take costs, for example. Companies often try to contain operating costs by cutting staff. And even though downsizing will reduce the number of paychecks that are issued, it won't reduce the number of customer calls that must be handled.

MISCONCEPTIONS

Entirely new approaches are necessary. Certainly, any organization would benefit from a more profitable approach to getting and keeping customers. But those serving large numbers of customers through increasingly complex interactions stand to gain, or sacrifice, the most. For these organizations, profitability can rise or fall dramatically with even small changes in the cost of serving the average customer.

THE TIPPING POINT

When customer care is this critical to business performance, companies must transform their approaches, not fine-tune them or improve them incrementally. Accenture calls this investing to the tipping point, when the cumulative impact of change moves a company to a new level of performance. Parceling out investments through a series of tactical programs limits the possibility of delivering sustained, market-relevant results.

Improving the value of customer interactions, in addition to reducing the cost of service delivery, will produce better results than focusing on just one factor or the other. Likewise, a customer management strategy that addresses all interactions and channels is more likely to influence customer attitudes and behaviors than a piecemeal approach.

AT&T Consumer recently demonstrated this approach by announcing a program to transform sales and customer operations with an estimated investment of $2.6 billion in new technologies and workflows. By driving customer operations through a comprehensive program, rather than treating ad hoc components through incremental steps, the company expects to reduce costs by at least 50 percent.

So what will it take to fundamentally change the economics of sales and service? Consider the following:

1. Create a Customer Service Meritocracy

The first step is to escape the tyranny of the "customer as king" principle that dominates customer care. Define a customer-interaction strategy based on who customers really are and what they really want, and then allocate sales and service resources accordingly (see Figure 1).

	Tyranny	Meritocracy
Customer role	King	Citizen
Customer case philosophy	Highest possible level of care for every customer	Tailored care to customer needs based on the value of each interaction
Temporal orientation	Historic, including: 1. Spending patterns 2. Preferences 3. Demographics	Historic, plus future, including: 1. Anticipated profit potential 2. Evolution of tastes 3. Lifestyle changes
Contact: Breadth Targeting Frequency	 Broad-based Undifferentiated Repeated	 Selective Highly focused Timed to coincide with an anticipated need
Relationship goal	Retention	Long-term high-value customers

FIGURE 1 A New Paradigm for Customer Care

Modeling and segmenting the customer base, building integrated capabilities for analyzing customer data, and creating links between customer channels – these actions will have clear impact on business results. For example, National Australia Bank uses predictive modeling techniques and data mining to determine how often the bank communicates with customers – via which channel, at what times, and with what offer. As of June 2000, National had the highest share of wallet, customer satisfaction, and retention rates for high net worth clients in Australia. Using a similar focus on modeling customer value, Harrah's achieved a 90 percent hit ratio in turning customers worth $500 into customers worth $5,000.

2. Know What It Really Costs

Develop a detailed and accurate picture of what it really costs to execute current sales and service models by customer segment. Although direct contact center costs for labor, facilities, and telecommunications are usually readily available, most organizations will have to dig deeper to define and measure indirect costs: operational support, technology, vendor management, integration with other business units, and other considerations.

3. Align Cost and Revenue

Determine service levels across the channel portfolio according to the customer needs and profitability defined by the new strategy. Typically, this will involve handling most service transactions through self-service or guided-service channels, while reserving costlier support options for the more valuable transaction types. Remember that emphasizing self-service still means emphasizing good service: personalized, efficient, and consistent (see Figure 2).

Experience shows that many customers prefer self-service. Some retailers have found it possible to transact as much as 40 percent of sales through self-service checkout systems.

Self-service channels also play an essential role in reducing cost to serve. Voice recognition technology, for example, helped Office Depot reduce phone interaction costs by 87 percent, and orders placed by phone have been larger on average than orders placed with human operators. Manulife Financial used similar technology to cut average call time from 12 minutes to two and to reduce the abandonment rate – while cutting costs by 90 percent.

Money saved by cutting unprofitable services to low-value customers can be spent making high-value customers even more valuable. Good customers deserve to be pampered. Thus, Charles Schwab clients who maintain at least $100,000 in net assets or trade 12 times a year and maintain a minimum of $10,000 in net assets, never have to wait longer than 15 seconds to have their calls answered.

4. Boost Workforce Performance

Given that labor costs make up more than 60 percent of a contact center's operating budget, the right organizational structure and performance tools are especially important for optimizing headcount and for increasing agent proficiency and motivation. According to a study by Hackett Benchmarking & Research, high-performing customer contact agents handling 2.5 calls for every 1 call at an average company, can reduce cost per contact to $4.73, compared with the industry average of $14.73. Traditional performance measures, such as average handle time and first-call resolution, will suffice. But remember to look at the entire employee lifecycle: hiring, training, speed to productivity, performance measurement tied to business results, and other factors. Incentives, for example, encourage customer contact agents to focus on performance targets during customer interactions. E-learning programs are not only effective ways to reduce training costs, they also train agents to improve sales and service.

5. Explore Alternative Sourcing Models

Effective partnering through outsourcing and co-sourcing (the joint management of existing resources) is critical in transforming the economics of customer interaction. Outsourcing provides a flexible alternative to traditional CRM investment models by lowering the fixed-to-variable cost ratio in customer care. According to Jupiter Media Metrix, transferring contact center technologies and operations to offshore contact centers can save organizations up to 30 percent of the costs of maintaining these operations in-house. United Airlines directs most customer service calls to a 100-person call center in Mexico City, while General Electric relies on call centers in 15 countries.

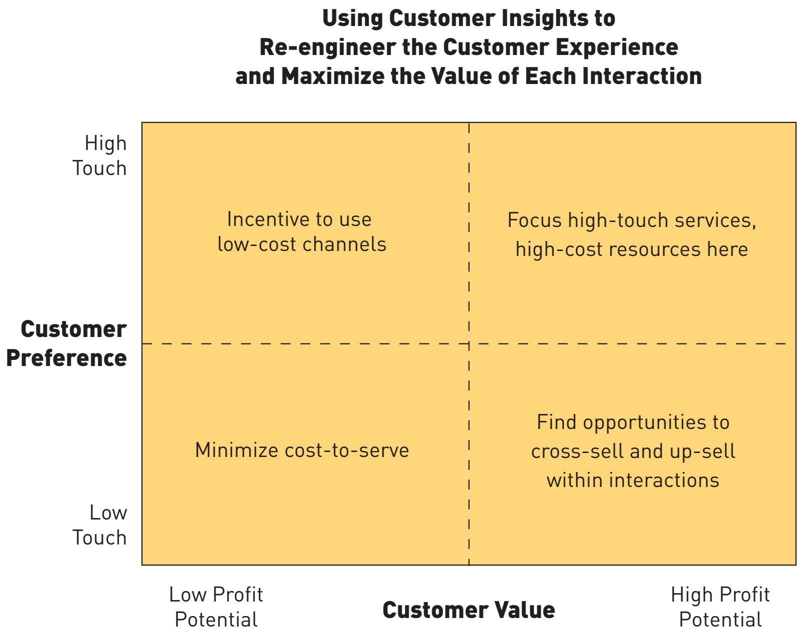


FIGURE 2 Determine service levels based on customer needs and profitability.

Innovative deal structures with these partners and third-party suppliers can help boost ROI by creating incentives for them to deliver results beyond traditional pay-by-the-call outsourcing arrangements. Outsourcing and co-sourcing models also allow companies to launch new customer strategies with less capital spending up front and less financial outlay over the life of the investment, with the cost of strategic change amortized over a declining cost to serve. And financial markets tend to reward companies that focus on their core business strategy while realizing a better return on customer spending.

But take note: The call center outsourcing market is increasingly fragmented, and solutions are, for the most part, commodities. Historically, call center outsourcing has not been about innovation. Innovation, and transformation, must come from within the company. External vendors should be aligned with the organization's business strategy and focused on putting that strategy into operation, they cannot be expected to define or drive the strategy.

PUT IT ALL TOGETHER

Organizations should follow a basic set of guiding principles for delivering cost-effective, high-quality sales and service interactions. First, eliminate calls at the source. In sales, develop more targeted sales campaigns to increase conversion. In service, simplify product and service offerings, eliminate unclear communications, etc. Other guiding principles include:

- Use customer insight to differentiate sales and service channels and levels;
- Increase the use and effectiveness of self-service channels;
- Handle calls that are directed to live agents more efficiently through operational improvements; and
- Balance internal and outsourced personnel to take advantage of labor arbitrage opportunities.

CONCLUSION

Since the mid-90s, business gurus have preached that the customer is king. In many cases, though, the customer has become a tyrant, demanding high levels of service from every seller. A combination of new customer treatment strategies, more flexible investment options, and creative operating models make it possible to transform the old system of tyranny to a meritocracy, where customer treatment is aligned with customer profitability. However, to realize the full power of these new approaches – and the multiplier effect of implementing them all at once – organizations must be willing to substitute transformational programs for piecemeal CRM improvements.

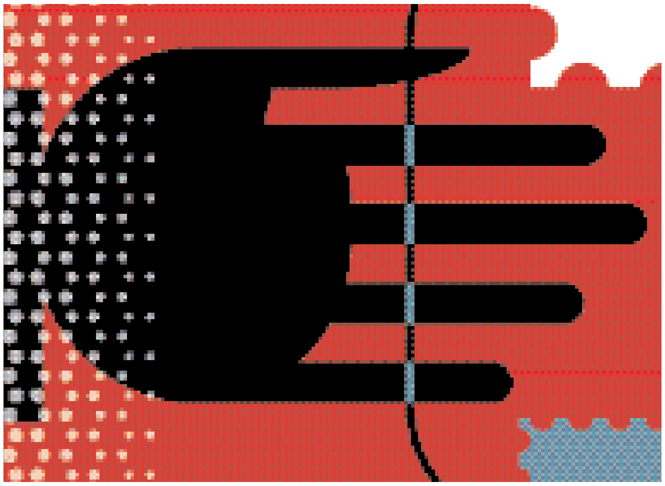
Organizations should follow a basic set of guiding principles for delivering cost-effective, high-quality sales and service interactions.

CASE STUDY

Poste Italiane Retail Strategy: Nontraditional Retail Offerings

In an age of declining mail volume, posts are faced with expansive, fixed-cost retail networks. Poste Italiane is taking an innovative approach to leverage its retail network for nonpostal activity.

Giacomo Robustelli



Poste Italiane is the largest Italian employer (over 155,000), one of the top Italian companies in terms of revenue (more than €7.4 billion), and one of the first five postal organizations in Europe.

Poste Italiane may be considered the main Italian distribution network, based on the various client-contact channels: 14,000 postal offices throughout the entire Italian territory (more than 1 million contacts per day), 13 call centers with 1,200 employees (75,000 contacts per day), mail delivery (4 million contacts per day), Web site, etc.

Poste Italiane's goal is to exploit its unique physical network of postal offices, aspiring to transform defined spaces of postal offices into stores that sell nontraditional postal items such as household appliances, mobile phones, and books.

THE CHALLENGE

Poste Italiane is facing new business challenges related to maximizing its large retail network to better cover infrastructure costs and find new sources of revenue. The strategic intent is to gain an advantage over new competitors (firms with large retail networks) and to reposition the role of postal offices in specific geographic areas.

The business driver for change is the desire to make postal offices a point of sale (one-stop shopping), not just a place where one buys only financial or postal services. Expanding the Poste Italiane retail network to include the selling of nontraditional postal items will increase the profitability per office and enhance Poste Italiane's image in the country as a preferred customer-contact channel.

THE SOLUTION

In 2001, the commercial direction of the retail division decided to launch a project named PT shop to define a new market offering to transform post offices into stores that sell nonpostal items such as household appliances, mobile phones, books, and the like.

As part of the PT shop development, Poste Italiane decided to differentiate the selling method based on several parameters of postal offices (dimension, type of customers, geographic position, available space, etc.). After this analysis, postal offices were divided in two categories:

1. Those that indirectly sell products; and
2. Those that directly sell products.

In the first category, these postal offices do not have a specific space for selling, nor do they have a warehouse for storing merchandise. As a result, customers would choose products from a catalog and these products would then be delivered using existing logistic channels.

GIACOMO ROBUSTELLI, who has a Master of Science at the London School of Economics, is a marketing manager in the retail network division of Poste Italiane. He has been working in this role for the past four years, gaining deep knowledge of the postal industry. Currently he leads the organizational unit dedicated to selling the PT shop service.

As much as possible, Poste Italiane tries to avoid warehousing issues. Its strategy is to fill up the distribution network with new products and services without changing its traditional business (mail and financial services).

In the second category, postal offices are provided with specifics spaces for selling, and selected resources are trained on product features and selling processes.

These two selling methods may vary depending on the type of goods sold (e.g., small goods like stationery are directly available in the postal offices, while other types of goods like air conditioners or personal computers are sold through a catalog and thus the customer cannot choose the type of product to buy).

The marketing results change depending on the types of products. Poste Italiane periodically updates the types of products sold and the catalogs based on marketing results and customer needs and intentions.

This market offering is based on two categories: "permanent selling" and "promotions." Permanent selling consists of basic commodities – digital cameras, books, mobile phones accessories, etc. – while promotions consists of seasonal products such as air conditioning. In both cases, Poste Italiane has signed commercial agreements with product suppliers that define terms and conditions of the delivery and the price (with a discount as compared to other distribution networks such as retail shops).

As much as possible, Poste Italiane tries to avoid warehousing issues. Its strategy is to fill up the distribution network with new products and services without changing its traditional business (mail and financial services); thus it has defined service level agreements and delivery processes that have as little impact as possible on their most common business processes.

Poste Italiane is able to offer favorable prices because of commercial agreements with suppliers, based on the quantity of goods requested and on savings on value channels' costs. Customers can choose their preferred method of payment (cash, loans, credit cards) and the delivery channel, thus also expanding financial and postal services volumes.

During the pilot phase of this initiative, various logistics and change management issues were identified. In order to address these issues, Poste Italiane underwent a reorganization in the post office network in order to align people, processes, and IT applications to the new market offering (e.g., personnel were trained on how to sell the products, inventory processes were set up, and selling agreements with suppliers were signed).

The challenge for 2004 concerns the growth in the number of postal offices qualified to sell nonpostal items. It is expected that this number will reach 500 units by the end of the year. After this phase, the great majority of postal offices in cities with more than 40,000 inhabitants will be qualified to sell products through this new distribution channel.

CONCLUSIONS

Statistics say that about eight in 10 Italians enter a post office at least once per year, and those customers feel that this physical network is friendlier than other financial or commercial institutions. Poste Italiane has decided to capitalize on these customer touchpoints and employ a new retail strategy to maximize the post's existing physical network and provide new opportunities for revenue growth.

Poste Italiane is changing its market image from a postal institution to a global product and service supplier. In years to come, it is expected that there will be an increased demand for a broader range of products to be sold through the post office, which will ultimately drive increased revenue for Poste Italiane.

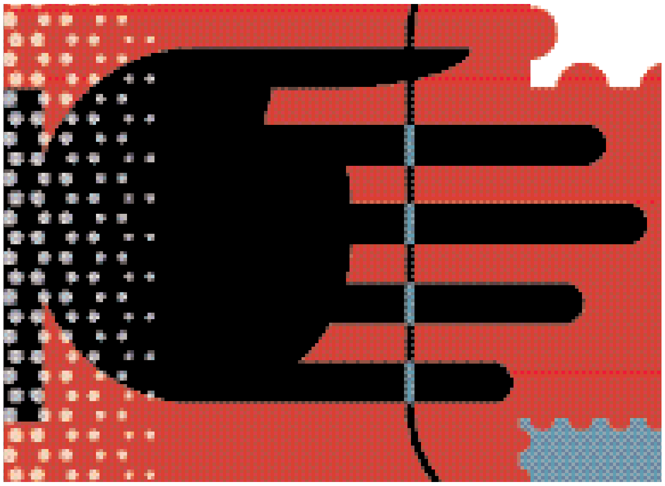
In terms of specific results of the new market offering, in 2003 PT shop was rolled out to 200 post offices (mostly in capital cities and large towns), all characterized by a significant number of customer visits per day. Already, PT shop is considered a great marketing success, providing a relevant contribution in repositioning the market image of Poste Italiane's physical network, and representing one of the top product portfolios in the 2004-2006 business plan.

CASE STUDY

Retail Transformation: PostStation and PROnet

A new point-of-sale application, PostStation, combined with an innovative implementation approach, PROnet, support Belgian Post's retail transformation strategy of turning the retail counter into a customer-centered channel.

Johan Vinckier



PostStation is the Belgian Post's end-to-end solution that integrates and automates all activities carried out at post office counters. The introduction of this Web-based solution is part of a retail transformation journey launched by the Belgian Post in 2000, transforming its post offices into genuine customer-oriented points of sale. This custom-built, net-centric application uses the newest Web standards to decrease total cost of ownership. The implementation in the field was handled by a business-unit-driven organizational entity set up to coordinate the rollout of new solutions to the Belgian Post's office network and support the benefits realization. Today, PostStation has been successfully implemented in more than 600 of Belgium's 1,338 post offices, and the first business benefits are being identified.

JOHAN VINCKIER joined De Post in May 2000 to lead ICT, the Financial Post, and as of April 2001, e-Services (the predecessor of Certipost). As of October 2003, Mr. Vinckier is responsible for corporate operations, ICT, Certipost, procurement, facilities, and real estate. He started his career at McKinsey & Company where he specialized in the ICT business consulting in the European financial and industrial sector. He is one of the founders of McKinsey's business technology office.

WHY DID DE POST LAUNCH THE POSTSTATION INITIATIVE?

The Belgian Post is Belgium's second-largest employer, with 42,000 employees serving 4.5 million homes. Its retail network consists of 1,338 post office branches and over 6,000 staff at the counters who perform many diverse activities. They sell the traditional mail and retail products, and they also provide financial services in collaboration with the Post Bank. In addition, they perform a number of internal administrative functions.

Post office counter staffers have traditionally performed most of these activities by hand, which is time-consuming and requires duplicate or repetitive data input. Many tasks were more administrative than commercial by nature, and the software applications being used were neither user-friendly nor customer-oriented, making it difficult to create new customer-oriented sales channels.

In 2000, De Post decided to transform the post offices into genuine customer-oriented points of sale, which required the implementation of a new system to support this effort and automate processes.

POSTSTATION: THE KEYS TO SUCCESS

The solution, PostStation, was developed by the Belgian Post to drive the following success factors:

1. It maximizes automation so that the postal employee can focus on the customer; and,
2. It minimizes the total cost of ownership over the expected lifetime of the solution.

Maximize the Automation: Focus on the Customer!

The new PostStation solution covers all functions needed by postal organizations at office counters: It supports retail, mail, and single-banking services while enabling genuine accounting.

Bar code and OCR readers help select products and identify documents. Prices can be centrally adapted to reflect special actions. The customer can follow whole transactions via the customer display, and after choosing from a wide array of payment methods - cash, debit card, check, electronic wallet (Proton) - can review the transaction on a detailed ticket. The common office inventory is updated during the sales process and can be consulted in real time by the counter clerk, who can generate reports for stock orders. The printing of postage labels is totally integrated with the scale, destination information, mail dimensions, etc. As the front office for the Post Bank, PostStation manages banking operations with, for example, account information, investment products, or money orders.

As a centralized, but open and scalable system, PostStation logs all transactions into a central database. The implementation of PostStation allows for the rapid integration of new products and services, and ensures all offerings can be made available quickly at all points of sale. Accounting data is processed more quickly, and the system can deliver a wealth of marketing information.

As counter staff no longer have to sort through price lists and procedural manuals to find the correct prices and conditions, they have their hands free - literally and figuratively - to serve the post office's customers. Even verification of a customer's signature has been automated.

Thanks to the built-in wizards, the system is totally intuitive at the user level. This user-friendly design makes it possible to limit the training of post office staff to only two-and-a-half days. And that includes time to strengthen knowledge of Microsoft Windows – such as learning how to handle the mouse and the graphic interface – to bring post office employees with minimal IT skills up to speed. Moreover, the multilingual application allows each employee to work in his own language, and to open a customer transaction in the customer's language. Different user profiles and authorization levels guarantee security.

Minimize the Total Cost of Ownership

The ICT department made a point of building PostStation on a state-of-the art platform, designed with total-cost-of-ownership considerations in mind. PostStation is a centralized, Microsoft-based solution with a browser interface. It encompasses 4,500 workstations in all of the 1,338 post office branches, each connected via an ADSL-broadband network to the central server farm.

This Web-centric design ensures the scalability of the system. The size of the Web server farm can easily be adapted to the needs of De Post. PostStation is also easy to deploy and maintain. There is no need to install software at the individual post offices with each new release because the solution is Web-based. Additionally, the central hosting environment eliminates the need for local servers. This reduces operational maintenance costs and improves time to market.

While the Belgian Post's retail transformation is an ongoing process, this innovative solution and collaborative implementation approach have proven successful.

PRONET: A SYNONYM FOR A SMOOTH POSTSTATION IMPLEMENTATION

The Belgian Post realized that rolling out such a solution to thousands of users would be a significant challenge. Therefore a dedicated implementation organization called PROnet, which stands for professionalizing the post office network, was established. This organizational entity coordinates the implementation of all modernizing projects (not just PostStation) that have an impact on post offices. The previous model had different projects organizing their own implementations individually in a "push" mode, which often resulted in offices being overwhelmed by the multitude of non-coordinated initiatives. PROnet was created as an extension of the business to address these issues, and ensure maximum realization of business benefits; minimum disruption of the business; and maximum efficiency of rollout efforts.

PROnet looks at the different improvement efforts holistically, with the viewpoint of an office, and establishes a priority calendar for different initiatives. The PROnet team members ensure a smooth and harmonious implementation, be it in the infrastructure, communication, training, or organizational areas.

PROnet's clear, coordinated approach to implementation, combined with the user-friendliness of PostStation, have certainly been the keys to successful implementation in an environment with active unions where the majority of users are unionized, statutory employees with minimal IT skills.

CONCLUSION

While the Belgian Post's retail transformation is an ongoing process, this innovative solution and collaborative implementation approach have proven successful. On one hand, the ICT department works on a state-of-the-art solution both functionally and technically, with strong user support for requirements definition and testing. On the other hand, PROnet implementation professionals roll out the solution to the office network, partnering with the business and the other service units. It is a win-win for all parties!

Insight-Driven Marketing

Marketing leaders must reinvigorate their field with science and discipline in order to drive greater customer value and bottom-line results.

Shep Parke, Neil Miller, and Kevin Messer

Today, postal organizations face many challenges: remaining viable and relevant in the face of increased competition, improving the value of products and services, developing new offerings to satisfy customers' changing demands – to name just a few. Between the dual urgency of competitive threats and customer opportunities, the temptation to react to one or the other is strong. Nevertheless, taking a few moments to ask, "Where to start?" is prudent. Before responding to these challenges, leaders need to know where to find answers and how to gain deeper understanding of customer needs, including the fundamental insight of customer choices for mail services. Once customer needs and choices are understood, they then can be effectively influenced.

Traditionally, marketing is the group that helps an organization understand customer needs and choices. But according to Accenture's High Performance Workforce Study 2002/2003, the biggest challenge of marketing leaders is often found inside their own companies. Based on a survey of 200 executives, this study revealed that marketing is not held in high regard by a large majority of executives at organizations worldwide.

When asked to rate 11 principal corporate functions in terms of their contribution of value to the overall company (where 1 = no contribution and 5 = very significant contribution), executives gave marketing an average rating of 3.7. By comparison, executives gave an average rating of 4.4 for sales and 4.1 for customer service, making these the top-ranking functions. Even more significant, just 23 percent of executives said that marketing makes a very significant contribution of value, compared with 61 percent for sales and 43 percent for customer service.

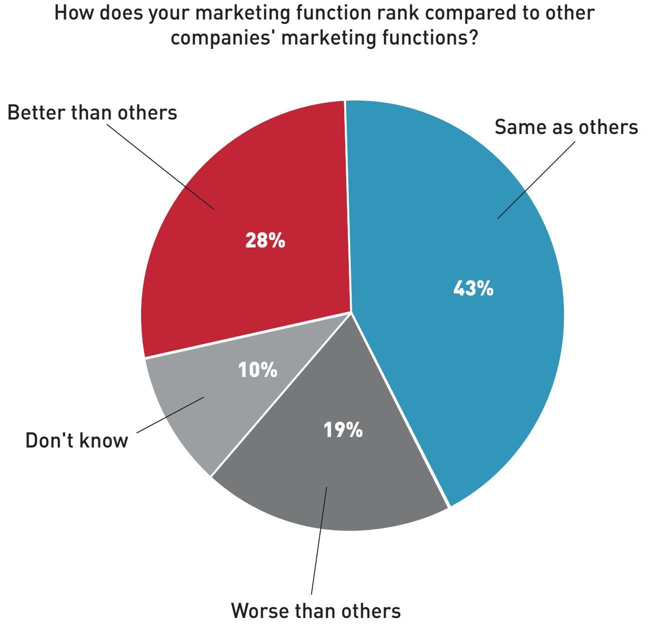


FIGURE 1 Ranking of marketing function as compared to other companies' marketing functions

Furthermore, when asked to indicate which of the 11 corporate functions they considered most important, second-most important, and third-most important, only 21 percent said that marketing is in the top three.

Finally, of those who indicated that marketing is one of their three most important functions, just 28 percent said that the marketing function in their company performs better than

SHEP PARKE is a partner in Accenture's Global Customer Relationship Management practice, specializing in large enterprise customer information management solution delivery. Mr. Parke began his career in 1980 with Procter & Gamble and in the mid-90s worked at KPMG Consulting where he helped build their Customer Value Management practice in the US.

NEIL MILLER is based in the UK and is a partner in Accenture's Global Customer Relationship Management practice. Mr. Miller specializes in customer data warehousing, analytics, and marketing automation design and delivery.

KEVIN MESSER is a senior manager in Accenture's Global Customer Relationship Management practice and specializes in helping organizations leverage customer data to accelerate profit growth.

the marketing functions at other companies in their industry. In other words, approximately 20 percent of executives believe their competitors' marketing function actually performs better than their own, while 43 percent think their function operates at parity within the industry.

Why does marketing get so little respect and/or support from top executives around the world? Accenture believes there are two principal factors for this. The first factor is that many senior executives have finance or operations backgrounds, quantitative fields from which marketing's highly creative and somewhat intangible contributions appear to be more like art than science. The second factor is that marketing's contribution is dependent on other functions – especially information technology, sales, and customer service – making it difficult to measure the effectiveness and return on investment of marketing activities. As a result, executives often lump marketing into the general category of overhead instead of viewing it as a function that plays a key role in stimulating demand and generating revenue.

MARKETING: A NEW APPROACH

Change, however, is on the horizon. Mindful of executive opinions of their function, increasing demand from the executive suite for better return on investment from all corporate expenditures, and the potential impact of marketing on the company's economic value added (EVA), some pioneering companies have adopted a new and more quantitative approach to marketing. This approach is characterized by three elements:

- A willingness to demystify the marketing process and instill discipline, science, and rigor in the function that enables marketing leaders to systematically and accurately measure the tangible return on their portfolio of marketing activities;
- An understanding that marketing is responsible for rigorously analyzing transaction, demographic, and market data to develop deep insights into customer behavior and needs, and using those insights to develop more targeted campaigns to make sales and customer service more effective; and
- An acknowledgement that the marketing organization, not sales or customer service, is the owner of the company's customer data, and that the marketing leader's role is broader and has potentially greater impact than ever before.

An example of how this new approach has been brought to life is a case where a major financial services company in the United States planned to launch a new online brokerage product for sale to its existing customers. Despite the success of its current Internet banking site, the company realized that traditional conversion rates associated with its marketing efforts would not meet the new and aggressive goals for growth. By gaining a deeper understanding of customer preferences and creating a capability that would enable it to rigorously measure marketing concepts, the company set out to determine the most effective way to create higher growth in online customer response.

The company decided to partner with Accenture, who had a dedicated customer analytics factory, which would provide the tools and expertise needed to design and execute various campaigns in a quick timeframe. The company knew that the program's success would depend on improved ability to effectively cleanse, segment, and enhance its customer data. To this end, the team took a scientific approach by first categorizing customers into three groups – those who had never used the company's online service; those who used the service in the past, but had stopped; and those who used the service regularly, but had never purchased bank products online.

Accenture's marketing accelerator platform – a prebuilt infrastructure utilizing best-of-breed tools from leading Accenture alliance partners including NCR Teradata, Acxiom, KXEN, and E.piphany, and protected by four patent applications covering over 100 product innovations – helped the team move from concept to execution in only six weeks.

Using Accenture's Marketing Accelerator Platform, the team implemented a leading data-warehouse solution built on Teradata, to enhance data quality and create a single view of the customer base. With high-quality, precisely targeted data in hand, the team set out to generate maximum return on investment, as quickly as possible. It accomplished this by using the Marketing Accelerator Platform's behavioral segmentation and sophisticated predictive modeling techniques. Central to this activity was the rapid execution of multiple marketing campaigns, enabled by the marketing accelerator platform's unique real-time, closed-loop marketing campaign execution and ongoing enhancement process.

Once the campaigns began, the team constantly monitored key metrics and improved the campaign process to drive ever-higher returns. By analyzing and optimizing the cross-channel mix of telephone, outbound email, and Internet advertising initiatives – and by using real-time feedback analysis to modify offers and creative concepts in near real-time, the program delivered better-than-expected results.

By implementing this new solution, the company was able to enjoy an integrated view of its customers across the business, to segment them, and to apply predictive modeling techniques to drive campaign success. These new capabilities directly contributed to a number of tangible business results. Executing its first campaign only six weeks after the start of the project, the company:

- Executed 15 distinct campaigns within just four months;
- Opened more than 1,600 new brokerage accounts;
- Achieved a 600 percent improvement in its outbound, calling, campaign, and conversion rates;
- Achieved a 150 percent improvement in its conversion rate for email campaigns targeting existing online banking customers; and
- Achieved a 200 percent improvement in its response rate for email campaigns targeting offline-banking customers.

By building science and discipline into marketing, the new approach helped the company improve its operational effectiveness in distinctly quantifiable ways. Not only did the state-of-the-art program significantly expand the bank's marketing capacity for its online brokerage accounts, but it also enabled the detailed and ongoing tracking of campaign results and performance.

As this example illustrates, such sweeping transformational change to how the marketing organization operates and interacts with other corporate functions, creates many new challenges – the foremost of which is workforce related. More specifically, companies that shift to such an insight-driven marketing approach find that attention to employee skill levels can spell the difference between success and failure. In Accenture's experience, marketing organizations can greatly improve their chances of successfully adopting an insight-driven approach – and subsequently boost their contributions of value to the organization – by ensuring that the marketing workforce is enabled with improved technologies and processes. Validating the maxim, "you get what you measure," these high-performance organizations first develop a new set of key performance objectives (KPOs) for marketing personnel that directly link their specific day-to-day actions and the financial and operational performance of the overall business.

Accenture has identified seven basic, key performance objectives that marketing organizations should have:

Maximize the return on marketing investment. Use integrated marketing, customer, and financial data to develop, implement, and monitor marketing-resource allocation strategies.

Increase brand value. Ensure that the company and its product or service brands hold the most value for customers and, consequently, generate greater value for the company at large.

Increase the acquisition and retention of profitable customers. Measure and then maximize the profitability of these customer relationships.

Optimize the development and launch of new products. Ensure that new products are developed and launched to maximize tangible customer relationship value and market share.

Win the war for marketing talent. Attract, develop, and retain the people who meet the key performance objectives of the marketing function.

Organize the marketing function for efficiency and effectiveness. Maximize the time during which employees and activities are adding value to the organization.

Reduce the time to learn required competencies. Reduce the elapsed time from day-one introduction date to the time it takes for a marketing employee to meet the targeted performance level.

For employees to achieve these objectives, organizations must ensure that employees both understand and exhibit the critical, specific corresponding behaviors. This is where training and human resource programs that address the three primary drivers of behavior – ability, motivation, and context – play a key role.

ABILITY

Ability comprises both knowledge (familiarity with a subject gained through study or experience), and skills (developed proficiency or dexterity that is acquired or developed). In a postal setting, there are three types of crucial knowledge: 1) offerings related (in-depth employee understanding of the post's products/services); 2) job related (What's involved in carrying out a specific role in the post?); and 3) customer related (To whom is the post selling or to whom should it be selling? What do those individuals/businesses need? How do the post's products and services meet those needs?).

MOTIVATION

Motivation is the second critical aspect of transforming the marketing workforce and in many ways, the most difficult. An individual can possess the requisite knowledge and skills, yet still fail to make a positive contribution due to a lack of motivation. There are four key elements of motivation that a post must address:

Goals. Do people know what is expected of them? Adopting a new marketing model will not be successful unless the goals of individual employees reflect and support the post's new goals.

Metrics. How is performance measured? In addition to knowing what is expected of them, employees must know how their progress toward those goals is evaluated.

Feedback. Are people advised how they are doing? Managers should provide continuous feedback to employees so their employees know if they are taking the necessary steps to achieve their goals.

Rewards. How are people compensated? Compensation – whether it's an annual salary, a monetary bonus, a nonmonetary reward, or a combination of the three – is a key element of motivation, and must be appropriately tied to achieving the new goals laid out for the marketing organization.

CONTEXT

The context in which marketing employees do their jobs also has a high degree of influence on the effectiveness of the overall workforce. By context, we market business processes, information technologies, culture, organization structure, reporting relationships, job descriptions and physical environment – most or all of which may need to be altered or upgraded to accommodate a new marketing model.

CONCLUSION

It is indisputable that successful companies need effective marketing organizations to understand customer needs and choices. Once understood, marketing can improve sales and service delivery to customers. Yet today, few executives are able to articulate why they need marketing or the quantitative value that marketing contributes to their organization. As companies demand more value and return on investment from all their functions, such a situation is unacceptable. More than ever, marketing leaders must reinvigorate their field with science and discipline, not only to implement the operational and workforce changes necessary to increase the tangible bottom-line impact, but also to adopt the metrics that will effectively assess and quantify this impact.

The Power of Mail

Posts can help their business customers see the value of using the mail channel as a key component of their own customer relationship management strategy.

John R. Wargo and Ken Ceglowski

Customer relationship management (CRM) is an important concept for postal agencies, not only for optimizing the relationship between the post and its customers, but also because the posts themselves are a key tool for businesses to manage interactions and activities across the entire customer lifecycle. Successful posts effectively market and sell use of the mail channel as a key CRM strategy.

Direct marketers know, through proven business results, that mail is one of the strongest media for establishing and maintaining customer relationships – whether relying on its ability to work effectively on its own or as part of a marketing mix.

The business environment is evolving – companies must compete to entice, keep, and grow customers. Customers are sophisticated and they leverage technology to determine how to conduct business and go about their daily routine.

Savvy businesses effectively use mail as a CRM tool to: 1) contact customers – send information and promotion material to increase sales and service opportunities; 2) provide mail-return mechanisms such as courtesy and business reply mail to facilitate customers' response or interaction; and 3) to send and return merchandise.

All business revolves around a value chain (see Figure 1) – the sequential steps that drive company revenues and profits. It represents the core of customer interaction and service delivery in a typical company. It helps businesses identify the tools necessary for building and maximizing customer relationships at every stage. It includes everything from promotional marketing to payment processing to loyalty management.

The value chain is divided into three core business processes: customer acquisition, customer or service fulfillment, and customer retention. As shown in Figure 1, each provides the company multiple opportunities to touch the customer with mail in ways that improve the experience and build the relationship.

STANDING OUT FROM THE REST

Direct mail offers the opportunity to acquire new customers because it is targeted, flexible, tangible, and measurable – allowing a business to test and determine the right approach for its message. No matter the strategy or approach, there is a mail format that can find the right customer to build business.

Direct mail works because it has the ability to find a customer and have that customer take action based on targeted messaging. Rather than saturate a massive area with the hope of catching someone's eye, direct mail uses proven methods to send a compelling communication to a customer most likely to receive, comprehend, and respond.

TARGETED, RELEVANT MAILINGS

Whether a message is intended for thousands of homes a few times a year or hundreds of offices once a year, no other media can effectively target an audience better than direct mail. Success lies in understanding the appropriate audience, and putting a targeted, relevant offer in front of the right person. Using real-time CRM data to understand how to target customers with direct mail allows a company's product to be placed directly in customers' hands, which ultimately will increase response rates and drive revenue.

Successful mailings start with customer databases and information. Data about customers, collected and maintained in databases, is used to differentiate and target specific customers with offers and messages that are

JOHN R. WARGO is the VP for Service and Market Development at the US Postal Service. In his 32 years, he also served as VP of Strategic Marketing and VP of Customer Relations. Mr. Wargo serves as a leader of the National Postal Forum, the Postal Customer Councils and the Mailers Technical Advisory Committee.

KEN CEGLOWSKI is the manager for the US Postal Service's Customer Relationship Management group. In his 24 years at the Postal Service, he spent 18 years in the Information Technology group, working in various positions in systems development, computer operations, telecommunications, and technology standards. Mr. Ceglowski also held positions in market research and new business development.

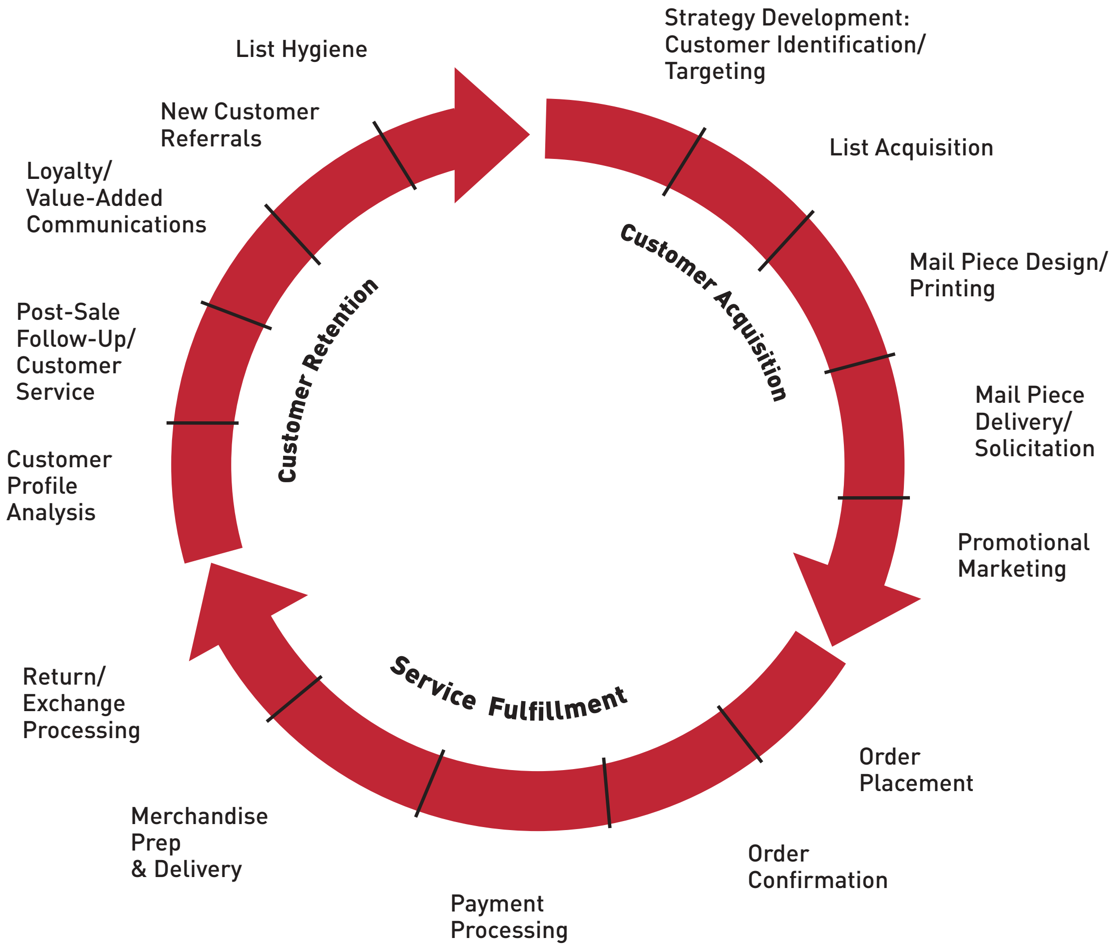


FIGURE 1 The Customer Value Chain

relevant. An accurate customer database or list of addresses is a key element of that success. Addresses that are properly maintained, cleansed and standardized will lead to quality mailings that are delivered quickly and accurately. Customers who utilize the address tools offered by the postal service, including Move Update and National Change of Address (NCOA) service, will save money – not only by cutting down on production costs, but also by keeping returned pieces to a minimum. These services help drive the quality of mail-based, relationship management initiatives.

GET THE MESSAGE OUT THERE

Once you have identified your target audience for your relevant offer, it is crucial that the direct-mail piece itself be presented in an appealing way to grab the reader's attention. Alternative formats and mail product enhancements are advanced methods for delivering communications that stand out and get noticed.

Enhancement options include utilizing dimensional mailings and oversized formats to command attention; adding repositionable notes to bring attention to a product or call-to-action; and sending communications via Priority Mail or Express Mail envelopes to demonstrate a sense of urgency.

FULFILLMENT: A POSITIVE EXPERIENCE

From order placement to fulfillment, using the mail can be a powerful response mechanism and customer management tool. Whether sending merchandise, information, a contract, or pledge card via the mail, the speed in which it arrives is part of fulfilling your promise. Use the mail and you can offer your customers a variety of delivery options.

Should customers need to return an item, the mail serves that function as well. If returning items is made easy, a customer will be encouraged to continue doing business with that vendor. For instance, the US Postal Service's Merchandise Return Service lets customers return packages via letter carrier, any post office, or collection box. It also creates options for merchants to either include a pre-paid, pre-addressed return address label, or allow customers to electronically print return labels directly from a Web site.

The Power of Mail

There are many ways to simplify, speed up, or lower the cost of all merchandise-related mail experiences. The easier the experience, the better a company's chances are for that customer to continue a relationship with a company.

TOOLS IN ALL SHAPES AND SIZES

Focusing marketing efforts on building customer loyalty and maintaining existing customer relationships is fundamental to retaining as well as growing customers. Direct mail meets the need of customer relationship management to turn data into action.

Whether it's a bank, an airline, or the local bookstore, contacting customers through the mail makes good business sense. Americans check their mail every day. One out of every four Americans – 73 million people – responds to direct-mail advertising, ordering $520 billion a year. The check is still in the mail. And so are your profitable customers.

The obvious use of mail is to put a targeted offer in front of the right person. From statements to postcards, every communication reinforces that relationship, ultimately helping to build trust. Over time, trust builds customer loyalty. And customer loyalty builds and retains revenue.

OTHER MARKETING TECHNIQUES

Television, print, and radio are used to build a company's brand to a large and broad-based audience. Since mail is a quickly measurable and targeted medium, it is a natural accompaniment to print, television, radio, or Internet marketing. In the United States, more than three-quarters of companies that use combined advertising channels engage mail as the second reinforcing medium. Mail works with existing advertising to close the sale.

Companies that move away from mail often miss the touchpoints that mail provides. Every contact with a customer creates top-of-mind awareness about your services. And, you get quick results, understanding exactly how many people have responded to messaging, once direct mail has been sent out. Performing measurement and analysis of a mail campaign allows for refinement of personalized communication with customers and potential customers. Most important, mail offers an easy way for customers to talk back – with business reply cards, inserts, or profile updates attached to bill coupons.

Creating and sustaining strong customer relationships is beneficial to both customer and company. Maximizing the customer lifespan with a company is critical for creating a competitive advantage and thriving as a business. Mail has proven itself the ultimate key to customer relationship success through its versatility along the customer lifecycle – performing equally well at acquiring and retaining customers on its own or as part of a multimedia marketing campaign.

Once a company has a customer's attention, it can acquire new business or grow existing sales in an unbeatable manner.

Mail is tangible and portable – allowing people to touch and feel the message intended for them. This enables the messaging of other media to be reinforced and passed on to potential new customers. Once a company has a customer's attention, it can acquire new business or grow existing sales in an unbeatable manner.

RETENTION IS THE KEY TO SUCCESS

Direct mail provides a pipeline to and from customers that all customers pay attention to. For example, in America only 55 percent of the population reads a newspaper, 95 percent have telephones, and 98 percent have television sets with remote control. Yet, everyone in America has a mailbox!

Mail touches customers in a personal way that helps build relationships. Whether receiving that gift, curling up on the couch with a favorite magazine or book, planning the next holiday trip, or getting the satisfaction of organizing and paying the bills – mail connects companies to the daily cycle of their customers' lives. What better way to build a relationship?

Innovation in Products and Services

Innovation in postal products and services is necessary to address volume decline, margin pressures, and competition resulting from deregulation.

Elina Piispanen and Jerome Vercaemer

Posts operate as part of the communications industry, which has undergone dramatic changes in recent years due to advances in technology. The rise of fax machines, electronic communications and other technologies offer alternatives for conveying bills, statements, and personal messages. In addition, entrepreneurs and publishing companies are setting up alternate delivery networks in an attempt to hold down the delivery costs of magazines and newspapers. Many third-class mailers, finding their mailing budgets reduced and their postage rates increased, have been shifting some of their expenditures to other forms of advertising, including television and telemarketing. Private companies continue to dominate the market for the urgent delivery of mail and packages. Postal operators' traditionally high-margin products, such as first class mail, face serious threats due to these advances.

Add to these challenges the fact that the pace of liberalization is increasing in the postal industry. As this happens, competition will focus on price, quality of service, and innovation. Marketing, in combination with research and development, will need to become even more strategic for posts as they try to increase market share and grow profits.

In looking at the deregulation journey in other industries, such as telecommunications or energy, it is commonly forecasted that competition will focus on the large volume mailers and the main mailing routes in a country. This customer segment not only contributes the most to postal operator profits, it is also responsible for the size and the geographical presence of posts' sorting and distribution networks. Identifying their needs and providing the appropriate products and services is of paramount importance for the future of postal operators.

Innovation is necessary to address mail-volume decline and margin pressures, as well as to help posts rise to new performance heights. Postal operators need to develop a better understanding of the link between new electronic technologies and their business. There are successful new models in hybrid mail, which demonstrate how technology and traditional mail can be combined so that a post's core business isn't cannibalized. For posts that embrace the need for change and are willing to explore new ideas in the area of products and services, the opportunities are limitless and high performance is well within reach.

TRACK AND TRACE

An early form of value-added services that posts offered was track and trace. As technology evolved, mailers wanted to electronically track the status of their mailings. In addition, posts were seeking to improve processing efficiency and service performance through the analysis of mailers' data.

The United States Postal Service (USPS) addressed these internal and external needs by developing the CONFIRM service and Mail Tracking and Reporting Web site. CONFIRM collects mailing data from mailers and from various processing points in the mail stream to determine the progress of both incoming and outgoing mailings. Mail tracking data and the ability to synchronize outreach efforts enables more efficient operations and provides a competitive edge in the direct mail industry. These tools have addressed the mailers' needs and have provided the ability to analyze processing efficiencies, which targets improving service to USPS customers.

In a recent survey conducted with 13 postal operators, the following pattern of requirements emerged regarding what large-volume mailers want from track and trace:

- Distribution information – when will mail be distributed;
- Delivery delay warranty – service should synchronize mail delivery to the clients' core

ELINA PIISPANEN is the client partner responsible for Accenture's work at Finland Post and is the partner in charge of Accenture's Public Services group in Finland. Ms. Piispanen has a Masters of Science degree In management information systems from the Helsinki School of Economics.

JEROME VERCAEMER is an Accenture partner in France, working in the government sector, specifically with La Poste. He graduated from the Institut Supérieur d'Electronique de Paris with an engineering degree in electronic and information systems. Prior to working in the e-government arena, Mr. Vercaemer worked in many countries to help telecommunication companies address challenges from the deregulation of their market.

processes (e.g., call center proactive calls, treasury planning, etc.);

- Proof of mail deposit in the distribution center. This proof legally binds postal operators in the delivery process. The deposit process is also key to ensuring accurate billing of clients; and
- Proactive alerts from postal operators to customers in case of mail delivery issues which would impact the quality of service.

These same customers, however, indicated they are not ready to pay for a sophisticated and individual track-and-trace service until postal operators have addressed their primary needs:

- Mail is often a significant expense and they will look first for quality of service at the lowest cost, and
- Distribution information is paramount; other sophisticated information identified as a need is expected as a standard service once customer service gets involved.

What the track-and-trace requirements illustrate at this stage is very clear: Quality and price come first for postal operators' core products and services.

A NEW OPPORTUNITY: GOVERNMENT SERVICES

A major opportunity for innovation in products and services lies in the area of government services. Governments today are facing numerous pressures (see Figure 1).

Governmental departments and agencies are being asked to do the following:

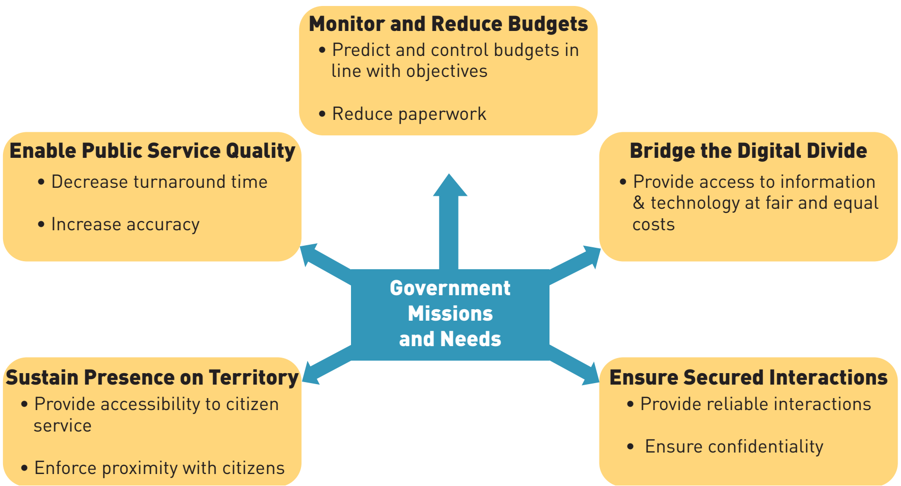


FIGURE 1 Government Missions and Challenges

- **Provide high quality service** – Governments need to improve the quality of service provided to constituents. Citizens and businesses expect efficient turnaround times on issues and accuracy of responses.
- **Sustain territory presence** – It is important for governments to have an affordable presence in its territory, especially close to its citizens. Distance, however, is not the only measurement for government presence; availability and opening hours for government offices are also important factors.
- **Ensure secured interactions** – Security is at the top of most governments' agendas. Providing confidential, reliable, and secure interactions is crucial as new channels emerge for interfacing with government agencies.
- **Bridge the digital divide** – Access to technology and new information media (e.g., the Internet) must be provided at a fair and equal cost across the territory. As with territory presence, technology infrastructure can be a real challenge when businesses or individuals are located in hostile or thinly populated areas. Governments have to ensure equal cost for a basic service so that citizens and businesses are treated equally.
- **Monitor and reduce budgets** – Governments continue to be pressured to monitor, and in many cases, reduce their overall budgets.

The needs and expectations of the citizen combined with the pressures governments are facing call for an integrated end-to-end model, which involves different types of service delivery vehicles, including virtual models (which rely on technology) and distributed and physical models (which rely on traditional office presence).

This new environment offers a tremendous opportunity for posts. Most posts already combine Internet presence with their traditional counter network, which is a great asset in helping government agencies address accessibility challenges. Mail exchanges, such as hybrid mail, offer a fast, reliable, and cost-effective means of interaction between governments and citizens. In addition, scanning and other electronic document management solutions, such as optical character reader (OCR) and electronic data interchange (EDI), are extra links which move traditional information storage to digital in a cost-effective manner. And finally, many posts are developing e-security offerings such as ePostmark.

These results across market segments, combined with a growing need from governments, lead to the favorable adoption of these new lines of service by government agencies. Several posts have demonstrated their ability to address the needs of government (see Figure 2).

Multichannel Presence:

- By co-locating some of its offices, in rural towns mostly, with city halls, La Poste is sustaining presence in the territory, enabling public service quality, and monitoring costs by mutualizing resources. An interesting way of helping the government bridge the digital divide is Cyberkiosque, which is a high-speed Web console through satellite targeted at local government agencies and representatives in ADSL dark zones;
- Poste Italiane partners with the government for the collection of street fines. This innovative solution is cost-effective and secure; and

Innovation in Products and Services

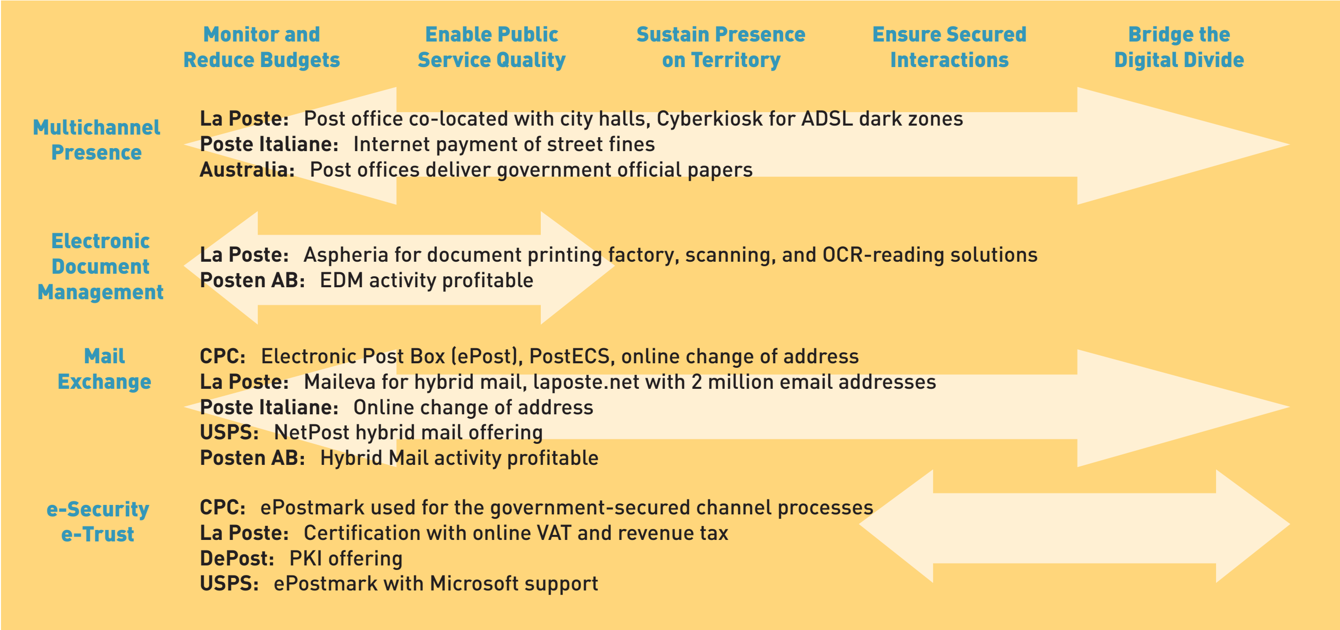


FIGURE 2 Posts' Response to Government Pressures

- In Australia, to cover the vast countryside, post offices are allowed to handle official papers such as hunting permits or driving licenses.

Electronic Document Management:

- At places like La Poste and Posten AB, Electronic Document Management (EDM) leads to cost reductions and increases in quality. These EDM solutions are instrumental to agencies that are looking to reduce their spending on paper procurement and document storage. In many cases, the square meters currently occupied by paper archives can be freed up and potentially sold, thanks to digital storage. Some posts in the world have EDM solutions that are derived from their scanning and OCR industrial capabilities. In other places, EDM becomes the entry point to send documents electronically and to feed hybrid mail services.

Mail Exchange:

- Online change of address is available in Canada and Italy, and is currently being considered by France;
- In France, there is an opportunity to uniquely combine the millions of virtual addresses from laposte.net to physical addresses, and secure the exchanges in those e-mailboxes; and
- Hybrid mail is now a standard offering of many posts (e.g., Finland, USPS, Sweden).

E-Security and e-Trust:

- ePostmark is an initiative to secure electronic interactions and translate the legal value of letters mailed in the virtual world. Microsoft is supporting this in its future office suite, which includes ePostmarks valid in the US; and
- La Poste and De Post in Belgium have private key infrastruc-ture offerings, and France has had success with online value-added tax certification and is currently planning online tax declaration.

There are clearly many interesting opportunities available for posts in the area of products and services. What will make some posts more successful than others in their endeavor to achieve high performance? Certain key success factors emerge which enable high performance in product and service innovation:

- **Governance** – Top management must be committed to investing in new products and services and the organization must be well aligned to quickly move innovative ideas into actual products and services;
- **Alignment with customer values/needs** – New products and services must address a need articulated by customers (and customers must be willing to pay for the new product/service);
- **Focus** – In the realm of new technologies and new competitors, there is a need for clear direction and concentration on the few services that will have the greatest impact on the bottom-line financial results of the post;
- **Alliances** – The involvement of major IT players in many initiatives can accelerate new projects or the adoption of new technologies; and
- **Creativity** – Finally, as with any innovative company, there is a need to think outside the box and be open to starting new initiatives.

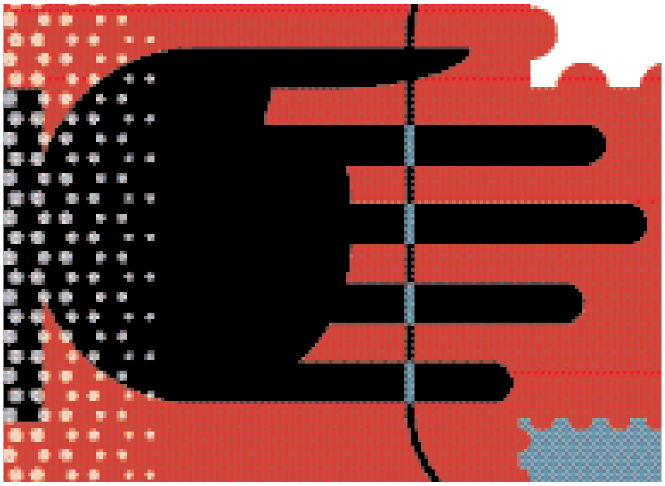
In this new world of technology advances, postal operators can either sink – playing victim to reducing mail volumes and electronic substitution – or, swim – harnessing technology, new business partnerships, and new ways of doing business, to create new products and services which will help them in their journey to achieving high performance.

CASE STUDY

CONFIRM Service: Intelligent Mail Technology 24/7

This case study explores using Intelligent Mail technology to retain customers, improve operating efficiency, and enhance service performance.

Anita J. Bizzotto and Charles E. Bravo



Each day, millions of business mail pieces are inducted into the US Postal Service at hundreds of facilities across the United States. Until recently, mailers had little visibility to their mail until customers responded to their mailing. In addition, the USPS did not have a way to fully track mailings from end to end as they were being processed. As technology evolved in the mailing industry, mailers wanted to electronically track the status of their mailings. In addition, the USPS sought to improve processing efficiency and service performance through the analysis of the mailer's data.

To meet both internal and external needs, the USPS developed the CONFIRM service and the Mail Tracking and Reporting Web site. This service collects mailing data from mailers and from various processing points in the mail stream to determine the progress of both outgoing and incoming mailings. Mail-tracking data and the ability to synchronize outreach efforts enable more efficient operations and provide a competitive edge in the direct-mail industry. Together these services have provided the benefits expected for mailers, but have also provided the ability to analyze processing efficiencies, aimed at improving service to USPS customers.

CHALLENGE

The US Postal Service was increasingly faced with requests from mailers for the ability to track and trace mail pieces. The USPS was eager to address these requests since business mailers make up a significant portion of the Postal Service's annual revenue. In fiscal year 2002, over 50 percent of the $66.46 billion of USPS revenue was generated by business mail. In addition, 70 percent of the 202.8 billion mail pieces processed by the USPS in fiscal year 2002 were business mail.

Mailers wanted to "see" information about their mailings at various points in the USPS processing stream as well as get feedback on the status of the mail processing stream and how well it was working. In particular, mailers wanted to know the following:

- Had their mail pieces been entered into the Postal Service mail stream?

ANITA J. BIZZOTTO was named chief marketing officer and senior VP in September 2001 and reports to the postmaster general. She is responsible for sales, international business, service and market development, product development, pricing and classification, and advertising. She previously served as VP of pricing and classification; GM of the Chicago Rates and Classification Center; and manager, business mail acceptance, in marketing systems. She earned a Master of Science degree in management from MIT and a Bachelor of Arts from Knox College in Galesburg, Ill.

CHARLES E. BRAVO, senior vice president, intelligent mail and address quality, reports directly to the Postmaster General and is responsible for intelligent mail planning, standards, implementation, new tracking and tracing technologies, and address management. Prior to this position, he was senior vice president, chief technology officer. His education includes an M.S. in management from Stanford University (Sloan Fellow), an M.S.E.E. from Brooklyn Polytechnic, and a B.E. from SUNY at Stony Brook.

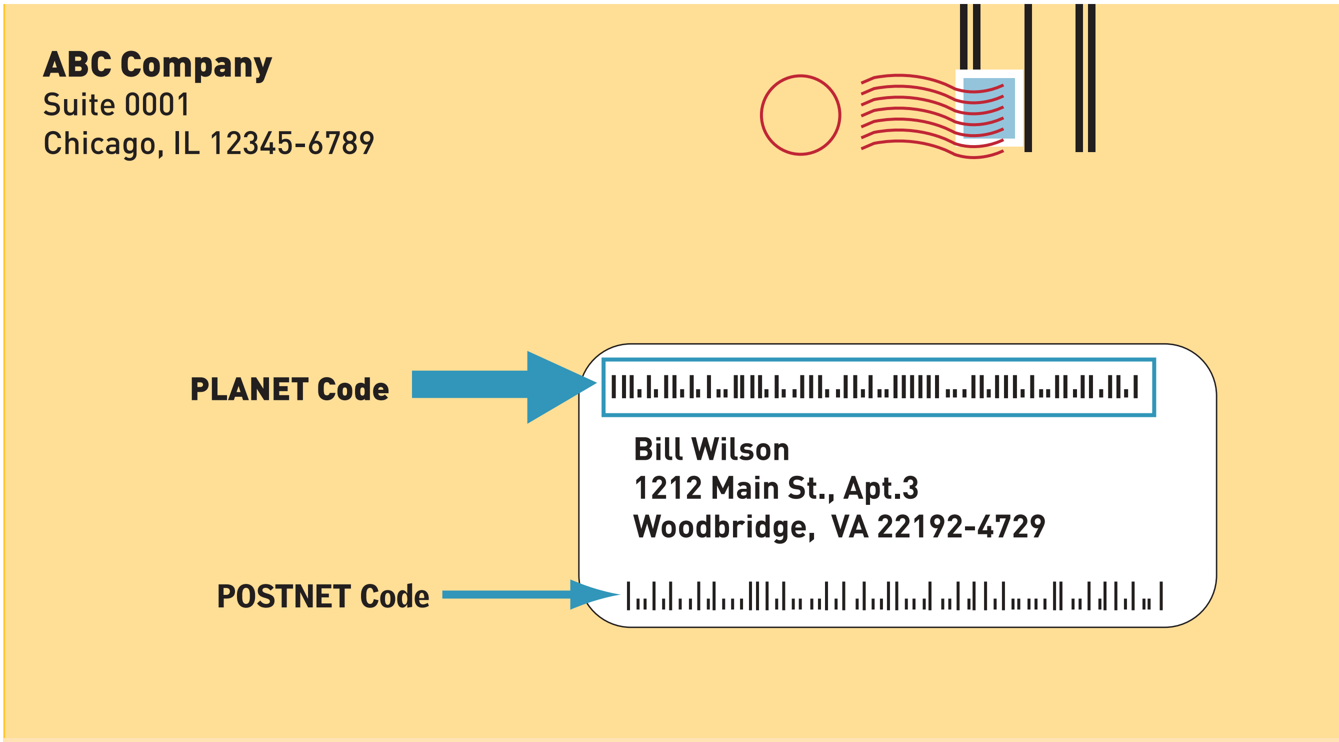


FIGURE 1 Sample PLANET Code and POSTNET Code

- When and where was their mail inducted?
- What Postal Service facilities processed their mail prior to delivery?
- When would their mail be delivered?
- Were customers responding to Business Reply Mail?
- What staff and inventory would be needed to process incoming mail orders?
- Who was returning payments?

Satisfying the mailers alone, however, would not make the CONFIRM service a success. The service also needed to provide information that could lead to improvements in mail processing operations and service performance standards. The challenge was that electronic information about mailings was limited and not accessible by USPS customers and mail operations personnel.

SOLUTION

In response to the growing demand for real-time information about business mailings, the USPS set out to design and develop the CONFIRM service. The program combines active scanning and passive scanning to gather data that is distributed to customers and summarized in system reports. The program exists in two complementary parts: 1) the CONFIRM service, and 2) the Mail Tracking and Reporting Web site.

- The CONFIRM service collects, packages, and distributes mail-tracking data for PLANET Code mail pieces. The CONFIRM service tracks PLANET Code mail by grouping PLANET Code, POSTNET Code, and ID Tag data into mail pieces, then tracks the progress of those mail pieces as they are sorted by machinery throughout the mail stream.
- The Mail Tracking and Reporting Web site provides the ability to maintain information regarding CONFIRM customers, maintain scan data file delivery schedules, submit advance mailing data, perform ad hoc scan-data downloads, and view reports. The site is used both by USPS personnel and by external customers.

In order to participate in the CONFIRM service, mailers are required to place two bar codes on their mail pieces in order for the monitoring data to be collected. The first bar code is the PLANET code. It identifies the mailer and the mail type. The second bar code is the POSTNET code. It is a representation of the destination address for the mail piece.

Advance mailing data provided by customers is matched to induction scans that start the clock when freight becomes mail. "Start-the-clock" scans are then matched to mail processing equipment scans as mail pieces move through the mail stream. Information related to the movement of mail pieces through the mail stream is made available to customers in electronic files delivered to the customer based on schedules that they create, in electronic files accessible via the Mail Tracking and Reporting Web site.

CONFIRM Service: Intelligent Mail Technology 24/7

BENEFITS OF CONFIRM

The CONFIRM service and the Mail Tracking and Reporting Web site deliver benefits to a number of audiences. The CONFIRM program is viewed by the USPS as an integral part of its efforts to retain large customers in challenging economic times. It is also viewed as a key infrastructure component of the USPS Intelligent Mail initiative as well as a tool to improve operating efficiency and service performance. The CONFIRM program benefits a wide variety of stakeholders in the following ways:

- **Business Mailers Using CONFIRM for Outgoing Mailings:** The CONFIRM program tracks the status of outgoing mailings. Information regarding the status of mailings and the ability to synchronize outreach efforts are viewed as a competitive edge in the direct mail industry, financial institutions, credit card companies, and among major retailers.
- **Business Mailers Using CONFIRM for Incoming Mailings:** The CONFIRM program tracks the status of incoming response mailings. Information regarding the number of incoming mail pieces related to a particular mailing provides the ability to adjust staffing or personnel schedules in advance, allowing for more efficient business operations.
- **US Postal Service Marketing:** The CONFIRM program creates an incentive for mailers to use the US Postal Service as a vehicle for their outreach efforts. The marketing organization within the US Postal Service can leverage that incentive when recruiting new customers and when maintaining its relationship with existing customers.
- **US Postal Service Processing Operations:** The CONFIRM program collects service performance data and creates summary reports. The reports are displayed in the Mail Tracking and Reporting Web site and can be viewed by processing operations personnel. Analysis of the reports can identify intermittent processing issues and potentially identify improvements in processing efficiency.

The CONFIRM program is viewed by the USPS as an integral part of its efforts to retain large customers in challenging economic times. It is also viewed as a key infrastructure component of the USPS Intelligent Mail initiative as well as a tool to improve operating efficiency and service performance.

CONCLUSION

Through the collaborative efforts of the USPS and its customers, the CONFIRM program addressed the need to develop a comprehensive mail tracking and tracing capability, and is the first Intelligent Mail product of the USPS. The program successfully implemented the requests and demands of business mailers and satisfied the needs of internal USPS stakeholders. The program provides mailers with the ability to improve customer service and further increase the viability of direct mail. In addition, it also provides the USPS with information to further improve operational efficiency and service performance.

Electronic Notifications Delivery

Electronic notifications delivery defines a new set of value-added services for senders and recipients alike, creating potential for improved customer service and reduced costs for mail organizations.

Joaquín F. Bas Monerris and Jeronimo Reguera

Business transformation toward electronic services offers postal operators an opportunity to maintain growth and competitiveness. Electronic notifications delivery (END) is a channel of transferring information (e.g., statements) that is effective and efficient, has legislative support (very important for public administration notifications), and is frequently not only accepted, but demanded in the business world.

The business of moving parcels and letters from one place to another is a very manual, labor-intensive operation. Traditionally, technology has played a very limited role in posts, with its most common area of application being in the sorting and classification areas. Hybrid mail – where a sender gives the postal provider electronic information and then the post prints, envelopes, and delivers it using traditional mail – is a first attempt to use electronic means to improve the delivery of postal services. In the last decade, we have witnessed the advance of electronic mail as a means to transfer information from senders to receivers in a more efficient and effective manner, bringing quantifiable benefits to postal operators.

The main benefits of electronic mail fall into two primary categories: cost and time. From a cost perspective, electronic mail is less expensive than traditional mail. Take into consideration fixed costs (hardware and software equipment for electronic mail, versus trucks, facilities/plants, tools, etc., for traditional mail), and variable costs (people and maintenance); electronic mail is a more attractive proposition. Then there is the matter of time. There is no doubt that electronic mail is faster and more efficient than traditional mail. Furthermore, it is independent of a recipient's location that would eliminate the need to take into consideration address changes (permanent or temporary).

CHALLENGES

The movement towards electronic services is not an easy one for many posts. Historically, postal operators are businesses with tremendous experience in handling physical objects, but are far from being technology savvy. Although the technology required to implement electronic mail services is available, there are other issues at stake, such as how to guarantee the Universal Postal Service, security policies/procedures, and workforce anxiety.

Universal Postal Service

One variable that remains constant for posts is the fact that universal postal service is still a requirement. The mandate for universal postal service poses challenges for electronic mail services due to one slow-moving challenge – household Internet penetration. Physical locations (for mail delivery), have always been a requirement; however, there is no obligation (legal or moral) for a person to have an electronic address. The best that can be done is to provide the right incentives to promote access to the Internet.

Security Policies/Procedures

Another challenge to electronic mail concerns security policies and procedures. How can posts assure that the right mail has been delivered to the right person? Although this may seem a simple question, providing the correct answer is not a simple matter. Think about traditional mail: Do letters always get to the right person? This is an assumed fact even for certified mail. Postal carriers deliver letters to addresses where it is assumed people on the face of the envelope live. For certified mail, carriers deliver mail to anyone at an address who identifies himself or herself as a relative or friend of the person on the face of the envelope.

Electronic communication tends to be more restrictive; however, experience proves otherwise. Electronic signature is used to guarantee

JOAQUÍN F. BAS MONERRIS is a partner in Accenture, working in the Public Administration group, which includes revenue, local administration services, and postal. Mr. Bas has a degree in computer science – business management from Polytechnic University of Valencia.

JERONIMO REGUERA is a partner with the Accenture Government Operating Group in Madrid, Spain. He has a degree in physics and chemistry and a Masters Degree in program management. Throughout his career, Mr. Reguera has worked closely with postal agencies such as Correos (Spain), Correios (Portugal), Poste Italiane (Italy) and Belgium Post.

that messages from electronic addresses belong to a specific individual. But who guarantees the person reading it is the intended recipient? Little has been gained in this area.

Workforce Anxiety

As the paradigm shifts, and posts move from a manual to a technical framework, there are direct impacts to the workforce. The skills and capabilities required to handle electronic mail are radically different from those required to handle physical mail.

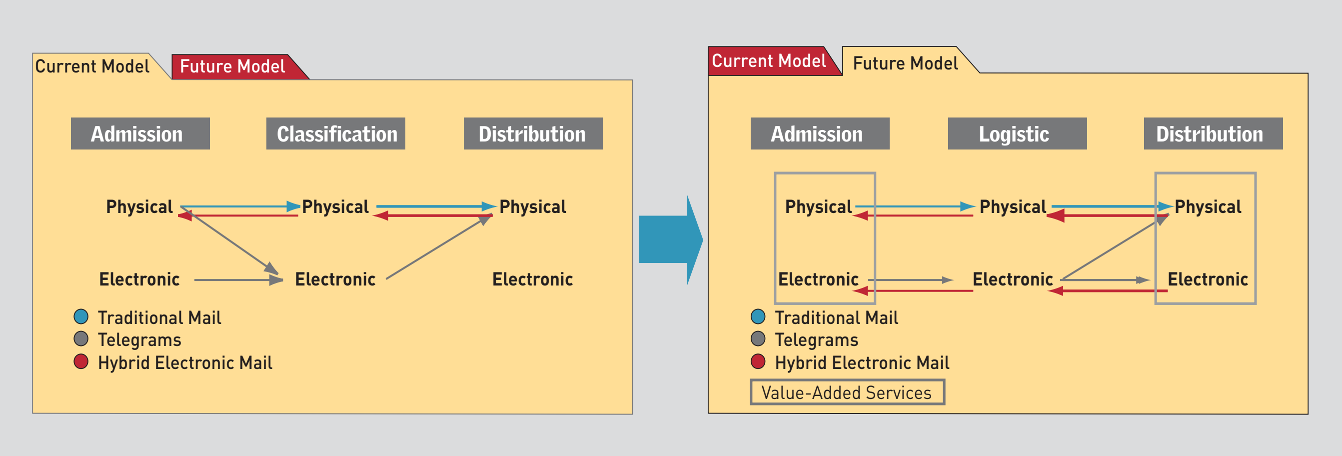


FIGURE 1 Future model for value-added services enabled by Electronic Notifications Delivery.

Consider the percentage of people who work in back-office processes at a post. In a regular postal operator about 50 percent of the workforce belongs to the mail division (classification, sorting, and delivery). Furthermore, this workforce is highly unionized, and unions have a say in postal strategies. Electronic mail usage is clearly reducing the volume of letters sent through the postal network. Even though the volume of parcels is growing, the numbers do not support the need for the same amount of postal employees. Some of these displaced employees can be moved to different positions within a post, but few posts have actually undertaken restructuring efforts because it is an uncomfortable activity. Take a person who has been delivering mail for a few years, whose main responsibility has been to drive a truck and deliver mail to houses. Now try moving this person into a cold room full of servers. The probable response is known to all of us – stampede. Thus, changing the basic skill profile of the workforce representing half the company is not an easy task. Although to survive in the electronic mail era, it must be accomplished.

ELECTRONIC NOTIFICATION DELIVERY

A particular area of interest in the electronic mail services field is electronic notifications. By way of definition, END is the act of delivering government information that is a part of an official process to a specific concerned citizen. For example, when a state traffic department electronically communicates that you have gotten a ticket. You will receive a photograph of your infraction, the actual ticket, and additional payment information. As it can be perceived, as with traditional mail notifications, additional services are limited, e.g., proof of delivery, proof of arrival at face location (change of addresses usually are not allowed). Electronic mail opens a whole new set of possibilities since it is ubiquitous, paperless, quick, flexible and can be read from anywhere in the world.

All change can be seen as a threat or as an opportunity for improvement. Successful companies work under the later premise while failures embrace the former. Setting up the proper infrastructure to support electronic mail services opens up a whole new horizon for value added services. In the end, postal operators move information in a physical format back and forth – a letter gets to a destination and a proof of delivery goes back. Furthermore, the electronic age is not restricted to computers. Access to the Internet is not only possible through computers, but also through PDAs, telephones, TVs, etc. Although parcel delivery can never be replaced by electronic means, it is certain that the mail process to deliver physical goods can be improved by electronic means.

The specific legal features of electronic notifications require responsibilities that many electronic mail providers do not want to provide, or cannot provide. Of all the different types of electronic mail services, electronic notifications delivery presents the best opportunities for postal operators. Given the legal requirements under which notifications operate, there is an opportunity to restrict this service to government postal operators.

Consider the needs of the sender in electronic notifications. Of all requirements, the most important is the need to get the notification to the intended recipient. This could be accomplished in a myriad of different ways, such as sending alerts to mobile phones informing the recipient that a notification has been delivered; downloading the notification to a PDA; and sending a short, informative message via email.

If the government could deliver all notifications in electronic format, it would mean great savings. The postal operator could be responsible for delivering all notifications to the respective citizens, through either electronic or physical delivery, depending on the recipient selection. This idea is a variant of hybrid mail, which is an operation that is already in process in quite a few countries. This is one example of value-added services that could be easily

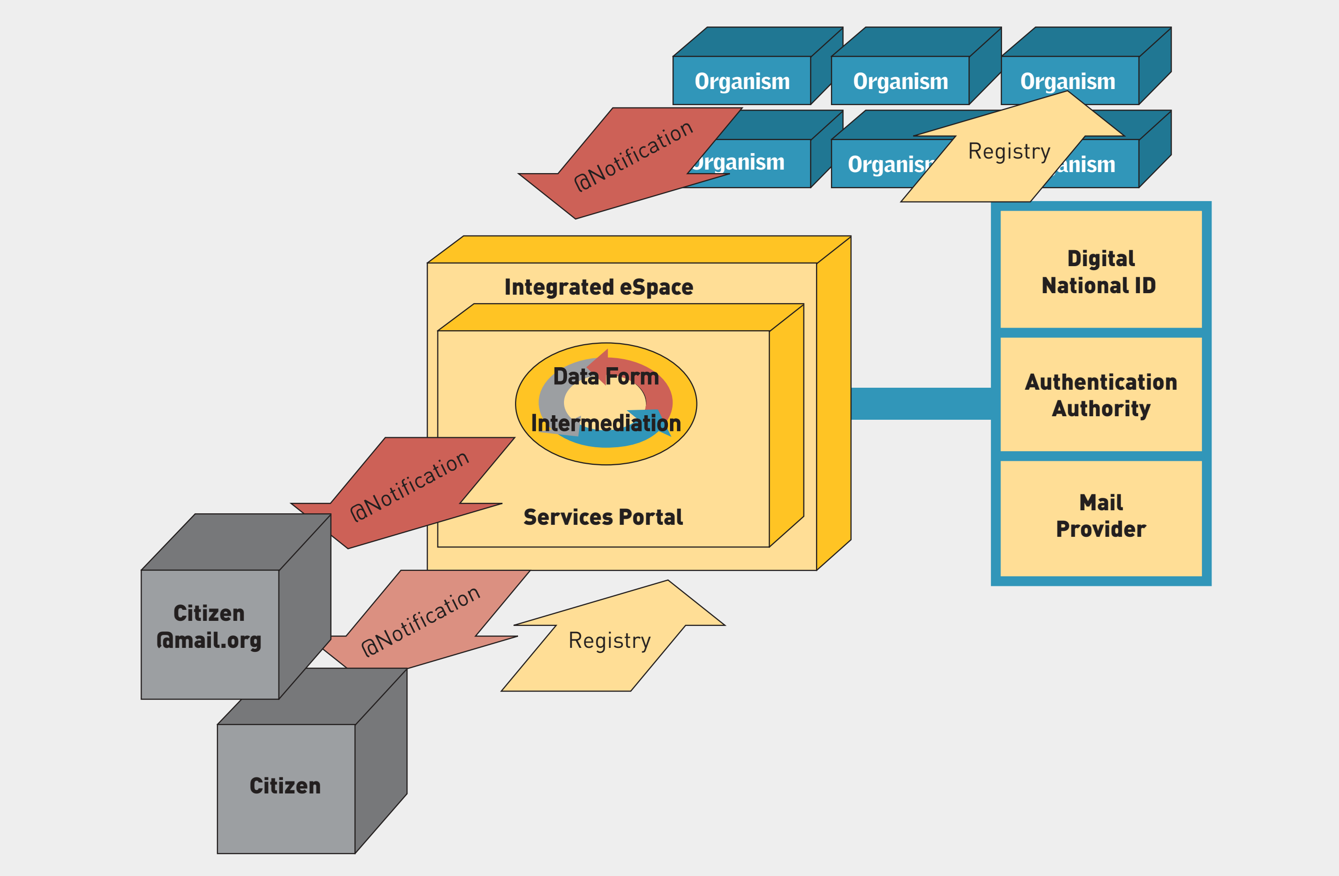


FIGURE 2 Model for Electronic Notifications Delivery

implemented. It is an excellent way to launch END services that would help society (government agencies, citizens, and enterprises) in a cost-effective manner.

From the recipient point of view, electronic notifications are ubiquitous, which in itself is a great advantage. Other value added services could depend on the nature of the notification. For instance, if a notification requires the recipient to send documents back to the sender, an automated secured reply could be generated so this can be done automatically. If the notification informs an individual that an appointment is required, an applet could be launched that would allow the recipient to indicate their availability based on their schedule. All kinds of applications, which in the traditional postal world were unthinkable, are now possible.

Speed to deliver is a metric that is measured for all types of mail. Measuring the cycle of a notification, however, is somewhat different. In this case, a notification is sent, a proof of arrival is delivered, each notification has a waiting period at the delivery unit which varies from 10 to 30 days one or more times; finally, if delivered, the information on the recipient is sent back. If delivery was not possible, the notification is sent back. All in all, the time to process a notification (from the moment the government application generates the notification to the point when confirmation is received as to whether or not the notification was received by the intended recipient) is rarely less than a month, in a best-case scenario.

Electronic notifications play under a totally different set of standards. Other than the waiting period, which is mandatory, the remaining operations are done instantly and the information traveling back and forth minimized. This is a much more effective and efficient way of doing business. From a cost perspective, delivering an electronic notification is a fraction of the cost of regular mail – savings that is split between the postal operator (logistics savings) and the sender (process savings and logistic savings).

SUMMARY

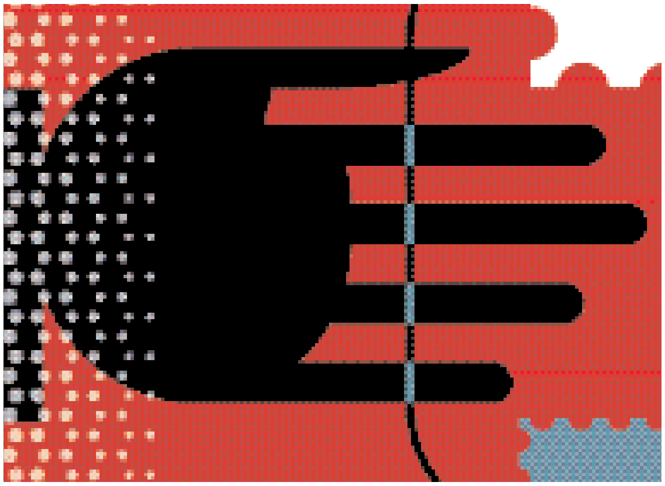
Current legislation that applies to regular mail does not always take into account electronic flows of information. Therefore, and depending upon the said country's legal constraints, it will be necessary to set up new or update existing laws to support this framework. Issues such as electronic signature, information flow, and infrastructure provider must be taken into account when modifying or creating the laws governing this industry. Delivering a mail message is done by a myriad of private services; however, delivering a formal government message that would hold in court requires much more legal support which must be developed. Postal operators, government agencies, and citizens alike, would benefit from advances in the area of electronic notifications delivery. It is up to individual posts to weigh the benefits and risks of moving into electronic mail services.

CASE STUDY

Poste Italiane: Introduction Of Government Services

This case study explores Poste Italiane's decision to move from the role of a carrier to the role of a service provider in the Italian government sector.

Giuseppe Pantano, Laura Mattei, and Vittorio Delmonte



Poste Italiane is the top employer in Italy in terms of number of employees (over 155,000), and one of the top 10 in terms of revenue (over €7.4 billion). Poste Italiane is considered the main distribution network in Italy, with its 14,000 postal offices spread out over the entire Italian territory (over 1 million contacts per day), 13 call centers with 1,200 people employed (over 75,000 contacts per day), mail delivery (4 million contacts per day), Web site (www.poste.it), etc. Poste Italiane is seen as a major part of the country's infrastructure and is one of the main citizen contact structures.

Poste Italiane intends to capitalize its unique distribution network (physical network and customer contact channels), and its assets (postal and financial services), to become the Italian Government Office's preferred partner and delivery channel for government-related services.

THE CHALLENGE

Poste Italiane is facing new business challenges as a result of the elimination of monopoly barriers and the growing market competition. New competitors are entering this mature market with decreasing revenues in traditional mailing services. It has become increasingly necessary for posts to differentiate their market offerings with new services that address evolving customer needs while still leveraging the post's main assets. Poste Italiane can leverage a very widely distributed retail network, which can be used to offer its clients the most impressive front-office capability in the country, with daily contact with virtually every family. Such a widespread retail and postal carrier network, however, can be seen as a cumbersome burden to carry, generating fixed costs that have to be turned into a profitable investment.

It was becoming necessary for Poste Italiane to differentiate its market offering with new services that address evolving client needs and leverage the current core assets. Poste Italiane saw the opportunity to take advantage of government budgetary constraints and the decision by the government to move toward non-strategic process outsourcing. The Italian government is currently facing the challenge to set up an e-government capability in line with what the citizens of the sixth-largest economy in the world expect, and at the same time avoid creating a digital divide among residents.

While setting up these e-government capabilities, the government realized it had to provide services

GIUSEPPE PANTANO is the chief of mail division of Poste Italiane, where he is responsible for launching new mail products. In his 30 years at Poste Italiane, he has acquired a deep expertise in mail operations, planning and control, and IT.

LAURA MATTEI is the marketing director for the mail division of Poste Italiane. Her responsibilities include identifying new market needs and the products and services to meet these needs.

VITTORIO DELMONTE is a partner with Accenture, currently working with Poste Italiane to develop new services, outsourcing contracts, and e-government initiatives.

through multiple channels and guarantee a delivery of whatever physical outcome the service has (i.e., requesting a passport requires delivering a passport). Creating such a physical network could be an impossible task within the boundaries of the budget. Poste Italiane is the natural provider of this physical network and delivery capability to the government, as this allows Poste to fill its network capability to provide services and allows the government to buy these services at a competitive price.

To respond to the challenges of differentiating its market offerings and generating profit through a fixed-cost network, Poste Italiane decided to move from the role of carrier to a role of service provider. This transformation includes:

- Definition of new value-added services integrated with business processes currently provided under a monopolistic market, which drives revenue growth and a better workforce utilization;
- Integration with customers' processes, which leads to stronger customer loyalty;
- Investments in the IT infrastructure to enable integration and service-providing capabilities; and
- The need to re-qualify part of the workforce in order to increase performance and enable redeployment to higher-value-added activities.

THE SOLUTION

To move into the role as a government service provider, Poste Italiane set up different typologies of new value-added services, integrating the end-client (i.e., government, utility companies, etc.) business processes with its own postal and financial services. This integration was enabled by the adoption of innovative technology architectures. These architectures are mainly based on an extensive use of Web-based applications, integrated with Poste Italiane's back-office legacy systems and directly available to customers or integrated with customers' applications. The use of imaging technologies has helped reduce paperwork in all services provided, creating electronic files where the image of original documents is readily available to customers.

Some of the main new services provided to Italian citizens through Poste Italiane include:

- **Integrated notification services:** This service manages the entire government official communications process (200 people involved, more than €40 million turnover per year);
- **Management of immigration permission requests:** (200 people involved, 700,000 requests processed, more than €40 million turnover);
- **Improved mail services:** This includes tracking of the delivery outcome, payments management, data elaboration, reporting, etc.; and
- **Citizen interaction services:** On behalf of government agencies and third-party utility companies, the post office becomes a single point of contact for the citizen for managing administrative cases and issues (e.g., passport request/renew).

These new services have necessitated the setup of shared service centers to act as primary points of contact for various public administrations (police forces, local municipalities, etc.) for notification, payments, and communication services.

Post offices and postal carriers act as a front office for citizens, while all the data management workload is mainly concentrated in the service centers, to avoid overloading the peripheral structures, which continue to be focused on traditional mail and postbank services.

A main benefit of this solution has been a reduced pressure on government offices for direct interaction with citizens. Since many interactions have been directed to the more widespread postal network, there has been an increase in the service level and customer satisfaction and a reduced number of government officials involved in low-value-added administrative activities (such as data entry), since these tasks have been turned to specialized services centers. Poste Italiane is also acting as an integrator among different government agencies in cases where multiple parties are involved. In a situation in which jealousy among agencies may have reduced chances of easy communication, the perceived neutrality of Poste Italiane facilitates streamlined collaboration.

The outcome of this collaboration between Poste Italiane and the government has resulted in an increase in revenues amounting to approximately €80 million in 2002.

CONCLUSION

Poste Italiane recognizes that, within the next few years, all postal services will be liberalized. In order to position itself well in a liberalized marketplace, Poste Italiane's strategy is to leverage its current assets (e.g., distribution network) to offer new value-added services that the government wishes to outsource (to reduce its own operating costs).

Poste Italiane has introduced several successful services, which have generated significant economic results in terms of revenue and return on investment. In addition, Poste Italiane has recognized additional benefits, such as increased value of basic postal services, effective reutilization of personnel, and increased market awareness and positioning.

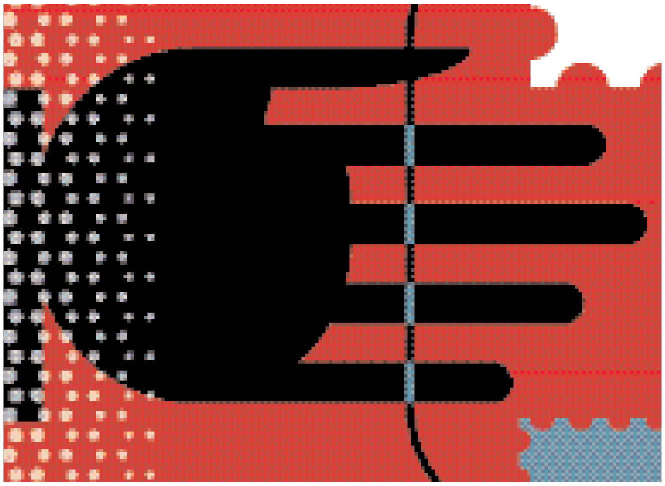
Poste Italiane has obtained a strong market reputation in the government services area and is now able to position itself as a reliable partner for private and public customers in innovative communication, delivery, and payment services.

CASE STUDY

Driving Innovation Through New Products and Services

La Poste developed an innovation strategy to develop new products and services based on the opportunities presented by new technologies.

Nathalie Andrieux



La Poste is a public entity owned by the French government. As Europe's No. 2 postal operator and the fourth-ranking post worldwide, La Poste achieved €17.33 billion in revenue in 2002. La Poste operates in three core business sectors:

- Mail (59 percent of its 2002 turnover);
- Express/parcels (18 percent); and
- Financial services (23 percent).

These activities are delivered by Europe's most widespread and most dense local service network, with approximately 17,000 customer outlets in 11,000 cities and towns and approximately 100,000 postal carriers distributing mail and parcels six days a week in around 71,000 daily deliveries.

In response to increasing industry pressures, and the opportunities provided by new technologies, postal operators have been planning and developing a range of e-postal initiatives. In 1998, La Poste created a new department charged with innovation and new product/service development in the "e-postal" business area. This department was recently renamed Dides: Direction de l'Innovation et du Développement des e-Services.

CLIENT CHALLENGES

Since 1997, the first challenge for La Poste was to create a new division with employees dedicated to the development of products and services based on the use of new technologies. Initially, the mission of this division was to:

- Ensure internal and external intelligence around products and services using new technologies;
- Conduct research and development for new "e-services";
- Facilitate the use of new technologies by postal carriers; and
- Develop the venture capital activity.

This new structure was built with a strong top management sponsorship and a leader was put in charge of the startup of the new division. The growth of the Internet was a catalyst for the launch of this new structure. In addition, La Poste Sofipost created subsidiaries and affiliates of the Sofipost holding company, to support this effort, by focusing on the development of new mail technologies and services.

Since 1998, La Poste developed several initiatives around e-postal services, in cooperation with the three core business sectors of La Poste. The goal was to bring these new initiatives to market with the objectives of fulfilling universal service obligations and increasing profitability. The idea was to use the organization in charge of the development of new products and services as the innovation and incubation organization. As soon as the products/services grew to the right level of maturity, either the core activities put them in their offer range, or, a new subsidiary under the Sofipost holding company could take over product development/management.

NATHALIE ANDRIEUX is the division manager of the innovation and e-services development division of La Poste (Dides). Mrs. Andrieux is in charge of the design and implementation of La Poste's high-tech strategy by developing new services with the help of new communication and information technology. Prior to her position at La Poste, she held several positions at Banque Populaire.

In early 2003, a new management team refocused the mission and reorganized Dides with four main goals:

- Align the mission of Dides with the mission of La Poste;
- Review the existing portfolio to align it with the mission;
- Involve the business divisions in the innovation and new product development processes; and
- Re-engineer the innovation and product development processes.

Dides is well on its way to achieving these goals, and has redefined a strategy aligned with the new 2003-2007 contract between La Poste and the French government.

THE SOLUTION

La Poste is very active in developing new services and products based on the use of new technologies. Several initiatives are currently operated within the Dides division, while others are operated by either the business division or by Sofipost subsidiaries companies.

The services in Dides are currently split into two main categories:

- Promotion and online services; and
- Security of exchanges.

The main services that are already developed and are currently managed by the Dides division include:

Promotion and Online Services:

- Cyberposte is an Internet-enabled kiosk available in post offices. It allows easy access to the Internet for all citizens with a smart card, who do not have a personal computer with access to the Internet. There are currently 100,000 customers using the 900 Cyberposte kiosks distributed across the French territory. Dides has transferred the management of Cyberposte to the counters division since the beginning of 2004, given the maturity of this offer.
- Cyberkiosque is an Internet-enabled kiosk, targeted at local administrations. With Cyberkiosque, local administrations could access the Internet on a high-speed connection via satellite. This program is currently in deployment to connect to distant sites.
- Laposte.net is an electronic mailbox targeted at individuals. Functionality includes a free mailbox with personal email address, forums, discussion groups, e-postcards, research capabilities, etc. There are currently 3.3 million addresses registered on Laposte.net. A similar service targeted at professionals, called Lapostepro.net, is under construction.

Security of Exchanges:

- PostECS is targeted at enterprises that require a secure exchange of documents via the Internet. PostECS, which was developed jointly with the USPS and Canada Post, provides secure document mailing through the Internet, and allows the sender to track the sending steps. In 2002, there were 14,000 transactions across 40 clients.

Hybrid registered and full electronic registered mail will be launched in 2004, leveraging several existing components of the overall e-service offerings.

In addition to the services provided by Dides, several electronic services in the direct marketing and CRM space are provided by the subsidiaries of Sofipost. The main companies dealing with e-postal services are:

- Aspheria (www.aspheria.com): Management of all the document value chain from the editing to the archiving.
- Maileva (www.maileva.com): Hybrid mail service.
- Mediapost (www.mediapost.fr): Proposes combination of geo-marketing and e-mail marketing.
- Selisa (www.selisa.fr): OCR at industrial level.

CONCLUSION

Like many postal operators, La Poste has defined a strategy and an organization to develop new products and services based on the opportunities offered by new technologies. Although the path to profitability and growth is not easy to find, La Poste has demonstrated its capacity to innovate and bring to market a large panel of products and offerings to their various customers. Through its experiences, La Poste has gained valuable insight into how to select, develop, test, market, and eventually retire new products and services.

At the October 2003 Post Expo in Brussels, M. Bailly, CEO of La Poste, stressed the importance of new technologies: "The integration of new technologies into its various activities must allow La Poste to be tomorrow's main French player on the e-commerce market."

The target is set and the teams are in place to face this challenge with the benefits of five years of experience. The challenge will be to integrate the business divisions in the development process, specifically the mail division, which faces major transformation in the coming four years.

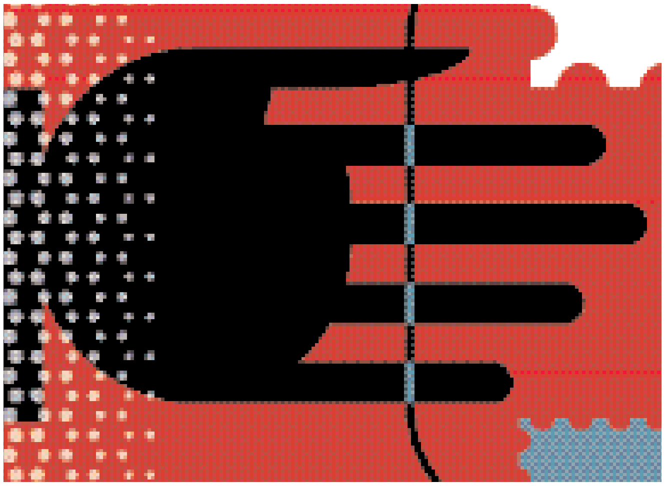
Through its experiences, La Poste has gained valuable insight into how to select, develop, test, market, and eventually retire new products and services.

CASE STUDY

Driving Innovation Through New Products and Services

La Poste developed an innovation strategy to develop new products and services based on the opportunities presented by new technologies.

Nathalie Andrieux



La Poste is a public entity owned by the French government. As Europe's No. 2 postal operator and the fourth-ranking post worldwide, La Poste achieved €17.33 billion in revenue in 2002. La Poste operates in three core business sectors:
- Mail (59 percent of its 2002 turnover);
- Express/parcels (18 percent); and
- Financial services (23 percent).

These activities are delivered by Europe's most widespread and most dense local service network, with approximately 17,000 customer outlets in 11,000 cities and towns and approximately 100,000 postal carriers distributing mail and parcels six days a week in around 71,000 daily deliveries.

In response to increasing industry pressures, and the opportunities provided by new technologies, postal operators have been planning and developing a range of e-postal initiatives. In 1998, La Poste created a new department charged with innovation and new product/service development in the "e-postal" business area. This department was recently renamed Dides: Direction de l'Innovation et du Développement des e-Services.

CLIENT CHALLENGES

Since 1997, the first challenge for La Poste was to create a new division with employees dedicated to the development of products and services based on the use of new technologies. Initially, the mission of this division was to:
- Ensure internal and external intelligence around products and services using new technologies;
- Conduct research and development for new "e-services";
- Facilitate the use of new technologies by postal carriers; and
- Develop the venture capital activity.

This new structure was built with a strong top management sponsorship and a leader was put in charge of the startup of the new division. The growth of the Internet was a catalyst for the launch of this new structure. In addition, La Poste Sofipost created subsidiaries and affiliates of the Sofipost holding company, to support this effort, by focusing on the development of new mail technologies and services.

Since 1998, La Poste developed several initiatives around e-postal services, in cooperation with the three core business sectors of La Poste. The goal was to bring these new initiatives to market with the objectives of fulfilling universal service obligations and increasing profitability. The idea was to use the organization in charge of the development of new products and services as the innovation and incubation organization. As soon as the products/services grew to the right level of maturity, either the core activities put them in their offer range, or, a new subsidiary under the Sofipost holding company could take over product development/management.

NATHALIE ANDRIEUX is the division manager of the innovation and e-services development division of La Poste (Dides). Mrs. Andrieux is in charge of the design and implementation of La Poste's high-tech strategy by developing new services with the help of new communication and information technology. Prior to her position at La Poste, she held several positions at Banque Populaire.

In early 2003, a new management team refocused the mission and reorganized Dides with four main goals:

- Align the mission of Dides with the mission of La Poste;
- Review the existing portfolio to align it with the mission;
- Involve the business divisions in the innovation and new product development processes; and
- Re-engineer the innovation and product development processes.

Dides is well on its way to achieving these goals, and has redefined a strategy aligned with the new 2003-2007 contract between La Poste and the French government.

THE SOLUTION

La Poste is very active in developing new services and products based on the use of new technologies. Several initiatives are currently operated within the Dides division, while others are operated by either the business division or by Sofipost subsidiaries companies.

The services in Dides are currently split into two main categories:

- Promotion and online services; and
- Security of exchanges.

The main services that are already developed and are currently managed by the Dides division include:

Promotion and Online Services:

- Cyberposte is an Internet-enabled kiosk available in post offices. It allows easy access to the Internet for all citizens with a smart card, who do not have a personal computer with access to the Internet. There are currently 100,000 customers using the 900 Cyberposte kiosks distributed across the French territory. Dides has transferred the management of Cyberposte to the counters division since the beginning of 2004, given the maturity of this offer.
- Cyberkiosque is an Internet-enabled kiosk, targeted at local administrations. With Cyberkiosque, local administrations could access the Internet on a high-speed connection via satellite. This program is currently in deployment to connect to distant sites.
- Laposte.net is an electronic mailbox targeted at individuals. Functionality includes a free mailbox with personal email address, forums, discussion groups, e-postcards, research capabilities, etc. There are currently 3.3 million addresses registered on Laposte.net. A similar service targeted at professionals, called Lapostepro.net, is under construction.

Security of Exchanges:

- PostECS is targeted at enterprises that require a secure exchange of documents via the Internet. PostECS, which was developed jointly with the USPS and Canada Post, provides secure document mailing through the Internet, and allows the sender to track the sending steps. In 2002, there were 14,000 transactions across 40 clients.

Hybrid registered and full electronic registered mail will be launched in 2004, leveraging several existing components of the overall e-service offerings.

In addition to the services provided by Dides, several electronic services in the direct marketing and CRM space are provided by the subsidiaries of Sofipost. The main companies dealing with e-postal services are:

- Aspheria (www.aspheria.com): Management of all the document value chain from the editing to the archiving.
- Maileva (www.maileva.com): Hybrid mail service.
- Mediapost (www.mediapost.fr): Proposes combination of geo-marketing and e-mail marketing.
- Selisa (www.selisa.fr): OCR at industrial level.

CONCLUSION

Like many postal operators, La Poste has defined a strategy and an organization to develop new products and services based on the opportunities offered by new technologies. Although the path to profitability and growth is not easy to find, La Poste has demonstrated its capacity to innovate and bring to market a large panel of products and offerings to their various customers. Through its experiences, La Poste has gained valuable insight into how to select, develop, test, market, and eventually retire new products and services.

At the October 2003 Post Expo in Brussels, M. Bailly, CEO of La Poste, stressed the importance of new technologies: "The integration of new technologies into its various activities must allow La Poste to be tomorrow's main French player on the e-commerce market."

The target is set and the teams are in place to face this challenge with the benefits of five years of experience. The challenge will be to integrate the business divisions in the development process, specifically the mail division, which faces major transformation in the coming four years.

Through its experiences, La Poste has gained valuable insight into how to select, develop, test, market, and eventually retire new products and services.

The Address as an Asset

Addresses are a key asset that provide competitive advantage and are critical to the success of keeping the mail relevant.

Leigh-Anne Stanton, Robert Leighton, and Mark Lambert

There has been much discussion around the declining relevance of physical mail as options for electronic substitution continue to develop and take hold in the market. This, in turn, has created a discussion around how posts can keep the mail stream relevant. This article will look at how success in keeping physical mail relevant might be linked to keeping the physical address relevant. Most posts use address data primarily to support the fulfillment aspects of the business by enabling operations to effectively sort and deliver the mail. As mail volume starts to decline and these organizations look to identify new revenue streams, it is time to view addresses as a valuable asset and look for ways to leverage it.

IN THE PAST

The physical address has historically been the fundamental enabling element required by posts around the world to establish a strong, reliable, heavily used physical infrastructure for the delivery of messages, goods, and commerce both domestically and internationally. Most posts have invested heavily in defining addressing standards – postal code (or ZIP code) systems exist in almost all countries, along with applications and processes for maintaining high degrees of address accuracy.

In addition, postal codes (or ZIP codes) have become commonplace in society, and are used for several purposes outside of their original intent of supporting the effective, efficient delivery of mail. For example, postal code information is often used to help gather demographic information, to bundle consumer purchasing habits, to identify a key location, or to determine delivery territories.

THINGS HAVE CHANGED

Today, however, despite its historical importance, the address, like the mail, is facing some serious competition as consumers, businesses, and governments continue to expand their use of Internet and mobile technologies.

A person's home telephone number, business telephone number, cell phone number, work email address, home email address, instant messenger accounts, personal Web sites, etc., all present alternative addresses for an individual, as well as for businesses and governments.

At the same time, postal code (or ZIP code) systems are becoming less and less relevant as character recognition technology improves. The physical address is beginning to stand on its own.

LIVING IN A NEW REALITY

So how does the physical address stay relevant in the face of this new and ubiquitous set of alternatives? The answer is to focus on the competitive advantage of the physical address, and to merge the physical address with other key data sets and methods of reaching the consumer.

The competitive advantage of the physical address over other address alternatives is that it represents where a person lives or where a business is located. This strong connection to geography is something an email address or a URL to a personal Web site does not have. This link to geography is one of the keys to enabling address data to be merged with other data sets, and enables the grouping of addresses. For example, it's far easier and often more relevant to consider grouping all the addresses within a postal code (or ZIP code) for the purposes of analysis, targeting, or service provision, than it is to group a series of email addresses.

LEIGH-ANNE STANTON is the general manager of address information management for Canada Post. Ms. Stanton has been with the organization for 20 years and is currently heading the transformation of Canada Post's address management function.

ROBERT LEIGHTON is the senior vice president of Fulfill with Innovapost, a subsidiary of Canada Post. Mr. Leighton has been working in the postal industry for 10 years. His focus has been delivering innovative solutions within address management, delivery operations, and electronic commerce.

MARK LAMBERT is a senior manager within Accenture's Postal Industry Group. Mr. Lambert has worked with various postal administrations in North America and Europe since the early 1990s, implementing large-scale business solutions.

LEVERAGING ADDRESS DATA AS AN ASSET

For the most part, collection and maintenance of address data is viewed as an enabler for internal mail operations rather than a customer-facing asset that can drive revenue. Historically, address data has been freely distributed by posts or priced at less than market value in order to improve mail quality. Other companies have been able to leverage the address data to create revenue-producing solutions – as accurate addresses have significant value to mailers. Not only does the correction of inaccurate addresses allow mailers to avoid unnecessary costs related to printing, mail preparation, postage, and delivery, but it allows for deliveries to be made to the correct person the first time, thereby improving satisfaction.

And the value of the address increases considerably if it is merged with other key data sets and methods of reaching and targeting specific audiences. Mailers place high value on address lists that have been matched to demographics, psychographics, and/or credit bureau data. By associating physical and electronic addresses to the information that describes the consumer, posts may be able to enable such capabilities as providing email addresses within a given geography and demographic group.

A recent study in the United States has shown that a low percentage of consumers expect personal correspondence in their next mail delivery. In fact, this percentage is significantly lower for younger consumers. Consumers are no longer drawn to their mailboxes expecting to find a letter from a friend. Today's consumer knows that the vast majority of content in their mailbox will be bills and advertising, yet they continue to frequent the mailbox as part of their daily routine.

In examining the different types of physical mail, it is clear that social correspondence via the mail gave way to business mail long ago. Communication volumes continue to be eroded by business practices that are enabled by electronic medium. However, consumers continue to shop from home and use advertising mail to assist in their buying decisions. The volume of advertising mail continues to grow even though it is in competition with other channels. Direct mail sales still exceed Internet sales by a wide margin, making it a clear growth opportunity for most posts.

However, today's sophisticated consumer also wants advertising mail that is relevant. By leveraging the physical address, posts can enable capabilities that allow advertisers to effectively locate their potential customers and provide them with timely and relevant information to assist them in their buying decisions.

POTENTIAL BUSINESS MODELS

Posts are well positioned to take advantage of the growth in the advertising market. They have a valuable address repository asset and play a key role in the distribution of advertising mail. In order to fully realize this opportunity, posts must make a concerted effort to extend their reach into this marketplace by further embedding themselves in the direct mail value chain. They can either develop deeper data management capabilities or pursue opportunities across the value chain.

Several posts have developed address validation and correction services that allow mailers to have their mailing lists validated for proper addressing. Posts can expand their data management offerings by adding an address-targeting capability that adds value to mailers by enabling targeted address lists filtered by demo-

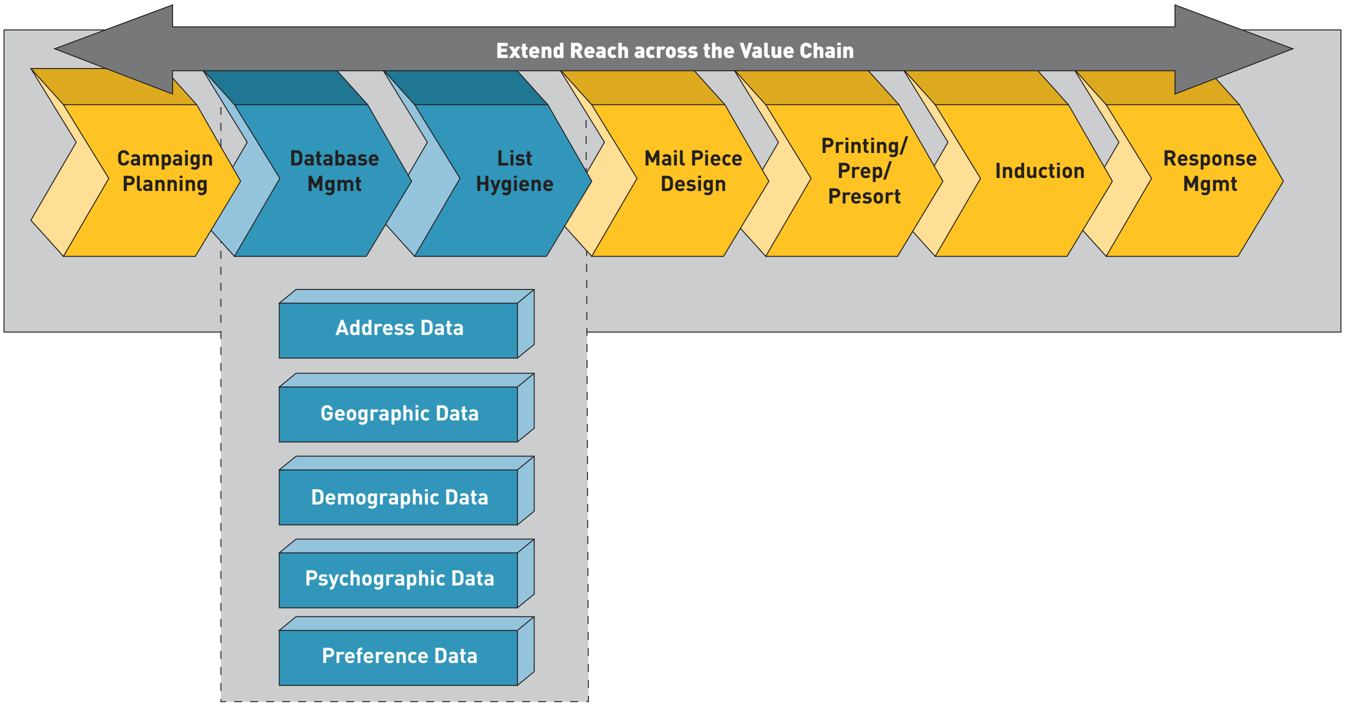


FIGURE 1 This graphic depicts the options posts have for expanding their presence within the direct mail value chain.

graphics, psychographics, and/or credit bureau data. For example, Deutsche Post Direkt partnered with two other companies to offer mailers targeted address lists that are not only accurate, but can be segmented based on socio-demographic data (e.g., age bracket, family status) and consumer data (e.g., automobile preferences). These address lists are based on point-of-call data that include almost every residential address in Germany. To protect people's privacy, these address attributes have been pooled into microcells of German households that are within a geographic proximity based on the assumption that individuals with similar purchasing and behavior patterns live in similar areas.

Much of what happens next will likely be decided in the court of public opinion.

Posts can further enhance their data management capabilities by merging the address data with consumer preferences. For example, posts can collect consumer preferences through surveys. Individuals consenting to complete the survey can be matched with an accurate address. The resulting preference database can then be used to rent targeted lists to direct marketers. GeoSpend Direct, a wholly-owned subsidiary of Australia Post, offers a range of consumer-list rental and customer-profiling services to businesses. Since 1997, GeoSpend Direct has distributed semiannual lifestyle surveys to three million Australian households and has established a preference database of over two million Australians who have voluntarily provided up to 200 pieces of information about themselves and their preferences.

Posts also have the alternative of expanding their reach across the direct mail value chain. They could create an innovative one-stop shop for outbound and inbound mail solutions, ranging from direct mail campaign management to mail induction and response management. Royal Mail has entered the direct mail market and has developed an online service that competes in certain parts of the direct mail value chain, including campaign planning services, mail-piece design services, printing/mail prep/pre-sort services, and induction services. Royal Mail refers companies to a partner company for database management and list hygiene services.

Of course these business models are not mutually exclusive. Posts can maximize their revenue opportunity both by expanding their reach across the value chain, and developing deeper targeting capabilities such as database management or list hygiene. Posts can provide a one-stop shop that includes targeting services (addresses and preferences) and direct mailing services. Vicindo, a subsidiary of De Post-La Poste, is one example of this strategy. Vicindo manages the complete value chain for the direct and e-marketing channels, including services ranging from the collection, analysis and enhancement of data, to the creation and production of the message, delivery, and follow-up.

CHALLENGES

How far postal administrations go in pursuing any of the business models presented here will depend, in large part, upon their shareholders. There is little doubt that most postal administrations will extend their reach into the advertising market in search of new revenues. However, in order to realize the full value of this opportunity, posts will find themselves in a competitive market pitted directly against some of their current customers. Competitors may focus on the post's perceived abuse of a monopoly position and lobby governments for relief.

Privacy is another key concern for many posts. Through a rich history, posts have developed their brand as trusted intermediaries. It is this heritage of trust that presents a significant issue for posts as they consider whether to exploit address data as an asset. If they begin to offer addresses to direct marketing channels, will that be seen as violating the trust that has been developed over so many years? The issue becomes increasingly sensitive as the address becomes merged with other data sets that describe the consumer, such as their given name, email addresses, or demographic information.

Much of what happens next will likely be decided in the court of public opinion. In order to overcome these challenges, posts need to build consumer trust by proving that they are acting on the receiver's behalf by helping them manage their mail and protect their privacy.

NEXT STEPS

Posts that are not exploring opportunities to exploit the address asset might want to ask why not. Postal executives need to challenge their address management groups to make more out of this opportunity. Some posts may never be able to get too far into the direct marketing value chain. However, the opportunity is too great to ignore. Posts need to make a serious effort to capitalize on their address asset. Steps that can be taken include:

Evaluate the market opportunity. The size of opportunity for posts is not the same in all markets. Posts need to understand the market size and growth opportunities within their geographies.

Understand the privacy and legislative restrictions. Privacy laws vary significantly from country to country as do the mandates of postal administrations. Posts should seek to understand the details of these restrictions in order to determine how far they are allowed to go in leveraging the address asset.

Create focus in the organization. Address management groups need to be given a mandate that includes marketing and product development. The posts that are serious about pursuing the opportunity have moved their addressing functions outside of their operations organizations.

Commit to a business strategy. Posts should evaluate the business models available to them and develop a strategy and commit to it with appropriate investment.

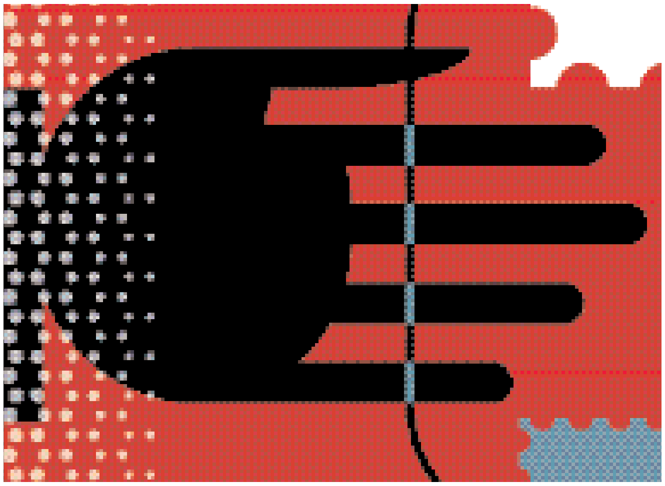
More and more posts will make efforts to leverage addresses in order to generate revenue. It is a key asset that provides a competitive advantage and it is critical to the success of keeping the mail relevant.

CASE STUDY

Hybrid Mail at Finland Post

The movement toward electronic communications and the desire to move toward paper-free offices has propelled the uptake of hybrid mail.

Vuokko Skyttä



Hybrid mail is one of the major electronic services offered by Finland Post. The idea is based on electronic transfer of high-volume letter content, which can be prepared, printed, and delivered in a cost-effective manner. Because of its easy adoption and integration, hybrid mail has concretely brought Finnish companies one step closer to paper-free offices.

THE BUSINESS ENVIRONMENT AND CHALLENGES

Finland Post recognized the importance and potential of IT-leveraged postal services in the 1980s. The idea of paper-free offices was discussed, as traditional mail volumes were predicted to decrease in future years. This led Finland Post to become actively involved in developing methods of optimizing the use of electronic data, centralizing mail flows, and using the same printing interfaces for different clients.

THE SOLUTION – HYBRID MAIL

The breakthrough innovation was a large-scale hybrid mail production process. A standard user interface was defined, the process itself was managed electronically, and standard paper and envelopes were used. Predefined electronic forms including logos, payment slips, and bar codes for different customers and electronic signatures enabled personalization.

The basic solution is a comprehensive service for sending first- and second-class letters. A customer delivers an ePost letter file in electronic form to the ePost letter center. Then, the file format is determined in the planning instructions of the ePost letter, which is available from the Web page of the Post. The ePost letter center processes and prints the letters and places them in envelopes. Letters printed on paper and put into envelopes are delivered to the addressees in accordance with the general delivery terms of the Post as part of normal postal delivery.

The customer may send individual letters or several letters at a time directly to the ePost letter center daily. In addition to the contents of the letter, an ePost letter can also have printed bar codes as well as electronic forms designed in advance and stored on the server of the ePost letter center. ePost letters are printed on white, perforated or non-perforated A4-sized paper and placed in envelopes with large windows. Standard material is included in the prices, and the ePost letter center maintains acquisition and storage of materials. There are different service options available in hybrid mail. For example, it can be sent economy or priority. Other hybrid mail products such as entrance or transportation tickets are printed on a special security paper.

Another value-added service for hybrid mail is electronic archiving, with Web browsing to view and retrieve the sent documents. For

VUOKKO SKYTTÄ is the managing director of Atkos Ltd, which is part of Finland Post group. Atkos Ltd focuses on providing various e-services in the Finnish market. Vuokko Skyttä has had a long, successful career in Finland Post in various positions; prior to her current role, she was responsible for the corporate sales function in Finland Post.

example – a company can send invoices in electronic form through the ePost letter center and a recipient will receive that invoice on paper in the mail. Web browsing, which is available as part of the service, makes the sender company's customer service significantly easier and improves its quality. With Web browsing, the recipient's invoice can be retrieved quickly and easily, such as during a telephone conversation with the recipient. Web browsing is ideal for companies with offices all over the country or those in which several people answer customer queries. The actual permanent file is available at agreed intervals on a CD-ROM.

During the 1990s hybrid mail volumes started to grow significantly. In recent years, the growth has been strongly leveraged by electronic communications. Hybrid mail has been easy to integrate as part of IT systems, such as financial management systems; thus it offers companies a paper-free alternative.

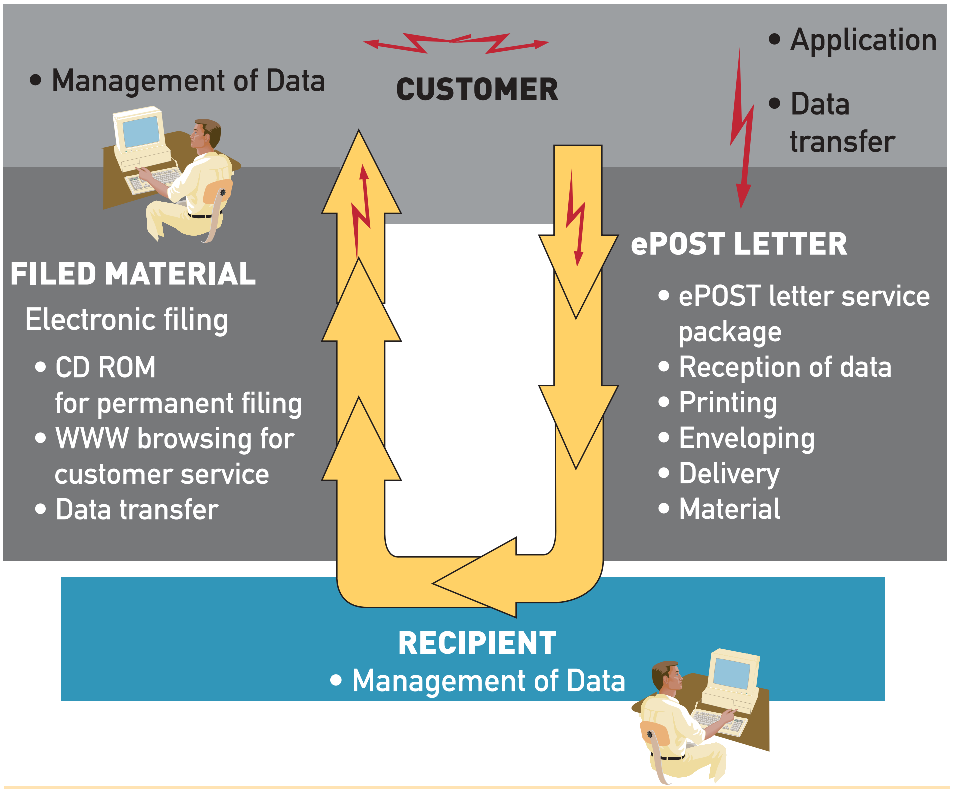


FIGURE 1 Hybrid Mail Process

RESULTS

For the sender company, hybrid mail is an easy, reliable, and low-cost option. There are several financial management and payroll software solutions that support hybrid mail connection. Since the early days of hybrid mail, Finland Post has put strong emphasis on cooperation with software development companies. There are over 300 software systems with a built-in interface for hybrid mail. This is one reason behind the success of hybrid mail.

Thanks to high-level automation and standardized processes, the treatment of hybrid mail is very efficient. Finland Post has been able to maintain high quality in both production and delivery of hybrid mail. Hybrid mail costs are kept low by offering customers the entire package, including all materials, production, and postal delivery. Atkos, an affiliate of Finland Post, provides the hybrid mail service, including data processing, production, and all material.

The ePost service is highly profitable to Finland Post Corporation, enabling it to extend cooperation with customers much more broadly than the traditional postal services. ePost expands the Post's role in the service chain and offers the customer significant savings in materials, labor, and time. In addition to savings, the customer also benefits from the high quality both in letter production and delivery. ePost clearly strengthens the customer-supplier relationship by offering a total service for customers, from invoicing and wages and all other communications.

The volume of hybrid mail in 2002 was 63 million letters, and the volume increased nearly 8 percent in 2003. Thanks to hybrid mail, Finland Post has a solid base for future development of new electronic services.

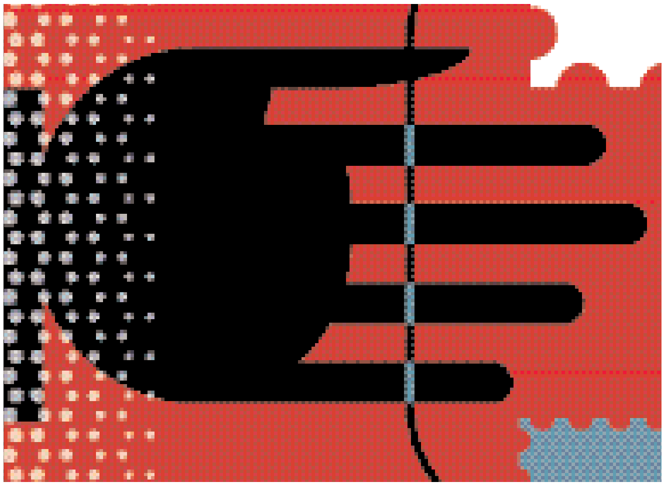
During the 1990s hybrid mail volumes started to grow significantly. In recent years, the growth has been strongly leveraged by electronic communications.

CASE STUDY

The Evolution of Certipost

With the rise of electronic communications, posts need to define new ways of facing the challenge of the e-future.

Erik Weytjens and Johan Vinckier



Over the last several years, electronic communication has seen enormous growth. The breakthrough of the Internet has resulted in an electronic substitution effect for postal operators worldwide. After years of steady growth, postal operators are looking at the erosion of up to 20 percent of traditional mail volume over the next five years, according to some sources. Posts need to take this trend into account in their modernization strategies, which are required to prepare for the opening of the mail market in the European Union.

In response to a request of the previous government, and in parallel with the trend of mail volume reduction, the Belgian Post decided to position itself to play a role in the new e-world, both in e-business and e-government projects in Belgium. It became clear that the interactive element of such an e-project (the online communication between governments, citizens, businesses, and institutions) required particular guarantees concerning identity, authenticity, and integrity of the communication. These properties are essential when the communication has an administrative or official character. Guaranteeing these properties is exactly what all posts currently do with paper-based communications.

In the beginning of 2001, Belgian Post created e-Services with a mission to support safe, identified, and trusted electronic communications. An electronic communication platform was developed on which applications were made available to support several electronic communication flows (B2B, B2C, G2B, G2C, C2C). With the creation of this subsidiary company, the Belgian Post established itself as a key player in the Belgian market of electronic communications, both in the commercial market and e-government arena. The communication platform was marketed under the name "Post box."

Meanwhile, Belgacom, the local Belgian telecom operator, had also brought solutions to the market for securing electronic communication. These activities had been concentrated in the area of business unit e-trust (e.g., certification authority, electronic signatures, digital certificates, etc.). In late 2002, both government companies reached an agreement to bring these activities together in a 50-50 joint venture with the name Certipost. By doing so, a broader set of electronic services could be offered to the local market.

THE SOLUTION: CERTIPOST

Certipost provides an e-communication platform with a set of services that enables organizations to communicate electronically with any customer, supplier, citizen, or partner in confidence by streamlining information flows, automating document exchange, and securing and certifying electronic communications.

ERIK WEYTJENS is the CEO of Certipost. Before joining Certipost, he was the director of corporate development at Seghers Better Technology and general manager for components workshops at Sabena. Weytjens has a civil engineering degree from Katholic University of Leuven, a Master of Science degree from Georgia Institute of Technology, and an M.B.A. from INSEAD.

JOHAN VINCKIER joined De Post in May 2000 to lead ICT, the financial post, and as of April 2001, e-Services (the predecessor of Certipost). As of October 2003, Vinckier is responsible for corporate operations, ICT, Certipost, procurement, facilities, and real estate.

These services can be categorized as ID services and communication services, both for individuals and businesses.

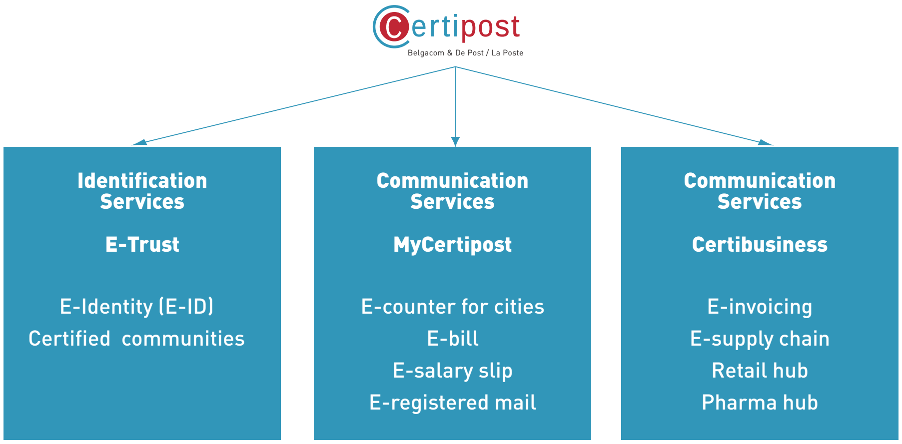


FIGURE 1 Certipost Scope of Services

Identification Services With E-Trust

Identification of correspondents is one of the key challenges of the Internet. European directives and Belgian law organize these identification services (also called public key infrastructure, or PKI) by assigning them to trusted third parties. Certipost (Belgacom E-Trust) has been playing in this market since 1998.

Today the most important offered services are:

- **Electronic identity (E-ID):** Certipost provides the digital certificates for the new Belgian identity card. All Belgians older than 18 will be able to identify and sign digital transactions on the Internet using this card.
- **Certified communities:** Specific user groups not only want to identify themselves with their ID information, but they also want to link data, such as profession, with additional rights and services. For the moment, Certipost offers ID services for: the Belgian Notary Organization, the French bar of advocacy of Brussels, and certain national health service organizations and hospitals. As such, the E-Trust Trusted Communities package is the most comprehensive, standard, and flexible outsourced PKI solution on the market to date.
- **Add-on services (Time stamping, notarization):** This service guarantees a specific Internet transaction took place (notarization) at a specific moment (time stamp).

Communication Services With MyCertipost

MyCertipost is a portal with which citizens and small companies can manage their personal administration simply and effectively. They can send and receive important correspondence in total privacy, conduct a number of administrative operations of their municipality from home, and receive and send registered mail.

The most important services are:

- **Electronic counter for cities and municipalities:** Certipost has a contract with 100 cities, of which 20 are operational, to manage an electronic counter. These counters allow the citizens to interact electronically for many contacts with the registry office.
- **E-bill and e-salary slip:** Large businesses can use MyCertipost to distribute electronic invoices to their clients (both consumers and small business), with 100 percent security and legal validity. They can use MyCertipost to distribute other important mail, such as salary slips, administrative and official communication, or insurance documents.
- **E-registered mail:** MyCertipost's electronic registered mail has the same legal value as traditional registered mail and is currently the only service of this kind in Belgium.

Communication Services With CertiBusiness

The amount of electronic information exchange between companies is continuously growing. The typical challenge is to simplify this communication as much as possible, in spite of different file formats, communication protocols, etc. Certipost responds to this market demand and offers a set of communication platforms that allow organizations to have an electronic exchange of confidential information with its correspondents that is simple and legally valid.

The most important services offered today are:

- **E-Invoicing between companies and organizations:** Using the Certipost communication hub, companies can fully, automatically exchange invoices. CertiBusiness complies with both the technical regulations of the Belgian Ministry of Finance and is already compliant with the European directive, which was transposed into Belgian legislation in January. As a result, CertiBusiness allows businesses of any size and IT capability levels to invoice electronically in compliance with legal requirements.
- **Electronic data exchange in the supply chain:** CertiBusiness helps these companies to focus on their supply chains – not on technology – by offering best-in-class data transformation, any-to-any mapping, and robust workflow features, in an ASP model. Industry specific solutions are also supported.

WHERE IS CERTIPOST TODAY?

Certipost continues to work on the full deployment of its service offering in the Belgian market and has established sales offices in the Netherlands and in France. Certipost has connected more than 1,000 companies and government agencies in Belgium and most other European countries. It is the market leader in e-invoicing in Belgium and is advising the Belgian government, the Luxemburg government, and the European Commission on the E-ID.

High Performance Posts and Supply Chain

Effective management of processes and networks, essentially applying supply chain best practices, is critical to achieving high performance.

Brian Moran and Jaime Ferrer

Postal organizations face an increasingly competitive environment, where delivering stakeholder value is as important as demonstrating shareholder value in the private sector. To succeed and achieve peak performance in this environment, postal organizations need a comprehensive, efficient supply chain they can rely on to deliver a high level of service, and to collect the data needed to support business decisions.

To achieve high-performance levels, postal organizations must transform their supply chains to support their organizations in three areas: infrastructure, planning, and execution. The right supply chain design can help them increase their revenue, decrease their operating costs, and maintain an infrastructure capable of meeting service requirements, with the flexibility to scale as demand dictates. Accenture draws on its global experience generated from working with 30 postal organizations around the world and cross-industry supply chain expertise to help posts transform their operations achieve high performance.

INFRASTRUCTURE

The infrastructure strategy must be aligned with a postal organization's business goals. This alignment requires making long-term decisions about capacity, physical locations, and the associated visibility into this network.

For instance, a postal facility may process two million pieces of mail daily, but the local distribution volume may fluctuate by 55-60 percent on any given day, requiring overtime processing the mail. Overtime can be costly and can create a stressful work environment for postal employees.

Network optimization enables postal organizations to maximize the benefits of facility location and size, automation, staffing, and transportation capacity. Optimizing the network enables a postal organization to increase utilization of capacity and align fixed infrastructure costs (e.g., number of plants, ownership structure, automation investment, full-time labor and transportation fleet) with the lower end of demand. The ideal design results in a network that is flexible enough to handle mail volume peaks, but does not permanently carry the costs of handling those peaks. Flexible labor resources, part-time resources, outsourcing, and spot-buy transportation capabilities can be used to complete network optimization.

Visibility into the operations of the network is a long-term strategic decision typically enabled by technology solutions. The visibility strategy is effectively a choice of decentralized, autonomous operation versus a centrally standardized operation. One of the ironies in the postal industry is the gap between the incredible scale of the supply chains and the limited amount of information regarding these supply chains. Most of the postal industry has been hesitant to make the investments in visibility technology, such as bar coding and radio frequency identification (RFID), due to the large entry costs. Without visibility technology, management is operating by line-of-sight and/or reactively. Visibility technology is a long-term investment that provides information in regard to the operations of the supply chain. It allows management to actively manage cost and service, and is an enabler that allows a post to undertake many of the other steps necessary to become a high-performance post.

BRIAN MORAN is the Global Lead Partner for Accenture's Postal Supply Chain Practice, specializing in assisting posts in the design, development, and implementation of supply chain and logistics business processes and information technology solutions.

JAIME FERRER, based in Barcelona, is the lead partner in Accentures supply chain management service line in Continental Europe, which includes more than 250 supply chain professionals working in areas such as supply chain pan-European strategies, integrated supply chain management, supply chain planning, procurement, manufacturing and design, e-fulfillment, distribution operations, and fourth-party logistics alliances.

PLANNING

With the appropriate supply chain infrastructure in place, a plan can be created that focuses on highest service and lowest cost, rather than network utilization. Developing a high-performance operations plan relies on medium- and short-term forecasts, and understanding mail flow and routing, operating schedules, and labor availability. In an environment of decreasing

Tool	Description
Induction Management	Induction management focuses on ensuring that the mail entering the postal network is compliant with standards, it is in the right network location and the postal service will be paid. Advance electronic notification is the enabler that supports these goals. It is extremely viable with the larger mailers.
Shop Floor Management	Shop floor management is central to a postal organization's ability to receive, sort, and distribute mail in a timely, cost-effective way. Tracking of machines, employees, and mail allows postal organizations to better manage their facilities.
Delivery Management	Effective delivery management requires postal managers to possess the data that helps them to make cost-effective decisions, including the amount of overtime required to deliver mail or staffing the right mix of part-time, flexible, or regular employees to cover vacant routes.
Transportation Management	Transportation management ensures that mail is shipped using the lowest cost mode to meet service requirements.
Network Operations Center (NOC)	A network operations center (NOC) based on electronic integration of the postal supply chain is central to managing the supply chain from collection through delivery.

FIGURE 1 Tools Required for Flawless Execution

mail volumes and increasing automation investments, planning becomes a vital link between strategy and execution.

Collaborative forecasting is a technique that enables planning for volume in the network and the individual facilities, and matching this demand with the ability to process the demand. To create this capability, organizations must work with their largest customers to understand their mass mailing schedules, their mail service needs and then plan for volume fluctuations. For example, the US Postal Service developed a collaborative forecasting vision involving marketing activities that entices their customers to cooperate and collaborate in planning mass mailings. The customer must see the value in working with the postal organization for collaborative forecasting to achieve adoption.

Postal organizations also face higher operating efficiency requirements. A detailed plan to meet these requirements is necessary. In Europe, one large post is researching a number of trial projects to find ways to improve all aspects of its operations. In one of these trials, they are seeking to apply finite capacity scheduling principles and software in one sorting center. Finite capacity scheduling is widely used in processing and manufacturing companies worldwide. Postal operators can achieve greater throughputs in their sorting centers and more efficiently use capital and labor resources by applying these principles.

A staff planning system can enable postal organizations to react to mail flow, mail routing, equipment availability, and labor requirements. Pressures, including declining mail volumes, contributed to the need for the US Postal Service to build a staff planning system. The USPS worked to develop and deploy a staff planning system to 10 locations to help increase labor utilization. The staff planning system suggests strategies for management to align worker supply with mail processing demand. By adopting a staff planning system, postal organizations can achieve potentially significant benefits, including as much as a 7-10 percent reduction in payroll and associated expenses.

FLAWLESS EXECUTION

In the end, delivering real value to postal customers relies on flawless execution. Being a reliable postal service provider requires the ability to execute the plans to meet service and productivity targets. The postal organization must have the ability to make real-time decisions to efficiently process, transport, and deliver mail.

Flawless execution requires a set of tools and concepts that create or support induction management, shop floor management, delivery management, transportation management, and a network operations center.

Induction Management

The goal of every post should be to ensure that the product that is inducted into their network is inducted at the correct point, is prepared according to standards, is secure, and remuneration has been received. Accenture has built and implemented tools for induction management at multiple posts. Core to these tools is the use of advance notification by the mailers that provide information about the content, location, and value of their mailings. These tools have allowed postal operators to become partners with their major mailers and benefit the mailers by allowing for track-and-trace capabilities on large-volume mailings. Multiple posts have also realized revenue by minimizing revenue leakage through induction controls combined with audits.

Shop Floor Management

The sorting centers within posts offer tremendous opportunity for service improvement and cost reduction. These centers have typically been the recipients of large capital investment in the form of mechanization and automation. This equipment is clearly beneficial in both productivity and service, but huge opportunities still exist. The sorting center is usually managed by line of site. Line of site is effective in small facilities, but degrades significantly in larger facilities. Consistently throughout the world, the largest sorting centers are the least efficient, contrary to intuition.

The primary driver to this issue is a lack of visibility for the management team. Line of sight management is no longer viable, and these managers often do not have information available to effectively manage. Are my employees productive? Will we fulfill our service obligations? Plant managers don't know because they do not have visibility into the operation. By utilizing tracking technologies such as RFID or bar coding, visibility into the flow of mail through the operation can be achieved. Similarly, with detailed tracking of employee activities, these valuable resources can be deployed where they add the most value, rather than performing the same task they performed yesterday. Information systems can consolidate and aggregate this information, to present actionable data to managers, creating a sorting center that responds to change. These concepts have been deployed into many other industries, over the last 20 years, with tremendous benefit in both service and productivity.

Delivery Management

Delivery is the heart of the postal business and represents the one clear, competitive advantage the posts hold over potential competitors. To maximize this advantage, postal operators can utilize information to ensure the carriers are productive and consistently meeting service goals. Productivity is realized through the appropriate alignment of routes with carriers and the daily supervision of carrier hours. The supervision function is dependent upon limited information when carriers are walking their routes. Gaining insight into the carrier's time while en route can be enabled through simple methods such as route logs or more sophisticated tools such as GPS trackers. Service is maximized by ensuring receipt of the mail by the necessary time and dynamically assigning routes to the carriers. These techniques can ensure that the carrier function remains a vibrant, competitive advantage.

To help the US Postal Service manage mail delivery, the delivery operations information system (DOIS) was developed. The system, which has been deployed to more than 6,500 USPS delivery units, helps postal management to:

- Deliver mail to households and businesses on a consistent schedule through an equitable allocation of resources to cover the daily workloads of each delivery unit;
- Reduce operating costs through improved scheduling and deployment of letter carriers, based on daily mail volumes and correctly established mail routes;
- Reduce time spent on route inspections and adjustments by introducing a mechanism to inspect routes more efficiently and adjust them accurately; and
- Improve employee productivity and morale through a balanced distribution of workloads across delivery units and routes.

While the cost of implementing tracking tools can be significant, the information they provide is an enabler for all types of capabilities that inevitably result in productivity improvements and higher service levels.

Transportation Management

Transportation costs account for a large portion of a postal organization's operating expenses and are a critical part of the service equation. Several opportunities exist to manage these expenses and maximize service through the use of alternative procurement strategies, effective fleet management, and leveraging off-the-shelf software. The following examples are all dependent upon having information available regarding volumes and capacity. Without this visibility infrastructure, management has limited choices.

A postal organization can quantitatively assess the volatility of mail being shipped, and determine the best procurement technique to fulfill this demand – internal versus external, and long-term contracts versus spot-market purchases. Most posts today have transportation capacity that is inflexible – large internal fleets and/or long-term external contracts. This is appropriate to service volumes that exist consistently, perhaps 90 percent of the time. But posts should consider alternate approaches for the rest of that volume as the peaks that occur throughout the year are often more economically purchased as a spot-buy at the time of need.

Once the post has determined the right amount of long-term, fixed capacity, it should begin to evaluate fleet management practices. Fleet acquisition requires evaluation of the pros and cons associated with leasing or buying, and operating versus capital expenses. The fleet strategy must be aligned with financial objectives and long-term capacity requirements. To effectively manage the fleet to those financial objectives, posts need to understand the full-vehicle lifecycle including vehicle use, maintenance practices, and replacement strategies. Collecting and analyzing data around vehicle maintenance can support a postal organization with the development of lifecycle cost models. Fleet management also requires the postal organization to determine the right mix between its own fleet and contractors. In making this determination, managers must evaluate the impact of transportation costs on cash flow and earnings, as well as the book value of vehicles.

Postal organizations also can take advantage of the capabilities built into off-the-shelf software products to support many of the transportation functions. For example, fleet management software packages fit the postal industry quite well and can allow a post to achieve quick benefit realization. Also, the packaged software industry offers solutions for functions such as carrier bidding, load planning, load tendering, and network planning.

Network Operations Centers

With so many aspects of the operation to manage in multiple locations, a network operations center provides a central control point for postal organizations. The center oversees client service, delivery, plant operations, and transportation providers. The center also manages exceptions to minimize impact on final delivery, assesses cost/benefit tradeoffs, and focuses on enterprise-level results. A network operations center can be implemented locally, regionally, or nationally, depending on the size of the network.

The effectiveness of such a network operations center is greatly increased in networks that have a high degree of mail visibility. Bar coding and RFID allow the postal organization to monitor mail as it goes through each step of the mail supply chain. While the cost of implementing tracking tools can be significant, the information they provide is an enabler for all types of capabilities that inevitably result in productivity improvements and higher service levels.

NEW APPROACHES

In addition to these execution tools, new approaches to address management and procurement can have a dramatic impact on operational expenses.

Addresses are among postal organizations' most valuable resources. Addresses should be managed and used in a way that creates value for the postal organization. By making address data management a priority, postal organizations can reduce the cost of handling undeliverable mail by identifying those pieces when they enter the mail system, not at the point of delivery. Additionally, given the value of addresses to mass mailers, postal organizations may have the opportunity to claim a larger portion of the market for address-related products and services. Postal organizations can tailor mass-mailing pricing on the basis of the address quality used by the mailer. However, it is essential that postal organizations comply with data privacy concerns as they consider offering such products.

Transforming procurement capabilities can save organizations as much as 10-15 percent on cost of goods over two to three years. To improve procurement capabilities, postal organizations should:

- Use strategic sourcing to negotiate better prices and service contracts;
- Set performance targets that provide an additional catalyst for change in procurement practices;
- Strategically deploy procurement professionals within the postal organization to gain greater efficiencies;
- Place a premium on recruiting, training, and developing a top-flight team of procurement professionals; and
- Equip procurement professionals with accurate and timely information that executives can use to make business decisions.

To function as high-performance organizations, postal businesses must create a strong infrastructure, create detailed plans, and execute them flawlessly. By increasing the visibility into their networks, and by using tools like network optimization and finite scheduling, postal organizations can lay the groundwork for achieving high performance. Planning based on forecasts, mail flows, operations, and labor requirements can create an environment ripe for success. Finally, the flawless execution of the processing, transportation, and delivery strategies will affix the high-performance label to postal organizations around the world.

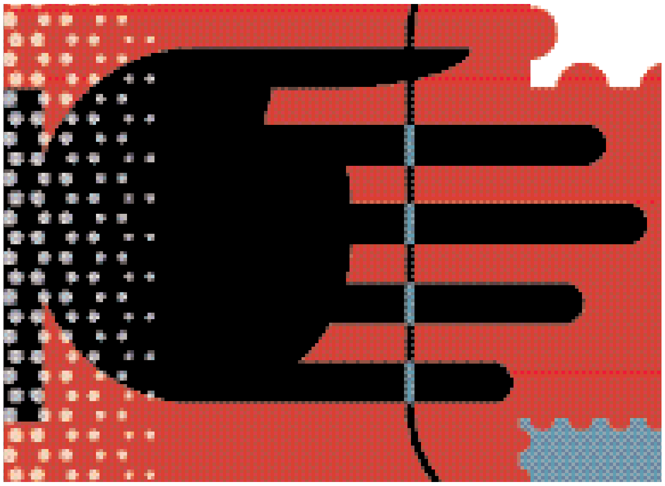
To function as high-performance organizations, postal businesses must create a strong infrastructure, create detailed plans, and execute them flawlessly.

CASE STUDY

Enhancing Products and Increasing Strategic Growth

Committed to growing revenue in the distribution business, Canada Post set out to transform its supply chain management function.

Allan Bisback and Jim McDade



Canada Post Corporation is a CAN$6.2 billion company headquartered in Ottawa. Canada Post serves more than 31 million Canadians and 1 million companies by delivering 37 million pieces of mail every business day. Canada Post's vision is to be a world leader in providing innovative physical and electronic delivery solutions, creating value for customers, employees, and all Canadians.

Canada Post has been implementing business change initiatives, enabled by SAP software products, since the late '90s. In 2000, Canada Post elevated the scope of change with the inception of the Business Transformation (BT) program – the largest change initiative in Canada Post's history. BT is a journey to build a world-class, process-based organization that brings together people, process, and technology in new ways to enhance customer and employee value.

The first two releases of BT involved a two-year journey of process design, deployment, and stabilization of four major process areas:

- Order to cash;
- Procurement;
- Human resources management; and
- Financial management.

In 2003, the BT program adopted new supply chain management (SCM) initiatives to build upon existing infrastructure and to leverage skills and capabilities already developed. The SCM initiatives drove the BT program from the back office to new frontiers – namely, to transform how core operational processes deliver value to customers.

DRIVERS FOR CHANGE

As technology and business practices influence the way people communicate, it is essential for Canada Post to adapt to a changing business mix. And it is imperative that Canada Post maintains a business model that supports access to 31 million Canadians at 13 million points of call.

Canada Post's strategy requires a strong and viable advertising mail and product distribution business. In these areas, the needs of Canada Post's commercial customers continue to evolve. Large and small shipping customers and the product recipients demand more delivery options, greater reliability of service, and improved visibility to the location of a traceable item.

In the late '90s, Canada Post defined a core strategy to grow the

ALLAN BISBACK is team lead of supply chain management for Canada Post Corporation. He led the transition of the supply chain organization to a process-based organization. He holds an MBA from Western Business School.

JIM MCDADE is the lead partner for the Government Operating Group in Canada and Strategy and Business Architecture global lead. Jim is also the Accenture partner responsible for Canada Post. Having worked in the industry for 12 years, Jim has extensive postal experience in all elements of the postal business internationally, including operations, finance, sales, and marketing.

product distribution revenue. But without making an investment in new infrastructure, the company was limited in how this growth could be achieved. Pricing actions, sales campaigns, and customer contact initiatives did not fundamentally change the products and services. Canada Post needed to:

- Transform delivery processes such that consistent quality was built in; and
- Make the supply chain visible to customers.

But these objectives were hampered by the legacy track-and-trace system. Previous initiatives to upgrade or replace this system were unsuccessful. A new approach was needed.

SOLUTION DELIVERED

In early 2002, SAP was introducing the first limited release version of a new software product called Supply Chain Event Manager. After the conceptual fit was proven, the project began the development of a business case to replace the legacy track-and-trace system. The SAP Event Manager product seemed to provide a reasonable fit, but this application of the software had not been proven. When the board of directors approved the business case, the vision for how to use Event Manager was broader than any previous implementation of the product. But Canada Post's strategic intent to develop world-class supply chain visibility meant that it was prepared to put the support and guidance behind this bold venture.

The initiatives, which comprised the SCM program, went beyond process excellence and system integration. The business cases were revenue based, and thus tightly aligned with a core strategic thrust to grow the product distribution business. This program is a series of interdependent initiatives to enable the "perfect delivery" and to receive fair compensation for the delivery of that service. The common application thread through these initiatives is the innovative use of SAP's Event Manager product. The initiatives in this program included:

- **In-line cubing:** This process focuses on revenue recovery, which applies when customer-declared shipping information is incomplete or understated in respect to the actual physical item.
- **E-signature:** If a customer requests a signature image as proof of delivery, they expect it to be available in a timely fashion. However, before the e-signature project, Canada Post's ability to service this basic request was slow and costly.
- **Commercial Expedited Parcel-USA:** In response to the market need for faster delivery from Canada to the US, Canada Post's international product management group created a product for business customers who desired flexibility in duty and tax payment options. The investment in Event Manager was leveraged as the platform for managing this new product.
- **Distribution product visibility and quality:** The major release for distribution products occurred in October 2003. The Event Manager software was leveraged to track and monitor all bar-coded packages handled by Canada Post. The new solution allows tighter control over delivery procedures by providing alerts to the delivery agents in the field.
- **Event management for advertising mail:** The Event Manager software was also extended to track advertising mail products (of which Canada Post processes 4 billion pieces annually). This innovative use of the Event Manager product allows Admail containers to be tracked all the way to the delivery facilities. Customers are informed when the Admail shipments arrive at the delivery facilities and when those items are being delivered.

The value proposition of the BT supply chain management initiatives is based on increasing the visibility into the supply chain and increasing data accessibility to facilitate operational execution. In order to connect all of the customer, delivery, package, and billing data, a complex web of legacy and SAP systems at Canada Post had to be connected seamlessly. This was accomplished by putting Event Manager at the heart of the data transactions representing the millions of packages that Canada Post delivers each month.

Customer shipping systems transmit package delivery and bar code data into Event Manager to identify the delivery options requested for the items, and submit the order information into SAP's R/3 for billing purposes. Scanners at the postal facilities match this billing data with the physical package to ensure customer compliance to product specifications. Once the items reach their destination, delivery agents use portable data terminals to capture information such as delivery specifics and signatures. All of this information is stored in Event Manager. Tracking and status details from Event Manager are provided to customers not only through the corporate Web site but also through Canada Post's 1-800 phone line, SOAP XML connectors in Event Manager, and customer legacy system interfaces. All of this information is also available internally to Canada Post customer service agents to allow them to serve Canada Post customers better.

CONCLUSION

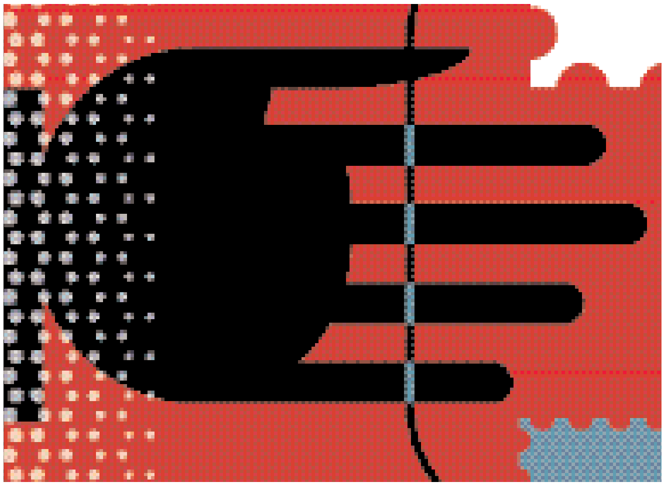
This implementation of SAP Event Manager not only allows Canada Post to remain a world leader in the postal space, but the capabilities that have been implemented will enable development of more innovative and flexible products and services in the future. By being able to locate items in motion in the supply chain or the delivery cycle, Canada Post can serve customers better. The richness and depth of data that Canada Post can provide to customers is world class. And great customer service is a great competitive advantage for any company.

CASE STUDY

Resource Planning for Posts

New technologies around machine and labor planning create significant insight into opportunities for higher efficiency and better utilization. Australia Post and the US Postal Service have implemented this capability and are realizing the benefits.

Howard Devlin, Gerard O'Donnell, and Lisa Hardin



Mail sorting facilities are complex processing operations. Many factors, both external and within the postal sector, have heightened the need to improve delivery standards, achieve improved operational outcomes from expensive capital equipment, and reduce operating expense.

The allocation of resources in many mail sorting facilities is based on local optimization of individual resources. This can lead to the less-efficient flow of mail, unacceptable delivery outcomes, overstaffing of resources, and increased costs. This technique limits the ability of posts to reach maximum efficiency and performance while keeping costs in control.

Posts need to dramatically change the way they plan and manage their mail sorting facilities if they are to achieve their targets. Several posts have recently broken from the pack and are taking innovative approaches to resource planning. Australia Post and a major European post have focused on a comprehensive resource planning effort, while the United States Postal Service (USPS) has focused more specifically on labor planning.

EFFICIENT USE OF PROCESSING CAPACITY

Mail sorting facilities typically have a large capital investment in mechanized mail sorting facilities and large labor pools for machine operation and manual processing. However, they are part of a larger supply chain and are impacted by mail arrival patterns outside of their control. Regardless of arrival exceptions, they are still required to meet service standards that are imposed on them by other sorting operations or delivery networks. On a single truck, there may be many types of mail that have different or alternate processing routes with different service standards and processing characteristics creating an environment with considerable variability.

In addition, the nature of mail flows within a mail sorting facility generally lead to a daily cycle. This daily cycle contains one or more peaks in flow as the various mail arrivals and processing capacities are matched to the delivery standards. These waves of mail result in varying loads on the processing and labor resources, which can swing from feast to famine several times over the course of a day. This management of constrained flow requires the prioritized allocation of labor resources to the individual operations to ensure the achievement of delivery standards.

In such an environment, this prioritized allocation – the efficient and effective use of resources – is a complex management task and cannot be carried out by simple line-of-sight processes. Planning loads on individual resources, in particular the allocation of labor resources over a daily

HOWARD DEVLIN and GERARD O'DONNELL are directors of SMT, an Australia-based supply chain consulting company formed in 1985. Since its formation, SMT has specialized in the application of planning and scheduling tools in leading companies throughout Australia, Asia, and the UK. The authors have extensive experience in the steel, metals processing, dairy, and postal industries.

LISA HARDIN is a senior manager at Accenture, based in Atlanta. She has spent five years designing and implementing systems for posts to reduce costs in mail sorting centers.

cycle, requires a detailed activity plan or schedule, which must simultaneously consider:

- Mail types;
- Mail process flows (process operations for each mail type);
- Machines and operations;
- Labor availability;
- Processing rates; and
- Delivery standards (differs for each mail type).

These activity schedules need to describe, in some detail, the operations to be performed for both machine- and labor-resources during a daily cycle. This typically means that the activity plans for machine and labor resources need to be generated in 15- or 30-minute time intervals if they are to be used as the focus for development of machine and labor rosters.

Resource planning is a two-step process. The first step is to determine the most effective production schedule by aligning resources, both equipment and labor, with the mail flow. Australia Post and a large European post have taken an innovative approach based on proven manufacturing industry techniques. The second step is to develop the optimal labor roster based on the production schedule, taking into consideration a number of factors such as time and leave policies, working arrangements in the employment contracts, and even weekly trends in sick absences. The USPS took this approach to focus on fixed labor costs, its highest cost expenditure.

THE SOLUTION

Australia Post, in an effort to simplify the scheduling process and allow supervisors to focus their time on value-adding activities, sought and implemented a machine and labor resource planning tool. The Postal Optimizer Interface, developed by SMT, enables posts to use the power of planning and scheduling software that has been developed over many years for the manufacturing and process industries. The interface includes data entry and maintenance and enables the translation of Australia Post data into a form suitable for scheduling software. This enables Australia Post to use and maintain much of the data currently available within its systems while providing the data in a format that is meaningful. In addition, the interface contains a series of reports focused on critical information needed for the successful management of processing facilities.

Experience from this implementation demonstrates that the potential benefits to Australia Post are similar to those achieved in manufacturing process industries. SMT's experience over a range of process industries is that the potential for cost reduction or increased processing capacity is not marginal. For instance, it is common to identify the potential to reduce labor resources by 20 to 50 percent or increase throughput by 20 to 30 percent.

Finite capacity schedulers are a subset of a much more comprehensive approach to managing processing facilities. This approach is generally termed the "theory of constraints" and provides a holistic approach to optimizing processes.

The software tool provides the key central core of control and forms the model of the process capability. It enables machine and labor activity plans to be developed and provides a powerful what-if capability to explore processing potential. It also helps identify the constraints to flow, and forms the basis for identifying improvement opportunities.

These activity plans or schedules become the best representation of the process capabilities of the facility and therefore form the basis for operating standards and procedures. The schedules, in addition, become the primary management policy objective. These translate into a cascading series of performance measures based on schedule adherence. These three elements of core schedules, operating procedures, and management policy are keys to achieving the desired business outcomes that have been successfully applied in Australia Post. They are also being piloted at a major European post.

Developing an optimal labor roster, the second step in the resource planning process, allows the post to right-size the fixed labor component. This approach addresses mail sorting facilities that have built-in overstaffing and less-than-optimal usage of the various labor categories. For example, the USPS has implemented a toolset to assist facilities in staffing to an appropriate level to match mail volumes.

The primary advantage of focusing specifically on the fixed labor component is that spending on labor wages and the associated benefit typically accounts for 60 to 70 percent of overall costs in a mail sorting facility. Thus, focusing specifically on labor allows the USPS to obtain the largest return on investment with the least-significant operating impact. Based on early results of this focused implementation, the USPS anticipates cost savings of 5 to 8 percent in reduced labor costs.

CONCLUSION

Posts everywhere are under pressure to improve delivery service, reduce operating expense, and make better use of their large capital investment in sorting machinery. The resource planning process is allowing innovative posts to apply techniques used in other industries to make more efficient use of processing capacity.

Recent experience in posts confirms that the potential for cost reduction and increased throughput are typical of the benefits that have been achieved in process industries in general, with labor cost reductions of 20 to 50 percent and throughput increases of 20 to 30 percent.

Maximizing Fleet Effectiveness

Maximizing fleet effectiveness is a rigorous and holistic process for re-engineering the management of large and diverse vehicle fleets in achieving the goal of lowest total cost of ownership.

Brooks Bentz and Kris Timmermans

Postal organizations typically operate large, specialized fleets of vehicles in support of their operations. These fleets inevitably entail large commitments of scarce capital and are expensive to operate and maintain. Specialized fleets are also typically larger than necessary, due principally to the view that avoiding service failures is more important than managing operating costs and, therefore, having an abundance of spare vehicles is seen as a good thing.

But there are drawbacks to having too large a fleet. Fleet asset utilization is not typically tracked or measured, which leads to unwanted outcomes, such as having more vehicles than necessary, additional operating and maintenance costs, and not always having the right vehicles for the jobs. Standards and specifications for these fleets also have typically grown out of control, making internal maintenance and repair programs difficult to manage. Decision support technology, necessary to understand these costs and rigorously evaluate alternatives, is rarely prevalent. Additionally, without this technology, it is difficult to understand usually fragmented fleet costs, which leads to problems in trying to adequately and accurately assess operating efficiency and evaluate outsourcing opportunities. And without the technology, managing to lowest total cost of ownership (TCO) becomes a daunting task.

Postal organizations are not alone in these challenges. Most non-transportation organizations rarely employ cross-industry best practices to drive operating and process improvements. Rather, these organizations lean more toward traditional practices and seldom employ leading-edge fleet management processes. And while many organizations have conducted third-party outsourcing reviews for some or all of their operations, in the majority of cases, incomplete or inaccurate data and unwillingness to rigorously challenge established practices has caused these efforts to lead nowhere. Finally, work demand and work practices are often overlooked when determining fleet needs in these organizations, and technology for improving asset utilization and productivity is often lacking or underutilized.

BUY SMART. RUN SMART. SELL SMART.

Leading-edge fleet management is focused around the concept of maximizing fleet effectiveness. This is defined as enabling operating entities and business units to provide world-class customer service by making available the right number of vehicles that are designed and engineered to perform the right jobs at the lowest TCO, as measured by the appropriate metrics and key performance indicators (KPIs). See Figure 1.

Fleet effectiveness and managing to lowest TCO transcends traditional silos related to buying, operating and maintaining, and ultimately disposing of vehicles. Thus, TCO can be viewed as one integrated and continuous process that can be colloquially referred to as "buy smart, run smart, sell smart." Executing at a level anything short of this drives up fleet operating and capital costs.

Buying and selling smart, which are intrinsically linked, begins with a rigorous review of existing standards and specifications to determine the optimum set of vehicle types. This is typically done by convening a standards and specifications committee composed of field operating and fleet management experts who then conduct a re-engineering workshop. This

BROOKS BENTZ is an associate partner in Accenture's Supply Chain Practice. Over the past 30 years he has worked with fleet operators in a variety of industries, including manufacturing, retail, utilities, chemicals, motor carrier, rail, intermodal, air, and ocean freight. He has assisted them in analyzing and dealing with fleet effectiveness, cost-to-serve, analyzing and reducing operating costs, lifecycle cost analysis, vehicle pooling, and procurement practices, with the overall objective of improving efficiency and bottom-line results.

KRIS TIMMERMANS is a senior manager in Accenture's Supply Chain practice. Over the past 10 years, he has developed deep expertise in defining and implementing company-wide projects, leading to increased performance (service and cost) in road transportation practices across Europe.

virtually always results in a more simplified, standardized fleet configuration, with higher concentrations of volume in each class of vehicles.

The next component of this process involves sourcing activities: building a request for proposal; selecting the appropriate supplier base to invite; and putting the entire fleet out for bid. Typically this covers a multiyear period through the use of a fleet replacement calendar, which specifies the number and type of vehicles that will be acquired over the life of the program. These programs may run anywhere from four to eight years in length. The core goal is to build a replacement calendar around the best practice utilization requirements for each class of vehicle.

An example might be the replacement schedule for a fleet of 1,000 light-duty pickup trucks. If the standard for this class is 48 months or 80,000 miles, whichever comes first, then the replacement calendar would show 250 trucks per year for a period of four years. In theory, if the utilization assumptions are right, this would go on forever, with annual adjustments in quantity and specifications as needed, so that the average age of the class remained constant at the target level and lowest TCO was achieved by maximizing use and residual value.

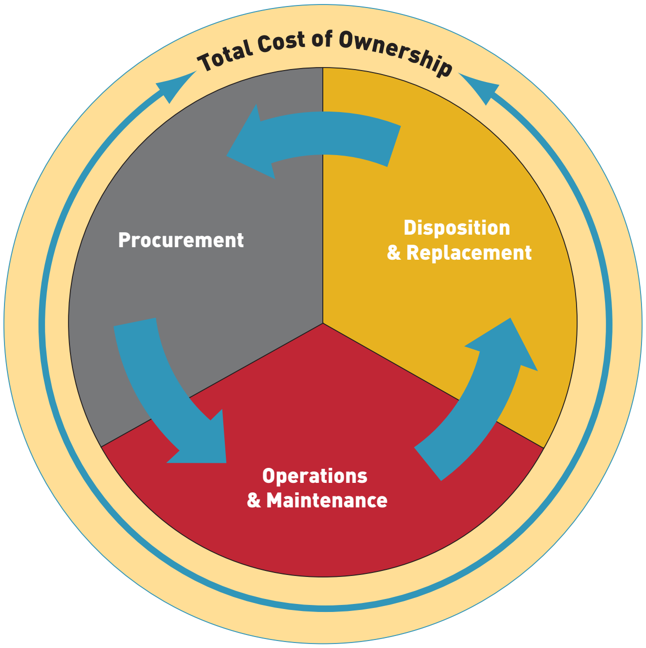


FIGURE 1 The elements of total cost of ownership.

These fleet sourcing activities should also account for sourcing of products and services linked directly to the total cost of the vehicle. For example, the sourcing contract should take into account services for preparing and maintaining the vehicles as well as address acquisition of spare parts. Important opportunities are on the table in the European Union with the introduction of new block exemption regulations which limit the OEMs' exclusive channels for distribution, maintenance, and spare parts. Most organizations do not undertake a comprehensive fleet re-engineering program all at one time; rather, they do pieces and parts as time, resources, and budgets permit. The advantage to the comprehensive approach is that a level of continuity and momentum is achieved that, once executed, can carry the program for years to come, and provide optimum fleet efficiency. In each of the major areas of focus, there is value to harvest, which can be undertaken by prioritizing the initiatives and developing the respective project work plans for achieving the goals set forth.

Running smart is, however, just as important as buying and selling smart. The first step to running smart is getting a good handle on the existing fleet in terms of its makeup, utilization and operating cost; reviewing the administrative and operating practices related to procurement, operations, maintenance, and disposition; and determining replacement scheduling.

The next step is to conduct a right-sizing exercise to determine if the fleet's size and makeup is appropriate to the function it is intended to perform. This will typically identify potential surplus vehicles that show a pattern of low usage. A fact-based business case should be made for their retention, or they should be marked as candidates for disposition.

Removing vehicles from a fleet is usually an emotional and difficult task to carry out. This key step often can be mitigated by shifting low-use vehicles into geographic or functional pools, where they are treated essentially as rental vehicles, moving in and out of the pool points as demand warrants. The pool's utilization can then be monitored, and those remaining low-use vehicles can be retired. This is known as the kinder, gentler approach and is very effective, although it tends to slow down the benefit stream.

A comprehensive review of maintenance and repair practices is also called for. This review examines everything from inventory on hand and vendor management, to mechanic productivity and shop facility costs. The focus of the review should be on establishing a reliable baseline of costs and getting a good handle on whether the operation is running efficiently and effectively versus what could be accomplished by third-party providers.

	Opportunity	Operating Savings	Capital Savings	Description
1	Procurement Savings (Price & Incentives)	?	?	- Aggregating spend - Sole-sourcing and centralizing negotiations for basic specs, options, upfitting, and accessories - Modifying specifications to fit manufacturer's best pricing
2	Rationalizing Standards & Specifications	?	?	- Reducing the types of vehicles and vehicle sub-classes - Reducing the number of options and performing cost-benefit analysis to justify options - Matching vehicle types and functions to work tasks
3	Competitive Term Leasing & Fleet Management Services	?	?	- Conducting lease vs. buy analysis - Negotiating lease financing and fleet management services in an integrated fashion
4	Improving Maintenance & Repair	?	?	- Implementing replacement schedules based on optimal lifecycle cost curves - Maintaining targeted annual replacement percentages - Mapping maintenance activities to the replacement cycle - Replacing vehicles before year-over-year declining disposition values occur - Guaranteeing residual value with fleet management provider
5	Other • Improving Utilization • Reducing in-house Maintenance • Sales & Lease-Back	?	?	- Reducing and/or improving utilization of fleet system-wide - Reducing in-house maintenance and repair and evaluating outsourcing alternatives - Evaluating sale and lease-back options

FIGURE 2 Fleet Management Opportunity Buckets

SOME THINGS TO CONSIDER

Figure 2 gives a high-level view of the major buckets of opportunity typically found among large fleet operations. Developing an actionable fleet strategy and deciding how and when to pursue the identified opportunities is management's first job in getting realizable results.

When considering implementing improved fleet management practices there are a series of key questions that need to be asked and answered to assess existing practices.

- What is the total cost of ownership (TCO) of the existing fleet?
- Is lifecycle modeling used to drive to lowest TCO?
- How is utilization measured and is it used to determine appropriate fleet size?
- How are service levels and cost effectiveness measured?
- Should the fleet be a profit center?
- How is asset planning and analysis done?
- How are standards and specifications managed and controlled?
- Is the right decision support technology in place to capture good quality, accurate data?
- Have the appropriate key performance indicators (KPIs) been identified and does the data exist to measure those?
- Where is outsourcing viable? How are alternatives evaluated?

RIGOROUS IMPLEMENTATION

While all of these concepts are critical to successful fleet management, none of the theory or models, strategy or work plans, goals or objectives mean a thing if the program is not rigorously implemented. Only then are the true, hard-dollar benefits realized. This is also the hardest, grittiest, most detail-oriented, painful, and demanding part of fleet re-engineering and often the downfall of programs large and small.

Figure 3 provides a basic checklist of implementation tasks and issues that must be given due consideration in establishing any fleet management program, if positive results beyond expensive window dressing are expected.

Achieving high performance in the postal service business requires vigorously addressing the costs of the supporting vehicle fleet. Ignoring this critical area is the equivalent of a passenger airline claiming to want to be number one in customer satisfaction by having nice employees, good food, and a glitzy Web site, but not focusing any attention on the aircrafts.

Fleet management and fleet operations are not generally viewed as core competencies by non-transportation companies, so it's not surprising that focusing the spotlight on the key areas

The overall goal is to conduct a thorough, fact-based, data-driven assessment of the existing fleet that evaluates improvement opportunities and produces an action-oriented plan of attack.

Fleet Management		
Procurement	**Operations**	**Disposition**
Order Scheduling • Identify vehicles scheduled for replacement by class and location • Communicate with business units and commence order process **Order Processing** • Field representatives utilize online catalog to confirm orders and select available options • Orders are transmitted electronically to fleet management company, pending authorization from fleet manager • Fleet manager approves or approves with changes **Order Management** • Fleet service co. processes order: issues POs to motor company, service body company, and upfitter • Fleet manager reviews "acknowledged orders" monitor through online tracking • Confirm delivery in-service date and lease commencement	**Maintenance and Repair** • Monitor maintenance and repair costs through fleet maintenance program • Track compliance with preferred provider network and established policy **Fuel Management** • Monitor fuel procurement and costs • Track compliance with company policy on fuel purchases **Utilization** • Track utilization by vehicle type, class, and location • Develop utilization standards based on operating company service requirements • Develop internal utilization benchmarks by vehicle class, location, and subsidiary	**Disposition Scheduling** • Identify vehicles scheduled for disposition by class and location • Communicate with subsidiaries and fleet service provider to arrange out-of-service date **Disposition Processing** • Finalize disposition schedule • Arrange for vehicle pick-up and transportation • Confirm out-of-service date; remove from inventory • Confirm removal of plates • Confirm resale value and accounting **Disposition Management** • Track vehicles removed from service until resale • Confirm final disposition, removal from inventory and insurance • Track proceeds from sale, and compare to estimates • Adjust replacement schedule, if required • Close record on vehicle

FIGURE 3 Fleet Management Checklist

will illuminate opportunities for operational improvements. Many of these opportunities can be identified through best practices benchmarking, implementation and utilization of appropriate decision support technology, and employing high-quality data to measure results and progress.

The overall goal is to conduct a thorough, fact-based, data-driven assessment of the existing fleet that evaluates improvement opportunities and produces an action-oriented plan of attack. With a well-developed plan, all that is left is rigorous implementation in an organized, efficient manner that achieves lowest total cost of ownership.

Illustrating the impact that can be generated through an integrated fleet management process, the following example involves real data from an organization that has recently undertaken a comprehensive fleet management effort. This project combined the tasks of re-engineering fleet standards and specifications while executing a companywide strategic sourcing initiative. The net effect has been a significant reduction in the cost of acquiring vehicles, a drastic reduction in the type and variety of vehicles, standardization of vehicle lifecycles, and improvement in maintenance and repair practices. Some of the basic achievements include:

- Reduced make and models from 450 to 32 in the core fleet;
- Single-sourced with one vehicle manufacturer;
- Reduced average vehicle cost from $32,000 to $25,000, a greater than 20 percent reduction; and
- Year-one overall benefits equal 25 percent.

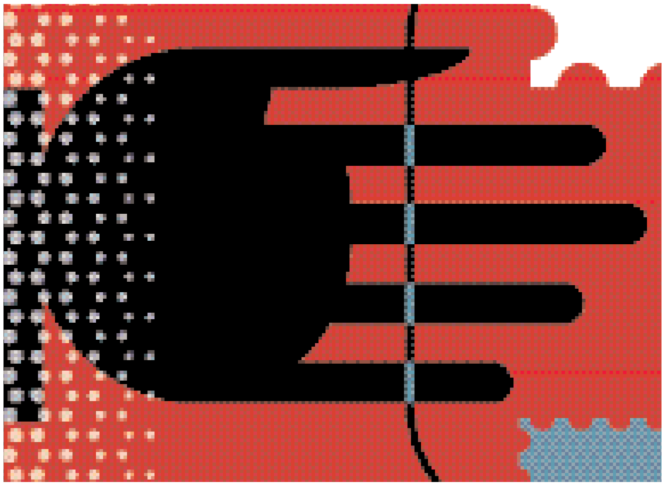
While the potential benefits are substantive, the development of a sustainable, re-engineered process can have results far into the future. Such far-reaching and effective initiatives have the long-term effect of freeing up scarce capital while producing sustainable reductions in operating costs. And in this competitive postal market, that extra cash could be the competitive advantage a post needs to achieve high performance.

CASE STUDY

USPS-FedEx Agreement Delivers First-Class Service

In forming an agreement with FedEx, the US Postal Service leverages a world-class air transportation network that has improved service levels and reduced costs.

Paul Vogel



For years, the United States Postal Service (USPS) relied on a disparate air transportation network comprising commercial airlines and cargo providers. In an attempt to streamline its air transportation network, the USPS began to search for a new, innovative alternative. The solution found was one nobody would have expected: team with a fierce, direct competitor and reap the benefits of the synergies created. The USPS agreement with FedEx is exactly that solution, and the benefits to both companies have been well worth the effort.

WHAT WAS TO BE GAINED?

As the USPS analyzed air transportation options, two necessary objectives became clear. First, the Postal Service sought an alignment with a provider that would result in better service performance, especially for first-class mail, which was susceptible to diversion, and expedited mail. And second, the USPS sought to reduce infrastructure and air transportation costs.

Using commercial airlines, the Postal Service faced challenges gaining visibility into the air network because mail often moved from a provider to third-party ground handlers and then back to the provider before making it to the USPS. Thus poor performance on one leg would have an impact on the remaining legs, and the USPS had little to no visibility into which leg or carrier was responsible for the delay. As a result, the USPS could not hold the remaining legs to service-level agreements. Thus, in seeking a new solution, the USPS sought to ensure that movement through the air network would be transparent, allowing service issues to be identified and addressed without the vagaries of the current system.

While improved service and visibility objectives were a primary driver, the USPS was also seeking an innovative solution that would deliver reduced infrastructure costs. The USPS realized that a dedicated network placed all of the infrastructure costs on itself; therefore, it sought to find a complementary service provider with its own products so that infrastructure costs could be shared with the provider.

As USPS vice president of network operations management, PAUL VOGEL is responsible for the nation's network of 350 mail processing and distribution centers and the $7 billion worldwide transportation network supporting it. His operations and logistics expertise was developed through management opportunities in New York, Boston, Chicago, Connecticut, and Michigan. Mr. Vogel earned his Bachelor of Science degree in economics from Boston State College and his Master of Science degree in business management from the Massachusetts Institute of Technology Sloan Fellows Program.

FINDING A PROVIDER

As the process to find the right provider progressed, the USPS and FedEx quickly realized there was opportunity for both to gain from a mail transportation agreement between the parties. FedEx had available capacity that could be filled with USPS mail to better leverage the network and improve utilization. And the USPS quickly understood that choosing FedEx as its service provider offered an air transportation provider with a record for service. The contract with FedEx offered improvements in service and visibility while providing reductions in cost through the following:

- FedEx had a dedicated network that could offer the Postal Service point-to-point delivery. Mail did not need to go through a separate ground handler, as FedEx had its own hubs with its own handling capabilities. The USPS therefore could measure FedEx's performance and hold the company accountable for performance scores without exceptions for ground handler handoffs. The contract also specified that a certain level of service would be maintained.
- By aligning with FedEx, the USPS entered into a shared network. Since the USPS was not the sole customer of FedEx, it was able to share the infrastructure costs, rather than assume them, which was the case with previous providers.
- FedEx also offered increased insight into air transportation operations through deeper levels of data granularity. While the USPS had data demonstrating performance of its own operations, the information exchange between the Postal Service and FedEx gave visibility into the movement of mail as it traveled through the entire network. This data offered the USPS more robust network planning capabilities and provided insight into what mail was intended to move on FedEx compared to what mail actually had. The USPS could then use this data to improve plans for what volume it would send on FedEx.

DELIVERING FIRST-CLASS SERVICE

The agreement between the US Postal Service and FedEx is a successful, innovative example of a government entity working with a private-sector company to improve performance and provide benefits to both parties. As a result of this win-win agreement, the Postal Service has been able to streamline its network and improve service on both expedited and first-class mail while reducing infrastructure costs.

Insight into the air transportation network has assisted USPS accounting functions in ensuring accurate payments while providing operations personnel deeper visibility into areas for operational improvements. For example, when mail is incorrectly placed in a container destined for the wrong location, FedEx must route that mail back through its hub, which results in a charge to the USPS for additional handling. Tracking those costs has allowed the Postal Service to identify potential operational issues and pinpoint where to focus attention.

The agreement also proved critical after Sept. 11, 2001, allowing the USPS to keep the mail moving while commercial airlines redefined security measures. In the early months of the agreement, approximately 50 percent of the priority mail that traveled via air was being transported by commercial passenger carriers. After Sept. 11, all of this mail was shifted to FedEx as the Federal Aviation Administration ruled that no mail weighing more than a specified weight could be carried on a commercial passenger flight. Without the FedEx agreement, the USPS would have faced an insurmountable logistics problem.

The ability of the USPS-FedEx agreement to improve first-class performance scores and streamline the air transportation network has no doubt influenced subsequent transportation contracts to be more innovative in establishing win-win arrangements. Contracts with the commercial air carriers now carry incentives to deliver mail to the USPS on time or early in exchange for increased mail volume. Thus, the agreement with FedEx has improved the entire USPS air transportation network and allows for a continual improvement process that will provide benefits for years to come.

The agreement between the US Postal Service and FedEx is a successful, innovative example of a government entity working with a private-sector company to improve performance and provide benefits to both parties.

Procurement Reform Using Strategic Sourcing

Posts should consider strategic sourcing, a tool to make the process less cumbersome and more effective, in order to streamline procurement processes and achieve real savings.

David P. Gragan and William Kilmartin

In an ongoing effort to uncover better ways of doing business, many purchasing leaders are discovering that a well-established, commercial best practice translates well to the public sector, including postal service organizations, or posts. Procurement in the public sector, as a profession, generally strives to find ways to make a necessarily cumbersome process more efficient, and more useful to the people it purports to serve.

One of the great ironies found in public procurement is that people often seem to expend more time and energy finding ways to bypass the process than it should take to use it correctly. But, obviously, if the system met their needs, they would be using it. So, the the key to procurement reform is understanding the needs of the people who are served by the requisition to the purchase process.

Further, and more importantly at this point, in the evolution of world-class public purchasing process, tremendous financial pressure is being brought to bear on posts. Lower revenues coupled with increased spending pressures have resulted in large budget deficits in many organizations. Public entities are seeking creative solutions to help meet the balanced budget requirements outlined in their charters. To address this issue, several state and local governments in the US, including Pennsylvania, Ohio, New York City, Florida, New Mexico, Oregon, Ohio State University, and the University of Illinois, to name but a few, have recently undertaken a comprehensive approach to better understanding their goods and services expenditures.

Their approach, known as strategic sourcing or spend management, focuses on elevating buying practices to a strategic, value-added task – one targeted squarely on generating lower prices while delivering improved value and efficiency. This approach affords these entities an opportunity to improve efficiency by streamlining business processes and practices through which they purchase, while simultaneously contributing hard-dollar savings.

WHAT IS STRATEGIC SOURCING?

Strategic sourcing is a series of procurement best practices that enable an organization to buy more effectively and efficiently. It combines a deep understanding of commodity and market information with quantitative analysis about a post's needs and spending patterns in order to achieve lower costs. There are three overarching principles of strategic sourcing: First, it is predicated on understanding current and future requirements and developing a strategy to procure required goods and services; second, it uses analytical tools and a fact-based approach to more effectively negotiate contracts with suppliers; and third, as part of a strategic sourcing program, key performance indicators (KPIs) are defined, and a process to monitor and measure suppliers' performance as well as the internal performance of an organization's procurement function are outlined. Implicit in these themes is that strategic sourcing approaches must also be flexible enough to adapt to the post's regulatory environment and specific sourcing needs.

DAVID P. GRAGAN, a certified public purchasing officer, is the director of government procurement programs at Accenture. Mr. Gragan has served as president of the National Association of State Procurement Officials and is on the board of advisers for the National Contract Management Association. He is a graduate of the United States Air Force Academy and the University of Southern California.

WILLIAM KILMARTIN is a senior manager at Accenture, focused on supply chain optimization via strategic sourcing and e-Procurement. Mr. Kilmartin has served as comptroller for the Commonwealth of Massachusetts and as the president of the National Association of State Comptrollers. He received his bachelor's degree from Cornell University and his master's degree in public administration from Suffolk University.

TARGET SPENDING AREAS

The overall universe of postal sector procurement can be described in four general categories. These categories are: construction, purchase of service for health and social service programs, procurements for unique and ad hoc projects, and acquisition of routine and recurring commodity goods and services. While the principles of strategic sourcing are relevant to all these categories, the focus of this article is on the third and fourth categories. This is the acquisition of both routine and specialized goods and services used to support the post in the business of mail delivery. In a wide range of categories, public sector organizations acquire massive quantities of goods and services. Spending in these categories alone typically comprises at least 5 percent of expenditure.

THE FACTS

Strategic sourcing is a commercial best practice that is rapidly migrating to the public sector, largely driven by budgetary needs in governments, but also by an increased awareness by many procurement officials that there is value in viewing procurement in terms of total cost of ownership, as opposed to simply low cost. Some facts about strategic sourcing include:

- Focuses on total cost, quality, and social considerations;
- Delivers tangible, bottom-line savings;
- Focuses on needs, not wants;
- Optimizes decisions at the enterprise level;
- Establishes standards for common goods and services;
- Facilitates a disciplined, fact-based decision process;
- Includes implementation of demand-management practices; and
- Supports posts' goals for increasing work with qualified minority and women business enterprises and supports efforts to strengthen environmentally friendly policies.

SOME MYTHS

In addition to the truths, there are a number of myths about strategic sourcing in the public sector. Misconceptions about this approach have caused some organizations to hesitate before undertaking this type of spend management reform. Throughout this article, I will address many of these myths.

- Some of the myths about strategic sourcing:
- Strategic sourcing only focuses on cost at the expense of quality;
- These programs minimize decision-making by the users;
- Strategic-sourcing projects subject the organization to increased operational risk;
- Savings cannot be achieved if an e-Procurement system is not in place prior to program initiation; and
- Strategic sourcing undermines organizational goals for building partnerships with minority- and women-owned business enterprises and small businesses.

In fact, strategic sourcing helps organizations save considerable amounts of money. In addition, if strategic sourcing is conceived and executed properly, it can be complementary to many of the vendor preference programs that public entities support.

THE PROOF

The proof of a successful strategic-sourcing program is in the hard-dollar and soft-dollar benefits captured. Hard-dollar savings are measurable cost reductions in the total purchase cost of a product or service, including lower prices paid for goods and services, lower costs for maintenance and support, and lower costs gained through standardizing product specifications. Soft-dollar savings include important benefits such as: 1) knowledge transfer to drive sustained benefits; 2) more efficient procurement processes and improved procurement policies; 3) reduced costs to perform purchasing transactions; 4) reduced errors rates and time for corrective action; and 5) improved compliance to laws, regulations, and policies.

For the average organization, it is common that 5 percent of the budget is spent on goods and services needed to support the mission. Savings from strategic sourcing generally run from 5 to 15 percent (sometimes more), with 5 percent being a conservative estimate. For example, Ohio, which spends $1.5 billion annually on capital and operating expenditures, recently saved $33 million (24 percent) on electronic voting machines. In addition, the New York City Department of Education, with an annual budget of $12 billion, has saved over $86 million during its 18-month strategic sourcing program. Efforts are under way in Oregon, Delaware, Virginia, and a number of other states, and are expected to achieve similar results. When these types of strategic-sourcing programs are accompanied by a strong program of knowledge transfer, government organizations are empowered to sustain the savings and increase them by applying a robust strategic-sourcing methodology in new areas.

The remainder of this article will discuss the key steps of a strategic-sourcing program, share insights about what other government organizations are doing to generate significant savings and discuss some key factors for success.

Most public organizations that have undertaken this type of purchasing reform have done so for three primary reasons: 1) there was an understanding of the hard-dollar savings available; 2) there was both an interest and a willingness to change processes to become more efficient; and 3) there was an awareness of proven processes and tools available to help drive savings quickly without making an initial investment in technology.

For organizations evaluating strategic sourcing as a possible option to generate savings for their organization, here are several questions to ask and answer. Does your organization:

- Spend more than 5 percent of its budget across several categories?
- Purchase the same or similar products from many different suppliers?
- Conduct business with suppliers that sell multiple products to your organization?
- Have a high volume of transactions with major suppliers?
- Conduct a significant amount of purchasing in a decentralized manner, with limited standardization and ability to enforce compliance for central or statewide contracts?
- Lack the tools to optimally manage supplier performance (e.g., consistent data and external benchmarks)?
- Lack skilled resources who have sourced categories in multiple environments?

If yes is the answer to many of these questions, you likely have a great opportunity to capture significant savings through a strategic-sourcing program. There are several ways to get started. Organizations can start slowly, by piloting one commodity or pursue several commodities simultaneously. Either approach will get a post on track for generating benefits that can be used to help close current and projected budget gaps.

KEY COMPONENTS OF A PROGRAM

Although public entities typically engage in many of the components of strategic sourcing, the most effective way to jump-start this procurement-reform initiative is to bring aboard expertise for the comprehensive and sustainable change-management effort. Frequently, this means use of an outside consultant. The tools and approaches used by firms engaged in this type of work are significant and bring true value, as well as speed, to the transformation process.

The foundation of an effective strategic-sourcing program is a standard and proven methodology. A robust strategic-sourcing methodology should enable the post to leverage its buying power and redesign its procurement practices to create an effective, category-by-category strategy. It also provides the ability to realize ongoing price reductions, meet the needs of end users, and accelerate benefits realization during the implementation phase. As shown in Figure 1, a strategic-sourcing program is typically divided into two key phases: an assessment phase and an implementation phase. The project is supported and enabled by solid program management and a well-integrated approach to knowledge exchange. Each of these components is discussed in Figure 1.

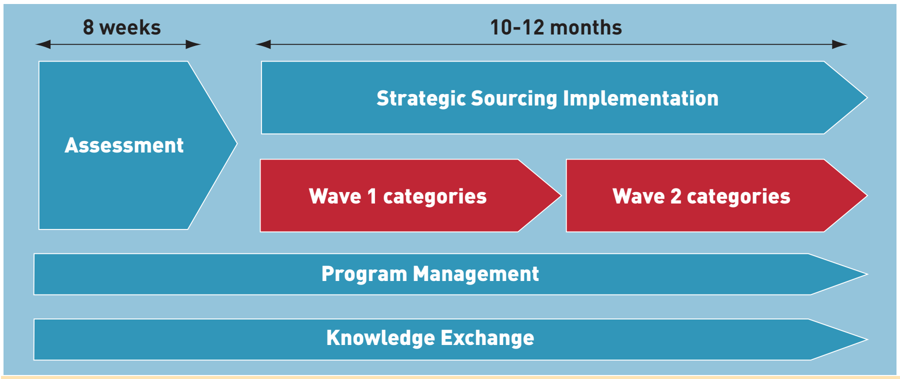


FIGURE 1 High-level, strategic-sourcing methodology

ASSESSMENT PHASE

The assessment phase, which typically requires six to eight weeks to complete, helps the post assess savings opportunities by answering the following questions: What are the high-level spending areas? What is the category segmentation and potential savings? Who participates on the category teams? What is the appropriate sourcing tool (e.g., reverse auction, request for proposal, renegotiation of existing contracts, etc.) for achieving the potential savings? Typical tasks completed during this phase include: segmenting spending categories, analyzing spend data, reviewing invoices and contracts, and prioritizing categories into implementation waves.

The outcome of the assessment phase should provide the procurement organization with key products or deliverables to drive fact-based decision-making. Among the deliverables resulting from the assessment phase are category selection and prioritization tools, a savings opportunity summary, a strategic plan for realizing the savings, a category prioritization matrix, and most importantly, the business case for pursuing the savings. This business case is the most critical document that is produced, as it outlines the expected cumulative benefits in terms of reduced expenditures, as well as the work required to achieve the savings. This is your decision paper for determining whether or not to proceed with the implementation phase.

IMPLEMENTATION PHASE

The implementation phase builds upon the work done in the assessment phase. This phase is typically divided into two or three waves, which require five to six months each to complete. During the implementation phase, the post approves categories that will be addressed in each wave. Using this approach encourages rapid-savings realization early in the project and builds momentum for future waves. As part of this phase of work, additional in-depth analysis of the data and procurement processes for specific categories are performed, new bid solicitations are conducted, bids are evaluated, and contracts are implemented. In addition, performance metrics are defined to monitor contract implementation, using supplier compliance on an ongoing basis in order to drive continued satisfaction with the planned outcomes. The primary goal of this phase is the implementation of new or revised contracts with reduced pricing to drive hard-dollar savings and the overall improvement in procurement-process efficiencies.

KNOWLEDGE EXCHANGE

One of the sourcing consultant's responsibilities is to build sustainability into the effort, and to ensure that the client is fully capable of sustaining the savings into the future. Sitting side by side with the postal professionals ensures that they are fully aware of what analytical tools and data are being used. This effort requires some investment of time on the part of the procurement staff, as well as the professional buyers and managers, but it is kept to a minimum and is done on a not-to-interfere basis. The return on that investment is measurable and clearly in the posts' interest. Through this knowledge exchange, posts can institutionalize the strategic-saving methodology.

When working with a consultant, knowledge exchange, through effective training and knowledge transfer, is a key enabler to capture and sustain the benefits achieved through strategic sourcing.

- **Training:** Effective training of key employees has a significant impact on compliance. For this reason, training should address several sourcing implementation topics, including internal performance management (compliance and benefits tracking), monitoring supplier performance, and managing contracts. Training is typically provided in two ways. First, a core part of the employee training occurs as a result of their participation on the sourcing category teams. Secondly, training is delivered through

structured classroom-style training courses. Typically, the audience for this training includes key buyers, stakeholders, and purchasing supervisors. Training courses should be tailored based on a detailed, sourcing-skills assessment of purchasing professionals.
- **Knowledge Transfer:** Knowledge transfer, which is the process of delivering information to the appropriate procurement professionals, should be embedded in the strategic-sourcing approach. Knowledge transfer is key to sustaining benefits and building procurement organization capabilities. Information transferred through the sourcing process should include software, databases, workflows, role descriptions, policies, tools, templates, methodologies, training materials, and negotiation techniques.

Effective training and knowledge transfer together help improve the performance of procurement professionals because they focus on developing targeted skills that can be applied in many areas of their current jobs. Ultimately, the procurement organization's overall capabilities will be significantly enhanced because employees have the knowledge, skills, and tools to achieve business objectives and repeat sourcing activities as needed.

Theme		Success Factors
Identify Sourcing Opportunities and Build a Business Case	1	Conduct a strategic sourcing assessment and make decisions based on a robust business case
Assign the Right Resources	2	Organize executive sponsorship
		Ensure adequate and appropriate assignment of resources and knowledge transfer
Develop a Plan for Benefits and Compliance Tracking	3	Outline an approach and plan for agency buy-in and compliance
		Establish a benefits tracking plan and reporting frequency
Address Key Accounting and Policy Issues	4	Determine the special accounting issues for savings measurement and savings capture
		Decide policy issues, such as impact on small, socioeconomic vendor preferences programs
		Address special requirements and constraints on bidding and sourcing
Monitor Project and Mitigate Risks	5	Develop a risk mitigation plan
		Monitor and manage project weekly
Communicate Project Successes	6	Continually market project successes, both internally and externally
Choose a Flexible Funding Model	7	Choose a self-funding project model that aligns with the post's interests
Select the Right Partner	8	Select a committed partner with broad business capabilities including technology, human performance, process and strategy

FIGURE 2 Strategic Sourcing Success Factors

PROGRAM MANAGEMENT

Program management is a key support and enabler of the overall sourcing process. Through effective program management, the progress and performance of the strategic-sourcing project are closely managed, monitored, and executed. Three tools used to manage the project include:
- A detailed work plan, which guides the efforts of all resources and project tasks and is monitored to confirm that category teams are reaching their milestones in the appropriate timeframes;
- A checklist of all deliverables and work products which is used to monitor the scope of the project and confirm that all agreed-upon materials are produced/executed; and
- A robust and flexible communications plan to ensure that the post and the consultant as partners are fully in tune with each other and with mutually supportive objectives.

WHAT DOES IT TAKE TO BE SUCCESSFUL?

There are several factors that can help increase the likelihood of a successful strategic-sourcing project for postal organizations. Figure 2 lists some of those factors.

HOW DO YOU PROCEED?

To gain the advantages of a comprehensive spend-management or strategic-sourcing program, with the attendant benefits of process improvement and sustained procurement transformation, a number of steps can be undertaken.

Clearly understand your goals, and craft a solicitation that allows you to find the right partner for this effort. Seek not only the hard-dollar savings that may provide the impetus for pursuing strategic sourcing, but also look for a clear understanding of the unique nature of public-sector purchasing. Ensure that knowledge transfer is part and parcel of what is expected of the consultant. Only through this approach can you be assured of sustained performance into the future. Look for relevant and substantial experience. This is possibly the most significant mitigator of risk for the post seeking to improve its procurement process and pricing. Work collaboratively with the affected parties in the post, to ensure understanding and support, which is critical to the success of the program.

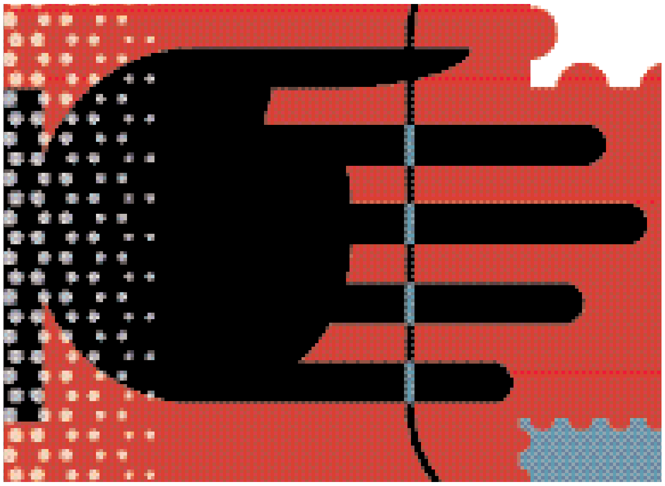
The benefits can be substantial and the trend in government is clear. This effort ultimately benefits not only the requisitioners who rely on the procurement process to provide needed goods and services, but ultimately the public that they serve.

CASE STUDY

Lean Production in Post Danmark A/S

Post Danmark has seen significant benefits from implementing the Lean philosophy in production and distribution. This article explores hardware (Lean production structure) and software (Lean management).

K. B. Pedersen and Thorkild Jacobsen



Industrializing postal processing and distribution has been an issue at Post Danmark for a long time. In 1997, Post Danmark initiated the Total Involvement in Quality program (Excellence model). In 2000, as a supplement for handling the process of industrializing, Post Danmark chose Lean as the critical strategy for developing production and distribution. Lean originated at Toyota, but is now widespread in many industries and branches – including postal processing. Lean has given Post Danmark tremendous results in production and distribution, as well as a more stable development.

The Lean tools provide the ability to focus on value for the customer and remove waste in all processes. They also help to create end-to-end processes in place of function-based production structures and are critical to driving stable results through standards and enhanced production and distribution knowledge.

CHALLENGE

The basic challenge for all posts is to create value for the customer. Post Danmark sought to create that value by ensuring on-time delivery throughout the process at the lowest possible cost. To achieve both of these goals, standardization was needed throughout the process, from collecting the mail to delivering it to the customer.

This standardization effort entailed analyzing and then standardizing every operation throughout the process. Operations at different letter-mail and distribution centers should be identical. Management techniques and decision-making processes should also be standardized across different centers. Finally, if standardization has been effective, costs across facilities will also be standardized.

This standardization effort required an entirely new set of leadership and management skills than what were required in traditional postal environments. It was estimated that establishing and maintaining a standardized process would take more than half of a manager's and supervisor's time. And that sort of management is certainly not what they are accustomed to; however, keeping daily focus on standardization around value-adding processes is the most important job managers and supervisors perform.

To keep the focus on the value-adding activities, the board of directors of Post Danmark established five targets:

- Increasing productivity by 25 percent;
- Reducing the lead time by one hour;
- Establishing teams with end-to-end responsibility;
- Increasing job satisfaction; and
- Increasing delivery service quality to a stable level of 95 percent.

THE SOLUTION

Both the distribution and production organizations developed a very specific framework outlining the process

K. B. PEDERSEN has been deputy chief executive officer at Post Danmark since 1995. He initiated the Lean implementation at Post Danmark. Mr. Pedersen also serves as chairman of the board of directors of Scandinavian Distribution and Postal Service A/S.

THORKILD JACOBSEN is the head of development for letter production and transportation at Post Danmark. Mr. Jacobsen has been involved in the implementation of Lean at Post Danmark for the last four years. He holds a Master of Science in engineering.

for implementing Lean and came up with a plan that included implementing this framework at every facility. The framework identified the tasks for the project; when each should be completed; the expectation for input and output from development seminars; the project organization; and the involvement from the various organizations.

The use of Lean development tools was mandatory for each project. Value Stream Mapping was used to identify what could be done to create more value for the customer as well as identify processes that added no value at all. Project managers were asked to define processes that could be used across the organization. This began with analyzing the production structure and creating end-to-end processes for each product line (standard, large, and oversized letters) to replace the functional production layouts (e.g., optical character read functions and bar code sorting functions) that were previously used. This analysis produced standardized process layouts for all centers, both production and distribution. Key performance indicators were also part of the standardization effort, so that benchmarking, as well as comparison between production cells, could be done regardless of the center size.

One example of a standard management tool is the creation of charts displayed in a prominent location on the Kaizen Key Performance Indicator (KPI) board. This display is used to present the KPIs for each team (see Figure 1). In the middle of the display is the Kaizen tool. On the left side of the display is a process flow upon which suggestions, written on small Post-its, can be placed to describe ideas for improvement. On the right side of the display there is another process flow where all the continuous improvements are marked with stars. Every team in production and distribution has a Kaizen Key Performance Indicator board. Once a week, a team meeting is held where team members gather around the board with their supervisor and manager to discuss the KPIs and how they can perform better as a team. If one of the KPIs is lower than the goal (e.g., in the red), the team performs a small Kaizen to make an action plan ensuring the KPI will be in the green next week. The most important aspect of these team meetings is "being in Gemba (shop floor)" and involves the participation of the center manager, HR manager, development manager, technical manager, production manager, and financial manager. This is where they get most of the information they need to drive better performance.

To make continuous improvements work, Post Danmark has an award-driven suggestion system. Employees and teams can suggest any improvement through the system. Each suggestion is evaluated and, if it fits into our plans and goals, the employee or team are awarded. This gives a lot of motivation throughout the organization.

Implementation of Lean practices has not been easy, but there are three aspects that have been critical to its success.

Fast-Track Analysis to Implementation

The average implementation takes one year from start to finish. These implementations are comprehensive, touching all aspects of the center. Moving machines, creating new production teams around end-to-end processes, and implementing new production planning techniques are all involved in a Lean implementation.

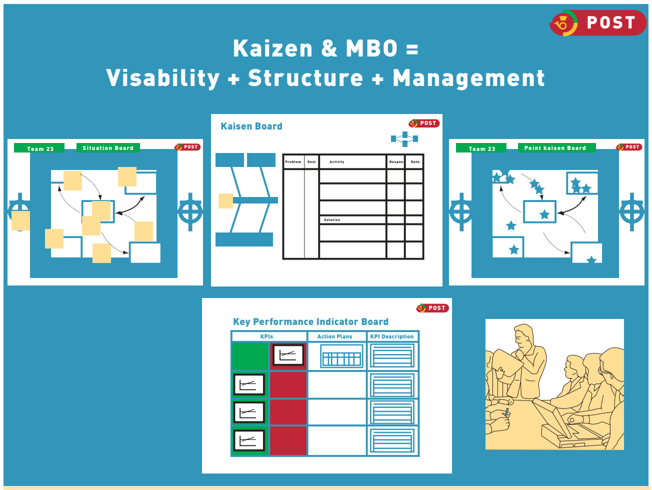


FIGURE 1 The Kaizen Key Performance Indicator Board

Train Leaders and Workers Throughout the Implementation

Implementing Lean is not just moving around machines. Basically, it is teaching a new way of thinking. That makes training aimed at changing people's understanding of production and logistics, a key aspect to the use of Lean tools. Managers are trained and then participate in the training of the workers.

Heavy Involvement From All Levels Of the Organization

Lean does not work unless all levels of the organization understand its philosophy. Therefore, the project teams consist of many local people and a few Lean specialists.

CONCLUSION

This first phase of the Lean journey has been a tough one. While changing the production structure is not easy, changing behavior throughout the organization has been even more difficult. But this will be even more critical in the next phase, which will focus on zero defects and will establish a Kaizen culture.

The first phase, however, has been successful. Lean implementation has eliminated 20 percent of the total production and distribution costs while service performance has been maintained at 95 percent. The results have been almost too good and were achieved almost too easily, which indicates that even higher goals are possible. To reach those higher standards, it will be necessary for standards to be accepted throughout the whole organization. Only then can stable, sustainable results be achieved. Stability is now the focus with the whole organization concentrating on quality and productivity, and looking at 2004 with the aim of maintaining high-performing production and distribution levels.

RFID Applications for Postal Operations

Data-capture technologies are making choices and managing resources easier. These technologies are being employed to transform posts around the world.

Robert E. Mann, Cyrille Bataller and Kevin M. Mitchell

The Mandarin ideogram for the word "crisis" includes one symbol for the word "opportunity" and one for the word "danger." This perfectly describes the challenge of radio frequency identification systems (RFID). The world is facing a silently building RFID crisis, and postal operators are facing it along with everyone else.

A not-so-new technology, RFID has matured, making it practical to consider for many applications involving object identification. It can silently and transparently alert computers and people so that they can act on that information. Taking the form of specialized tags that are attached to or even imbedded in items, containing a microscopic computer chip and a paper-thin antenna, RFID tags may one day be imbedded in almost everything.

LOWERING INFORMATION COSTS

The first opportunity from RFID is lowering the cost of information. Today, business information is often conveyed by a combination of bar codes and electronic data interchange (EDI) between computers. After 30 years' experience with these mature practices, we have substantial knowledge and infrastructure for generating and reading bar codes. However, there are significant shortcomings: bar codes need to be physically oriented to be seen by a reader and must be read sequentially; bar codes cannot be changed once printed and are susceptible to dirt or scuffing; and finally, though the information connected with a bar code can be dynamic, transferring it to the point-of-need (typically the scan location) quickly and efficiently is highly uncertain.

In contrast, RFID tags do not need to be seen to be read; they can be read at a distance, even through or around many materials. Tags can electronically store large amounts of information, which can be changed and updated. And, since information is, by definition, attached to the thing itself, it's always available right at the point of use, without being separately transmitted. These features lower labor needed.

INCREASING ACCURACY

The second opportunity from RFID is increasing information accuracy. By allowing information to be captured and stored instantly, wherever it is most convenient, RFID helps ensure the information is correct. In fact, because RFID increases the instances in which humans can be taken out of the loop altogether, it can help raise accuracy levels to near perfection.

NEW INFORMATION

Finally, RFID tags can capture and convey new kinds of information that are difficult or impossible to get using traditional methods. Tags can be made unique and they can easily carry encrypted authentication information. RFID tags can also be combined with sensors on a chip, making it possible to have tags actually collect data about conditions they experience. These features enable new security and anti-counterfeiting applications.

CAUTION AHEAD

While RFID offers undeniable benefits, there are several dangers for organizations that apply it. Perhaps the greatest concerns involve privacy. The idea that things might be uniquely identifiable and tracked by an invisible sea of radio waves makes many people nervous. Several recent efforts to apply RFID commer-

ROBERT E. MANN, an associate partner with Accenture's Supply Chain Management practice, has helped clients with their logistics operations for over 20 years. Mr. Mann's expertise includes postal sortation, network design, and transportation operations.

CYRILLE BATALLER, a senior manager at Accenture Technology Labs, has helped clients identify and implement business applications of technology innovation for over 10 years. Mr. Bataller's expertise includes technology architecture for clients in industries such as government, retail, airlines, financial services, and automotive.

KEVIN M. MITCHELL, an associate partner with Accenture's Supply Chain Management practice, has helped clients improve their supply chain operations for over 16 years. Mr. Mitchell's expertise includes distribution operations, network design, and inventory management as well as business case development, piloting, and implementation of RFID solutions.

cially on a large scale have been delayed until privacy concerns are addressed.

Standards are lacking for commercial applications. There are starting points for important applications, like the electronic product code (EPC) – analogous to the common universal product code – for marking consumer products. However, few standards exist for many important applications. Initial efforts by the Universal Postal Union have created standards for RFID information encoding.

RFID usage can put large demands on back-end computer systems. When an item is being read automatically over and over and generating hoards of data (compared to bar codes) each time, transaction volumes on supporting systems can grow enormously.

Early adopters will need to balance many complex trade-offs when choosing which RFID technologies to use. Radio-frequency bands, tag formats, data encoding schemes, reader technologies, the items to be tagged and the environments where they will be used all need to be considered during system design. The options are complex and subtle, meaning that expert advice is all but essential to arriving at the best solution.

Finally, the greatest danger may be waiting too long to learn to use RFID. If the history of other, similar technologies is any indication, the early adopters will have considerable influence in solutions, standards, and infrastructure.

BRIEF HISTORY

The earliest development of an RFID-like technology was in the 1940s for aircraft recognition systems. Later, in the 1960s and 1970s, RFID was evolved for use in nuclear weapon and railroad car tracking systems. These areas had needs for tracking critical or expensive items that could tolerate the high costs of tags and readers available at the time. The first large-scale applications came in the 1980s for cattle identification, where tags were actually imbedded under the animals' skin. Therefore, RFID is not a new technology; tagging has been around for more than half a century.

It is very likely that RFID will experience explosive growth in the next few years. This will be driven by adoption among prominent consumer products manufacturers and retailers as the next evolution beyond bar codes. Four very notable events are propelling usage. The world's largest retailer, Wal-Mart; the world's fifth largest retailer, Metro; the largest retailer in the UK, Tesco; and the US Department of Defense announced they will require vendors to adopt RFID by 2005 for some applications. These organizations will adopt a form of the EPC for their purposes although using different flavors of the EPC standard. For example, Wal-Mart will use standards maintained by EPCglobal, a joint venture company of the Uniform Code Council Inc. (UCC) and European Article Numbering International (EAN International), the same companies that administer common bar code standards. The DOD is currently using standards set by the International Standards Organization (ISO) for assets and EPC for goods. Ultimately the goal is to harmonize into one global standard, however this will take some time due to the origins of each organization.

The ultimate consequence of such a dramatic increase in RFID usage will be price reductions, and improvements in quality and features of tags. Other organizations can look forward to a much easier time with RFID as the groundswell builds around these early adopters.

THE ART OF TAGS

There are a wide variety of important technical characteristics in an RFID system: the radio frequency of operation, whether data on the tag must be modified, how much data must be carried, the range at which tags are to be read, the environment in which tags must function, the materials to which they are attached, etc. At the highest level, tags divide into two categories: passive and active. Passive tags derive power for their circuitry from the external reader's radio signal. Active tags, meanwhile, contain a battery that provides independent power to the tag.

The amount of power that can be delivered to passive tags is extremely small, and consequently the power of these tags to compute and store information is limited. In fact there is so little power, that passive tags don't transmit a radio signal of their own. For similar reasons, passive tags must be read at short range, about two to 10 feet. Passive tags tend to be smaller and thinner. For example, the tag may be laminated into a self-adhesive label.

Active tags have much greater capabilities. They can hold and manipulate more information. They can communicate at much greater distances – as great as 300 feet. And, they can more easily have sensors. Active tags are larger than passive tags and more expensive.

FALLING COSTS

Today, passive tags are designed to be written once and read many times. WORM tags have reached a "street price" of 20 to 50 cents, still far too high for marking individual consumer products. More capable passive tags may range upward of $5 each, depending on features. This is one of the principal barriers to widespread use of RFID. However, the price is low enough that RFID can compete with bar code labels for use on pallets and other containers used in logistics operations. This is the area where most current efforts are under way in the consumer products supply chain, at least until prices reach a target of about 5 cents per tag.

Today, postal operations have implemented RFID in various closed-loop systems to measure, monitor, and improve operations. For example, RFID is being used to monitor international mail service between major hubs.

Active tags have also dropped in price over the years, but they are still relatively pricey. The range of costs varies greatly due to the tag's features. The more powerful, the more rugged, the more memory, and the more sensors an active tag has, the more it will cost. At today's prices, a permanently affixed, read-write tag with a few kilobytes of memory will cost in the range of $10 to $50. This price is far too high to allow the tag to be discarded after just one use; they are used in systems that allow the tag to be reused hundreds of times, in order to spread their cost over a large number of transactions. These tags are the ones most likely to find immediate use in postal operations. For that reason, most early postal applications for RFID are likely to be closed systems. For example, tags might be permanently attached to mail bags or parcel carriers. They could also be used to track test mail pieces through the delivery network to measure service quality or identify bottlenecks. These tags would be used, erased, and reused each time the carrier or bag was used.

POSTAL PILOTS

Today, postal operations have implemented RFID in various closed-loop systems to measure, monitor, and improve operations. For example, RFID is being used to monitor international mail service between major hubs. By randomly "seeding" tagged letters into trays, elapsed delivery time can be measured. This allows service issues to be identified and addressed in a reliable and cost-effective manner.

Other postal operations have piloted tracking mail containers to measure trailer utilization and to track container locations. Manual container tracking systems tend to break down when volumes are high and there's a deadline to meet departure times. By allowing information to be captured automatically, RFID makes sure it is done, even under stressful conditions. Postal managers can rely on the information to make decisions that improve transportation costs and to relocate containers when needed.

RFID-tracked mailbags, which provide delivery status, have already been created for priority mail services. Tagged mailbags are automatically read at specific points in the network to provide this automated track-and-trace capability.

Four additional areas can benefit from the cheap, accurate, and pervasive information obtained using RFID. Each of them has the prospect for returning substantial monetary benefits, as well as having the potential to significantly upgrade postal service capabilities, an ever more important consideration in the competitive delivery market.

Track and Trace

Most postal services provide at least a limited form of track and trace, particularly for premium delivery services. Today, tracking uses bar codes. Switching to RFID tags can lower tracking labor by eliminating the need for most manual piece handling. It can also allow many more checkpoints to be conveniently captured within the postal network. Clearly such a pervasive use of tracking would increase the information volume handled by back-end systems.

Workload and Transportation Planning

Either in combination with pervasive mail piece tracking, or in conjunction with higher-level container tracking, it will be possible to capture much more reliable real-time information on workload volumes within the postal network. This kind of information is at the heart of efforts to make the mail sortation and transportation networks more dynamic. It will be much more practical to adjust routings to lower transport costs and speed mail efficiently through the network. The same information can also be used to bring about more efficient utilization of the postal labor force. By including both available and constrained capacities within the labor force, the flow of mail can be optimized. The global combined potential results in billions of dollars in savings.

Asset Management

RFID can also be used to track items other than mail: vehicles, trailers, rail cars, and various containers, for example. These are expensive assets representing an enormous capital investment within the network and their availability continually affects the capacity of the network. Pervasive, reliable tracking of these assets using RFID makes it practical to know where everything is and allows for better informed decisions to balance resources.

Security

The value of the previous opportunities varies with each operator's environment, but everyone shares the need to dramatically increase the security of mail movements. RFID can play a central role in helping provide higher levels of mail security. By enabling continuous monitoring of access, environmental conditions, and other factors, RFID can promote physical security. Security is further enhanced using RFID's ability to provide authentication services for mail, and by capturing more refined information on mailers and recipients. Postal services will have to approach these ideas cautiously because they also imply much more intrusion into personal privacy. This was demonstrated by some of the negative comments drawn recently by the US President's Commission's report calling for "intelligent mail."

A DISCIPLINED APPROACH

We suggest that organizations use a disciplined approach to RFID consisting of five steps. The purpose of this approach is to ensure that early projects in RFID have tangible benefits and are most readily implemented in a controlled way. By following these steps, postal operators can learn how to best apply RFID, while minimizing the costs of knowledge.

> *RFID is a technology that has achieved its time. It's real, it works, and it's making never-before processes possible.*

Value Targeting

First, review all operations to identify benefits of RFID and the likely costs of initial and long-term investments in new processes and technologies. Focus on processes that involve information exchanges, and initially focus internal processes. Although the long-term benefits of RFID exchanges among mailers and recipients are the largest, these processes are also the hardest to handle in a controlled way.

Process Design and Technology Selection

Once specific activities are identified as high-value targets for RFID, take a comprehensive look at the entire process and design a new one that exploits the capabilities of tags. This design helps identify the exact information requirements tags must satisfy, specific environments in which they must operate, and the points of interaction for reading and writing. Once these requirements have been detailed, complex trade-offs must be made to select the exact technologies of tags, readers, and requisite supporting information systems.

Piloting and Benefit Validation

We advocate piloting RFID processes for a long enough period of time to ensure the processes and enabling technologies work effectively. This period also proves benefits that are needed to justify continued investment.

Refinement and Integration

Learning from the pilot will suggest how to refine the original process and technology design. At the same time, it is necessary to integrate the pilot processes and technologies into existing operations. During the pilot, it is likely that corners will be cut to simplify and speed the test; they need to be restored in a fully operational solution.

Deployment

Deploying the new RFID application in most postal environments is a very complex undertaking. Everything has the potential to change in the new processes: there are new activities, new ways of doing old activities, potential new jobs, and of course new technologies that may be viewed with skepticism. With thousands of sites, and potentially tens of thousands of people affected by the change, the complexities cannot be overstated. Clearly a very structured approach must be taken to introduce the change, to motivate compliance with new requirements, and to monitor achievement of benefits.

CONCLUSION

RFID is a technology that has achieved its time. It's real, it works, and it's making never-before processes possible. Organizations that find ways to explore RFID, and at the same time create benefits, will be in the best position to leap ahead of their competitors as the systems mature and costs drop even further.

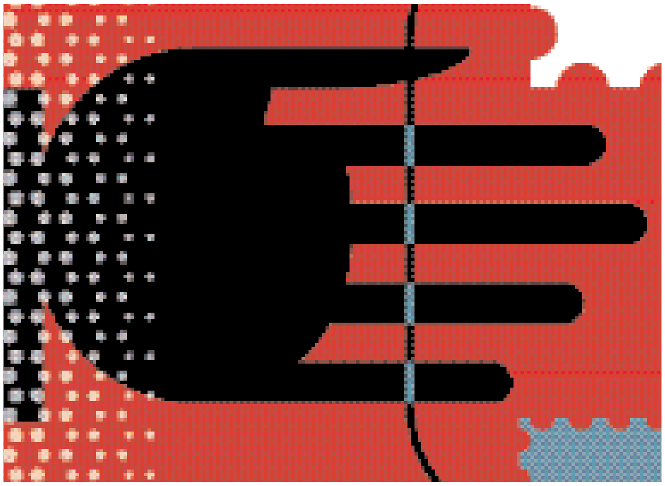
It is truly a crisis that requires action from postal executives to motivate their organizations to use it and learn. The opportunity it presents cannot be ignored. Organizations that wait for costs to drop and for standards to be institutionalized will end up playing their competitors' game, by someone else's rules. Therein lies the danger the crisis presents. At the same time moving too quickly can mean investments in dead-end technology solutions, applied to processes that don't give clear benefits. Finding the proper balance between speed and caution is at the root of the crisis executives face with RFID.

CASE STUDY

Optimizing Delivery at the US Postal Service

The Delivery Operations Information System provides delivery unit supervisors of the US Postal Service the tools they need to manage the delivery workforce more efficiently and effectively.

Patrick Donahoe



Delivering 670 million pieces of mail a day to 141 million delivery points, six days a week, is an enormous undertaking for the United States Postal Service (USPS). However, the regulatory framework continues to require the Postal Service to provide universal access to mail delivery services throughout the United States (and US territories) and to break even financially over time. Financial performance in this environment continues to be difficult due to steady growth of the delivery network by approximately 1.8 million new addresses per year and a general decline in mail volume revenues.

Labor costs are the most significant portion of the Postal Service operating budget, and delivery operations made up 42 percent of all Postal Service labor hours in fiscal year 2003. Therefore, one of the major challenges for the Postal Service is the effective management of these work hours while maintaining high-quality delivery and customer satisfaction. The US Postal Service believes that the key to success in this delivery environment is a skilled front-line supervisory team with technology tools that provide actionable data for daily management decisions. To provide that data, the US Postal Service implemented the Delivery Operations Information System (DOIS) in 2001 as the cornerstone application to support delivery operations supervisors.

THE CHALLENGE

In 1996 the United States Postal Service conducted a study of the amount of time delivery unit supervisors spent entering data at the delivery unit computer (DUC). Focus groups were created to assess and prioritize needs identified by field users.

The focus groups visited two districts per area and collected 295 surveys.[1] The results of this survey showed that current systems were not used by delivery unit supervisors to support decisions. Supervisors spent too much time each day entering data, leaving little time to manage the delivery unit. The focus groups also identified current systems as ineffective, but critical to delivery unit management.

These applications were legacy systems from the 1980s consisting of various programming languages, data structures, and communication methods. The applications had limited performance measurement capability, were time-consuming, and had been inconsistently deployed to the field. Large technical issues existed, including limited help, lack of ownership, poor response, and lack of application support.

Furthermore, the need was identified to provide a single tool to assist delivery unit supervisors and route examiners in conducting route inspections and adjustments. A retooling effort was needed to make the DUC usable and valuable for day-to-day decision-making by combining technology with highly integrated applica-

As chief operating officer and executive VP at the United States Postal Service, PATRICK DONAHOE is responsible for the day-to-day activities of 729,000 career employees who staff 38,000 facilities that are linked by 211,000 vehicles. Mr. Donahoe earned a Bachelor of Science degree in economics from the University of Pittsburgh and a Master of Science degree as a Sloan Fellow at the Massachusetts Institute of Technology.

tions, a central data repository, a consistent user interface, and a standard and scalable technical architecture.

With more than 6,500 delivery units in 80 USPS districts located in 50 states and US territories, implementing the solution presented significant challenges. Deploying a new application would require assessments in all deployment locations, upgrades in hardware, and a training program for over 20,000 people. The effort would need to be precise, well orchestrated, and thoroughly tested to effectively minimize and manage business risk.

THE SOLUTION

In 1997, as a result of the assessments and studies, DOIS was defined as a mechanism for developing a baseline infrastructure for re-platforming the DUC applications. The DOIS project was not going to be just another software deployment, but an overall business solution. Deployment management, training, readiness assessments, and site activations would all be strategically implemented.

Office management and route management were identified as the highest-priority areas requiring attention. As mentioned above, delivery operations made up 42 percent of all Postal Service labor hours in fiscal year 2003. From these hours, over 70 percent of delivery hours were in the city carrier labor category. By having readily available, accurate volume data, coupled with the carriers' demonstrated ability, delivery unit supervisors could make improved decisions and have a positive impact in both capturing under-time and reducing overtime. Nationally, the potential results in achieving savings, increasing productivity, and improving service would be significant.

Between June and December of 1999, DOIS was deployed on a pilot basis to 345 sites in six USPS districts.[2] Over 1,200 delivery unit supervisors and managers were trained during DOIS pilot deployment. The results achieved from pilot deployment of DOIS were favorable:

- DOIS supported the delivery of mail consistently to households and businesses, through equitable allocation of resources to cover the daily workloads;
- DOIS reduced operating costs through improved scheduling and deployment of letter carriers, based on daily workload and correctly established route structures;
- DOIS enabled more effective route inspections and route adjustments by introducing a comprehensive mechanism to collate inspection and adjustment data; and
- DOIS improved productivity through a balanced distribution of workload across delivery units and routes.

On Aug. 29, 2000, following the success of the DOIS pilot deployment, national deployment of DOIS was approved. DOIS national deployment, completed in four phases to the remaining 80 USPS districts, ended in September 2002. At the end of the national deployment, more than 6,700 delivery units were actively using DOIS and more than 20,000 people had been trained.

The decision to proceed with DOIS national deployment in August 2000 was based on an economic decision analysis report (DAR). The calculated benefits in the DAR were based on the DOIS pilot results. The DAR estimated the annual productivity of DOIS sites would be 1.5 percent better than non-DOIS sites and that the annual productivity savings would be $91.9 million.

The business performance page of the fiscal year 2002 accounting period 1 "Performance Measurement Report" showed that for fiscal year 2001 accounting periods 12 and 13, the DOIS sites nationwide experienced a 1.5 percent better productivity rate than the non-DOIS sites. This is the same level of productivity increase resulting from DOIS reported in the DAR. However, today this 1.5 percent translates to a $193.9 million annual productivity savings vs. the $91.9 million in the DAR.

There are many intangible benefits of DOIS that are difficult to measure but that should be considered when evaluating DOIS performance. During the Pacific area's national deployment training, new Postal Service end users identified and documented over 100 advantages of DOIS. For example, the user friendly, point-and-click navigation was accepted by the end users and DOIS gave the supervisor access to all the tools necessary for daily management decisions. The supervisors were trained and are using it.

CONCLUSION

Maximizing on-time and profitable delivery of the mail while maintaining high levels of customer satisfaction are the goals of every organization involved in delivery operations. From the days of the horseback, stage, steamboat, and railroad to multi-line optical character readers that have processed approximately 24 billion address images per year at their peak,[3] the United States Postal Service strives to achieve those goals. DOIS was developed to improve the management of delivery unit operations and transport the delivery of mail into the 21st century; from the initial results, the DOIS solution has exceeded expectations and surpassed the expected results.

Whether in delivery or in leading the development of new and better ways to process the nation's mail, the Postal Service always has sought the latest and most effective ways to get the job done. The transformation will continue, and DOIS will continue to deliver high performance along the way.

ENDNOTES

1 The Postal Service is divided into 10 geographical areas (Capitol Metro, Mid-Atlantic, Western, Eastern, Great Lakes, Southeast, Northeast, Southwest, Pacific, and New York Metro) consisting of three to nine districts per area for a total of 80 districts.

2 Salt Lake City, New Hampshire, Sacramento, Lancaster, Erie, and Fort Worth were the districts involved in the pilot.

3 The United States Postal Service: An American History, Government Relations, United States Postal Service, 475 L'Enfant Plaza, SW, Washington D.C., under the direction of Ralph A. Moden, senior VP.

Finance and Infrastructure: Competitive Advantage or Performance Drag?

Posts must transform their finance and back-office operations from transactional-focused cost centers to organizations that drive performance.

Thomas Holtmann and Paul Duff

Postal organizations, whether measured in terms of revenues, employees, supply chain complexity, retail presence, or real estate holdings, are ranked among the largest in their respective countries. Not surprisingly, so are their finance organizations and the IT infrastructure necessary to support such large and geographically dispersed organizations. A central question in today's challenging postal environment is whether these structures are, or can be, real competitive advantages or whether they act as a drag on a post's ability to achieve high performance.

Finance organizations, for example, are often focused on transaction processing. Recent surveys found that finance employees spend some 39 percent of their time processing transactions, 27 percent consulting with the organization and 20 percent on fiduciary duties. Only 14 percent of time was spent developing and driving corporate strategy (see Figure 1).

Another way to look at this is that 60 percent of an average finance professional's time is devoted to lower value-added activities. Typically, postal finance organizations deliver the least desired services – back-office transaction processing and data collection – at costs most consider too high; while the most-valued services – business analytics, performance information, and strategic insight – are in short supply.

These high-value services, however, are considered by the organization to be the most essential to drive true performance improvement in the business units. Industry and postal CEOs recognize the value of change. Recently, CEOs were asked, "Do you want finance to provide unit performance analysis on demand?" Eighty-nine percent answered yes, with 57 percent believing they have that ability today. When asked, "Do you want finance to provide customized advice to business units?" seventy-seven percent said they did, with 54 percent believing they were doing so today. Finally, when asked, "Do you want IT systems that allow business managers to analyze their own unit performance?" Sixty-two percent responded yes, with only 20 percent believing that capability existed today.

Clearly, executive sponsorship exists to establish a robust IT infrastructure and change the focus of these finance organizations from transaction processing to performance consulting. At Accenture, we have helped a number of posts begin this transformation by leveraging our experience and success at other large organizations. Through our research and work with posts, we have identified fundamental actions that can convert finance organizations and transform IT functions into real competitive advantages that drive high performance.

ACHIEVING FINANCIAL OPERATIONAL EXCELLENCE

The first, necessary step in this transformation effort is to improve the operational excellence of finance organizations; that is, put in place the processes and technology that free up finance professionals and capture the critical performance data. These efforts are often directed at making back-office and transaction processes more efficient while deploying robust technologies that enable business analysis, performance information, and strategic insight. Cost and time savings from these improvements allow finance professionals to begin focusing their time on value-add activities. Technology investments serve as the cornerstone for improved information access that is required for the deployment of business analysis toolsets (see Figure 2).

Posts seeking to achieve operational excellence in their finance organization have taken various approaches.

THOMAS HOLTMANN, a partner based in Germany, is the client partner responsible for Accenture work at Deutsche Post. He is specialized in performance management and serves as a subject matter expert in supply chain management in postal organizations. Most recently Mr. Holtmann has focused on implementing large-scale ERP programs and the development of activity-based costing systems for supply chains.

PAUL DUFF, a partner based in Ireland, is the client partner responsible for Accenture work at An Post. He graduated from University College Galway with a Commerce degree and a Masters in business studies. Mr. Duff has also worked with a broad range of other public sector agencies including health, human services, and justice.

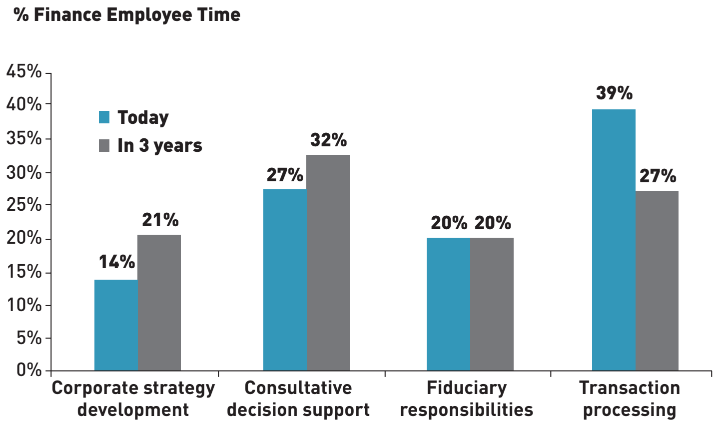


FIGURE 1 How Finance Functions Spend Their Time

Modernize and optimize – All posts, during the course of their transformation, will seek to institute new, more modern technologies that allow for more efficient processes. As a benchmark, real progress has been made over the last 15 years in driving improvements across finance organizations. In the late 1980s, those costs represented over 2 percent of revenues at typical companies. By the mid-1990s, ERP systems from companies such as Oracle, Peoplesoft, and SAP had helped bring finance costs to the range of 1.5 percent. However, to obtain these savings it is critical to select the right technology capable of handling the business requirements for multiple dimensions as well as constant evolution. There are products in the market today with rich features capable of meeting this challenge. For example, tools such as information brokers are available that offer powerful data mapping and time-tracking features capable of meeting the information needs for both enterprisewide uniformity and local business-unit diversity. Also, enterprise information integration (EII) has emerged as a new XML-based technology capable of real-time data exchange between applications within and across enterprises. Posts seeking true high performance have automated significant portions of transaction processing and have state-of-the-art systems that capture and report performance data.

Self-service capabilities – Finance organizations found another wave of efficiency gains as they moved to Web-based financial transactions and toward virtualization. These efforts often eliminate intervention by the finance employee entirely and can drive average costs to 1 percent or even lower. In a number of large organizations around the globe, Accenture has helped our clients reduce the burden on finance professionals by streamlining the financial processes and implementing self-service Internet-based solutions. These self-service capabilities drive additional costs out of the finance organization while enabling robust data capture.

Critical to efficient self-service capabilities is an IT infrastructure that can handle the transaction volume while providing quick response times and intuitive interfaces to users. This infrastructure can also be leveraged to further drive non-value-adding tasks out of other back-office operations and into lower-cost options. For example, some posts have implemented online training solutions that allow employees at all levels to receive training whenever, wherever it is needed without the need for travel or facility costs. Others have created online job posting sites that provide employees the opportunity to review job opportunities and apply online for new assignments. Regardless of the back-office operation affected, taking costs out of these CFO organization responsibilities enables posts to achieve better results for less cost.

Business outsourcing – Accenture has helped posts and other large organizations take advantage of the power of outsourcing. This option allows posts to transfer tasks that are not part of its core capabilities to organizations that specialize in these areas. Outsourcing entities provide economies of scale and expertise that are difficult to replicate. Forward-looking finance executives are adopting this new model of outsourcing as the way to transform themselves from a perceived overhead function to a value creator. For example, various posts have successfully outsourced back-office functions such as IT or HR to outside organizations. In one case, Canada Post Corporation, in an effort to reduce IT costs while enabling state-of-the art IT delivery for the entire Canada Post Group, joined with CGI and Accenture to form Innovapost. This innovative outsourcing agreement has already enabled Canada Post to reduce IT spending while maintaining the pace of their transformation efforts.

Achieving operational excellence is not an easy task. The approaches listed above are broad strategies that successful organizations around the world have employed to create an atmosphere in which their finance organizations can focus on performance. Operational excellence is simply the first step in that transformation.

CAPITAL ALLOCATION

Postal finance organizations must also struggle with a paradigm shift if they are to truly drive the revolution that leads to high performance. For too long these organizations have had a transactional focus, captivated by administrative efforts. But postal finance organizations, more than any other entity at a post, are positioned to lead transformation. As they are freed from transactional focus, postal finance organizations should begin to focus on how best to utilize the capital of the enterprise. As Warren Buffet said, "I'm in the capital allocation business. My job is to figure out which businesses to invest in, with whom, and at what price."[1] Postal finance organizations should choose the business segments and projects in which to invest capital and then institute a robust capital productivity framework to ensure that actual day-to-day capital spend is consistent with the strategic capital-allocation decisions made and that those decisions lead to improved shareholder value.

There are three main ways to improve capital productivity: increase cash flows from existing assets, increase expected growth, and reduce the cost of financing. The constituents of this framework seem reasonably intuitive, but many posts struggle to put them into practice.

Here are some examples of specific actions that are designed to impact the key levers of capital productivity:

- Renegotiate debt schedule and take advantage of lower interest rates to obtain cheap financing. By reducing financing costs, a post can increase its debt capacity and lower the risk of the equity-financing layer (where applicable), thus increasing the value of the equity;
- Examine the capital investment portfolio and re-evaluate all investments. Given the changed expectations around returns, many of these investments may no longer be viable;
- Manage your overall risk exposure through hedging, co-financing, etc.;
- Evaluate asset performance to understand where value is being created and destroyed. Management then needs to take action to rectify any problems. This could necessitate divesting underperforming assets or halting any further capital investment (depending on a comparison of continuing value, liquidation value, and divestiture value);
- Reduce operating risk arising as a result of the environment (e.g., customers, industry) through increased diversification in markets and customers or by making products less discretionary to customers. Increased diversification will, up to a point, reduce reliance on small numbers of customers or markets insulating the post from risk of, for example, customers having very strong pricing power. Diversification must be a balance, though, since having many small customers would be an increasingly onerous administrative burden and would prevent economies of scale in servicing the customer; and
- Reduce operating leverage (i.e., the proportion of fixed costs within a company's overall cost base) to reduce the volatility of a post's earnings, thus reducing overall risk. Where the proportion of fixed costs is high, reductions in revenues have a disproportionately high effect on cash flow. If there is a bigger proportion of variable cost, then total costs will move more closely with revenues, and thus margin, profit, and cash flows will all be more stable.

PERFORMANCE CONSULTING

At many organizations, learning how to drive insight from different information sources and how to act based on enterprise performance objectives is a fundamental shift in culture. Posts are no exception. Some posts may have the mindset to simply determine the financials of a budget and, accordingly, meet the budget. A high-performance post, however, generates the appropriate performance information and drives business decisions based on this information. For example, decisions might be made based on maximizing efficiency or meeting cost-reduction objectives with the processes in place to iteratively adjust and adapt to changes as required. There is no doubt that driving these new types of decisions and processes will be a fundamental shift in many cases, but as the benefits of these changes become tangible to the organization, existing mindsets will begin to change.

In a study done by the Cranfield School of Management, research found that there are three major areas of weakness in traditional planning and budgeting. Budgets are rarely strategically focused, budget management is time-consuming and expensive, and the budgeting process only strengthens the vertical command and control structures and not the necessary network building, which is another precondition for high-performing organizations.

Today's technology for planning and budgeting is far superior to what existed at the time budgeting reform was originally proposed, and we believe it is now powerful enough to support earlier proposed reforms. However, we also believe the technology must be combined with a new approach to budgeting. Posts must move from a process of annual budgets to one of continuous planning, monitoring, and adjusting. This new approach, with the supporting technology, mirrors how we are seeing the private economy changing.

In conjunction with improved budgeting practices, postal finance organizations should use scorecards and dashboards to deliver

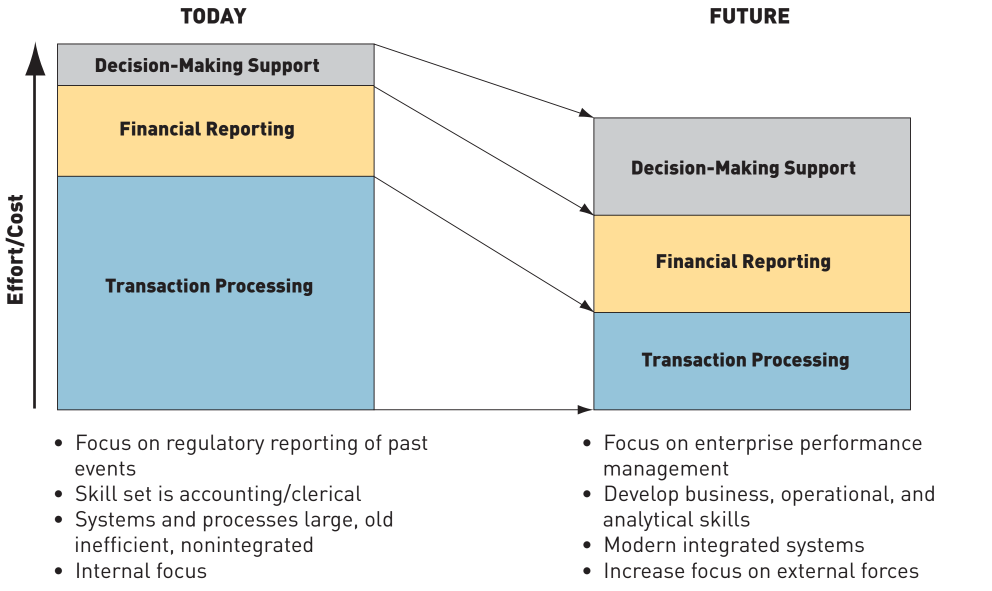


FIGURE 2 Transforming Finance From a Transaction to a Performance Organization

performance management consulting to the organization. However, one critical area in which these typically break down is the metrics and subsequent actions developed as standards. This area is not effectively focused on achieving the results desired by an organization striving for high performance. Therefore, care should be taken to tie incentives and action plans to the scorecard. A balanced scorecard with appropriate incentives and rewards for those making the decisions down the pyramid is a powerful tool to spread the performance management through the total organization, and is critical to the overall shift toward becoming a high-performance postal service.

OTHER OPPORTUNITIES

Closely related to finance transaction processing activities are several other back-office functions that experience similar service gaps. Value-creation opportunities worth tens of millions of dollars and potential contributions to the corporate bottom line of 4 to 8 percent are out there. Back-office functions such as information and communications technology (ICT), human resources (HR), procurement and supply chain, real estate, and facility management present opportunities to drive real performance improvements. Here are some examples:

ICT – Posts tend to source all services in house because of their size and complexity. We have seen that a fundamental redesign of the service-sourcing framework around a definition of service blocks, with measurable performance benchmarks, and a hybrid of selective outsourcing and sourcing-on-demand can result in efficiencies exceeding 15 percent of recurring ICT expenses.

Innovative approaches, such as outsourcing or partnering, provide effective means of stabilizing ICT costs, and delivering the best-of-breed technology solutions. At the United States Postal Service (USPS), the need to remain competitive and quickly implement technology solutions resulted in the creation of the preferred portfolio partnering strategy. This innovative contractual agreement has helped the USPS achieve significant progress in its ability to quickly deliver solutions through a core group of skilled, postal experienced IT professionals.

Human Resources – An integrated HR system with central data architecture can substantially improve core HR activities such as time and attendance, compensation and benefit management, and employee-record keeping, in the area of 20 percent. In comparison, detailed redesign of the underlying business processes will substantially improve the service delivery.

Procurement and Supply Chain – The adoption of strategic sourcing methods, a streamlined procurement organization, optimized procure-to-pay processes, and the concept of total cost of ownership can produce significant reductions, ranging from 5 to 25 percent, in the purchase costs of goods and services.

Real Estate – Typically, postal organizations have very large real estate portfolios, oftentimes measuring in the thousands of buildings and millions of square feet of space and very significant acquisition and occupancy costs. A multi-year rationalization plan driven by the gradual implementation of best practice, industry-specific infrastructure norms can reduce the amount of space occupied by 10 to 50 percent, with the equivalent drop in direct occupancy costs.

Facility Management – A large reduction in the size of the real estate portfolio will also help reduce the indirect occupancy costs such as project management, maintenance, and custodial work. A Facility Management Information System will enable the uniform management of the portfolio, but also the methodical follow up on building-related work.

CONCLUSION

Postal service finance organizations must align their organizations to the new goal of performance management and begin to operate in a manner that is more strategically focused. While the transactions they perform today must still be performed, a commitment should be made to operational effectiveness that reduces the administrative burdens on these resources. Those efforts will allow postal finance organizations to focus their efforts on better capital allocation, performance management consulting, and back-office optimization. Only then will these organizations become the competitive advantage a post needs to outperform the competition and achieve high performance.

ENDNOTE

1 "Leaders of the Most Admired," *Fortune*, Jan. 29, 1990

Accenture Financial Solutions

To help our clients achieve success quickly in business transformation outsourcing, Accenture has created Accenture Financial Solutions (AFS), a business unit of Accenture that provides finance and accounting business process outsourcing services. Accenture Financial Solutions gives organizations the option to remove routine financial transactions, and other less routine functions, out of their finance organization. This enables the streamlining of those organizations into a group of financial analysts whose responsibility is to understand internal financial performance, external pressures and events, and consult the rest of the organization on options they have to improve overall performance. It is not a model where organizations lose control; rather, it is a model that allows for a relatively quick change of the finance organization's priorities. Accenture Financial Solutions is an option posts could use to rid themselves of transactional tasks. Since AFS has many clients, and an economy of scale, they generally perform these tasks to the same or better service levels while decreasing the overall service cost. With sensitivity to your business culture, AFS has the experience to deliver solutions that surpass today's complex business requirements. This translates into creating real business value through outsourcing.

Transforming Budgeting in Posts

Posts that re-engineer their budgeting processes away from a time-consuming process to a continuous planning and monitoring paradigm, can unlock the power of budgets to improve responsiveness and strategic decision-making.

Mark Howard

Budgeting is generally acknowledged to be one of the most important processes any post undertakes. It is all the more important as posts try to continually transform themselves in the face of a changing operating environment, with technology, such as email, and increased competition from third-party carriers or other posts.

However, there is increasing dissatisfaction among public and postal officials because of the length and complexity of the budgeting process, and costs of that effort to the post. A post's ability to react effectively to change is limited because of these cumbersome processes.

Today's technology for planning and budgeting is far superior to what existed in the past and has certainly enabled more detailed planning. However, the technology must be combined with a new approach to planning. Posts must move from a process of annual budgets to one of continuous planning, monitoring, and adjusting. This new approach, with the supporting technology, mirrors how we are seeing private sector organizations changing.

BUDGETING PRACTICES TODAY

Given the importance of the budgeting process, it is surprising how cumbersome, frustrating, and resource-consuming the process typically is. The points below describe how most budget processes work today:

Strategic planning. The strategic planning process generally begins with a review of the previous year's accomplishments; continues with a survey of current competitive, economic, and organizational conditions; and concludes with general direction and high-level goals for the upcoming budget year.

Operational goals. This next step involves taking the high-level strategic goals and converting them into more detailed operational goals, sometimes down to the level of individual post offices. Most posts actually do not make the connection of strategic to operational goals in any structured fashion.

Trends analysis and long-range forecasting. Near the beginning of most budgeting processes is some sort of long-range forecasting exercise. Trends in service demand and associated revenues and expenses are usually applied to future years to determine if the budget under consideration should account for changes foreseeable more than one year ahead.

Detailed budget development. With the direction from strategic plans and operational goals and the results of long-range forecasting, the line managers are then asked to develop detailed budget requests.

Options development and analysis. There are three levels of options development and analysis for the budget requests. First, the line managers are generally supposed to provide options for how to meet specific organizational goals (e.g., "How can we capture more of the overnight mail coming from small businesses?").

The second level of options analysis is when all of the detailed budget requests are gathered together, and the central budget staff begins to develop cross-organizational options and analysis. Examples might include questions about the effects of a wage increase based on recent union contract negotiations.

Finally, the third level of options analysis occurs when top postal executives consider the budget proposals for the upcoming year. They will review and revise the options the line managers and executive staff propose, and they will bring up their own options and approaches to issues.

Operational planning. Once the budget is finally approved, the line managers are told which resources they will have for the coming year, and what goals they are expected to achieve. The line managers then create operational plans for the year, detailing when they expect to accomplish certain plans and goals, and how much money they will spend at regular intervals, generally monthly.

Tracking and reporting. With operational plans in place, the post can then regularly report on actual versus budget for such things as mail volume, work hours utilized, revenues

MARK HOWARD is Accenture's global program director for public sector finance and performance management. He has assisted numerous agencies around the world to improve their budgeting and financial management operations. Mr. Howard has also served several US governments as a budget director and general manager.

and costs, and more. The objective of regular reporting is to see how actual events are occurring compared to plan, and to point out if any adjustments are required.

In order to carry out all of those processes, the organization requires a vast amount of information. That information comes from a wide variety of sources, ranging from the centralized administrative systems (accounting and HR/payroll) to unit-specific systems or spreadsheets (load tracking and package tracking in individual offices) to individuals' memory.

HOW WELL ARE THEY WORKING?

The ideas behind current budgeting processes are sound, but as the processes have grown and changed as a group, the following challenges have arisen:

Most processes and information sources are not very well-integrated. There are a number of points where budgeting processes and the systems that support them are not very well-integrated. For example, operating plans, if they are prepared at all, are generally treated as allocations of budget, and are not usually tied to strategic objectives. As a result of processes and systems not being tied together, the overall process is cumbersome, time-consuming, and not as productive as it could be.

Options analysis is limited. As a direct result of the lack of information integration, detailed information needed for robust analysis is generally scattered across the organization and difficult to gather. Thus, there is more time and energy spent on gathering information, and less on analysis. The quality of the options analysis suffers.

Budgeting is now an end unto itself. It isn't an ongoing management tool. Budgets are monitored without regard to performance, focusing simply on whether a post is spending more or less than requested/allocated. Budget monitoring should focus on dollars spent and achievements made. A post that supports the continual monitoring of performance data will quickly see whether service and demand levels are meeting plan and can respond quickly to right the ship if not.

All of these shortcomings are typical of most budget processes today. Taken together, it is easy to see how the existing budgeting process does little to provide advanced warning or drive improved performance at posts. This is a very high risk for posts, as small changes in the economy can have significant impact to postal finances, causing the post to lose money and credibility, resulting in requirements for cash infusions from an unhappy, supporting government.

HOW CAN THEY BE IMPROVED?

To make the dramatic change that truly improves the budgeting and planning process, posts will have to meet the challenges mentioned. Simply making incremental changes to make the budgeting process faster or more efficient is inadequate. Without dramatic change in the paradigm of budgeting, posts will not be able to compete effectively and will lose credibility with their sponsoring governments. The following is an outline to address those problems:

Improve the integration of current processes and information systems. Posts can address the various integration problems of current budgeting processes as follows:

- Posts need to be more structured in determining specific operating objectives associated with broad strategic goals.
- Posts need to create a standard practice of developing operating plans after a budget is approved.
- Information systems must be more integrated so that the detailed information needed during budgeting and planning is easily and seamlessly available.

The overall strategy to improve budgeting and planning is to move from the process of developing an annual plan to a process of continual planning.

More time should be spent on analysis, not on gathering data. If a staff can spend more time on analysis, the quality of the decision-making process will normally improve.

The decision-making process should be shortened. Posts face continually and rapidly evolving competition as well as a changing business environment. Yet, they are generally hamstrung in reacting to those changes by a long, drawn-out and highly structured decision-making process. Posts should move ideally to a process where changing circumstances can be quickly evaluated for their impact, options for response can be developed and analyzed, and decisions for changes can be made quickly. Results of the change should then be measured regularly to determine if the desired results were achieved.

HOW CAN POSTS IMPLEMENT THESE CHANGES?

It's easy to offer up the suggestions described above. However, there are a host of obstacles to implementing them. Posts need to develop a change plan that would ideally address budgeting strategy, business processes, and supporting technology.

Budgeting Strategy

The overall strategy to improve budgeting and planning is to move from a process of developing an annual plan to a process of continuous planning. The continuous planning process includes strategic planning on an annual basis and target setting that translates the strategic plans into specific targets for lower levels of the organization. But the process also involves continuous rolling forecasting where the data from the previous month is reported and compared to plan, and then used to revise the forecasts for the next periods as appropriate.

Continuous rolling forecasting is where the data from the previous month is reported and compared to plan, then used to revise the forecasts for the next periods as appropriate. Budgets are then adjusted at the lowest levels as warranted by actual experience. This is the point in the process where revisions and different approaches (options analysis) can be brought to executive officials as appropriate, making decisions and adjustments more timely. With good forecasting models that are continually updated as events occur, the post will effectively have established an early warning system for an unforeseen revenue decrease due to competition.

Business Processes

Most of the changes in process are probably self-evident at this point, but to summarize the new process at a high level:

- Strategic plans should be revisited once a year (less frequently is possible; more frequently is likely to be unproductive).
- Detailed annual plans and the associated budget to meet the strategic operating objectives will continue to be prepared as part of the legally required budgeting process.

When executive officials approve the detailed annual plans and associated budget, the organization will prepare detailed operating plans. Those plans will outline anticipated levels of demand and performance by period (likely by month, but quarterly is possible) and associated spending. The detailed operating plans will be the basis of a process of continuous reporting and re-forecasting. As each period of actual experience is reported, managers will be able to revise their forecasts. If the revisions require a change in policy, practice or approach, the issues will be brought to the appropriate executive officials for options analysis.

With this type of a process, the annual budgeting exercise should become more focused on strategic goals, rather than on operational details. Decisions for changes should be made at a time more appropriate for the issue at hand, and the options analysis to support those decisions should be more thorough.

Supporting Technology

Even with the right strategy and procedures in place, the right kind of technology must be ready to support the entire process. There are three basic components technology must support:

Planning. The technology must provide tools to prepare complex models that pull in data from various sources and to establish relationships among data. This will allow planners to develop what-if models.

Forecasting. There must be tools allowing powerful data collection to perform accurate forecasting and planning. The forecasting tools should be easy to use and provide a means of tracking the progress of data collection.

Performance measurement. Finally, the platform must include a powerful data-reporting tool that will support the performance measurement part of the continual planning process.

Finally, all of these pieces of technology for your planning system need to be integrated with existing information systems. The detailed data to support reporting actual events will have to come from your existing information systems.

BENEFITS OF THESE CHANGES

The changes proposed in this paper will yield the potential for the following benefits, and quite possibly more. First, continuous planning may provide earlier warning of potential problems. With regular and consistent re-forecasting as events occur, problems and threats will become evident much earlier. With earlier warning of potential problems, posts will have more time to consider options and to react appropriately.

Another benefit is higher-quality decision-making. A continuous planning process will allow for more comprehensive options analysis and evaluation, with more time for decisions to be considered and made. Decisions will be made at more appropriate times for the given question, with more current information and with less speculation about the future.

Even with the right strategy and procedures in place, the right kind of technology must be ready to support the entire process.

A third benefit would be improved responsiveness to changing circumstances. Should demand for services decrease dramatically, or an economic downturn be worse than expected, or a natural disaster hit, the continuous planning process will enable the organization to respond more quickly. Managers will be better able to quickly analyze the scope of the change, how it is affecting the organization, and the best way to respond.

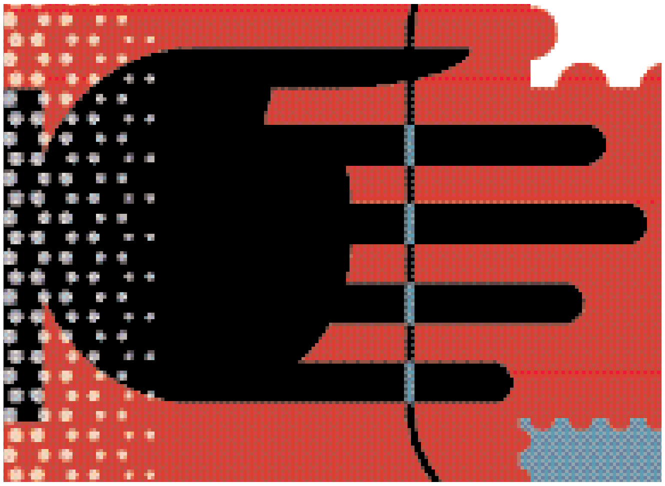
CONCLUSION

Changing budgeting to a process of continuous planning is highly ambitious. Clearly, there are many challenges. However, posts must start making changes in the direction discussed here. Continuous budgeting is the most effective method to institute sound strategic planning, timely reaction to change, and effective delivery of postal services to the public.

CASE STUDY

From National Post to Global Player

Deutsche Post's merger and acquisition strategy has allowed it to transform from a national post to a worldwide organization.



Deutsche Post's international corporate expansion began in 1997. By that time the internal restructuring and turnaround had been, for the most part, completed, which allowed the company to turn its focus to its growth strategy and to newly position itself in the international markets through acquisitions.

Even then, the special and growing significance of the courier, express, and parcel business was recognized, particularly on the European level. At that time, the market volume in Germany was a mere 12 billion deutsche marks, whereas Europe was experiencing revenues in this segment amounting to 44 billion marks.

PURSUING MARKET DOMINANCE

More businesses, active both throughout Europe and internationally, continue to emerge in the courier, express, and parcel service segments. Deutsche Post was convinced that in the long run only a handful of international corporations would be able to navigate the market successfully. Therefore it would be necessary to establish in a first step a local presence in all major European markets, either through buying existing and successful companies or by creating them where these companies were not available.

BOLD GROWTH

Although various strategies exist, Deutsche Post determined that the most effective way to achieve its goals would be to pursue a challenging acquisition plan that would allow it to leverage key assets while bringing immediate presence and market share in various regions. The acquisition of a majority holding in Poland's parcel market leader, Servisco, in April 1997 was the first step toward the creation of Deutsche Post's own European parcel network in the business-to-business segment. That same month, Deutsche Post took over the majority holding in Belgian Parcel Distribution, while one of Deutsche Post's subsidiaries worked together with local forwarding companies in Austria to found a new parcel service named Quickstep.

While acquisitions were continued with an eye to expanding the European parcel network, in 1998 there was a growing participation in the global express business. In March 1998, Deutsche Post attained a 22.5 percent holding in the express company DHL, the worldwide leader in courier dispatch with a 35 percent share of the global market. The DHL Worldwide Express group had generated revenue of 7.7 billion deutsche marks in 1996 and was already present in over 220 countries around the world. By 1998, DHL was No. 1 in the international express business in Europe and Asia. Deutsche Post holdings in DHL accelerated its activities in the international arena.

Meanwhile, the European parcel network continued its own course of expansion. In November 1998, Deutsche Post took on 50 percent of the British company Securicor Distribution, whose core business was the delivery of business express and parcel shipments in Great Britain and Ireland. This company, known as Securicor Omega Express, was the leader in this market. In early December, the acquisition of a

Taken from the book *From a Government Agency to a Global Enterprise*, published by Deutsche Post World Net.

majority holding (68 percent) in the French parcel and express service Ducros Services Rapid rounded out the acquisitions.

BROADER INTERNATIONAL PRESENCE

Deutsche Post strengthened its international activity in the mail segment as well. In September 1998, Deutsche Post took over Global Mail, the largest private international mail service provider in the United States. With the turnaround successfully completed, it was time for Deutsche Post, already Europe's largest postal company, to recast itself as the internationally leading mail communication and logistics group and continue on its path of growth.

The takeover of Swiss logistics group Danzas at the start of 1999 was distinct from prior acquisitions. In December 1998, Deutsche Post submitted an offer to the shareholders of Danzas Holding AG for the purchase of all outstanding shares.

While presenting the takeover bid Dec. 10, 1998, Deutsche Post Chairman Klaus Zumwinkel listed the three pillars of the company's reorientation strategy:

- Formation and expansion of a top-of-the-line European transport network for parcels via targeted participations and cooperations;
- Expansion of the international express business; and
- Formation and expansion of value-added logistics services.

With these targets as the backdrop, Deutsche Post and Danzas were an ideal complement to one another, and by mid-March the acquisition of the Swiss logistics company was completed.

Deutsche Post went through a significant growth spurt during 1999. In January, Deutsche Post extended its parcel network to Italy with a 90 percent holding in the national parcel and express company MIT. With the acquisition of the parcel and logistics segments of the Dutch company Royal Nedlloyd in March 1999, Deutsche Post took another important step along the way to forming its own European parcel network.

The next significant step was taken in April 1999 with a bid submitted to the shareholders of the Swedish ASG Group through Danzas. ASG, one of Scandinavia's leading forwarding and logistics companies, would add considerable strength to the Deutsche Post presence in the Scandinavian countries. Not slowing pace, in the beginning of July Deutsche Post acquired 49 percent of the Spanish parcel forwarder Guipuzcoana.

In the meantime, Deutsche Post was also building up its involvement in the US postal market. In May it acquired YellowStone International, with specialization in the dispatch of direct mail and publications as well as catalogs.

In November 1999, Deutsche Post and Air Express International, the United States' largest international air-freight provider, finally signed a takeover agreement. Danzas, and by extension Deutsche Post, thus took on the position as worldwide leader in air freight; the group was one of the five largest ocean-freight companies in the world.

NEW CENTURY, NEW NAME

Deutsche Post presented a new name to the public and its customers at the beginning of 2000: Deutsche Post World Net (DPWN). This was a clear reflection of the group's changing scope and self-image and was the result of the corporate reorientation.

With the success of the previous years behind it, DPWN further specified its corporate goals at the beginning of 2000:

- The group will strive to become No. 1 in transport and logistics worldwide; and
- The same applies to the mail and express divisions for Europe.

A particularly important acquisition was the increase to 51 percent in the group's interest in the express company DHL at the beginning of 2001, and then the complete acquisition in 2002. This move increased Deutsche Post's share in the European courier, express, and parcel market to 16 percent, thus making DPWN the Europe-wide market leader in this segment.

THE RESULTS

This step simultaneously brought about more growth and value enhancement through synergies with related divisions within Deutsche Post World Net. The internationalization strategy therefore served to achieve the Group's first subgoal of becoming an important player in the international mail, parcel and logistics business. In the coming years, it intends to utilize its strengths gained to date in meeting its objective of becoming the No. 1 logistics company worldwide.

Today Deutsche Post World Net is one of the largest high-performing logistics providers in the world. With its brands Deutsche Post, DHL, and Postbank, the group offers its customers a global mail, express, and logistics service, as well as a wide range of financial services. The company is thus excellently positioned on the way to becoming No. 1 in the global express and logistics sector. Approximately 380,000 employees generated worldwide revenues of €39.3 billion in 2002.

Today Deutsche Post World Net is one of the largest high-performing logistics providers in the world.

Seeing Activity-Based Costs

In addition to supporting dimensional profitability, emerging techniques such as activity-based costing can play a greater role in overall business performance management.

David Southiere and Hiroshi Goto

Dimensional profitability is the assignment of costs and revenues to business segments as a means for for evaluating each business segment's contribution to the overall enterprise profit and loss. Those business segments, also referred to as dimensions, typically include such areas as product, customer, sales channel, and business.

An organization leverages profit and loss information by developing reporting structures consistent with its overall business strategy, aligning this information with organizational accountabilities, and ensuring that information is actionable. More than simply reflecting sources of value creation within the enterprise, dimensional profitability provides insight to help companies enhance business performance through:

- Pricing strategy development;
- Product and customer mix optimization;
- Go-to-market strategy development;
- Product rationalization; and
- Business process measurement and improvement.

Dimensional profitability relies upon meaningful expense data made available through activity-based costing and management (ABC/M). Once perceived to be limited to tactical process-based analysis, ABC/M plays a key role by linking operational data with strategic decision-making. When leveraged effectively, it can support performance improvements that drive better business unit results.

For example, a large telecommunications provider used profitability information to identify policy and process differences that were increasing product costs and reducing net income. Profitability reporting showed that residential telephone service maintenance costs were higher in one metro service area than another. By further examining the cost basis for specific activities using drill-down reporting, it was determined that service technicians in the high-cost area were being assigned a specific number of jobs to complete per day. In the low-cost service area, repair jobs were dispatched continuously (i.e., when one repair was completed, another was immediately assigned). The data, in conjunction with a closer inspection of regional processing differences, showed that continuous dispatch resulted in higher repair technician productivity, since it removed arbitrary quotas that limited technician output.

THE EVOLUTION OF COST MANAGEMENT

Many companies are limited in their ability to understand the cost structure of specific business segments and, as a result, cannot easily determine a segment's profitability or contribution to margin. Revenue is relatively easy to determine since most key financial systems capture revenue origin details. Expense, however, is much more difficult to associate with even fundamental business segments such as product. One key reason for this is that shared infrastructure isn't directly attributable to any one product or service.

Advanced cost management techniques and support tools, including ABC/M, have evolved throughout the '90s to replace static allocation functionality available within most general ledger packages. Best-of-breed vendors readily adopted ABC/M as the means for showing how resources were consumed, supporting cost reduction through process improvement. Figure 1 illustrates the fundamental difference between traditional cost accounting and activity-based cost accounting.

The road to more effective cost analysis and management hasn't stopped with ABC/M. New techniques are continuously being developed to accurately and efficiently generate cost management information. For example, Robert Kaplan, leading author and professor at Harvard Business School, introduced a modified approach to ABC/M in 1998 that addresses the tedious and subjective task of evaluating labor resource in

DAVID SOUTHIERE is an associate partner in the Accenture Finance & Performance Management Service Line. He is the Americas lead for the Accenture Dimensional Profitability marketing offering.

HIROSHI GOTO is a partner in Accenture's Strategy & Business Architecture Service Line. He specializes in the areas of management strategy, enterprise resource planning, and shared services, with an emphasis on the government industry.

Traditional Accounting View	
Compensation	$ 2,014
Benefits/OT	662
Supplies/Materials	596
Rent/Leases	791
Depreciation	1,086
Admin. and Other	878
Total	$ 6,027
Explains what was spent	

Activity View	
Prepare Trouble Tkts	$ 2,502
Install Products	1,205
Field Support and Control	388
Perform Routine Maintenance	590
Perform Product Repairs	1,342
Total	$ 6,027
Explains how it was spent	

FIGURE 1 Traditional Accounting vs. Activity-Based Costing

performing activities. It also provides a framework for measuring organizational capacity to perform business process. Improvements like this will continue to emerge as the role of costing expands in the broader performance manage-ment landscape.

Although dimensional profitability can be performed without ABC/M, it becomes more difficult (if not impossible) to answer the question "why" when digging deeper into deviations exposed by standard profitability reporting. ABC/M is the component that provides muscle to answer questions such as:

- Why does a product's cost structure differ across geographic regions?
- Why has a product's contribution margin declined while revenue has increased?
- Why is a customer unprofitable when it purchases products that generate profit?

ABC/M AND DIMENSIONAL PROFITABILITY

The potential benefit of ABC/M and dimensional profitability increases when integrated with other performance management capabilities. In fact, ABC/M is ideally positioned at the core of the business performance management architecture. Figure 2 illustrates how various capabilities can be integrated to yield numerous performance reporting outputs. Three capabilities that benefit most from this data include planning and budgeting, transfer pricing, and balanced/corporate scorecards.

World-class planning and budgeting processes can be designed to take full advantage of information made available by ABC/M. The use of unit cost data to determine future enterprise resource requirements is known variously as activity-based budgeting, demand-based planning, or reverse-engineered ABC/M. To illustrate this concept, assume that marketing data suggests a particular level of future product sales. Demand-based planning uses historical data regarding per-output unit costs to estimate the magnitude and type of resources (i.e., labor, materials, or equipment capacity) required to support a future yield. Furthermore, by characterizing activities as either fixed or variable, it is possible to more accurately determine how resource costs scale with increasing output. For example, research and development is a relatively fixed cost when compared to product assembly and packing expense.

While dimensional profitability yields important information to support a company's go-to-market strategy, it can also support internal business management. Companies that adopt shared services models or maintain highly autonomous business unit structures often use the costing approaches inherent in dimensional profitability to support cost recovery within the enterprise. More importantly, the use of cost or cost-plus transfer pricing approaches can help socialize the true cost of internal services, potentially leading to make-versus-buy sourcing decisions for noncore business services such as finance, human resources, and information technology support functions. Companies considering spinning off or selling business units have found that transfer pricing is an effective way to obtain a more accurate snapshot of organizational profitability. As a result, accurate cost-reduction targets can be established and more likely realized upon the actual elimination of discrete business segments, whether they are organizations, products, customers, or other.

Business performance reported by dimensional profitability and balanced scorecard capabilities should be highly correlative. For example, improving profitability on a profit-and-loss statement should be reflected as positively trending financial and shareholder metrics on the corresponding corporate scorecard. In fact, key performance metrics reported in standard balanced scorecards and other dashboards are typically sourced from ABC/M applications. Understanding the integration points between these two capabilities is an important consideration in their design. Inconsistency could undermine the credibility of information.

BEGINNING WITH THE END

Prior to embarking on the change journey to achieve better profitability information, few companies ask themselves a fundamental question: What is the key output of this capability and how will it be used? For example, is the goal to determine the most profitable combinations of customers, products, and/or sales channels? Or do the requirements include providing detailed activity data to better understand the how and why of costs?

Leading companies maximize the value of profit and margin information by aligning reporting structures with organizational accountabilities. Business segment performance can only be improved effectively when business owners are empowered to act on profitability information that is relevant to them. The product dimension is a common example of ineffective segment ownership. Marketing and product development organizations often struggle to understand which group has ultimate responsibility for overall product segment performance, since product effectiveness is a shared responsibility across these (and in some cases additional) organizations. Some companies address this issue by defining integrated business processes that allow multiple organizations to collaborate on shared business segments.

The structure of a segment profit-and-loss statement must be consistent with a business owner's ability to control each line item. Profit-and-loss statements that include considerable indirect and other uncontrollable expenses are not likely to be embraced by business owners who lack sufficient leverage to influence business results. In the product example above, if marketing owns the product profit-and-loss statement, yet cannot influence product development strategies, accountability isn't complete and will hinder true performance stewardship and improvement.

A SUSTAINABLE CAPABILITY

Whether conducted as an ad hoc point-in-time analysis or a repeatable capability, dimensional profitability initiatives are notoriously complex. The underlying concepts can be difficult to grasp and the numerous design alternatives ridden with pitfalls. Many implementation failures are due to ineffective cost models, which define the flow of expenses by linking cost objects, activities, and cost drivers. Even companies that have achieved successful implementations have later found it difficult to sustain this capability on an ongoing basis due to causes usually rooted in the requirements or conceptual design stages. These typically include:

- The value and credibility of profitability information is often compromised when explicit business objectives are not defined up front. This leads to subsequent modification to process and/or outputs after initial deployment;
- Defining the costing approach at an unnecessarily detailed level generates significant volume and performance problems without providing better information;
- The use of inappropriate cost drivers undermines the credibility and subsequent use of information, and leads to increased maintenance costs when legacy systems are decommissioned, upgraded, or replaced; and
- Use of staff surveys to allocate resource costs to activities often require an overly burdensome update process, which can lead to obsolete information.

Building excessive detail into the design is perhaps the most common pitfall encountered by companies that believe greater detail yields improved precision. Although technological improvements have supported greater data processing capabilities, there are additional costs involved in handling those volumes.

An effective way to introduce dimensional profitability concepts is through pilot implementations that address a portion of the overall organization. This allows: introduction to a more limited user group; greater focus on fewer capability objectives; and the implementation team to learn by doing as a means for refining the rollout approach. An Asian mass transit provider opted to first implement activity-based costing within the operations department prior to rolling the capability out to the rest of the company. This proved a wise decision since the operations department was the most vocal supporter of the capability and was often the trendsetter for the rest of the organization.

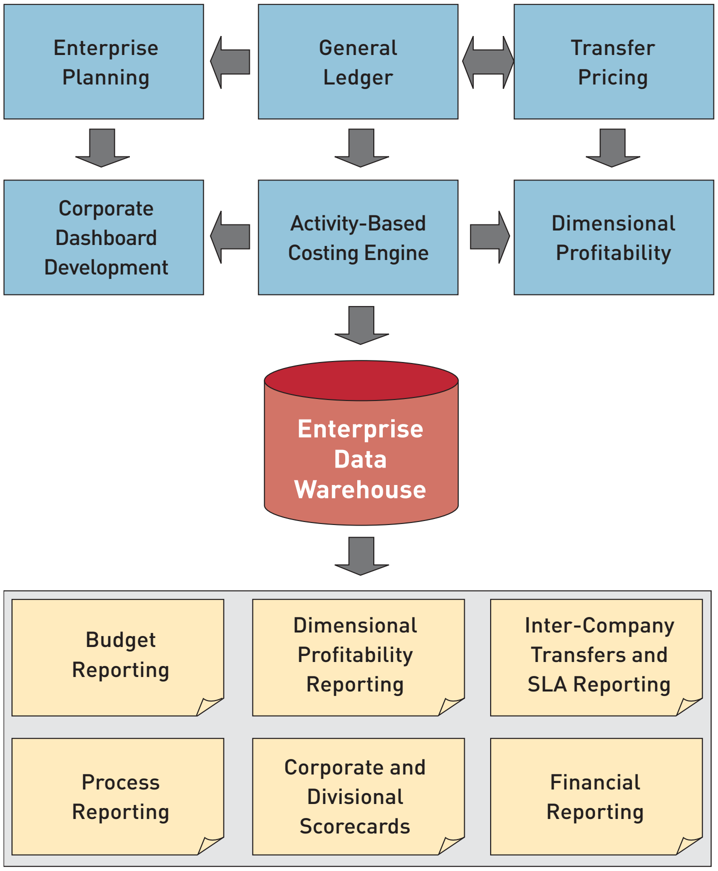


FIGURE 2 Integrating ABC/M with dimensional profitability yields multiple benefits.

THE RIGHT TECHNOLOGY

There are several options for configuring a financial systems architecture to generate dimensional profitability information. Three common approaches are: back-end best-of-breed; integrated enterprise resource planning packages; and performance management suites. The relative immaturity of larger vendors' (e.g., Oracle, PeopleSoft, and SAP) performance management offerings has given best-of-breed vendors (e.g., Armstrong-Laing, SAS) the edge. Both ERP and best-of-breed vendors are actively developing performance management suites that attempt to integrate analytic functionality in the areas of ABC/M, dimensional profitability, planning and budgeting, and performance dashboarding in much the same way finance and accounting ERPs blossomed in the early to mid-'90s.

	Characteristics	When to Use
ERP Applications	• Seamless integration • Very powerful calculation engine • Capacity to handle large data volumes • Powerful tool sets for data manipulation • Clients often possess in-house skills and a working application development environment	• Significant investment has already been made in other ERP modules • An abundance of ERP skills available to the project team • There is an existing application development environment or one can be set up in a reasonable amount of time (relative to the project timeline) • Functionality of ERP application meets the project requirements • Seamlessly integrated applications are a company objective • Solutions will be permanent (i.e., interfaces), and the company is committed to the application for the long term
Best-of-Breed Applications	• Ease of implementation • Superior functionality • User-friendly interface • Several front-end and back-end interfacing tools • Seamless integration is not the first priority	• No significant investment in ERP tools • Limited ERP skills available to the project team • No access to ERP applications development environment • Project timeline requires a quick learning curve for technology • ERP implementation will extend the project beyond a reasonable timeline • Project scope limited to a one-time study • Scope is limited to a "proof of concept" but is too complex for Access and Excel

FIGURE 3 Characteristics of ERP vs. Best-of-Breed Applications

An organization must decide whether to use an existing ERP's capabilities or leverage a best-of-breed application. Typical questions asked when considering the potential move to a best of breed include:

- What incremental investment will be required?
- What additional skills must be developed in-house?
- How will it be interfaced with current systems?
- Can it support the volumes of information that must be processed?
- Will existing reporting and productivity tools work together with a best-of-breed application?

Although ERP and best-of-breed functionality have historically converged, they each possess inherent features that may or may not align with a specific company's requirements. The right choice depends on several factors, including current use of an ERP, the number and complexity of operational data sources required to support costing, and plans for integration with other performance management capabilities. Figure 3 identifies key characteristics of either solution, as well as a description of why a company might use one or the other given its specific circumstances.

Regardless of whether a company goes the ERP or best-of-breed route, it must consider its specific application requirements in evaluating the many products available in the market. Specific considerations include such issues as integration, training, technical platforms, multicurrency environments, pricing, and many other factors.

THE VALUE PROPOSITION

The implementation of a comprehensive performance management architecture based upon ABC/M typically represents a considerable investment when developed properly. However, the potential benefits are significant and can justify the expense.

It is estimated that the effective use of ABC/M can help to reduce a company's overall cost structure by as much as 3 to 5 percent. A large part of this potential is associated with the identification and elimination of nonvalue-added activities. However, the objective of activity analysis is not limited to simply reducing work levels, but optimizing them as well. For example, many companies find that a disproportionate amount of effort is focused on activities required to address process failure in contrast to those performed as preventative measures.

There is significant potential upside for the top line as well. An enhanced focus on higher margin and growth products and the pursuit of better markets can translate to a 5 percent to 15 percent increase in revenue. This also includes improvements relating to customer and channel management.

Achieving the benefits described above requires a well-integrated and well-planned program. Since significant value is derived from the synergies inherent within the overall performance management framework, the realization of full benefit requires that ABC/M be fully integrated with other capabilities. Furthermore, since the change journey requires a sustained, multiyear focus, release staging can be an effective means of driving early benefits that have a positive impact on the underlying business case.

FINAL WORDS

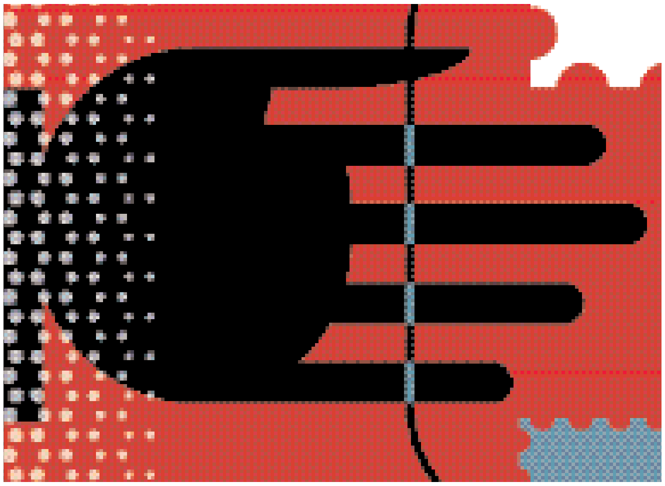
Now more than ever, it is critical that organizations understand those components of the business that contribute value to the bottom line. Historically, companies have conducted one-off cost studies as the basis for a more detailed understanding of segment profitability within the business. However, the emergence of robust cost-analysis techniques and software applications based on improved technologies have enabled a repeatable and sustainable dimensional profitability capability. And though achieving this capability requires strategic vision, a considerable investment, and a potentially complex implementation, ABC/M-based dimensional profitability can assume its rightful position at the heart of business performance management.

CASE STUDY

Doing More With Less

A case study on the US Postal Service Advanced Computing Environment.

Robert Otto and Larry K. Wills



Since the mid-1990s, significant advances in computing technology have been made, providing a wealth of business systems solutions that enhance productivity at lower costs than ever before. While the USPS capitalized on many of those advances, its ability to fully exploit them remained limited within the constraints of a 1995-era distributed technology and support infrastructure that was difficult and costly to maintain.

With the advances in technology, computer infrastructure support practices had transformed as well. The US Postal Service's IT support practices were maintenance-intensive and expensive in comparison with industry best practices, making the movement to a more efficient "shared services" concept a compelling model for how the USPS could enhance its ability to deliver state-of-the-art technology solutions to its business.

DRIVERS FOR CHANGE

A key driver for change was the fact that the US Postal Service had grown an immense IT infrastructure. Over the course of eight years the number of desktops had expanded from 40,000 to over 130,000 while the number of servers had grown from 500 to over 20,000 (both infrastructure and application servers). Given this immense growth, the USPS realized that the existing distributed environment consisted of an infrastructure that had exceeded its fiscal and technical lifecycle. Along with exponential growth, there were other challenges to be addressed, such as:

- Outdated operating systems (distributed desktop and server operating system software was obsolete);
- Near-obsolete desktop software;
- Aging desktop/laptop hardware (130,000 desktops and 37,000 laptops – three-fourths of which had an expired warranty);
- Outdated messaging system (135,000-plus users transmitting over 4.1 million emails a day);
- Fragmented user support (119 helpdesks supporting over 200,000 users utilizing 130,000 multifunction workstations); and
- Unsustainable enterprise directory service (for user IDs, passwords, etc.).

The USPS recognized that the current distributed technology infrastructure

As chief technology officer, ROBERT OTTO is responsible for managing and maintaining the US Postal Service's technology network, including the information technology infrastructure, which supports over 650 national applications designed to run the organization on a day-to-day basis – including the payroll for 740,000 employees and payments to suppliers nationwide. Mr. Otto is also responsible for operating the world's largest intranet, which connects the Postal Service's processing and distribution centers, bulk mail centers, Priority Mail centers, air mail facilities, and 38,000 post offices.

LARRY K. WILLS, the lead executive responsible for the Advanced Computing Environment (ACE) program, has more than 27 years of federal service. His formal education and training includes Amarillo College, the University of North Carolina, and West Texas State University, where he graduated with honors and holds a bachelor's degree in industrial technology.

would continue to age and grow in complexity, which would lead to increased failure rates and cost of maintenance. The impact on core national business applications, which were becoming extremely costly to develop, deliver, and support, was simply unacceptable. Doing nothing was not an option.

THE SOLUTION: ADVANCED COMPUTING ENVIRONMENT

The answer the USPS found to the technical infrastructure issues it faced was ACE – the Advanced Computing Environment. The ACE program replaced the existing distributed computing environment while addressing user support, system services, application services, architectures, and governance.

The ACE program had four objectives: 1) reduce costs and replace obsolete technology; 2) accelerate application development capabilities; 3) simplify future technology deployments; and 4) increase ease of use, efficiency, and security. To achieve these objectives, the ACE initiative targeted improvements in four major areas:

- **User Support Services:** The USPS targeted the outdated and redundant user support capabilities with the objective to integrate and streamline support processes, institute a shared cost model, and improve predictability of services and user satisfaction.
- **System Services:** The ACE program sought to alter infrastructure administration practices while improving productivity through automation and economies of scale, enhancing security of the IT environment, and promoting administration consistency.
- **Application Services:** One of the more daunting tasks that faced the ACE team was the need to improve application maintenance by reducing complexity through the elimination or consolidation of several supported applications. The team also simplified the application certification and deployment processes and instituted programs to leverage architecture and open standards, reducing time to market for new business initiatives.
- **Architecture and Governance:** With over 20,000 servers, there was significant need to eliminate redundant and incompatible technologies, which would deliver lower cost of operation through standardization and implementation of best practices. With the implementation of ACE came dramatic changes as the 115 field helpdesks were centralized into a single, consolidated helpdesk. ACE efforts also standardized software packages, decreasing the number of supported applications from 270 to 60 and creating a common, standardized workstation that could be accessed from anywhere on the USPS network.

While creating significant software improvement, ACE also sought improvements in hardware, consolidating 13,000 infrastructure servers to 1,500 and over 11,000 server locations to 540. With fewer servers to maintain and support there were fewer variations in the architectures and significantly fewer maintenance tasks to perform, allowing IT personnel to focus on value-adding tasks.

The USPS also understood that increased levels of service were needed. These, too, have been achieved by ACE through the implementation of a managed-services-oriented model that provides the US Postal Service with competitive advantage by stabilizing and modernizing its distributed computing environment, providing the framework for faster deployment of business solutions with increased stability.

CONCLUSION/RESULTS

The Advanced Computing Environment is more than just new computers. ACE promotes and reinforces the corporate direction toward a Web-centric environment, where data is maintained centrally and distinctly from applications, and application servers are centrally located with database servers. Benefits are realized with simpler, more standard computers that are easier and more cost-effective to support.

The ACE program recently rolled out a new operating system and a new email system. Some of the major enhancements of the new email system incorporate built-in calendaring, task management, and integration. ACE also provides the capability to be connected anytime, anywhere, with an integrated wireless service. The service is supplied through a handheld device, and it provides managers with the ability to access their email, tasks, and calendars remotely. The device replaces the need for pagers.

The ACE program provides multiple benefits for the US Postal Service. ACE eliminates inefficiencies in technology, integration, deployment, and support by using best-in-class supply chain management; applying industry best practices that speed up development and implementation; utilizing mainstream technology and allowing for an evolutionary technology management process; and driving operational costs lower through productivity improvement. Savings of $150 million to $200 million are expected over the next five years. Current ACE deployment efforts toward achieving the projected benefits are ahead of schedule.

Very quickly it has become apparent that ACE is helping the USPS do more with less.

Driving Without Brakes Is Dangerous

Posts can achieve significant savings in erratic economic times by using hedging strategies that are common business practices in similar industries.

Wolfgang J. Koester

For most, if not all postal services worldwide, the single largest cost of doing business is the employees. That cost is well managed and continuously reviewed. The second largest cost is fuel. Surprisingly, many postal services do not manage this cost. Managing the cost of employees is viewed as mandatory and common. Managing the cost of fuel or currencies is viewed as speculative and uncommon. Not managing the risk of rising fuel costs or adverse currency movements is perceived as an acceptable practice with no risk. This white paper proposes that the lack of financial risk management is a risky proposition that should be unacceptable at any postal service. Too many postal services are still focused on budgets, not economics and risk management.

At a recent CEO/CFO summit, former General Electric CEO Jack Welch stated that the worst business invention ever was budgeting. Budgeting restricts and focuses on the wrong outcome. It is the tool posts use to manage fuel costs risks. Budgets should be recognized as a cost control, not a business strategy. Postal services need to change their perspective. They need to recognize that the lack of risk management is as dangerous as driving a truck without brakes. In the private sector, hedging such exposures/costs is the best practice and consequently, strategies, as the one outlined in this article, are implemented.

The postal treasuries face three main challenges to managing financial risk such as fuel costs and currency rates:

- Recognizing that lack of risk management is the riskiest decision;
- Identifying operations with similar risks; and
- Defining and implementing a shared vision and strategy.

The solutions to these challenges will include an understanding of the meaning and intent of hedging; comparing two similar industries and their approach to managing fuel exposures; and outlining a strategy with suggestions for areas of focus.

WOLFGANG J. KOESTER is the CEO of RimTec, Inc. and has worked in the area of financial risk management with Fortune 100 companies and governmental agencies since 1985. RimTec (Risk Management Techniques) offers a wide range of risk management services solely focusing on currency, commodity, and interest-rate risk.

CHALLENGE NO. 1: RECOGNIZING THAT LACK OF RISK MANAGEMENT IS THE RISKIEST DECISION.

The misconceived notion that managing financial risks increases risk must be dispelled. How does one address this challenge? The answer is rather simple: Understand the true meaning of hedging and educate as many constituents as possible.

So what is hedging? The word is defined as "a fence or boundary formed by a dense row of shrubs or low trees" and is further defined as "a means of protection or defense (including financial loss)." Hedging thus should be recognized and exercised as a protection against financial loss/cost.

Consider the risk of having to purchase operating fuel. If prices rise sharply, cost of operation rises sharply. For example, postal services budget for fuel price increases. The mere fact that they do so should be indicative of what they think will happen to that cost. Having budgeted for that cost increase, the treasury department may still meet (ironically so) the budget while anticipated costs have increased and losses have incurred.

Can that risk be managed? Should that risk be managed? Yes; it can, and it should. The office of personnel certainly manages its cost; why shouldn't the treasury department do the same? The mindset of postal services has to be moved from budget focus to economic focus. When economic focus prevails, it is obvious that hedging exposures is a way to protect against the risk of increasing costs. The result will be controlled cost, and, consequently, budget rates can be better defined and managed.

As an example, fuel prices at the beginning of the fiscal year are $1 per gallon (US). The postal service wants to budget for $1.25 per gallon (a 25 percent increase). Let us take the ideal situation that the postal service purchases a derivative that protects from the expected 25 percent increase, and that the protection costs them one cent per gallon. Should the price rise by 25 percent – as originally expected – the hedge protects against that rise. While the price has increased by 25 percent, the value of the derivative has also increased, protecting the postal service and keeping its cost at $1.01 per gallon. As the second largest cost center this will significantly have affected the economic results. Additionally, the budget could have been set at $1.01 and met accordingly.

This challenge of recognizing and understanding that the riskiest economic action is the lack thereof can be dispelled by defining what hedging truly is and how it should be utilized. Once defined, the constituents need to be educated.

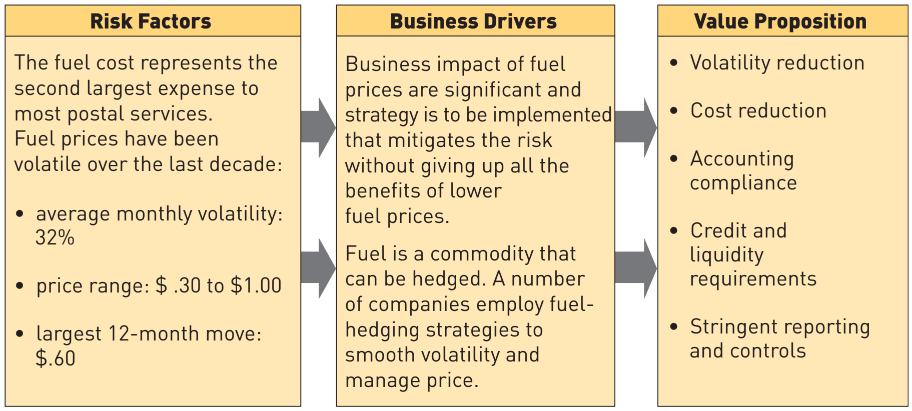


FIGURE 1 **Best practices require active steps to manage or eliminate risk/cost effectively in order to remain competitive in the global economy and preserve assets.**

CHALLENGE NO. 2: IDENTIFYING OPERATIONS WITH SIMILAR RISKS.

The second challenge is identifying similar industries and comparing their strategy to similar challenges. Let's compare two different industries – the trucking industry and the airline industry. Let's examine what is common applicable best practice with respect to fuel and currency hedging for these two industries, and determine which is most comparable to services rendered by posts.

The trucking industry often differentiates itself from the postal services as the cargo is typically larger and billed on a customized per-trip basis. In the trucking industry, companies have created price elasticity by being able to charge a customer a surcharge for fuel prices as they increase. They can do so on a per-bill basis. While they have created a protection against the risk of increased cost – their way to hedge, this price elasticity is nonexistent for the postal services and therefore not applicable. Thus, trucking companies typically do not avail themselves of the use of financial instruments to hedge their exposures because they do not have to; they are already protected.

The airline industry is closer to the postal services as price inelasticity is common to both. The price of an airline ticket is published and often sold months in advance of actual use. The airline ticket is a contract between the airline and the customer to transport from point A to point B on a given, predefined date. The difference between airlines and the postal services is time, whereas the risk is the same. Both establish the price well in advance and fix it. How do airlines then handle their fuel and currency exposures? We have reviewed airlines around the world and not surprisingly have found risk management/hedging policies addressing fuel costs in place at every airline – without exception. Additionally, every international airline addresses the currency risk and management thereof.

For example, in 2002 the least protected airline still had slightly in excess of 50 percent of their fuel consumption protected/ hedged. The airlines viewed as best run, such as Southwest Airlines in the United States (more than 50 consecutive profitable quarters), were in excess of 85 percent hedged. Fuel cost of Southwest Airlines is approximately 15 percent of their total expense base. In 2002 and 2003 their hedging improved their total net income by 22.5 percent and 19.4 percent respectively.

Some postal services are currently completely unprotected and let the market and current events (such as OPEC, political events, wars) dictate fuel costs and currency exchange rates. Many do not have a defined hedging policy in place. They are politically protected by budgeting and thus possibly meeting the budget. But they are reporting increased costs and/or losses and in many cases have to reduce their workforce as well as demand higher prices. In a free, unregulated market where a postal service does not have a monopoly, the lack of risk management would create the opportunity for others to step in, create competition with favorable results and dominate the postal market. As seen above, the postal service that implements best practice standards in the private sector can create the ability to increase their net income significantly.

A postal service writes in its annual report: "We cannot dynamically change prices or add surcharges to our products to account for cost increases such as energy prices." This statement indicates the recognition of price inelasticity, indirectly identifying the same challenge that faces any airline. The first step to solving this challenge is to recognize the exposure. The above quoted postal service has done that. The second step is to recognize what hedging truly is and educate the constituents about hedging. The third and final step is to develop and institute a comprehensive hedging strategy.

Some postal services are currently completely unprotected and let the market and current events (such as OPEC, political events, wars) dictate fuel costs and currency exchange rates.

CHALLENGE NO. 3: DEFINING AND IMPLEMENTING A SHARED VISION AND STRATEGY.

The first two challenges, though fundamental, are arguably simple compared to the third one – creating the vision, strategy, and implementation process to protect against increased energy prices.

The vision – develop a strategy similar to: "While we at the postal service cannot dynamically change prices or add surcharges to our products to account for cost increases such as energy prices, we manage the cost of fuel with well-accepted financial instruments. International Accounting Standards, Financial Accounting Standards, etc., accept these instruments and the use thereof for hedge accounting purposes and consider them effective. They are liquid and commonly used solely for the purpose of protecting against adverse price movements. The postal service does not use them for speculative purposes. The goal is to manage the risk by implementing a strategy that will reduce cost and earnings volatility. The postal service looks to achieve and maintain applicable best practices on a continuous basis."

Defining a vision, risk factors, business drivers, and a value proposition can be depicted as in Figure 1.

When searching for an organization to assist in this important and necessary risk management strategy, several key areas of services need to be considered and included:

- Consulting and implementing services to achieve applicable best practices around treasury management. This includes delivering capabilities around risk, liquidity, and counterparty risk.
- Workflow management integration and data consolidation to optimize corporate treasury decision-making.
- Objectively structure and manage the hedging process to maintain best practices.

The strategy is to define risk policies and the risk framework as well as include a review and improvement of polices. The review should include pricing derivative instruments, developing a customized benchmark, and implementing an up-to-the-minute report that includes the valuation of the hedging strategy at any time (see Figure 2).

The fully integrated service should be a continuous process with the main input for achieving and maintaining best practices commencing and ending with the postal service's defined exposure.

The strategy should include two components: a static hedge and an adjustable hedge. The static hedge is hedging the core position and should be defined as the minimum constant exposure hedged. The adjustable hedge should be adjustable within predefined cost factors.

The cost tolerance has historically been very high because being unprotected has been acceptable. In other words, the cost risk was the market. Postal services do not have a problem stating and accepting that a one-cent increase in fuel price could increase the postal service's cost by more than $5 million. This arguably is the riskiest strategy, as not being hedged is likened to driving a truck without brakes.

The core hedge could be paralleled to constantly having a foot at least touching the brake, while the adjustable hedge would parallel applying different levels of pressure to the brake given environmental conditions. Experts, like truck drivers in the analogy, can be added to the process to assist in determining the appropriate level of pressure (hedge) to be applied in order to avoid any accident. Postal services hire trained professional truck drivers. The treasury department needs to hire, or outsource to, trained professionals who are well experienced in hedging exposures. The result will be a significant reduction in volatility, an improved process in managing toward the budget, and a likely reduction in cost.

In conclusion, costs need to be constantly defined, updated, reviewed, and managed. Financial risk, whether fuel cost or currency exchange, requires management, as it will decrease risk and often costs. In the above example, a risk management strategy would have over the past 10 years reduced the cost of fuel in excess of 50 percent and the volatility of earnings by more then 85 percent.

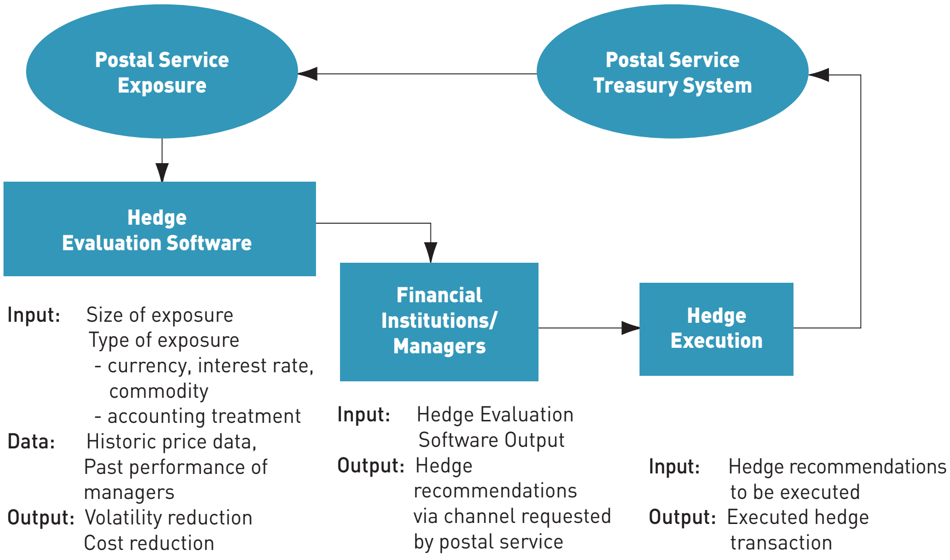


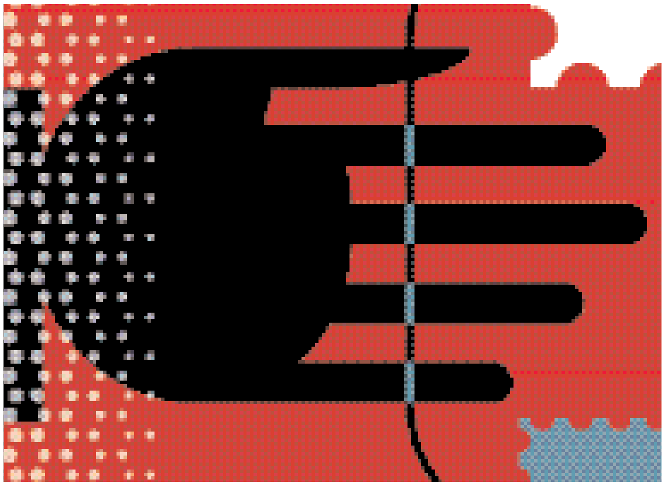
FIGURE 2 Risk Management Best Practice Process

CASE STUDY

Innovation in IT Service Management and Delivery

Innovapost, an innovative solution focused on delivering world-class IS/IT services, has enabled Canada Post to drive transformation.

Chris Brennan



Canada Post (CPC) had tried it all in attempting to secure the world-class IS/IT services it needed to help transform its business to compete in the rapidly changing postal market. It was this experience that led it to outsource all its IS/IT requirements to a new outsourcing enterprise – Innovapost – that has some very unique characteristics.

THE TRANSFORMATION CHALLENGE

Canada Post, along with most other postal organizations, was facing some serious competitive challenges. The advent and growth of the Internet had precipitated the introduction and rapid expansion of e-commerce. In turn, e-commerce spawned an ever-increasing number of new competitors and new e-services.

Canada Post knew that it needed to adopt leading-edge technology and transform its business in order to compete in the new e-world and meet its customers' expectations for service performance. A key ingredient would be world-class IS/IT experience and expertise. However, attracting these professionals and maintaining world-class IS/IT knowledge and skills was becoming increasingly difficult given the speed of change in technology and the level of effort involved. Canada Post had found itself increasingly relying on external service providers for access to world-class professionals, but this proved to be ever more costly, time-consuming and inefficient. Plus, transformation required a much closer and more complex relationship with the IS/IT provider.

THE LIGHT AT THE END OF THE LONG TUNNEL

Canada Post had long been tackling the cost and time issues around contracting for IS/IT services. In an effort to deal more effectively with these, Canada Post established the system integrator program (SI) in the early 1990s. Through this program, SIs competed to prequalify for certain portfolios (areas/functions of expertise), and work in those portfolios was undertaken through task orders without the necessity of issuing a request for proposal. In 1993, Canada Post signed a 10-year, CAN$1 billion agreement to outsource its entire computing and communications utility (including mainframes, telephones, and the operating software). SIs provided the other application maintenance, and application and project development services.

As a result of these initiatives, IS/IT costs began to stabilize, and improvements in project delivery were realized. However, the management of SI agreements led to inefficiencies and redundancies. In addition, the SI program revealed that the financial and operational advantages of outsourcing can have limitations.

From this experience, Canada Post arrived at a number of conclusions and believed:

- A strategic alliance with an IS/IT

CHRIS BRENNAN joined Innovapost as president and CEO in October 2002. As CEO of Innovapost, he is also the CIO for Canada Post and Purolator Courier. Mr. Brennan has over 20 years of consulting experience in the postal industry, with a focus on providing guidance related to operational and process improvement and transforming the business using technology as an enabler to change.

Canada Post Objectives	Innovapost Solution
Adequate involvement in the management of the outsourced operation	**An innovative business model and governance structure:** • Majority ownership by Canada Post in the outsourcing entity • Chairman of the board would be a Canada Post executive • Innovapost CEO would be the CIO for Canada Post • CPC and CGI would have equal voting rights, except CPC would have a veto on any change in Innovapost's strategic direction • Specific provision for termination
World-class IS/IT skills, and expertise and deep knowledge of postal operations	**A partnership including Accenture and CGI to provide the necessary balance of skills and expertise** • CGI, the fourth-largest outsourcing company in North America • Accenture with one of the world's largest postal consulting practices and a 10-year-plus relationship with CPC
Competitive costs/high performance	**Commitment to specific targets:** • 20% reduction in service costs • Performance targets • Significant investment in establishing joint- venture operations and commitment to investing in new business opportunities
A committed partner	**Commercial business requirements:** • 10-year agreement, with five-year review • Profitable from day one **Governance provisions that integrate management team:** • Innovapost CEO is also CIO for Canada Post • Executive VP of CPC is chairman of Innovapost's board of directors **Shared risks and rewards** • Purchased IS/IT assets • Invested in the startup, plus committed to invest in new business opportunities • Joint-venture partners share in profit from outsourced operation proportionate to their investments

FIGURE 1 Innovapost Addresses Key Canada Post Objectives

provider who had a vested interest in the outcome of the alliance was the optimal solution;
- All IS/IT services should be outsourced;
- Creating a new company with a world-class IS/IT firm was the most efficient and effective solution; and
- Partnering with a private sector company listed on a stock exchange would ensure investments would be sound and driven by the imperatives to be profitable and to obtain competitive return.

Consequently, in October 2000, Canada Post issued a request for proposal to team with a private-sector company to establish a jointly owned for-profit IT services and electronic business company from which Canada Post and other members of the Canada Post group would procure all their information systems, information technology, and electronic business services requirements. This company would also be the mechanism through which Canada Post would market and sell IS/IT services to other postal administrations worldwide.

AN INNOVATIVE OUTSOURCING STRATEGY

In May 2002, Innovapost was created as a joint venture between Canada Post and CGI to provide Canada Post group with world-class IS/IT services and technology solutions needed to compete effectively in the marketplace. Accenture joined the team as a nonvoting member in October of the same year. This company would enable Canada Post to significantly reduce IS/IT service costs and would deliver measurable improvements in IS/IT service performance. Innovapost would also be expected to provide innovative solutions to realize new revenue streams and deliver productivity improvements.

The structure and governance of the joint venture had some unique features that were designed to deliver the key objectives that Canada Post had established going into this endeavor (see Figure 1).

ACHIEVING RESULTS

At the end of 2003, Innovapost employed approximately 480 professionals, had established operations in two locations (Ottawa and Toronto) and had met all its major goals. Over the course of the year, both CGI and Accenture transferred infrastructure management experts to Innovapost. In terms of world-class skills and expertise, Innovapost management had on average 15 years of IS/IT postal experience and 20 years of IS/IT outsourcing experience. Accenture also transferred its CPC application management team to Innovapost, putting the company well on its way to building a world-class application development capability.

In the area of operational performance, Innovapost had consistently met its financial performance and service delivery targets through 2002 and 2003. It also completed the transfer of application management expertise from its partners significantly ahead of schedule. In the area of cost saving, it is expected that Canada Post will be billed about 24 percent less in 2004 than 2003 for infrastructure management. Canada Post realized considerable savings in application management and, beginning in 2004, expects to realize a net annual savings of 14 percent. With respect to application development, once the target of 50 percent insourcing has been achieved, Canada Post will realize a savings of 10 to 12 percent per project with 20 percent lower rates.

Other accomplishments included implementing a comprehensive release window framework that will increase efficiency and result in a greater success rate of releases and minimum disruption to business. Innovapost also effectively managed various large application development projects to put in place the final components of a fully integrated information systems platform. By leveraging solutions, resources, SAP licenses, and technology infrastructure developed, and in production, at Canada Post, Innovapost helped secure a 42 percent "reusability" savings in implementing financial and HR environments in a major CPC subsidiary. Implementation time and costs were substantially reduced through the reuse of such things as the approach (estimating models, plans, deliverables, design, and delivery tools), the process model, and configuration. In addition, the technical platform and environments were shared, as was application support.

This is just the beginning of a journey; challenges are still to be met and the relationships will need to evolve as the market dictates. Canada Post believes, however, that it is beginning to see the full benefits of Innovapost across all of its companies. With shared vision, risks, and rewards, Canada Post and its joint venture partners are confident that Innovapost will be a key ingredient in the successful transformation of the Canada Post and in the development of new world-class products and services, and the exploitation of new markets.

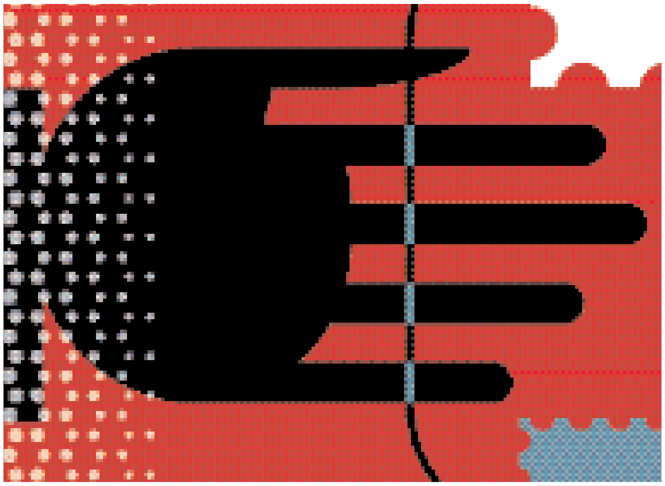
Implementation time and costs were substantially reduced through the reuse of such things as the approach (estimating models, plans, deliverables, design, and delivery tools), the process model, and configuration.

CASE STUDY

Partnering to Drive Transformation

The USPS created a unique, innovative contracting strategy, creating partnerships with best-in-breed IT organizations to drive transformation. This successful strategy has yielded significant results.

Robert Otto and Keith Strange



In 1997, USPS information technology sought to implement a strategic vision to provide a modernized process for acquiring its corporate business solutions. With e-business at the forefront of any company's market share growth, the US Postal Service recognized the need to leverage this technology to control costs and provide world-class service. As a result, a new approach to working with suppliers was created that would allow for the creation of a mutually beneficial partnership between suppliers and the USPS. The goal of such an approach was for the USPS to partner with leading suppliers to modernize business processes and systems. The result of this search was the creation of the Preferred Portfolio Partnering (PPP) contracting strategy, an innovative contractual agreement that has helped the USPS to achieve significant progress in its modernization efforts.

CHALLENGES

There were several obstacles that limited the ability of the USPS to best utilize information technology providers in its efforts to drive transformation. Among these was a lack of continuity as it relates to quality, a lack of system development repeatable processes on projects, long project lead times, repetitive learning curves, and a lack of end-product accountability.

The traditional model used prior to PPP had often been to involve an outside supplier in developing the scope of a project (functional requirements, technical requirements, business case, timeframe, etc.). But that supplier was then precluded from bidding on the next phase of work because of conflict of interest issues.

This inability to engage the same supplier for both requirements and development created a lack of accountability and continuity that impaired success, as suppliers did not have any incentive to define accurate or appropriate requirements that they would never have the opportunity to implement. Steve Kelman, of Harvard University's John F. Kennedy School of Government, in an independent review of the PPP concept, described the risks. "The contractor developing the original specs does not have the incentive to develop appropriate requirements, or a viable business case, that comes from being held responsible for the final results of the effort." The lack of continuity also resulted in stovepipe solutions, as suppliers had no time (or incentive)

As chief technology officer, ROBERT OTTO is responsible for managing and maintaining the US Postal Service's technology network, including the information technology infrastructure, which supports over 650 national applications designed to run the organization on a day-to-day basis – including the payroll for 740,000 employees and payments to suppliers nationwide. Mr. Otto is also responsible for operating the world's largest intranet, which connects the Postal Service's processing and distribution centers, bulk mail centers, Priority Mail centers, air mail facilities, and 38,000 post offices.

KEITH STRANGE is USPS vice president, supply management, and is responsible for all USPS supply management activities. He manages the USPS supplier relationships, with more than $9.4 billion in expenditures annually. He holds a bachelor's degree in international studies from the University of South Carolina in Columbia and a Master of Public Administration from the American University.

to understand the USPS technology landscape outside of their project and work to integrate their solution into that architecture.

Traditionally, USPS contracting methods also required significant time. A typical contractual cycle would involve completing the requirements definition phase, a process that could take a few months. Upon completion of the requirements definition phase, the USPS would then issue a request for proposal and bids would be solicited. Multiple suppliers were invited to submit proposals and the process to select the most qualified for the effort would begin. This process also required significant time and effort, making it difficult to quickly begin the implementation of any solution.

Another time-consuming effort that was factored into the proposals of each supplier who won a contract was the project team's staffing and training. These suppliers, typically with few if any employees having experience on USPS engagements, would include, as part of their bid, training costs for their staff. This learning curve included not only project-specific details, but also basic USPS policies and business practices. Along with the learning curve, these new resources would also have to complete a security clearance process, a necessary but time-consuming step, before they would be allowed access to any USPS computing resources.

The repetition of this learning curve and security clearance process on virtually every project and potentially every phase of the project (experience gained in the requirements definition phase could not be leveraged in later phases because of the requirement to change suppliers) added significant cost and time to each project undertaken.

Upon analysis, it was determined that these challenges could not be overcome using the conventional contracting method. This method typically involved a series of companies with single-order contracts to perform a succession of odd jobs. A new paradigm was needed; a paradigm that would allow the USPS to fully leverage world-class suppliers in its transformation effort.

SOLUTION

The USPS sought a strategic IT business process that would allow for the creation of portfolios – a collection of work by the USPS business area – and the selection of a transformation partner for each portfolio. Two portfolios were created for USPS major business areas: mail operations and marketing. Additional portfolios were established for major functional areas and included finance, human resources, IT infrastructure, payroll, and other enabling functions.

Partners sought would include IT organizations that possessed best-in-breed business processes and practices that included technology in creating the solution, as well as partners with a proven track record of delivering success at large organizations. This initial PPP competitive process was for an extremely broad scope of work with extremely rigorous selection processes and criteria. Subsequent to the PPP arrangements, but prior to any task-order award, technical solutions proposed by the partners must also go through a mandatory third-party review. This review reaffirms for both the USPS and the partner that the solution is technically sound and offered at a reasonable price to achieve a quality end result. Thus PPP fulfills the need for competition, while allowing the USPS to create an efficient, effective contractual vehicle to address the obstacles they had faced using a rigorous, competitive business practice.

BENEFITS

Using the preferred portfolio partners effectively has allowed the USPS to achieve some significant successes. This contracting vehicle, for example, was used to design, develop, and then deploy an operations information system for delivery unit supervisors. These partners have also been leveraged to develop a mail tracking system that provides processing insight to both the USPS and its large customers.

There are also several benefits that have been achieved by partnering with a small group of select providers. The US Postal Service realized these early on as it began to make use of the preferred portfolio partner contract in each portfolio.

The first benefit is the dramatically increased value received from a supplier that is created by the establishment of a long-term relationship. This relationship has allowed the partners to learn the business and technical needs of the organization with depth and breadth not possible in short, single-order contracts. The intent for a long-term relationship, a provision of the PPP arrangement, allows the partners to maintain a core group of individuals with significant understanding of postal operations and technology and what it takes to deliver within that framework. "All of this knowledge is of great potential value to the customer. It increases the likelihood of project success," noted Kelman.

With any business benefit there is also risk. PPP is an arrangement with strategic vision. As such, there is a need for continuous process improvements. Process improvement is a constant for this program to ensure value is created for both parties. Consistently, two questions arise: "Would project-by-project competition drive the same quality IT solution with more net value?" and, "Do we have the right set of suppliers in order to deliver the maximum value?"

CONCLUSION

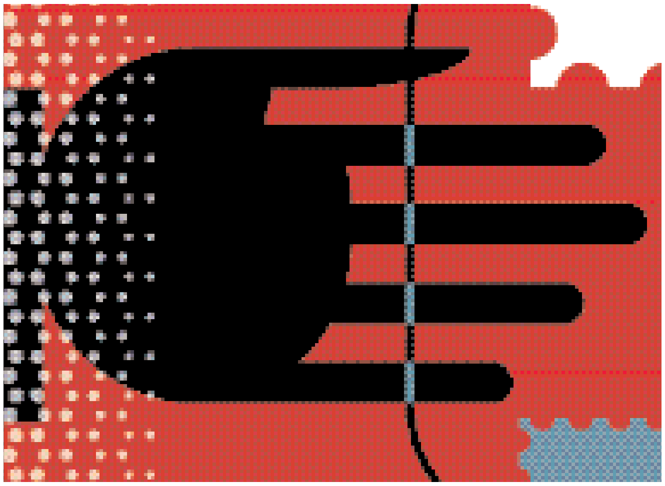
The USPS has achieved significant benefits from bold, innovative steps taken years ago to implement the PPP arrangement. By establishing an IT business contractual strategy that has enabled the creation of portfolio partnerships, the USPS has reduced development timelines, has decreased development costs, and has been able to move forward with its technology implementation efforts at a pace not matched in the history of the service. Mid-course corrections are continuous for PPP; however, this strategy has served to help the USPS develop state-of-the-art technology and performance to support its state-of-the-art organization.

CASE STUDY

Outsourcing for Business Transformation Success

Defining and executing its Business Transformation Program has been critical to Sainsbury's Supermarkets' newfound successes.

Richard Wildman



Established in 1869, Sainsbury's managed to successfully transform itself through the dawn of the third millennium. With more than 535 stores, 238 gas stations, and 145,000 employees serving 13 million customers per week, it is one of Britain's largest and most successful grocery retailers, and certainly the longest standing.

Sainsbury's, however, found its premier position slipping as several forces chipped away at its performance. Costs were rising faster than revenues and profit and, as a result, they were substantially out of line with industry leaders. During the 1990s, Sainsbury's faced stronger, consolidated competitors that fell into two camps: those that emphasized value, like Tesco and ASDA/Wal-Mart; and those that based operations on quality and service, like Waitrose and Marks & Spencer. Sainsbury's market position fell between these two and placed increasing pressure on sales. In 2000, with a disappointing decline in share price against market expectations, and a 23.3 percent decline in operating profits, the company recognized that something radical needed to happen to improve its business performance.

BUSINESS TRANSFORMATION

This radical change was led by Sir Peter Davis, Sainsbury's group chief executive. Davis and the board saw three areas that needed fundamental change: stores and customer service, supply chain performance, and efficiency and enabling IT capability. At the end of 2000, the company launched an ambitious effort, aptly christened the Business Transformation Program and set out to chart a course for the company's future.

Within these three areas, the board also articulated six key strategic objectives for the program:

1. Establish a differentiated market position and deliver sustainable shareholder value;
2. Dramatically enhance the customer shopping experience through a clear understanding of target consumers and of each store's operating model and service drivers;
3. Create a step change in customer shopping experience through a radical change in the roles of store managers and their teams;
4. Remove complexity and increase effectiveness by removing all processes and activities that do not add value to the customer experience or shareholders;
5. Create a high-performance organization and infrastructure that is rigorous, nimble, and customer-centric, where quality is not negotiable; and
6. Leverage new capabilities and opportunities in e-commerce, business-to-business, and business-to-consumer channels maximizing the synergies of the group.

In short, the company aimed to transform all of its vital business operations. To accomplish this transformation, the board deter-

RICHARD WILDMAN is partner in charge of the UK and Ireland Retail practice for Accenture. Mr. Wildman joined Accenture in 1985 having worked previously for Selfridges and the London Stock Exchange in both operational and IT roles. He is currently playing a leading role in Accenture's partnership with Sainsbury's in support of the company's IT-enabled Business Transformation Program.

mined that the underpinning technology systems required radical change as well.

DRIVING THE TRANSFORMATION

Sainsbury's believed that the scale and pace of IT and related business change required would simply not be achievable without world-class outside help. Sainsbury's asked Accenture, whose reputation for systems delivery and management made them the natural choice, to help design and implement an IT backbone to support the future growth of the company. The two companies struck a wide-ranging transformational outsourcing deal that provided Sainsbury's with immediate and guaranteed IT cost savings from the first day. The deal, the largest of its kind in the United Kingdom, called for Accenture to deliver IT systems in three broad areas defined by Davis and the board:

- Customers and stores;
- Trading and the supply chain; and
- Support services and IT infrastructure.

According to Maggie Miller, Sainsbury's CIO, "When you look at the alternatives, there are a lot of suppliers that can do service delivery outsourcing. But if you look at how many can do the transformational outsourcing we wanted, Accenture was the clear choice."

As part of the innovative outsourcing agreement, 780 permanent IT employees, in addition to more than 300 contract staff, transferred from Sainsbury's to Accenture. This was no easy undertaking. The transition of about 1,100 staff responsible for all aspects of the company's IT infrastructure, operations, and development to a new Accenture organization needed to happen without disruption to business. And it needed to happen at a critical period in the buildup to the retail industry's busiest trading period of the year: Christmas.

With the transition complete, Accenture has helped Sainsbury's to move quickly to new technology platforms. For example, customer focus was also at the heart of Sainsbury's transformation. With that objective in mind, the Sainsbury's-Accenture team developed a number of programs, all with the goal of delivering to Sainsbury's shoppers superior and differentiated service in all aspects of their Sainsbury's shopping experience. The first of those programs involved the development of a customer data warehouse and a customer value management application. This effort has become one of Europe's largest consumer databases with information on more than 13 million shoppers. The warehouse provides insights into what customers buy, when they buy it, and from which store, which in turn can drive key retail marketing and trading decisions.

Accenture also helped standardize point-of-sale systems throughout all 700-plus outlets, including supermarkets, gas stations, and convenience stores. All told, more than 12,000 electronic point-of-sale checkouts were standardized and 100,000 employees were trained on the new system to provide seamless service transition in all outlets. The business benefits resulting from the new system were huge, enabling Sainsbury's to deliver a competitive service offering and realize immediate reductions in the total cost of operation.

The crucial area of finance also received an IT boost. Accenture developed a suite of financial systems that allows for greater control – reporting, accounting, and project management.

- Enterprise Reporting (Microstrategy) infrastructure (ERA) provides a standard reporting capability to Sainsbury's.
- Enterprise Data Warehousing merges with the Customer and Trading Data Warehouses, enabling a customer-centric reporting capability.
- Project Accounting gives full control over capital expenditure based upon Oracle's project accounting solution.
- Oracle Projects is fully integrated with other Oracle finance systems in the shape of Oracle Self-Service Procurement, Purchasing, and Financials.

Additionally, to drive down costs and improve the effectiveness of human resources, a payroll system built on Oracle, Workbrain, and Rebus solutions was implemented that allows personnel to take a self-serve approach to updating their own personal information. Head office personnel can use the system to undertake a variety of tasks from making claims for variable payments (such as mileage), to booking training courses and updating their personal development plans. The system is additionally utilized by the stores to manage staff holidays and absences.

BENEFITS OF TRANSFORMATION

Sainsbury's realized an immediate savings of more than £35 million ($50 million) from Accenture taking over all aspects of its IT infrastructure. The full arrangement is expected to yield significant savings over seven years and represents a quantum leap in Sainsbury's IT capability to support its business strategy and transform the customer shopping experience.

Sainsbury's has made great strides toward its goal to radically update and upgrade its business operations. Since the company embarked on the Business Transformation Program with Accenture, it has achieved six consecutive half-year profit improvements, increased the dividend, grown sales, and is confident of realizing cumulative cost savings of £710 million ($1.3 billion) by March 2004. The Sainsbury's-Accenture team continues to work to improve business performance today to ensure the company's continued success in the future.

"Driving change in our IT capabilities is a fundamental part of our business transformation plans," said Sir Peter Davis. "Accenture has excellent IT and retail experience, and we are confident they will help us achieve real competitive advantage and cost reduction in a timescale and at a cost we could not have achieved on our own."


©2003 Accenture. All rights reserved.
Conditions change. Results shouldn't.
Go on. Be a Tiger.
No matter the climate, high performers find new and innovative ways to prevail. To see how we can help your organization become a high-performance business and stay that way, visit accenture.com
• Consulting • Technology • Outsourcing
accenture
High performance. Delivered.